

CITY OF PICKENS,
SOUTH CAROLINA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED APRIL 30, 2011

CITY OF PICKENS, SOUTH CAROLINA

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YEAR ENDED APRIL 30, 2011

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CITY OF PICKENS, SOUTH CAROLINA
LISTING OF PRINCIPAL OFFICIALS
YEAR ENDED APRIL 30, 2011

Established

1868

MAYOR

David Owens

CITY COUNCIL MEMBERS

Jason Cassell

Carlton Holley

Patrick Lark

Fletcher Perry

Tommy Stephens

Patti Welborn

CITY ADMINISTRATOR

Katherine Brackett

CITY ATTORNEY

Ken Acker



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of City Council
City of Pickens
Pickens, South Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pickens, South Carolina (the "City"), as of and for the year ended April 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pickens, South Carolina, as of April 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated on September 13, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 our audit.

The accompanying management's discussion and analysis and budgetary comparison schedule – General Fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 13, 2011

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2011

The management of the City of Pickens ("City") offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to not only consider the information presented here, but also the information provided in the basic financial statements and notes to the basic financial statements to enhance their understanding of the City's overall financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by approximately \$18,022,000 (*net assets*). Of this amount, approximately \$3,856,000 and \$14,166,000 were related to the City's governmental and business-type activities, respectively. In addition, the City's unrestricted net assets (which may be used to meet the government's ongoing obligations to citizens and creditors) were approximately \$963,000 for its governmental activities and approximately \$40,000 for its business-type activities.
- The City's total revenues of approximately \$7,193,000 exceeded total expenses of approximately \$5,568,000 resulting in an increase of approximately \$1,625,000.
- At the close of fiscal year 2011, the City's governmental fund (General Fund) reported ending fund balance of approximately \$1,514,000, an increase of approximately \$213,000 over the prior year's restated fund balance. This increase in fund balance is primarily related to the City receiving \$500,000 for the issuance of the 2010 General Obligation Bond ("GOB") and only spending approximately \$305,000 of these proceeds. Approximately 71% of the total fund balance, or approximately \$1,070,000, is available for spending at the City's discretion (*unreserved, undesignated fund balance*). Unreserved, undesignated fund balance for the governmental fund (General Fund) was approximately 36% of total governmental (General Fund) expenditures for the year ended April 30, 2011.
- The City's total capital assets increased by approximately \$1,041,000 (5%) during the current fiscal year (from the prior year restated balance), primarily due to governmental activities capital asset additions of approximately \$273,000 being offset by depreciation expense of approximately \$360,000 and business-type activities capital asset additions of approximately \$1,679,000 being offset by depreciation expense of approximately \$551,000. Capital asset additions were primarily related to the completion of several water and sewer projects related to the new Pickens High School, the early stages of a new water treatment plant and a water project on Highway 8, the completion of a streetscape project on West Main Street, the purchase of a lawn mower, and the purchase of a patrol car and two meter reader trucks.
- The City's total debt and lease purchase obligations decreased by approximately \$717,000 (15%) during the current fiscal year. This decrease was primarily due to normally scheduled debt service payments and current refunding debt service payments, partially offset by a new GOB for \$500,000 (used to current refund various lease purchase obligations), a new lease purchase obligation for approximately \$28,000, a new revenue bond anticipation note for \$568,000 (used to pay off the old revenue bond anticipation note), and a new revenue refunding bond for \$2,000,000 (to current refund the state revolving fund loan and the old revenue bonds).

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – *Introductory Section*, *Financial Section* (which includes management's discussion and analysis, the basic financial statements, required supplementary information, and other supplementary information), and the *Compliance Section*.

Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the City.

Government-Wide Basic Financial Statements. The basic financial statements include two statements that present different views of the City. These are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2011

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Basic Financial Statements (Continued)

The *statement of net assets* presents information on all of the City's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide basic financial statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include administrative and general, police, fire, municipal court, victims' assistance, recreation and parks, hospitality, streets and sanitation, and grounds maintenance. The business-type activities are the City's water, sewer, and stormwater operations. The government-wide basic financial statements can be found as listed in the table of contents.

Fund Basic Financial Statements. The fund basic financial statements provide a more detailed look at the City's most significant activities. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – *Governmental funds* are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow (in and out), and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's services. The relationship between *governmental activities* (reported in the government-wide financial statements) and *governmental funds* is described in a reconciliation that is a part of the fund financial statements.

The City maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, since it is considered a major fund. The basic governmental fund financial statements can be found as listed in the table of contents.

Proprietary Funds – The City maintains one type of proprietary fund. *Enterprise Funds* are used to account for operations that (a) 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. The City uses an enterprise fund to account for its water, sewer, and stormwater operations. The proprietary fund basic financial statements can be found as listed in the table of contents.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

Agency Funds are used to account for assets the City holds on behalf of others. The City's 1% Volunteer Fire Department Fund is used by the City to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by insurance companies. Agency funds are custodial in nature and do not present results of operations. The basic financial statement of the fiduciary fund can be found as listed in the table of contents.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2011

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Basic Financial Statements (Continued)

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found as listed in the table of contents.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with its budget. Required supplementary information can be found as listed in the table of contents.

Other supplementary information is presented immediately following the required supplementary information. These schedules can be found as listed in the table of contents.

Figure A-1 Major Features of the City’s Government-Wide and Fund Basic Financial Statements				
	Government-Wide Basic Financial Statements	Fund Basic Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary.	Activities the City operates similar to private businesses, in the City’s case, all activities related to the water, sewer, and stormwater operations.	Instances in which the City is the trustee or agent for someone else’s resources, in the City’s case, the 1% Volunteer Fire Department Fund.
Required Financial Statements	<ul style="list-style-type: none"> ▪ Statement of Net Assets. ▪ Statement of Activities. 	<ul style="list-style-type: none"> ▪ Balance Sheet. ▪ Statement of Revenues, Expenditures, and Change in Fund Balance. 	<ul style="list-style-type: none"> ▪ Statement of Net Assets. ▪ Statement of Revenues, Expenses and Change in Net Assets. ▪ Statement of Cash Flows. 	<ul style="list-style-type: none"> ▪ Statement of Fiduciary Assets and Liabilities.
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used and liabilities that come due during the year or soon, thereafter; no capital assets or long-term obligations included.	All assets and liabilities, both financial and capital and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the City's net assets for 2011 compared to 2010:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 ^	2011	2010 ^	2011	2010 ^
Assets:						
Current and Other Assets	\$ 1,753,383	1,366,619	663,878	1,032,324	2,417,261	\$ 2,398,943
Capital Assets, Net	4,052,505	4,139,160	16,545,277	15,417,766	20,597,782	19,556,926
Total Assets	\$ 5,805,888	5,505,779	17,209,155	16,450,090	23,015,043	\$ 21,955,869
Liabilities:						
Long-Term Obligations	\$ 1,695,496	1,732,697	2,581,086	3,263,922	4,276,582	\$ 4,996,619
Other Liabilities	253,888	89,556	462,183	472,256	716,071	561,812
Total Liabilities	1,949,384	1,822,253	3,043,269	3,736,178	4,992,653	5,558,431
Net Assets:						
Invested in Capital Assets, Net of Related Debt	2,644,087	2,500,374	14,009,952	12,200,342	16,654,039	14,700,716
Restricted	249,087	218,279	116,207	862,524	365,294	1,080,803
Unrestricted	963,330	964,873	39,727	(348,954)	1,003,057	615,919
Total Net Assets	\$ 3,856,504	3,683,526	14,165,886	12,713,912	18,022,390	\$ 16,397,438

^ Certain amounts have been reclassified to agree to the current year presentation. Certain amounts have also been restated - see Note IV.E for more details.

The City's total assets of approximately \$23,015,000 increased approximately \$1,059,000 from the prior year restated balance. The increase was primarily due to an increase in capital assets, as the City completed the water and sewer projects associated with the new Pickens High School, continued ongoing design and engineering on a new water treatment plant and a water project on Highway 8, and purchased new vehicles and equipment. Total liabilities as of April 30, 2011 decreased by approximately \$566,000 from the prior year primarily due to a \$720,000 decrease in long-term obligations resulting from normally scheduled and refunding debt service payments, partially offset with an increase in accounts payable related to the water project on Highway 8.

The City's net assets increased by approximately \$1,625,000 during the current fiscal year due to current year revenues exceeding current year expenses. Please see the discussion following the next table regarding this increase.

The City's assets exceeded liabilities by approximately \$18,022,000 as of April 30, 2011. Approximately 92% of total net assets (\$16,654,000) reflect the City's investment in capital assets (i.e., land, buildings, water and sewer utility system, equipment, vehicles, infrastructure, etc.) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 2% of net assets (\$365,000) represent resources that are subject to external restrictions on how they may be used. These net assets are restricted primarily for hospitality taxes and debt service which are restricted by the revenue source.

The remaining portion of the City's net assets (6% or \$1,003,000) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current and prior fiscal year, the City is able to report positive balances (in total) in all three categories of net assets.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the City's net assets for fiscal year 2011 compared to 2010.

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010 ^	2011	2010 ^	2011	2010 ^
Revenues:						
Program Revenues:						
Charges for Services	\$ 958,069	950,396	3,086,472	2,646,653	4,044,541	\$ 3,597,049
Operating Grants and Contributions	78,962	13,994	-	45,174	78,962	59,168
Capital Grants and Contributions	161,406	126,130	1,244,210	411,711	1,405,616	537,841
General Revenues:						
Taxes	760,373	739,984	-	-	760,373	739,984
Other	899,971	1,303,286	3,062	16,635	903,033	1,319,921
Total Revenues	2,858,781	3,133,790	4,333,744	3,120,173	7,192,525	6,253,963
Expenses:						
Administrative and General	298,647	392,351	-	-	298,647	392,351
Police	859,042	827,927	-	-	859,042	827,927
Fire	504,826	472,018	-	-	504,826	472,018
Municipal Court	61,004	58,040	-	-	61,004	58,040
Victims' Assistance	10,376	15,783	-	-	10,376	15,783
Recreation and Parks	315,723	310,258	-	-	315,723	310,258
Hospitality	21,362	20,334	-	-	21,362	20,334
Streets and Sanitation	476,855	449,397	-	-	476,855	449,397
Grounds Maintenance	181,109	175,372	-	-	181,109	175,372
Interest on Long-Term Obligations	97,834	65,109	-	-	97,834	65,109
Water	-	-	2,067,393	2,342,232	2,067,393	2,342,232
Sewer	-	-	598,341	615,474	598,341	615,474
Stormwater	-	-	75,061	-	75,061	-
Total Expenses	2,826,778	2,786,589	2,740,795	2,957,706	5,567,573	5,744,295
Change in Net Assets Before Transfers	32,003	347,201	1,592,949	162,467	1,624,952	509,668
Transfers	140,975	(624,175)	(140,975)	624,175	-	-
Change in Net Assets	172,978	(276,974)	1,451,974	786,642	1,624,952	509,668
Net Assets - Beginning of Year	3,683,526	3,960,500	12,713,912	11,927,270	16,397,438	15,887,770
Net Assets - End of Year	\$ 3,856,504	3,683,526	14,165,886	12,713,912	18,022,390	\$ 16,397,438

^ Certain amounts have been reclassified to agree to the current year presentation. Certain amounts have also been restated - see Note IV.E for more details.

Governmental Activities: Governmental activities had a net increase in net assets of approximately \$173,000. Compared to the prior year, total governmental activities revenue decreased by approximately \$275,000 or 9%. Key changes in revenue compared to the prior year were primarily in other general revenues and were due to the following:

- Business license fees were down approximately \$189,000, or 27%, compared to the prior year due to several large one-time licenses related to new construction that did not reoccur in FY 2011.
- Miscellaneous revenues were down approximately \$162,000, or 91%, compared to the prior year primarily due to various stimulus grants (for police cars and energy efficiency grants) that were received in the prior year but were not in the current year.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities: (Continued)

Expenses related to total governmental activities were flat and increased by approximately \$40,000, or 1%, from the prior year. Key changes as compared to the prior year were as follows:

- Salary and fringe expense (the largest component of General Fund expenditures) decreased by approximately \$119,000 from the prior year due to a 3% across the board salary decrease that was implemented during FY 2011 year in lieu of layoffs and furloughs.
- Higher depreciation expense of approximately \$33,000 related to current year additions.
- Higher interest of approximately \$33,000 related to the City's long-term obligations.
- Fuel and other operating expenses increased approximately \$93,000.

Business-Type Activities: Net assets related to business-type activities (i.e., the water, sewer, and stormwater operations) increased by approximately \$1,452,000, or 11%. This increase was primarily due to higher revenues of approximately \$1,214,000, or 39%, related to reimbursed capital costs for the water and sewer projects for Pickens County High School and lower expenses of approximately \$217,000 as numerous costs related to these projects were capitalized in the current year (as most were expensed in the prior year).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental fund reported an ending fund balance of approximately \$1,514,000, an increase of approximately \$213,000, or 16%, over the prior year's restated fund balance. This change is primarily attributable to the issuance of a \$500,000 GOB, of which approximately \$195,000 was unspent as of April 30, 2011.

Approximately 71% of the total fund balance of the governmental fund (\$1,070,000) constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed: (1) for capital tourism-related expenditures or operating expenses incurred to serve tourists (\$233,000), (2) unspent bond proceeds that are reserved for the purchase of a sanitation truck and other equipment (\$195,000), (3) for victims' assistance (\$10,000) and (4) for other purposes (\$6,000). Total unreserved, undesignated fund balance of the governmental fund (General Fund) represents approximately 36% of total General Fund expenditures.

Highlights for the General Fund were as follows:

- Property tax revenue is stable. The millage rate remained at 47.6.
- Total General Fund revenues were down by approximately \$287,000 from the restated prior year primarily due to decreases in business licenses, grants, and intergovernmental revenues.
 - Total General Fund expenditures were approximately \$64,000 lower than restated fiscal year 2010 (when netting the amount of State court fines and assessments that were paid to the State in the prior year against the corresponding revenue). The decrease was primarily due to higher debt service expenditures of approximately \$64,000 and fuel and other operating expenditures of approximately \$64,000, partially offset by a decrease in salary and fringe expense (the largest component of General Fund expenditures) of approximately \$119,000 from the prior year due to a 3% across the board salary decrease that was implemented during FY 2011 year in lieu of layoffs and furloughs.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2011

FINANCIAL ANALYSIS OF THE CITY’S FUNDS (CONTINUED)

Proprietary Fund. The City’s proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Net assets of the Utility Fund at the end of fiscal year 2011 amounted to approximately \$14,166,000. Please see “Business-Type Activities” discussion in the previous section for details.

Fiduciary Funds. The Fireman’s Fund is used by the City to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by fire insurance companies. Agency funds are custodial in nature and do not present results of operations. The Fiduciary Fund had amounts held in custody for others of \$17,600 at April 30, 2011.

General Fund Budgetary Highlights: If budget amendments are made, they generally fall into one of three categories: amendments made to adjust the estimates used to prepare the original budget ordinance once exact information is available; amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and increases in appropriations that become necessary to maintain services. The City made several budget amendments during 2011 which was primarily due to the issuance and reserve account requirements of the 2010 Revenue Refunding Bond.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City’s net investment in capital assets as of April 30, 2011 amounted to approximately \$20,598,000. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, vehicles, infrastructure, and the water and sewer utility system. The City’s capital assets (net of depreciation) as of April 30, 2011 and 2010 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 [^]	2011	2010 [^]	2011	2010 [^]
Land	\$ 625,468	625,468	156,331	119,823	781,799	\$ 745,291
Construction in Progress	-	-	600,781	983,293	600,781	983,293
Buildings and Improvements	2,251,035	2,349,660	980,314	89,427	3,231,349	2,439,087
Machinery and Equipment	121,242	113,810	90,286	131,358	211,528	245,168
Vehicles	256,916	347,875	21,639	19,337	278,555	367,212
Infrastructure	797,844	702,347	-	-	797,844	702,347
Water Utility System	-	-	5,459,067	4,804,972	5,459,067	4,804,972
Sewer Utility System	-	-	9,236,859	9,269,556	9,236,859	9,269,556
Total	\$ 4,052,505	4,139,160	16,545,277	15,417,766	20,597,782	\$ 19,556,926

[^] Certain amounts have been reclassified to agree to the current year presentation. Certain amounts have also been restated - see Note IV.E for more details.

The total increase in the City’s investment in capital assets for fiscal year 2011 was approximately \$1,041,000 or 5%. Major capital asset events during fiscal year 2011 included the following:

- Capital asset additions of approximately \$1,952,000 consisted primarily of:
 - Completion of several water and sewer projects related to the new Pickens High School - \$1,330,000.
 - Design and engineering of a new water treatment plant and a water line project on Highway 8 - \$285,000.
 - Construction of the West Main Streetscape project - \$192,000.
 - Purchase of new lawn mower - \$47,000.
 - Purchase of new patrol car and two meter reader trucks - \$56,000.
 - Other capital assets – Purchase of land and right of ways -\$42,000

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

- Depreciation expense of approximately \$360,000 for governmental activities and \$551,000 for business-type activities.

Additional information on the City’s capital assets can be found in Notes I and III of the notes to the basic financial statements.

Debt

As of April 30, 2011, the City had total outstanding debt of approximately \$4,140,000. Of this total, \$500,000 was general obligation debt backed by the full faith and credit of the City. The City’s total debt and lease purchase obligations as of April 30, 2011 and 2010 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bond	\$ 500,000	-	-	-	500,000	\$ -
Note Payable	43,750	87,500	-	-	43,750	87,500
Revenue Bonds	-	-	1,941,299	1,560,791	1,941,299	1,560,791
Revenue Bond Anticipation Note	-	-	568,000	568,000	568,000	568,000
State Revolving Fund Loan	-	-	-	1,032,066	-	1,032,066
Lease Purchase Obligations	1,059,887	1,551,286	26,626	57,167	1,086,513	1,608,453
Total	\$ 1,603,637	1,638,786	2,535,925	3,218,024	4,139,562	\$ 4,856,810

The total decrease in the City’s debt and lease purchase obligations for fiscal year 2011 was approximately \$717,000 or 15%. Major events during fiscal year 2011 included the following:

Governmental Activities:

- Issuance of a Series 2011 General Obligation Bond for \$500,000 that currently refunded five lease purchase obligations and provided funding for the purchase of new equipment (of which \$195,000 was unspent as of April 30, 2011).
- Issuance of a lease purchase obligation for approximately \$28,000 (which was later refunded by the GOB noted above) for the purchase of a Dodge Charger.
- Scheduled principal payments on debt and lease purchase obligations of approximately \$271,000.

Business-Type Activities:

- Issuance of a Series 2010 Water and Sewer Refunding Revenue Bond for \$2,000,000. These proceeds and the monies available in the various debt reserve/cushion funds were used to currently refund four Revenue Bonds and the State Revolving Fund Loan.
- Issuance of a Series 2010 revenue bond anticipation note for \$568,000 that paid off the Series 2009 revenue bond anticipation note.
- Scheduled principal payments on revenue bonds, notes payable, and state revolving fund loan of approximately \$129,000.

The State of South Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The City’s statutory debt limit at April 30, 2011 was approximately \$784,000. The City had \$500,000 of bonded debt subject to the 8% limit and thus as of April 30, 2011 had an unused legal debt margin of approximately \$284,000.

Additional information regarding the City’s long-term obligations can be found in Note III in the notes to the basic financial statements.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials and staff considered many factors when setting the fiscal year 2012 budget. The state of the economy, anticipated construction activity, future capital needs, and the best interests of the City's residents were all taken into account.

- **Millage:** The City's 2012 budget has an operating and debt service millage rate of 47.60 and a 4.31, respectively, for a total millage of 51.91 mills. The City added a debt service millage for FY 2012 due to the issuance of the 2011 GO Bond for \$500,000.
- **General Fund Revenues:** Given the current economic climate, the fiscal year 2012 budget was decreased for local option sales tax revenue and business license revenue. Also, based on actions of the SC General Assembly, state-shared revenues related to the Local Government Fund were decreased.
- **Transfers into the General Fund:** The City continues to supplement General Fund revenues with transfers in from the Utility Fund at 5% similar to a franchise fee. In addition, the stormwater department will transfer in approximately \$25,000 to offset the expense of the administrative personnel who work to maintain the stormwater system and compliance with the Environmental Protection Agency.
- **Personnel:** The City's budget for the fiscal year 2012 eliminates a full-time position in the Ground Maintenance Department.
- **Salaries and Wages:** City Council has eliminated "Cost of Living" payroll adjustments. However, the 3.3% across the board decrease that was put into place for the FY 2011 budget ended for the FY 2012 budget. In FY 2012, all employees will have their salaries reinstated to the FY 2010 amount.

REQUESTS FOR CITY INFORMATION

This financial report is designed to provide a general overview of the City of Pickens' finances for all those with an interest in the government's financing. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, Post Office Box 217, Pickens, South Carolina 29671. General information about the City can be obtained from our website at www.cityofpickens.com.

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Basic Financial Statements

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF NET ASSETS

APRIL 30, 2011

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 920,721	100	\$ 920,821
Restricted Cash and Cash Equivalents	420,619	116,207	536,826
Restricted Investments	-	138,679	138,679
Receivables, Net			
Property Taxes	28,256	-	28,256
Grants	164,520	8,577	173,097
Accounts	163,500	253,897	417,397
Intergovernmental	70,812	-	70,812
Other	35,356	5,876	41,232
Internal Balances	(50,401)	50,401	-
Prepays	-	18,163	18,163
Inventory	-	71,378	71,378
Bond Issuance Costs, Net	-	600	600
Capital Assets:			
Non-Depreciable	625,468	757,112	1,382,580
Depreciable, Net	3,427,037	15,788,165	19,215,202
TOTAL ASSETS	5,805,888	17,209,155	23,015,043
LIABILITIES			
Accounts Payable	200,277	270,118	470,395
Accrued Salaries and Fringe Benefits	15,818	8,266	24,084
Accrued Interest Payable	37,793	12,402	50,195
Customer Deposits	-	171,397	171,397
Non-Current Liabilities:			
Due Within One Year	207,320	689,256	896,576
Due in More Than One Year	1,488,176	1,891,830	3,380,006
TOTAL LIABILITIES	1,949,384	3,043,269	4,992,653
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,644,087	14,009,952	16,654,039
Restricted For:			
Tourism Related Expenditures	232,604	-	232,604
Victims Assistance	10,280	-	10,280
Other	6,203	-	6,203
Debt Service	-	116,207	116,207
Unrestricted	963,330	39,727	1,003,057
TOTAL NET ASSETS	\$ 3,856,504	14,165,886	\$ 18,022,390

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2011

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
PRIMARY GOVERNMENT:							
Governmental Activities:							
Administrative and General	\$ 298,647	8,550	-	155,341	(134,756)	-	\$ (134,756)
Police	859,042	133,977	78,962	-	(646,103)	-	(646,103)
Fire	504,826	505,211	-	6,065	6,450	-	6,450
Municipal Court	61,004	-	-	-	(61,004)	-	(61,004)
Victims' Assistance	10,376	-	-	-	(10,376)	-	(10,376)
Recreation and Parks	315,723	91,397	-	-	(224,326)	-	(224,326)
Hospitality	21,362	-	-	-	(21,362)	-	(21,362)
Streets and Sanitation	476,855	218,934	-	-	(257,921)	-	(257,921)
Grounds Maintenance	181,109	-	-	-	(181,109)	-	(181,109)
Interest and Other Charges	97,834	-	-	-	(97,834)	-	(97,834)
Total Governmental Activities	2,826,778	958,069	78,962	161,406	(1,628,341)	-	(1,628,341)
Business-Type Activities:							
Water	2,067,393	2,455,137	-	1,244,210	-	1,631,954	1,631,954
Sewer	598,341	538,482	-	-	-	(59,859)	(59,859)
Stormwater	75,061	92,853	-	-	-	17,792	17,792
Total Business-Type Activities	2,740,795	3,086,472	-	1,244,210	-	1,589,887	1,589,887
TOTAL - PRIMARY GOVERNMENT	\$ 5,567,573	4,044,541	78,962	1,405,616	(1,628,341)	1,589,887	\$ (38,454)
General Revenues:							
Taxes:							
Property Taxes					\$ 144,186	-	\$ 144,186
Hospitality Taxes					267,523	-	267,523
Local Option Sales Tax					332,773	-	332,773
Other Taxes					15,891	-	15,891
Business Licenses					509,842	-	509,842
Franchise Fees					305,255	-	305,255
Intergovernmental Revenue					68,464	-	68,464
Miscellaneous Revenue					15,637	-	15,637
Investment Earnings					773	3,062	3,835
Transfers					140,975	(140,975)	-
Total General Revenues and Transfers					1,801,319	(137,913)	1,663,406
CHANGE IN NET ASSETS					172,978	1,451,974	1,624,952
NET ASSETS, Beginning of Year, As Previously Reported					2,759,726	11,935,542	14,695,268
PRIOR PERIOD ADJUSTMENTS					923,800	778,370	1,702,170
NET ASSETS, Beginning of Year, Restated					3,683,526	12,713,912	16,397,438
NET ASSETS, End of Year					\$ 3,856,504	14,165,886	\$18,022,390

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND

APRIL 30, 2011

	<u>GENERAL FUND</u>
ASSETS	
Cash and Cash Equivalents	\$ 920,721
Restricted Cash and Cash Equivalents	420,619
Receivables, Net	
Property Taxes	28,256
Grants	164,520
Intergovernmental	70,812
Accounts	163,500
Other	35,356
TOTAL ASSETS	<u>\$ 1,803,784</u>
LIABILITIES	
Accounts Payable	\$ 200,277
Accrued Salaries and Fringe Benefits	15,818
Due to Other Funds	50,401
Deferred and Unearned Revenue	22,843
TOTAL LIABILITIES	<u>289,339</u>
FUND BALANCES	
Reserved for:	
Capital Projects (Unspent Bond Proceeds)	195,219
Tourism Related Expenditures (Hospitality Taxes)	232,604
Victims Assistance	10,280
Other	6,203
Unreserved:	
Undesignated	1,070,139
TOTAL FUND BALANCES	<u>1,514,445</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,803,784</u>

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS

APRIL 30, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUND		\$ 1,514,445
Amounts reported for the governmental activities in the Statement of Net Assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets was \$7,358,058 and the accumulated depreciation was \$3,305,553.		4,052,505
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore have been deferred in the funds.		22,843
Accrued interest on long-term obligations in governmental accounting is not due and payable in the current period and therefore is not reported as a liability in the funds.		(37,793)
Long-term liabilities, including bonds and notes payable, are not due or payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities consisted of the following:		
Long-Term Obligations (Debt and Lease Purchase Obligations)	(1,603,637)	
Compensated Absences (General Leave)	(91,859)	(1,695,496)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u>\$ 3,856,504</u>

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUND

YEAR ENDED APRIL 30, 2011

	<u>GENERAL FUND</u>
REVENUES	
Taxes	\$ 401,663
Fees, Charges, and Rentals	839,729
Fines and Forfeitures	133,977
Licenses, Permits, and Franchise Fees	815,097
Intergovernmental Revenues	415,673
External Service Reimbursements	70,984
Grants	169,384
Interest Earnings	773
TOTAL REVENUES ALL SOURCES	<u>2,847,280</u>
EXPENDITURES	
Current:	
Administrative and General	222,781
Police	789,145
Fire	465,355
Municipal Court	61,004
Victims' Assistance	10,376
Recreation and Parks	215,167
Hospitality	19,900
Streets and Sanitation	410,049
Grounds Maintenance	162,570
Capital Outlay	287,994
Debt Service:	
Principal	270,685
Interest	71,814
Bond Issuance Costs	11,500
TOTAL EXPENDITURES	<u>2,998,340</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(151,060)</u>
OTHER FINANCING SOURCES	
Issuance of Lease Purchase	28,223
Issuance of General Obligation Bonds	500,000
Payment to Refunding Escrow Agent	(304,714)
Transfers In	140,975
TOTAL OTHER FINANCING SOURCES	<u>364,484</u>
CHANGE IN FUND BALANCE	213,424
FUND BALANCE, Beginning of Year, As Previously Reported	1,269,859
PRIOR PERIOD ADJUSTMENTS	31,162
FUND BALANCE, Beginning of Year, Restated	<u>1,301,021</u>
FUND BALANCE, End of Year	<u>\$ 1,514,445</u>

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2011

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND **\$ 213,424**

Amounts reported for the governmental activities in the Statement of Activities are different because of the following:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. They are considered revenues in the Statement of Activities.	11,501
Repayment of bond and notes payable principal is recognized in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This amount is the total reduction in outstanding principal in the current year.	563,372
Bond and notes payable proceeds provide current financial resources to governmental funds, but issuing debt or entering into notes payable increases long-term liabilities in the Statement of Net Assets.	(528,223)
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(2,493)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	2,052
Governmental funds report capital asset additions as expenditures (\$273,652). However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense (\$360,307). This is the amount by which capital asset additions exceeded depreciation expense in the current period.	<u>(86,655)</u>

TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 172,978**

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF NET ASSETS - PROPRIETARY FUND

APRIL 30, 2011

	<u>UTILITY FUND</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 100
Restricted Cash and Cash Equivalents	116,207
Restricted Investments	138,679
Receivables, Net of Allowance for Doubtful Accounts	
Utility Services	253,897
Grants	8,577
Other	5,876
Due From Other Funds	50,401
Prepays	18,163
Inventory	71,378
Total Current Assets	<u>663,278</u>
Noncurrent Assets	
Bond Issuance Costs, Net	600
Non-Depreciable	757,112
Depreciable Capital Assets, Net	15,788,165
Total Noncurrent Assets	<u>16,545,877</u>
TOTAL ASSETS	<u>\$ 17,209,155</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 270,118
Accrued Salaries and Fringe Benefits	8,266
Accrued Interest Payable	12,402
Customer Deposits	171,397
Current Portion - Compensated Absences	9,032
Current Portion - Debt	671,645
Current Portion - Lease Purchase	8,579
Total Current Liabilities	<u>1,151,439</u>
Noncurrent Liabilities	
Compensated Absences, Less Current Portion	36,129
Debt, Less Current Portion	1,837,654
Lease Purchase, Less Current Portion	18,047
Total Non-Current Liabilities	<u>1,891,830</u>
TOTAL LIABILITIES	<u>3,043,269</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	14,009,952
Restricted for Debt Service	116,207
Unrestricted	39,727
TOTAL NET ASSETS	<u>\$ 14,165,886</u>

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - PROPRIETARY FUND

YEAR ENDED APRIL 30, 2011

	<u>UTILITY FUND</u>
OPERATING REVENUES	
Charges for Service	
Water Fees	\$ 2,409,252
Sewer Fees	524,157
Wastewater Disposal Fees	14,325
Stormwater Fees	92,853
Tap Fees	34,897
TOTAL OPERATING REVENUES	<u>3,075,484</u>
OPERATING EXPENSES	
Personnel Services	808,301
Contractual Services	540,141
Materials and Supplies	256,063
Other	391,576
Depreciation	551,391
TOTAL OPERATING EXPENSES	<u>2,547,472</u>
OPERATING INCOME (LOSS)	<u>528,012</u>
NONOPERATING REVENUES (EXPENSES)	
Grant Revenue	1,244,210
Interest Income	3,062
Interest Expense	(135,150)
Other Expenses	(58,173)
Other Revenues	10,988
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,064,937</u>
INCOME (LOSS) BEFORE TRANSFERS	1,592,949
Transfers Out	<u>(140,975)</u>
CHANGE IN NET ASSETS	1,451,974
NET ASSETS, Beginning of Year, As Previously Reported	11,935,542
PRIOR PERIOD ADJUSTMENT	778,370
NET ASSETS, Beginning of Year, Restated	<u>12,713,912</u>
NET ASSETS, End of Year	<u>\$ 14,165,886</u>

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

YEAR ENDED APRIL 30, 2011

	<u>UTILITY FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 3,015,814
Cash Payments for Goods and Services	(997,667)
Cash Payments to Employees	(800,772)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,217,375</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Advances and Transfers (to) from Other Funds	(420,778)
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	<u>(420,778)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants	1,244,210
Acquisition of Capital Assets	(1,678,902)
Proceeds from Revenue Bonds	2,568,000
Repayment of Bond Anticipation Note	(568,000)
Principal Paid on Revenue Bonds and State Revolving Fund Loan	(2,651,558)
Principal Paid on Lease Purchases	(30,541)
Interest Payments on Debt and Lease Purchases	(122,748)
Bond Issuance Cost Payments	(58,173)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,297,712)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Income on Investments	3,062
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,062</u>
NET DECREASE IN RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS	(498,053)
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, Beginning of Year	<u>753,039</u>
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 254,986</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 528,012
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	551,391
Other Non-Operating Income	10,988
Change in:	
Accounts Receivable	(79,205)
Prepays	(1)
Accounts Payable	190,114
Accrued Salaries and Fringe Benefits	8,266
Compensated Absences	(737)
Deposits	8,547
Net Cash Provided by Operating Activities	<u>\$ 1,217,375</u>

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND - AGENCY FUND

APRIL 30, 2011

	FIREMAN'S FUND
ASSETS	
Cash and Cash Equivalents	\$ 17,600
TOTAL ASSETS	17,600
LIABILITIES	
Held in Custody for Others	17,600
TOTAL LIABILITIES	\$ 17,600

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' report.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

The City of Pickens (“City”) was incorporated in 1868. Section 47-26 of the 1962 Code of Laws, as amended (Home Rule Act), requires that municipalities adopt a specific form of government. The City operates under a Council Form of government with a Mayor and six council members elected at large by a nonpartisan general election for a term of four years. The Mayor and Council are vested with the legislative and policymaking powers of the City. The Council appoints a City Administrator who serves as the chief executive officer of the City and is responsible to the Council for proper administration of all affairs of the City.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America, (“GAAP”), as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

As required by GAAP, the basic financial statements present the City’s financial information with its component unit (if any). The primary criterion for determining inclusion or exclusion of a legally separate entity (component unit) is financial accountability, which is presumed to exist if the City both appoints a voting majority of the entity’s governing body, and either 1) the City is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the City. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the City. In order to be considered fiscally independent, an entity must have the authority to do all of the following: (a) Determine its budget without the City having the authority to approve or modify that budget; (b) Levy taxes or set rates or charges without approval by the City; and (c) Issue bonded debt without approval by the City.

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the City’s basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government's operations and data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize they are legally separate from the City. Based on the criteria above, the City does not have any component units.

Major Operations

The City’s major governmental operations include: administrative and general, police, fire, municipal court, victims’ assistance, recreation and parks, hospitality, streets and sanitation, and ground and maintenance. In addition, the City provides water, sewer, and stormwater operations through its utility fund.

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City (the “Primary Government”). For the most part, the effect of interfund activity (except for interfund services provided and used between functions) has been removed from these financial statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary and Fiduciary Funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, includes property taxes, grants and donations. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statements are prepared using a different measurement focus from the manner in which governmental fund financial statements are prepared (see further detail below). Governmental fund financial statements therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, hospitality taxes, accommodation taxes, fire protection fees and charges for services, fines and forfeitures, business licenses, franchise fees, intergovernmental revenues, external service reimbursements and interest associated with the current fiscal period are all considered to be measurable and susceptible to accrual and so have been recognized as revenues of the current fiscal period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period with the exception of certain reimbursement expenditure grants for which a twelve month availability period is generally used.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, lease purchase expenditures, capital lease expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due and payable. Capital asset acquisitions are reported as capital outlay expenditures in governmental funds. Proceeds of long-term debt, lease purchase obligations, and acquisitions under capital leases are reported as other financing sources.

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

When both restricted and unrestricted resources are available for use, it is the City's practice to use restricted resources first, then unrestricted resources as they are needed.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The following major funds and fund types are used by the City.

Governmental Fund Types are those through which most governmental functions of the City are financed. The City's expendable financial resources and related assets and liabilities (except for those accounted for in the Proprietary Fund and Fiduciary Fund) are accounted for through governmental funds. Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. The City's only governmental fund-type and its only major fund is as follows:

The **General Fund, a major fund** and a budgeted fund, is the general operating fund of the City and accounts for all governmental revenues and expenditures of the City.

Proprietary Fund Types are accounted for based on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all applicable GASB pronouncements, as well as the requirements of Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs"), issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The City has elected not to follow the aforementioned guidance issued after November 30, 1989, as allowed by GAAP.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are primarily charges for services and fees. Operating expenses for enterprise funds include the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting these general definitions are reported as non-operating revenues and expenses. The City's proprietary fund type and major fund is as follows:

Enterprise Fund is 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. The City has the following Enterprise Fund:

The **Utility Fund, a major fund**, is used to account for the City's water, sewer, and stormwater operations. This is a budgeted fund.

Fiduciary Fund Types include **Agency Funds**. Fiduciary funds are used to account for assets held by the City in a trustee capacity for individuals, other governments, and/or other funds and are accounted for in essentially the same manner as Proprietary Funds. Agency funds are generally used to account for miscellaneous assets that the government holds on behalf of others. Agency funds are custodial in nature and do not present results of operations. The City has one agency fund – the Fireman's Fund. The Fireman's Fund is used to account for the receipts and disbursements of funds from the State relating to the payment of one percent of the premiums received by out of state fire insurance companies.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity

1. Cash, Cash Equivalents, and Investments

The City considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and money market mutual funds to be cash equivalents. Securities with an initial maturity of more than three months (from when initially purchased) and other non-money market mutual funds are reported as investments.

The City's operating cash and investment policy is designed to operate within existing statutes (which are identical for all non-fiduciary funds, fund types and component units within the State of South Carolina). The statutes of the State of South Carolina authorize the City to invest in the following:

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

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

1. Cash, Cash Equivalents, and Investments (Continued)

The City's cash and investment objectives are preservation of capital, liquidity and yield. The City reports its cash and investments at fair value which is normally determined by quoted market prices. The City currently or in the past year has primarily used the following investments in its operating activities:

- Certificates of Deposit ("CD") are bond-type investments issued by a bank when a person or company deposits a certain amount of money for a determined amount of time. The maturity can be up to five years, and interest is paid to the holder of the CD at an agreed upon rate. Money removed before maturity is subject to a penalty.
- U.S. securities are generally treasury notes, treasury bonds, treasury bills, and related securities which are debt obligations of the U.S. government (lending money to the federal government for a specified period of time). These debt obligations are backed by the "full faith and credit" of the government, and thus by its ability to raise tax revenues and print currency, U.S. Treasury securities are considered the safest of all investments.

2. Receivables and Payables

During the course of its operations, the City has numerous transactions occurring between funds. These transactions include expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying basic financial statements generally reflect such transactions as transfers in (out). To the extent that certain transactions between funds had not been paid or received as of April 30, 2011, balances of interfund amounts or payables have been recorded.

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Trade receivables are comprised of amounts due from entities and individuals for a variety of types of fees, charges and services, including franchise fees, hospitality fees, sanitation, water, sewer, and other fees and charges.

3. Inventories and Prepaid Items

Inventories of materials, supplies and gasoline are stated at average cost, which approximates market. The costs of inventories and prepaid items are accounted for using the consumption method (expensed when consumed).

4. Capital Assets

General capital assets are those assets not specifically related to activities reported in the Utility Fund. These assets generally result from expenditures in the General Fund. These assets are reported in the governmental activities column of the Government-Wide Statement of Net Assets, but are not reported in the fund financial statements. Capital assets utilized by the Utility Fund are reported both in the business-type activities column of the Government-Wide Statement of Net Assets and in the respective fund financial statements.

The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) or groupings of similar items with individual costs is less than \$5,000, but when purchased together the total is greater than \$25,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if not purchased or constructed. Donated capital assets are recorded at estimated fair market value (as estimated by the City) at the date of donation.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

4. *Capital Assets (Continued)*

Interest costs related to Utility Fund construction is capitalized as part of the capitalized value of the asset constructed (if material). Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds.

Capital assets are depreciated on the straight-line method generally using the following estimated useful lives:

Buildings and Improvements	10 - 50 years
Water and Sewer Distribution Systems	10 - 50 years
Machinery and Equipment	3 - 10 years
Vehicles	3 - 10 years
Infrastructure	10 - 30 years

5. *Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused general leave benefits. Unused general leave is accumulated in varying amounts based on years of service to a maximum amount of 81 days (or 648 hours). Unused general leave will be paid for at termination at a rate of 50% only if the employee is terminated for non-disciplinary reasons or if the employee gives and properly works a two-week notice of resignation. The City Administrator may authorize payment without a two-week notice.

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." The entire compensated absence liability and expense is reported on the government-wide financial statements. The portion applicable to the proprietary fund is also recorded in the Utility Fund. The governmental funds will also recognize a liability for compensated absences if they have matured, for example, as a result of employee resignation or retirement prior to fiscal year end (if material).

6. *Accrued Liabilities and Long-Term Obligations*

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. The portion applicable to the Proprietary Fund is also recorded in the Proprietary Fund financial statements. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method (as it approximates the effective interest method) if material. Debt is reported net of applicable bond premiums and discounts.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized immediately. The face amount of debt, lease purchases, or capital leases issued is reported as other financing sources. Premiums received on issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current financial resources. However, claims and judgments, debt, lease purchases, capital leases, compensated absences, and other related long-term liabilities that will eventually be paid from governmental funds are not reported as a liability in the fund financial statements until due and payable.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

7. *Fund Balance*

In the fund basic financial statements, the City “*reserves*” those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves can be established for, but not limited to the following: prepaids, inventory, non-current receivables, prior year appropriations, grant projects, debt service, capital projects, and special revenue programs. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

In the governmental fund financial statements, the City’s fund balance “*designations*” are established to reflect tentative plans for financial resource utilization in future periods. Designations of fund equity represent tentative management plans that are subject to change and ultimately may not be legally authorized or result in expenditure.

8. *Net Assets*

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets are classified as invested in capital assets net of related debt; restricted; and unrestricted. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net assets component as the unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

9. *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the year to control expenditures. Encumbrances do not constitute expenditures or liabilities. For budget purposes encumbrances and unused expenditure appropriations lapse at year end.

10. *Accounting Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

11. *Comparative Data*

Comparative data (i.e. presentation of prior year totals by fund type) has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City follows the following procedures in establishing its annual budgets:

1. On or before January 15 of each year, all departments/agencies of the government submit requests for appropriation to the City Administrator so that a budget may be prepared. The budget is prepared by fund, function and department, and includes information on the past year, the current year budget and requested appropriations for the next fiscal year.
2. In February of each year, the proposed budget is presented to the City Council for review. The City adopts the budget ordinance before April 30 of each year. Amounts transferred between departments or within line items of a department do not need approval by City Council. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is the total fund level. Budgeted expenditure appropriations lapse at year-end.
3. Legally adopted budgets are employed as a management control device during the year for the General Fund. The City also adopts a budget for its Utility Fund. All annual appropriations lapse at fiscal year-end. Expenditures may not legally exceed appropriations on the fund level.
4. The budgets for the budgeted funds are legally adopted on a basis consistent with GAAP. The budgets at the end of the year for these funds represent the budgets adopted and amended (revised) by the City Council.
5. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at year lapse and are generally included in the succeeding year's budget.

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. The City does not have a formal deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of April 30, 2011, approximately \$30,000 of the City's bank balances of approximately \$1,524,000 (with a carrying value of approximately \$1,512,000) were exposed to custodial credit risk as they were uninsured and uncollateralized.

Investments

As of April 30, 2011, the City had the following investments and maturities:

Investment Type	Credit Rating	Fair Value	Investment Maturities in Years			
			< 1 yr	1-3 yrs	3-5yrs	> 5 yrs
US Securities	*	\$ 101,682	\$ 101,682	-	-	-

* U.S. government securities are not considered to have credit risk. Credit ratings for these investments have not been disclosed.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

Interest Rate Risk: The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City does not have an investment policy for credit risk but follows the investment policy statutes of the State of South Carolina.

Concentration of Credit Risk for Investments: The City places no limit on the amount the City may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures.

Certain cash, cash equivalents and investments of the City are legally restricted for specified purposes. The major types of restrictions at April 30, 2011 were (a) those imposed by the revenue source (i.e. hospitality fees, etc.), (b) debt service reserve funds, and (c) unspent debt and lease purchase proceeds.

Reconciliation to the Financial Statements

A reconciliation of cash, cash equivalents, and investments as shown in the statements of net assets for all activities is as follows:

Description	Amount
Carrying Amount of Deposits	\$ 1,512,244
Fair Value of Investments	101,682
Total Deposits and Investments	<u>\$ 1,613,926</u>
Statement of Net Assets:	
Cash and Cash Equivalents	\$ 920,821
Restricted Cash and Cash Equivalents	536,826
Restricted Investments	138,679
Statement of Assets and Liabilities - Fiduciary Fund - Agency Fund	
Cash and Cash Equivalents	17,600
Total Cash, Cash Equivalents, and Investments	<u>\$ 1,613,926</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

B. Receivables and Deferred/Unearned Revenue

Property Taxes

Property taxes receivable represent current real and personal property as well as delinquent real and personal property taxes, less an allowance for amounts estimated to be uncollectible (if material). All property taxes receivable at year end, except those collected within 60 days, are recorded as deferred tax revenue and thus not recognized as revenue until collected in the governmental funds.

Property taxes are assessed and collected by Pickens County ("County"). The County generally levies its real property taxes in October based upon assessed valuations on January 1st of each year. Assessed values are established by the County Assessor, the County Auditor, and the South Carolina Department of Revenue and Taxation at various rates of 4 to 10.5 percent of the estimated market value. Real property and all personal property taxes other than vehicle property taxes attach as an enforceable lien on property as of January 16th. Taxes are levied and billed in October on all property other than vehicles and are payable without penalty until January 15th of the following year. Penalties are assessed on unpaid taxes on the following dates:

January 16 th	3%
February 2 nd	an additional 7%
March 17 th	an additional 5%

After proper notification, the law requires "exclusive possession" of property necessary to satisfy the delinquent taxes. Properties with unpaid taxes are sold at a public auction during the month of October.

Vehicle property taxes attach a lien and are levied throughout the year depending on when the vehicles' license tags expire. The lien and collection date for motor vehicle taxes is the last day of the month in which the motor vehicle license expires.

The City's fiscal year 2011 real and business personal property taxes (which was for tax year 2010) were levied in October 2010 based on a millage rate of 47.6 mills and were due beginning on that date. The City's assessed value of real and personal property was approximately \$9.8 million for tax year 2010. Amounts received by the County but not yet remitted to the City at year end (immaterial amounts) are included in "Property Taxes Receivable" in the balance sheet and statement of net assets.

Other Receivables

The City has receivables (a) for grant projects where expenditures have been incurred by the City but have not been reimbursed by the grantor by the end of the year, (b) accounts receivable related to sanitation, hospitality, franchise fees, utility services, etc., (c) intergovernmental revenues due from the state for local option sales tax and local government aid, and (d) other miscellaneous receivables.

Deferred/Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental Funds also defer revenue recognition in connection with resources that have been received, but not yet earned (unearned revenue). As of April 30, 2011, the City had \$28,256 in property tax receivables. Delinquent property taxes of \$5,413 have been recognized as revenue in the current year because it was collected within 60 days of year end. The remaining delinquent property tax receivable of \$22,843 has been recorded by the City as deferred revenue at April 30, 2011 on the governmental fund balance sheet (because they were not collected within 60 days after year end and thus are not considered available).

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

Interfund balances at April 30, 2011, consisted of the following individual fund receivables and payables (all of which are expected to be repaid within one year):

Fund	Receivables	Payables
<u>Major Governmental Fund:</u>		
General Fund	\$ -	\$ 50,401
<u>Major Enterprise Fund:</u>		
Utility Fund	50,401	-
Totals	<u>\$ 50,401</u>	<u>\$ 50,401</u>

The interfund receivable and payable are a result of the General Fund handling the cash activities of the Utility Fund. The General Fund (a) finances the salaries and other operating expenses for the Utility Fund, (b) processes vendor payments and payroll transactions for the Utility Fund, and (c) collects customer payments for the Utility Fund. As these cash activities occur, the General Fund records this activity in the interfund account with the actual income or expense being recorded in the Utility Fund. Amounts to be paid between the funds are accounted for in the interfund receivable/payable accounts.

Interfund Transfers

Interfund transfers for the year ended April 30, 2011, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Major Governmental Fund:</u>		
General Fund	\$ 140,975	\$ -
<u>Major Enterprise Fund:</u>		
Utility Fund	-	140,975
Totals	<u>\$ 140,975</u>	<u>\$ 140,975</u>

Funds are transferred to the General Fund from the Utility Fund in lieu of property taxes and franchise fees. Council approves the amount transferred annually during the budget process.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Capital Assets

Capital asset activity for the City’s governmental activities for the year ended April 30, 2011, was as follows:

	Restated Beginning Balance *	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 625,468	-	-	-	\$ 625,468
Total Capital Assets, Non-Depreciable	<u>625,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>625,468</u>
Capital Assets, Depreciable:					
Buildings and Improvements	3,332,160	-	-	-	3,332,160
Machinery and Equipment	530,042	46,815	-	-	576,857
Vehicles	1,565,303	28,223	-	-	1,593,526
Infrastructure	1,031,433	198,614	-	-	1,230,047
Total Capital Assets, Depreciable	<u>6,458,938</u>	<u>273,652</u>	<u>-</u>	<u>-</u>	<u>6,732,590</u>
Less: Accumulated Depreciation for:					
Buildings and Improvements	982,500	98,625	-	-	1,081,125
Machinery and Equipment	416,232	39,383	-	-	455,615
Vehicles	1,217,428	119,182	-	-	1,336,610
Infrastructure	329,086	103,117	-	-	432,203
Total Accumulated Depreciation	<u>2,945,246</u>	<u>360,307</u>	<u>-</u>	<u>-</u>	<u>3,305,553</u>
Total Capital Assets, Depreciable, Net	<u>3,513,692</u>	<u>(86,655)</u>	<u>-</u>	<u>-</u>	<u>3,427,037</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,139,160</u>	<u>(86,655)</u>	<u>-</u>	<u>-</u>	<u>\$ 4,052,505</u>

* Certain prior year amounts have been reclassified to agree to the current year presentation. Certain amounts have also been restated - see Note IV.E for more details.

Capital asset additions and depreciation expense for governmental activities were charged to functions/programs as follows:

Functions/Programs	Capital Asset Additions	Depreciation Expense
Administrative and General	\$ 163,014	\$ 71,522
Police	28,223	67,008
Fire	7,000	38,115
Recreation and Parks	-	100,556
Hospitality	28,600	-
Streets and Sanitation	-	66,806
Grounds Maintenance	46,815	16,300
Total - Governmental Activities	<u>\$ 273,652</u>	<u>\$ 360,307</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Capital Assets (Continued)

Capital asset activity for the City's business-type activities for the year ended April 30, 2011, was as follows:

	Restated Beginning Balance *	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities					
Capital Assets, Non-Depreciable:					
Land	\$ 119,823	36,508	-	-	\$ 156,331
Construction In Progress	983,293	1,614,936	-	(1,997,448)	600,781
Total Capital Assets, Non-Depreciable	<u>1,103,116</u>	<u>1,651,444</u>	<u>-</u>	<u>(1,997,448)</u>	<u>757,112</u>
Capital Assets, Depreciable:					
Buildings and Improvements	241,971	-	-	916,617	1,158,588
Water Utility System	8,926,757	-	-	871,856	9,798,613
Sewer Utility System	11,676,559	-	-	208,975	11,885,534
Machinery and Equipment	726,252	-	-	-	726,252
Vehicles	283,336	27,458	-	-	310,794
Total Capital Assets, Depreciable	<u>21,854,875</u>	<u>27,458</u>	<u>-</u>	<u>1,997,448</u>	<u>23,879,781</u>
Less: Accumulated Depreciation for:					
Buildings and Improvements	152,544	25,730	-	-	178,274
Water Utility System	4,121,785	217,761	-	-	4,339,546
Sewer Utility System	2,407,003	241,672	-	-	2,648,675
Machinery and Equipment	594,894	41,072	-	-	635,966
Vehicles	263,999	25,156	-	-	289,155
Total Accumulated Depreciation	<u>7,540,225</u>	<u>551,391</u>	<u>-</u>	<u>-</u>	<u>8,091,616</u>
Total Capital Assets, Depreciable, Net	<u>14,314,650</u>	<u>(523,933)</u>	<u>-</u>	<u>1,997,448</u>	<u>15,788,165</u>
Business-Type Activities Capital Assets, Net	<u>\$ 15,417,766</u>	<u>1,127,511</u>	<u>-</u>	<u>-</u>	<u>\$ 16,545,277</u>

* Certain prior year amounts have been reclassified to agree to the current year presentation. Certain amounts have also been restated - see Note IV.E for more details.

Capital asset additions and depreciation expense for business-type activities were charged to functions/programs as follows:

Functions/Programs	Capital Asset Additions	Depreciation Expense
Water	\$ 1,602,346	\$ 299,974
Sewer	76,556	251,417
Total - Business-Type Activities	<u>\$ 1,678,902</u>	<u>\$ 551,391</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Capital Assets (Continued)

Construction in progress in the City’s Utility Fund represents costs related to engineering of Phase 1 of the Water Treatment Plant as well as the Highway 8 Phase III line upgrades. These projects were begun with financing from the Waterworks and Sewer System Revenue Bond Anticipation Notes Series 2009 and Series 2010 in prior years and have been supplemented with the Waterworks and Sewer System Refunding Revenue Bonds issued in 2010. During 2011, the City’s Utility Fund (business-type activities) did not capitalize any interest expense as the amounts were deemed immaterial.

Construction Commitments

The City has two ongoing construction projects as of April 30, 2011. The ongoing construction projects relate to the construction of the Water Treatment Plant and the completion of the Highway 8 Phase III Water Line extension. Total remaining commitments on these contracts is approximately \$251,000 as of April 30, 2011.

E. Long-Term Obligations

The City issues bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds (“GOB”) are direct obligations and pledge the full faith and credit of the City and are subject to the 8% debt limit requirement if not issued under a bond referendum. Revenue Bonds (“RB”) are obligations of the City that are secured by revenue from a specific source. Note Payables (“NP”) and Lease Purchase (“LP”) are obligations of the City that are generally collateralized by the property underlying the obligation and are payable from the general revenues of the City. The full faith, credit, and taxing powers of the City are not pledged for the payment of RB, NP, and LP obligations nor the interest thereon. Details on the City’s outstanding debt issues and lease purchase obligations as of April 30, 2011 are as follows:

	Balance at <u>April 30, 2011</u>
<i>General Obligation Bonds</i>	
\$500,000 general obligation bonds issued in April 2011 (“GOB – 04/11”), due in annual installments of \$25,000 to \$125,000 beginning on April 1, 2012 through April 1, 2017, plus interest at 2.56% due annually. The proceeds from this issue were used to current refund several prior lease purchase obligations and acquire various equipment including a sanitation collection truck, a commercial lawn mower, and certain fire-fighting equipment. The current refundings resulted in immaterial deferred losses and thus no deferred losses were recorded. Issuance costs were not significant and thus have not been recorded related to this issue.	\$500,000
<i>Note Payable</i>	
\$137,500 note payable with an individual entered into in July 2009 (“NP – 07/09”), due in two annual installments of \$43,750 in July 2010 and \$43,750 in July 2011, plus interest at 5.00%, due annually. A \$50,000 down payment was paid at the time of purchase. The note payable was entered into to purchase land on West Main Street.	\$43,750
<i>Revenue Bonds</i>	
\$2,000,000 waterworks and sewer system refunding revenue bonds issued in September 2010 (“RB – 09/10”), due in monthly principal installments of \$8,308 to \$14,480 beginning October 30, 2010 through September 30, 2025, plus interest at 3.730%, due monthly. The proceeds from this issue were used to current refund the 1979, 1982, 1984, and 1998 revenue bonds and the 1998 State Revolving Fund loan and resulted in immaterial deferred losses (and thus no amounts were recorded). Issuance costs were not significant and thus have not been recorded related to this issue. The original bonds were used to finance and construct the water and sewer systems of the City.	\$1,941,299

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

Revenue Bonds (Continued)

Balance at
April 30, 2011

\$568,000 waterworks and sewer system revenue bond anticipation note issued in December 2010 (“RBAN – 12/10”), due on December 16, 2011, plus interest at 2.80%. The proceeds from this issue were used to repay the 2009 RBAN. The bond anticipation notes are being used to pay engineering services for future improvements to the City’s existing raw water reservoir and water treatment plant. \$568,000

Lease Purchase Obligations

\$1,700,000 lease purchase agreement was entered into in August 2003 (“LP – 08/03”), with 15 annual payments (including interest) of \$154,293 beginning August 1, 2004 through August 1, 2018 which includes interest at 4.13%. The proceeds from this lease purchase obligation were primarily used to finance the construction of the Pickens Recreation Center. \$1,033,261

\$69,844 lease purchase agreement was entered into in October 2009 (“LP – 10/09”), with 4 annual payments (including interest) of \$18,975 beginning October 28, 2010 through October 28, 2013 which includes interest at 3.41%. The proceeds from this lease purchase obligation were used to purchase the City’s accounting software. This lease purchase was split evenly between governmental and business-type activities. \$53,252

Presented below is a summary of changes in long-term obligations for the City’s governmental activities for the year ended April 30, 2011:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Amounts Refunded	Ending Balance	Due Within One Year
Governmental Activities:						
Debt:						
GOB – 04/11	\$ -	500,000	-	-	500,000	\$ 25,000
NP – 07/09	87,500	-	43,750	-	43,750	43,750
Total Debt	<u>87,500</u>	<u>500,000</u>	<u>43,750</u>	<u>-</u>	<u>543,750</u>	<u>68,750</u>
Lease Purchases:						
LP – Trucks	6,866	-	6,866	-	-	-
LP – Crown Vic	19,091	-	19,091	-	-	-
LP – Fire Truck	13,369	-	13,369	-	-	-
LP – Pumper Truck	160,682	-	24,421	136,261	-	-
LP – Grapple Truck	38,982	-	12,544	26,438	-	-
LP – 08/03	1,140,453	-	107,192	-	1,033,261	111,619
LP – 10/09	34,922	-	8,296	-	26,626	8,579
LP – Ballfield Lights	105,489	-	25,016	80,473	-	-
LP – Chevy Impala	31,432	-	10,140	21,292	-	-
LP – Dodge Charger	-	28,223	-	28,223	-	-
Total Lease Purchases	<u>1,551,286</u>	<u>28,223</u>	<u>226,935</u>	<u>292,687</u>	<u>1,059,887</u>	<u>120,198</u>
Compensated Absences	93,911	48,518	50,570	-	91,859	18,372
Total Governmental Activities	<u>\$ 1,732,697</u>	<u>576,741</u>	<u>321,255</u>	<u>292,687</u>	<u>1,695,496</u>	<u>\$ 207,320</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

Resources from the General Fund have been used to liquidate all of the governmental activities long-term obligations.

Presented below is a summary of changes in long-term obligations for the City’s business-type activities for the year ended April 30, 2011:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Amounts Refunded	Ending Balance	Due Within One Year
Business-Type Activities:						
Debt:						
Revenue Bonds:						
RB – 1979	\$ 85,743	-	2,498	83,245	-	\$ -
RB – 1982	72,619	-	2,075	70,544	-	-
RB – 1984	38,923	-	5,935	32,988	-	-
RB – 1998	1,363,506	-	4,624	1,358,882	-	-
RBAN – 12/09	568,000	-	568,000	-	-	-
RBAN – 12/10	-	568,000	-	-	568,000	568,000
RB – 09/10	-	2,000,000	58,701	-	1,941,299	103,645
Total Revenue Bonds	<u>2,128,791</u>	<u>2,568,000</u>	<u>641,833</u>	<u>1,545,659</u>	<u>2,509,299</u>	<u>671,645</u>
SC State Revolving Fund Loan:						
SRF – 1998	1,032,066	-	24,249	1,007,817	-	-
Total Debt	<u>3,160,857</u>	<u>2,568,000</u>	<u>666,082</u>	<u>2,553,476</u>	<u>2,509,299</u>	<u>671,645</u>
Lease Purchases:						
LP – 10/09	34,922	-	8,296	-	26,626	8,579
LP – Trucks	22,245	-	22,245	-	-	-
Total Lease Purchases	<u>57,167</u>	<u>-</u>	<u>30,541</u>	<u>-</u>	<u>26,626</u>	<u>8,579</u>
Compensated Absences	45,898	48,518	49,255	-	45,161	9,032
Total Business-Type Activities	<u>\$ 3,263,922</u>	<u>2,616,518</u>	<u>745,878</u>	<u>2,553,476</u>	<u>2,581,086</u>	<u>\$ 689,256</u>

Resources from the Utility Fund have been used to liquidate all of the business-type activities long-term obligations.

The order of priority for pledges and security on the capital assets of the City’s water/sewer activities is the revenue bonds. The revenue bond requires the City to maintain user rates sufficient to generate net revenues, as defined by the agreements, ranging from 100% to 120% of the annual principal and interest payments on the revenue bonds and junior bonds (as defined). The revenue bonds contain significant requirements for annual debt service, various restrictive covenants which requires the City to maintain various restricted cash and investment accounts and to meet various other general requirements. The City is in compliance with all of the significant financial covenants at April 30, 2011.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

Presented below is a summary of debt service requirements to maturity by year for the City’s governmental activities as of April 30, 2011:

Year Ending April 30,	Debt		Lease Purchase		Total
	Principal	Interest	Principal	Interest	
<u>Governmental Activities:</u>					
2012	\$ 68,750	14,277	120,198	43,582	\$ 246,807
2013	65,000	12,160	125,102	38,680	240,942
2014	85,000	10,496	130,203	33,577	259,276
2015	95,000	8,320	126,028	28,265	257,613
2016	105,000	5,888	131,233	23,060	265,181
2017-2019	125,000	3,200	427,123	35,756	591,079
Totals	\$ 543,750	54,341	1,059,887	202,920	\$ 1,860,898

Presented below is a summary of debt service requirements to maturity by year for the City’s business-type activities as of April 30, 2011:

Year Ending April 30,	Debt		Lease Purchase		Total
	Principal	Interest	Principal	Interest	
<u>Business-Type Activities</u>					
2012	\$ 671,645	86,554	8,579	908	\$ 767,686
2013	107,578	66,718	8,873	616	183,785
2014	111,660	62,636	9,174	313	183,783
2015	115,896	58,399	-	-	174,295
2016	120,294	54,001	-	-	174,295
2017-2021	673,501	197,976	-	-	871,477
2022-2026	708,725	61,078	-	-	769,803
Totals	\$ 2,509,299	587,362	26,626	1,837	\$ 3,125,124

Interest paid on the debt issued by the City is generally exempt from federal income tax. The City sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The City does not have any arbitrage liability at April 30, 2011.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or Town shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or Town voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of April 30, 2011, the City had approximately \$500,000 of bonded debt subject to the 8% limit of approximately \$784,000 resulting in an unused legal debt margin of approximately \$284,000.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

2011 Debt Refunding

In September 2010, the City issued \$2,000,000 in Waterworks and Sewer System Refunding Revenue Bonds and used these proceeds and amounts available in its bond sinking funds to (a) current refund most of the City's business-type activities long-term obligations (excluding compensated absences) and (b) to pay the cost of issuance of the new debt. As a result of this transaction, five lease purchase obligations of the City's governmental activities of \$292,687 were refunded during 2011 along with other prepayment and refunding charges of \$12,027 for a total refunding payment made of \$304,714. This current refunding increased future debt service payments (excluding the additional proceeds for new equipment) by approximately \$18,000. The increase in future debt service payments is largely due to the leases being replaced with a much longer term General Obligation Bond.

In April 2011, the City issued \$500,000 in General Obligation Bonds, respectively to primarily (a) current refund most of the City's governmental activities long-term obligations (excluding compensated absences and several lease purchase obligations), (b) to pay the cost of issuance of the new debt, and (c) to purchase equipment and a car with the remaining funds. The current refundings resulted in immaterial deferred losses and thus no deferred losses were recorded. Issuance costs were not significant and thus have not been recorded related to these issues. As a result of this transaction, almost all of the outstanding debt of the City's business-type activities of \$2,553,476 was refunded during 2011. This current refunding decreased total future debt service payments by approximately \$661,000.

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pool for Health Insurance

The City has also joined together with other local governments in the South Carolina Local Government Assurance Group ("SCLGAG") to provide medical, dental and life insurance for its employees. This is a public entity risk pool operating as a common risk management and insurance program. The SCLGAG reinsures through commercial insurance to cover large specific losses. In the year ended April 30, 2011, the City made premium payments totaling approximately \$318,000. The SCLGAG's net assets from its most recently issued audited financial statements at June 30, 2011 were approximately \$9,983,000.

In January 2011, members of the municipal association of South Carolina voted to discontinue the SCLGAG effective June 30, 2011. However, SCLGAG will continue to operate through June 30, 2012 to settle all outstanding claims. The City could receive back excess contributions or have to make additional contributions to the SCLGAG if required based on the financial condition of the pool. At this time, the City is unable to estimate what impact the final settlement of claims of the SCLGAG will have to the City, if any, and thus no amounts have been reflected in the financial statements. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

Effective July 1, 2011, the City moved to an insured plan (the City pays a premium each month to the insurer and the insurance provider pays all covered claims) with a commercial insurance carrier.

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The City has joined together with other municipalities in the state to form the South Carolina Municipal Insurance and Risk Financing Fund ("SCMIRF") and the South Carolina Municipal Insurance Trust ("SCMIT"), which are public entity risk pools currently operating as a common risk management and insurance program for general risk insurance and workers compensation, respectively.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

IV. OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

Participation in Public Entity Risk Pools for Property and Casualty Insurance (Continued)

The City pays an annual premium to SCMIRF for its general risk insurance. For the year ended April 30, 2011, the City made premium payments totaling approximately \$131,000. SCMIRF is self-sustaining through member premiums and reinsures through commercial companies. SCMIRF’s net assets from its most recently issued audited financial statements at December 31, 2010, totaled approximately \$28,528,000. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

The City pays an annual premium to SCMIT for its workers compensation insurance. For the year ended April 30, 2011, the City made premium payments totaling approximately \$35,000. The Trust uses reinsurance agreements to reduce its exposure to large workers’ compensation losses. SCMIT’s net assets from its most recently issued audited financial statements at December 31, 2010, totaled approximately \$40,789,000. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

B. Pension Disclosures

South Carolina Retirement and Police Officers’ Retirement System

South Carolina Retirement and Police Officers’ Retirement System: City employees, except for fire and police department civil service personnel, participate in the South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan. The City’s sworn police officers and firefighting personnel participate in the South Carolina Police Officers’ Retirement System (“SCPORS”), a cost-sharing multiple-employer defined benefit pension plan. Both the SCRS and the SCPORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. The Plans’ provisions are established under Title 9 of the South Carolina Code of Law. Only the South Carolina State Budget and Control Board has authority to establish and amend the funding policy.

A comprehensive annual financial report containing financial statements and required supplementary information for the SCRS and SCPORS is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29211-1960.

Both employees and the City are required to contribute to the Plans at rates established under authority of Title 9 of the South Carolina Code of Laws. The City’s contributions are actuarially determined, but are communicated to and paid by the City as a percentage of the employees’ annual earnings.

	SCRS Rates			SCPORS Rates		
	2009	2010	2011	2009	2010	2011
Employer Rate						
Retirement	9.24%	9.24%	9.24%	10.65%	10.65%	11.13%
Group Life Insurance Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Benefit	N/A	N/A	N/A	0.20%	0.20%	0.20%
	<u>9.39%</u>	<u>9.39%</u>	<u>9.39%</u>	<u>11.05%</u>	<u>11.05%</u>	<u>11.53%</u>
Employee Rate	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

IV. OTHER INFORMATION (CONTINUED)

B. Pension Disclosures (Continued)

The required contributions and percentages of amounts contributed for the past three years were as follows:

Year Ending April 30,	SCRS Contributions			SCPORS Contributions		
	Required	% Contributed	% of Covered Payroll	Required	% Contributed	% of Covered Payroll
2011	\$ 103,695	100%	9.39%	\$ 88,528	100%	11.53%
2010	98,450	100%	9.39%	83,865	100%	11.05%
2009	\$ 105,046	100%	9.39%	\$ 89,484	100%	11.05%

C. Other Postemployment Benefits

In 2004 GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (“Statement”). This Statement establishes standards for the measurement, recognition and display of Other Postemployment Benefits (“OPEB”) expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The City implemented Statement No. 45 in fiscal year 2010. This implementation had no impact on the City as it currently does not provide any OPEB benefits (as defined).

D. Contingent Liabilities and Commitments

Grants

The City receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the City at April 30, 2011.

Litigation

The City is periodically the subject of litigation by a variety of plaintiffs. The City’s management believes that such amounts claimed by these plaintiffs, net of the applicable insurance coverage, are immaterial.

Purchase Commitment

The City has a purchase commitment of approximately \$119,000 for a sanitation truck. As of April 30, 2011, the City had not received the truck so no expenditure was recognized in fiscal year 2011. The City expects to receive the truck in the fall of 2011 and will be expensed in fiscal year 2012. A portion of fund balance has been reserved for this purchase commitment as the City has unspent bond proceeds to pay for this truck.

E. Restatement

Change in Accounting Principle

For the year ended April 30, 2011, the City changed their threshold for capitalizing assets from \$1,000 to \$5,000. This resulted in a restatement of the prior year balances which decreased the capital asset balances by approximately (\$36,000) and (\$53,000) for governmental activities and business-type activities, respectively. This change in accounting principle adjustment has been included in the “Prior Period Adjustments” amounts in the financial statements.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2011

IV. OTHER INFORMATION (CONTINUED)

E. Restatement (Continued)

Prior Period Adjustments

In reviewing its capital asset listing in 2011, the City discovered that it had understated its capital asset balances in the prior year for its governmental activities and Utility Fund/business-type activities by approximately \$918,000 and \$733,000, respectively. Various capital assets had been expensed in prior years instead of being properly capitalized and depreciated over their estimated useful life. In addition, there was deferred revenue of approximately \$11,000 that was not recognized as revenue in its governmental activities financial statements.

The City also discovered that it had overstated its General Fund cash balance at April 30, 2010 by approximately \$145,000, primarily due to an error in the payroll withholding accounts and issues from the conversion to a new accounting system. Other understatements and overstatements of balance sheet accounts in the General Fund and Utility Fund at April 30, 2010 were also noted that resulted in an increase in fund balance of approximately \$176,000 for the General Fund and an increase in net assets of approximately \$98,000 for the Utility Fund/business-type activities at April 30, 2010, primarily due to errors in receivables and accounts payable.

The City has corrected the above items by reflecting a prior period adjustment (which includes the adjustment for the change in accounting principle) in its April 30, 2011 financial statements for the various financial statements affected.

F. Subsequent Events

In June 2011, the City entered into an annual contract with the Shady Grove Fire Protection District (“District”) to add additional staffing to cover first responder calls and fire calls for the District by hiring two part-time firemen. In consideration of the City’s performance of these services, the District will reimburse the City for the costs associated with these new part-time employees at approximately \$2,000 per month.

In July 2011, the City into a settlement agreement related to the police chief’s resignation in May 2011. The City agreed to pay approximately \$14,000 in termination benefits and up to eight months of health insurance premiums.

In August 2011, the City issued a purchase order for approximately \$34,000 for the purchase of a Dodge Charger Police Car to be paid from the remaining 2010 GOB proceeds. The City expects to receive the car in September 2011.

In September 2011, the City entered into a property swap arrangement with the School District of Pickens County (“District”) whereby the City would swap approximately 2.5 acres (currently the City’s Public Works Facility on Jones Avenue) and buy from the District several parcels on Jewel St., Planer St., and Railroad St. with existing structures for the price of \$200,000. \$50,000 will be paid at closing in late 2011, with the remaining \$150,000 to be paid in \$50,000 installments during the next three years with an interest rate of zero percent.

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board, but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule
 - General Fund

CITY OF PICKENS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED APRIL 30, 2011

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	REVISED		WITH REVISED BUDGET
REVENUES				
Taxes	\$ 409,500	409,500	401,663	\$ (7,837)
Fees, Charges, and Rentals	829,114	829,114	839,729	10,615
Fines and Forfeitures	138,479	138,479	133,977	(4,502)
Licenses, Permits, and Franchise Fees	715,500	715,500	815,097	99,597
Intergovernmental Revenues	414,133	414,133	415,673	1,540
External Service Reimbursements	71,000	71,000	70,984	(16)
Grants	7,000	7,000	169,384	162,384
Interest Earnings	500	500	773	273
TOTAL REVENUE ALL SOURCES	2,585,226	2,585,226	2,847,280	262,054
EXPENDITURES				
Current:				
Administrative and General	222,520	222,052	222,781	(729)
Police	784,560	783,560	789,145	(5,585)
Fire	457,822	452,822	465,355	(12,533)
Municipal Court	60,461	60,461	61,004	(543)
Victims' Assistance	12,036	12,036	10,376	1,660
Recreation and Parks	219,299	218,767	215,167	3,600
Hospitality	14,000	19,900	19,900	-
Streets and Sanitation	414,410	416,410	410,049	6,361
Grounds Maintenance	162,797	161,597	162,570	(973)
Capital Outlay	59,662	59,962	287,994	(228,032)
Debt Service				
Principal	273,496	273,496	270,685	2,811
Interest and Other Charges	81,888	81,888	71,814	10,074
Bond Issuance Costs	-	-	11,500	(11,500)
TOTAL EXPENDITURES	2,762,951	2,762,951	2,998,340	(235,389)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(177,725)	(177,725)	(151,060)	26,665
OTHER FINANCING SOURCES (USES)				
Issuance of Lease Purchase	36,750	36,750	28,223	(8,527)
Issuance of General Obligation Bonds	-	-	500,000	500,000
Payment to Refunding Escrow Agent	-	-	(304,714)	(304,714)
Transfers In	140,975	140,975	140,975	-
TOTAL OTHER FINANCING SOURCES	177,725	177,725	364,484	186,759
NET CHANGE IN FUND BALANCE	-	-	213,424	213,424
FUND BALANCE, Beginning of Year, As Previously Reported	1,269,859	1,269,859	1,269,859	-
PRIOR PERIOD ADJUSTMENTS	31,162	31,162	31,162	-
FUND BALANCE, Beginning of Year, Restated	1,301,021	1,301,021	1,301,021	-
FUND BALANCE, End of Year	\$ 1,301,021	1,301,021	1,514,445	\$ 213,424

Note: The budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

Other Supplementary Information

CITY OF PICKENS, SOUTH CAROLINA

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
REVISED BUDGET AND ACTUAL**

YEAR ENDED APRIL 30, 2011

	REVISED BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes:			
Property Taxes	\$ 128,000	132,685	\$ 4,685
Hospitality Taxes	280,000	267,523	(12,477)
Accomodations Taxes	1,500	1,455	(45)
Total Taxes	<u>409,500</u>	<u>401,663</u>	<u>(7,837)</u>
Fees, Charges, and Rentals:			
Fire Protection Fees	510,000	505,211	(4,789)
Recreation Fees	77,000	91,397	14,397
Sanitation Charges	226,564	218,934	(7,630)
Rentals	8,550	8,550	-
Miscellaneous	7,000	15,637	8,637
Total Fees, Charges, and Rentals	<u>829,114</u>	<u>839,729</u>	<u>10,615</u>
Fines and Forfeitures:			
Court Fines	138,479	133,977	(4,502)
Total Fines and Forfeitures	<u>138,479</u>	<u>133,977</u>	<u>(4,502)</u>
Licenses, Permits, and Franchise Fees:			
Business Licenses	420,000	508,487	88,487
Permits	500	1,355	855
Franchise Fees	295,000	305,255	10,255
Total Licenses, Permits, and Franchise Fees	<u>715,500</u>	<u>815,097</u>	<u>99,597</u>
Intergovernmental Revenues			
Local Option Sales Tax	330,000	332,773	2,773
Aid to Subdivisions	70,133	68,464	(1,669)
Merchants Inventory Tax	14,000	14,436	436
Total Intergovernmental Revenues	<u>414,133</u>	<u>415,673</u>	<u>1,540</u>
External Service Reimbursements:			
School Resource Officers	71,000	70,984	(16)
Total External Service Reimbursements	<u>\$ 71,000</u>	<u>70,984</u>	<u>\$ (16)</u>

(Continued)

CITY OF PICKENS, SOUTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
REVISED BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2011

	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES (CONTINUED)			
Grants:			
Grant	\$ 7,000	169,384	\$ 162,384
Total Grants	<u>7,000</u>	<u>169,384</u>	<u>162,384</u>
Interest Earnings:			
Interest Earnings	500	773	273
Total Interest Earnings	<u>500</u>	<u>773</u>	<u>273</u>
TOTAL REVENUES	<u>2,585,226</u>	<u>2,847,280</u>	<u>262,054</u>
EXPENDITURES			
Administrative and General:			
Personnel Services	104,921	103,224	1,697
Operating Expenditures	117,131	119,557	(2,426)
Capital Outlay	16,000	169,410	(153,410)
Total Administrative and General	<u>238,052</u>	<u>392,191</u>	<u>(154,139)</u>
Police:			
Personnel Services	657,478	649,435	8,043
Operating Expenditures	126,082	139,710	(13,628)
Capital Outlay	3,000	31,112	(28,112)
Total Police	<u>786,560</u>	<u>820,257</u>	<u>(33,697)</u>
Fire:			
Personnel Services	360,112	380,379	(20,267)
Operating Expenditures	92,710	84,976	7,734
Capital Outlay	8,600	8,356	244
Total Fire	<u>461,422</u>	<u>473,711</u>	<u>(12,289)</u>
Municipal Court:			
Personnel Services	54,366	55,362	(996)
Operating Expenditures	6,095	5,642	453
Total Municipal Court	<u>\$ 60,461</u>	<u>\$ 61,004</u>	<u>\$ (543)</u>

(Continued)

CITY OF PICKENS, SOUTH CAROLINA

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
REVISED BUDGET AND ACTUAL**

YEAR ENDED APRIL 30, 2011

EXPENDITURES (CONTINUED)	REVISED BUDGET	ACTUAL	VARIANCE
Victim's Assistance:			
Personnel Services	\$ 6,018	6,018	\$ -
Operating Expenditures	6,018	4,358	1,660
Total Victim's Assistance	<u>12,036</u>	<u>10,376</u>	<u>1,660</u>
Recreation and Parks:			
Personnel Services	91,101	93,297	(2,196)
Operating Expenditures	127,666	121,870	5,796
Total Recreation and Parks	<u>218,767</u>	<u>215,167</u>	<u>3,600</u>
Hospitality:			
Operating Expenditures	19,900	19,900	-
Capital Outlay	30,162	30,062	100
Total Hospitality	<u>50,062</u>	<u>49,962</u>	<u>100</u>
Streets and Sanitation:			
Personnel Services	276,180	273,757	2,423
Operating Expenditures	140,230	136,292	3,938
Total Streets and Sanitation	<u>416,410</u>	<u>410,049</u>	<u>6,361</u>
Grounds Maintenance:			
Personnel Services	115,965	100,912	15,053
Operating Expenditures	45,632	61,658	(16,026)
Capital Outlay	2,200	49,054	(46,854)
Total Grounds Maintenance	<u>163,797</u>	<u>211,624</u>	<u>(47,827)</u>
Debt Service:			
Principal	273,496	270,685	2,811
Interest and Other Charges	81,888	71,814	10,074
Bond Issuance Costs	-	11,500	(11,500)
Total Debt Service	<u>355,384</u>	<u>353,999</u>	<u>1,385</u>
TOTAL EXPENDITURES	<u>2,762,951</u>	<u>2,998,340</u>	<u>(235,389)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (177,725)</u>	<u>(151,060)</u>	<u>\$ 26,665</u>

(Continued)

CITY OF PICKENS, SOUTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
REVISED BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2011

	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OTHER FINANCING SOURCES			
Issuance of Lease Purchase	\$ 36,750	28,223	\$ (8,527)
Issuance of General Obligation Bonds	-	500,000	500,000
Payment to Refunding Escrow Agent	-	(304,714)	(304,714)
Transfers In	140,975	140,975	-
TOTAL OTHER FINANCING SOURCES	<u>177,725</u>	<u>364,484</u>	<u>186,759</u>
NET CHANGE IN FUND BALANCE	-	213,424	213,424
FUND BALANCE, Beginning of Year, As Previously Reported	1,269,859	1,269,859	-
PRIOR PERIOD ADJUSTMENTS	31,162	31,162	-
FUND BALANCE, Beginning of Year, Restated	<u>1,301,021</u>	<u>1,301,021</u>	-
FUND BALANCE, End of Year	<u>\$ 1,301,021</u>	<u>1,514,445</u>	<u>\$ 213,424</u>

CITY OF PICKENS, SOUTH CAROLINA

PROPRIETARY FUND

SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT - REVISED BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2011

OPERATING EXPENSES	REVISED BUDGET	ACTUAL	VARIANCE
Water:			
Personnel Services	\$ 726,124	711,813	\$ 14,311
Operating Expenses	741,020	732,976	8,044
Capital Outlay - Noncapitalizable	626,700	471,812	154,888
Total Water	<u>2,093,844</u>	<u>1,916,601</u>	<u>177,243</u>
Sewer:			
Personnel Services	96,579	96,487	92
Operating Expenses	163,134	407,299	(244,165)
Capital Outlay - Noncapitalizable	50,750	52,024	(1,274)
Total Sewer	<u>310,463</u>	<u>555,810</u>	<u>(245,347)</u>
Stormwater:			
Operating Expenses	63,250	11,414	51,836
Capital Outlay - Noncapitalizable	61,750	63,647	(1,897)
Total Stormwater	<u>125,000</u>	<u>75,061</u>	<u>49,939</u>
TOTAL EXPENSES	<u><u>\$ 2,529,307</u></u>	<u><u>2,547,472</u></u>	<u><u>\$ (18,165)</u></u>

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED APRIL 30, 2011

Court Fines

Court Fines Collected	\$ 114,575
Court Fines Retained by the City	114,575
Total Court Fines Remitted to the State Treasurer	<u>\$ -</u>

Court Assessments

Court Assessments Collected	\$ 187,302
Court Assessments Retained by the City	13,477
Total Court Assessments Remitted to the State Treasurer	<u>\$ 173,825</u>

Court Surcharges

Court Surcharges Collected and Retained by the City	<u>\$ 5,924</u>
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Victim's Advocate

Court Assessments Allocated to Victim's Advocate	\$ 13,477
Court Surcharges allocated to Victim's Advocate	<u>5,924</u>
Funds Allocated to Victim's Advocate	19,401
Victim's Advocate Expenditures	<u>(20,289)</u>
Funds Available to Carry Forward	(888)
Funds Carry Forward from Prior Year	<u>11,168</u>
Fund Balance for Victim's Advocate	<u>\$ 10,280</u>

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

Honorable Mayor and Members of City Council
City of Pickens
Pickens, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pickens, South Carolina (the “City”), as of and for the year ended April 30, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated September 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1, 2011-2, 2011-3, 2011-5, and 2011-6 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2011-4 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2011-7.

We noted certain matters that we reported to management of the City in a separate letter dated September 13, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in cursive script that reads "Greene, Finney & Horton LLP".

Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 13, 2011

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED APRIL 30, 2011

2011-1: INTERNAL CONTROLS OVER ANNUAL FINANCIAL REPORTING PROCESS

Condition and Context: The City does not have adequate internal controls over its annual financial reporting process that would allow for the City to prevent or detect material misstatements in the financial statements. Instead, the City has chosen to use its external independent auditors as its internal control for the annual financial reporting process, from the recording of various receivables and payables on the modified accrual basis to the conversion to the full accrual basis that is used for the government-wide financial statements.

Criteria: The City should have adequate internal controls (other than its external independent auditors) in place that would prevent or detect material misstatements from the day-to-day transactions all the way to the reporting of those transactions in the annual financial statements.

Effect: There is a higher risk that material misstatements (due to error or fraud) in the financial statements will go undetected.

Cause: The limited resources available at the City.

Recommendation: The City should consider the cost/benefit factors related to providing adequate internal controls over its annual financial reporting process.

Response: The City will continue to evaluate the cost/benefit factors of providing adequate internal controls over its annual financial reporting process. Currently, the City believes it is most cost beneficial to use its external auditors to prepare the annual financial statements.

2011-2: CAPITAL ASSETS – PRIOR PERIOD ADJUSTMENT

Condition and Context: The City's capital asset balances were materially misstated in the prior year for both its governmental and business-type activities (Utility Fund). In addition, none of the capital asset activity (asset balances and depreciation expense) was recorded on the general ledger in the prior year.

Criteria: The City should conduct periodic inventories and reviews of their capital asset to ensure completeness and accuracy of the capital asset listing. The City should also include capital asset balances for its business-type activities (Utility Fund) on the general ledger to properly account for their capital asset under generally accepted accounting principles ("GAAP").

Effect: There is a higher risk that material misstatements (due to error or fraud) in the financial statements will go undetected.

Cause: This was the first year the City reviewed, compiled, and maintained their capital asset listing.

Recommendation: The City should consider the cost/benefit factors related to purchasing a fully integrated capital asset system that would allow the City to properly report its capital assets on the financial statements. This capital asset system would not only allow the City to keep track of capitalizable assets but would also allow the City to keep track of non-capitalizable assets (those less than \$5,000) for insurance purposes.

Response: The City has purchased the capital asset module in CSI (accounting software) and will begin to use this software to track their capital assets going forward. In addition, the City will review its capital asset listing on a periodic basis and will perform periodic inventories to ensure the accuracy of the City's capital asset listing. Depreciation will be recorded annually.

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED APRIL 30, 2011

2011-3: LONG-TERM OBLIGATIONS

Condition and Context: The City's long-term obligations (i.e. revenue bonds, lease purchase obligations, compensated absence liability, etc.) were not included in the general ledger for its business-type activities (Utility Fund). In addition, several complex entries related to the 2011 debt and lease purchase issuances had not been properly recorded in the general ledger.

Criteria: The City should include their debt liabilities for their business-type activities (Utility Fund) on the general ledger to properly account for them in accordance with GAAP. The City should consult with its external auditors or an outside party when recording complex entries.

Effect: There is a higher risk that material misstatements (due to error or fraud) in the financial statements will go undetected.

Cause: The City had some complex transactions regarding their long-term obligations during fiscal year 2011 and was unaware of how to properly record for these transactions.

Recommendation: The City should consider consulting with their external auditor or an outside party when entering into debt agreements to ensure proper accounting for these transactions.

Response: The City has agreed to hire an outside contract accountant to provide periodic assistance and review of monthly transactions to ensure proper accounting and recording to the general ledger. The City agrees to consult external auditors prior to entering into any additional long-term obligations.

2011-4: LACK OF SEGREGATION OF DUTIES

Condition and Context: In large part due to a small staff, the City does not have adequate segregation of duties over its financial procedures and processes. We noted the following specific areas where inadequate segregation of duties existed:

- 1) Accounts Payable – the same person that sets up new vendors also processes accounts payable and prints checks.
- 2) Payroll – the same person that sets up an employee also processes and pays payroll.
- 3) Journal Entries – the same person prepares the journal entries and records/processes the journal entries.

Criteria: Adequate segregation of accounting duties should be in place that provides reasonable assurance for the prevention or early detection of fraud or error.

Effect: Because of the lack of segregation of duties, there is a higher risk that material misstatements (due to error or fraud) in the financial statements will go undetected.

Cause: The City has a very small finance staff and was not fully aware that there was a lack of segregation of duties.

Recommendation: We recommend that the City consider implementing the following internal controls as soon as possible:

- 1) The Accounts Payable function should be separated to ensure that more than one individual is involved in the process. At a minimum, the ability to add new vendors and process transactions should be separated. In addition, another individual should be responsible for reconciling the bank statement.

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED APRIL 30, 2011

2011-4: LACK OF SEGREGATION OF DUTIES (CONTINUED)

Recommendation: (Continued)

- 2) The Payroll function should be separated to ensure that more than one individual is responsible for the process. All personnel functions (adding or changing employee data) should be performed by the Personnel department; they should not have the ability to process the monthly payroll. In addition, another individual should be responsible for reconciling the bank statement.
- 3) The Journal Entry function should be separated to ensure more than one individual is responsible for the process. At a minimum, a file of journal entries should be kept that documents who the preparer was, who the reviewer was, and the date it was entered into the accounting system.

Response: The City acknowledges that there is a lack of segregation of duties in several areas and will weigh the costs/benefits of addressing these matters. However, at this time, there are no funds to hire additional staff and we are aware of the risks.

2011-5: LACK OF MANAGEMENT REVIEW OR MONITORING – PRIOR PERIOD ADJUSTMENT

Condition and Context: The City does not have an adequate review or monitoring process in place over its accounting and financial reporting function. We noted the following specific areas:

- 1) No one reviews or monitors the balance sheet on a periodic basis.
- 2) With the exception of the General Fund operating account, bank reconciliations have not been completed on any of the City’s bank accounts since April 30, 2010 (since the previous audit). In addition, the City’s General Fund operating account had significant unsupported reconciling differences at April 30, 2011 that was written off as a prior period adjustment.
- 3) There is no evidence of review and approval (by signature and date) for the following processes:
 - a. Bank reconciliations.
 - b. Accounts payable check registers prior to payment.
 - c. Payroll register and direct deposit listing prior to payment.
 - d. Payroll changes and “Change Request” forms after the changes have been entered into CSI.
 - e. Journal entries, both prior to and after entry into CSI.

Criteria: In order to ensure that transactions are recorded timely, accurately, and in accordance with GAAP, management must have an adequate system for reviewing and monitoring transactions and account balances.

Effect: Transactions may not be recorded properly, timely, and in accordance with GAAP. There is a higher risk that material misstatements (due to error or fraud) in the financial statements will go undetected.

Cause: The City has a very small staff that is not very experienced with governmental accounting requirements.

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED APRIL 30, 2011

2011-5: LACK OF MANAGEMENT REVIEW OR MONITORING – PRIOR PERIOD ADJUSTMENT (CONTINUED)

Recommendation: We would recommend that the City should implement a system to review and monitor its accounting and financial reporting processes:

- 1) The Finance Director should review the general ledger for all funds at least monthly.
- 2) All balance sheet accounts should be reconciled and reviewed on a regular basis. At a minimum, all bank accounts, should be reconciled and reviewed monthly.
- 3) The Finance Director and/or City Administrator should review all accounts payable, payroll, and journal entry transactions, along with appropriate supporting documentation, before they are processed. Evidence of review and approval should be documented (signature and date).

Response: The City acknowledges that there is lack of monitoring in regards to balance sheet accounts and significant accounting processes and will weigh the costs/benefits of addressing these matters. The City agrees to properly document all reviewed documents with signatures and dates attesting to their review. In addition, the City has hired a contract accountant who will assist the Finance Department monthly in reviewing all of the above processes and ensuring the general ledger, bank statements, and balance sheets are reconciled. As of June 1, 2011, the City has already begun this process.

2011-6: PROPER ACCOUNTING CUTOFF – PRIOR PERIOD ADJUSTMENT

Condition and Context: In order to report the City’s activities in the appropriate accounting period, the City needs to ensure that (a) all revenues for its General Fund are reported in accordance with modified accrual accounting and (b) all revenues for its Utility Fund are reported in accordance with accrual accounting. In addition, the City should accrue its operating liabilities for both the General Fund and Utility Fund in the period for which the services were rendered or goods were received – regardless of when payment was made. The lack of proper cutoff led to several prior period adjustments.

Criteria: All revenues and expenditures/expenses should be recorded in the City’s funds in accordance with GAAP.

Effect: Transactions may not be recorded to the appropriate accounting period and thus there is a higher risk that material misstatements (due to error or fraud) in the financial statements will go undetected.

Cause: The City has a very small staff that is not very experienced with governmental accounting requirements.

Recommendation: The City should develop a process to ensure that revenues and expenses/expenditures are recorded in the appropriate accounting period.

Response: The City has agreed to hire an outside contract accountant to provide periodic assistance and review of monthly transactions and to ensure that revenues and expenses/expenditures are recorded to the appropriate accounting period. Next fiscal year, a strict cutoff date will be enforced.

CITY OF PICKENS, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED APRIL 30, 2011

2011-7: NONCOMPLIANCE WITH LAWS AND REGULATIONS

Condition and Context: The City's bank balances are under collateralized by approximately \$30,000 at April 30, 2011.

Criteria: State law requires all monies deposited by a government entity at a financial institution be collateralized for any amount in excess of FDIC insurance.

Effect: The City was not fully collateralized at April 30, 2011.

Cause: Management was unaware that the bank deposits were under collateralized.

Recommendation: We recommend that the City coordinate with the bank in order to maintain sufficient collateral on these deposits at all times.

Response: The City has already contacted the bank and ensured that all balances will be sufficiently collateralized going forward. These deposits are now insured for up to \$490,000 and a procedure has been set up with the bank to ensure the City maintains sufficient collateral in the future.
