

TOWN OF CHAPIN
CHAPIN, SOUTH CAROLINA

FINANCIAL STATEMENTS

DECEMBER 31, 2011



TOWN OF CHAPIN
103 COLUMBIA AVENUE
CHAPIN, SC 29036

TOWN OF CHAPIN
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FINANCIAL STATEMENTS

DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT ON THE GENERAL PURPOSE
FINANCIAL STATEMENTS

To Honorable Mayor and Town Council
Town of Chapin
Chapin, South Carolina

I 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 Town of Chapin, South Carolina as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chapin as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

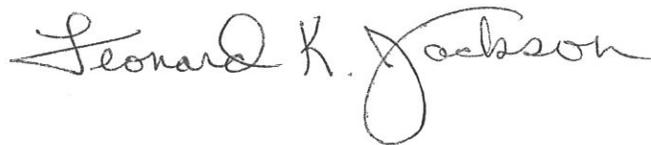
The management's discussion and analysis and budgetary comparison information on pages 1 through 9, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, I have also issued my report dated June 28, 2012, on my consideration of the Town of Chapin's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of this report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Governmental Audit Standards and should be considered in assessing the results of my audit.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Chapin, South Carolina basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Town of Chapin, South Carolina. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly I express no opinion on them.

June 28, 2012

A handwritten signature in cursive script that reads "Leonard K. Jackson". The signature is written in dark ink and is positioned to the right of the date.

Management's Discussion and Analysis Financial Report

**Town of Chapin
December 31, 2011**

Our discussion and analysis of Chapin's financial performance provides an overview of the town's financial activities for the fiscal year ending December 31, 2011. Please review in conjunction with the transmittal letter and the town's financial statements.

REVIEWING THE ANNUAL REPORT

The annual report covers multiple financial statements. The Statement of Net Assets and the Statement of Activities supply data about the activities of the town as a whole and provide information regarding the town's finances. For government activities, these statements provide long-term and short-term information about the town's overall status. Financial reporting is similar to that found in the private sector with its basis in full accrual accounting. Fund financial statements show town operations in more detail than government-wide statements, as they provide information about the town's most important funds.

FINANCIAL HIGHLIGHTS

Due to this year's operations, the town's net assets are as follows: Net assets of business-type activities were \$19,960.8 thousand and net assets of governmental activities were \$3,017.6 thousand.

- The current year's expense total was \$864.0 thousand as compared to the \$1,122.7 thousand generated in fees and charges, grants, general revenues, and taxes for governmental programs (before extraordinary items). In the previous year, expenses were \$877.6 thousand as compared to the \$1,225.3 thousand generated in tax and other revenues for governmental programs (before extraordinary items).
- For business-type activities, town revenues were \$2,386.1 thousand. Expenses were \$2,346.9 thousand.
- The annual cost of all town programs was \$3,210.9 thousand. The previous year's cost was \$3,102.1 thousand.

Management's Discussion and Analysis Financial Report

**Town of Chapin
December 31, 2011**

THE TOWN AS A WHOLE ANALYSIS

Because the Statement of Net Assets and the Statement of Activities provide facts about the town as a whole, the statements can help determine if a town's financial condition has improved or deteriorated as a result of the year's activities. All assets and liabilities are included in the statements using the accrual basis of accounting. The accrual method is comparable to the accounting used by most private corporations. All current year revenues and expenses are included. It does not matter when cash is paid or received.

These statements give an account of the town's net assets and any changes in those assets. However, to truly judge the condition of the town, some non-financial factors, such as diversification of the taxpayer base or the condition of the town's infrastructure, must be considered in addition to the financial information provided in this report.

The Statement of Net Assets and the Statement of Activities divide the town into two types of activities:

- 1) Governmental activities: The town's basic services are accounted for in this section, including the police, fire, public works, parks departments and general administration. Property taxes, franchise fees, and state and federal grants finance the majority of these activities.
- 2) Business-type activities: These activities are reported in the fund financial statements and generally report services for which the town charges customers a fee. There are two kinds of Business-type activities. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as Business-type activities in the government-wide statements. Services are provided to customers external to the town organization such as water utilities. Internal service funds provide services and charge fees to customers within the town organization such as fleet services (maintenance and repair of vehicles) and the print shop (mail and printing services for town departments). Because the town's internal service funds primarily serve governmental functions, they are included within the Governmental activities of the government-wide financial statements.

Management's Discussion and Analysis Financial Report

**Town of Chapin
December 31, 2011**

DETAILING THE MOST IMPORTANT FUNDS

The fund financial statements provide detailed information about the most important funds of the town. Certain funds are mandated by State law and by bond agreements. Other funds are established to manage money, meet legal requirements or for certain taxes or grants.

- **Government funds:** Basic services are reported in government funds. Government fund financial statements detail how money flows in and out of the funds and reports the balances left at year-end that are on hand for disbursement. Government funds are reported using an accounting method called modified accrual accounting. This method measures cash and financial assets that can easily be converted to cash. The governmental fund accountability focuses on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the next term.

Budgetary comparison statements are included in the basic financial statements for the general fund and major revenue fund. These statements and schedules demonstrate compliance within the town adopted and final revised budget.

- **Proprietary funds:** Proprietary funds are those the town charges for services it provides, both to town units and outside customers. Proprietary funds are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. The town's enterprise funds, a component of proprietary funds, are the same as the business-type activities we report in the government-wide statements, but they give more detailed information such as cash flow. Another component of proprietary funds are internal service funds. Internal service funds cover activities that provide supplies and services for town programs.

TOWN SERVING AS TRUSTEE

Due to trust arrangements, the town is often accountable for assets that can only be used for trust beneficiaries. All of these trustee proceedings are detailed in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets, if required. Because the town cannot use these assets to finance its operations, these activities are not included in other financial statements. However, the town must be certain the assets detailed in these funds are used for their intended purposes.

NOTES TO FINANCIAL STATEMENTS

The notes provide additional information that is necessary for a full understanding of the data provided in the accompanying financial statements.

OTHER INFORMATION

In addition to the financial statements and notes, this report contains supplementary information and details of the accompanying financial statements.

Management's Discussion and Analysis Financial Report

**Town of Chapin
December 31, 2011**

Table 1
Net Assets
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Current and other Assets:	2,116.5	1,269.5	4,007.4	3,957.6	6,123.9	5,227.1
Capital Assets:	1,821.3	1,574.4	15,799.4	16,040.9	17,620.6	17,615.3
Total Assets	<u>3,937.8</u>	<u>2,843.9</u>	<u>19,806.7</u>	<u>19,998.5</u>	<u>23,744.5</u>	<u>22,842.4</u>
Long-term liabilities:	727.2				727.2	
Other liabilities:	183.0	73.9	17.9	54.2	200.9	128.1
Total Liabilities	<u>910.2</u>	<u>73.9</u>	<u>17.9</u>	<u>54.2</u>	<u>928.1</u>	<u>128.1</u>
Net Assets:						
Invested in Capital Assets, net of related debt:	1,806.3	1,574.4	15,799.4	16,040.9	17,605.6	17,615.3
Restricted:	749.7				749.7	
Unrestricted (deficit):	461.7	1,195.6	4,161.4	3,846.4	4,623.0	5,042.0
Total Net Assets	<u>\$3,017.6</u>	<u>\$2,770.0</u>	<u>\$19,960.8</u>	<u>\$19,887.3</u>	<u>\$22,978.4</u>	<u>\$22,657.3</u>

TOWN AS A WHOLE

The town's combined net assets from the previous year were \$22,657.3 thousand as compared to \$22,978.4 thousand this year. However, net assets and expenses from governmental and business-type activities must be reviewed separately. Table 1 focuses on the net assets and Table 2 focuses on changes in the net assets of the town's governmental and business-type activities.

The town's net assets for governmental activities were \$3,017.6 thousand this year as compared to \$2,770.0 last year. Unrestricted net assets were \$5,042.0 thousand last year as compared to \$4,623.0 thousand this year. Unrestricted net assets are those that can be used to finance everyday operations without restrictions set by legislation, debt covenants, or other legal regulations.

The net assets of the town's business-type activities were \$19,960.8 thousand this year as compared to \$19,887.3 thousand last year.

Town revenues (excluding extraordinary items) for the current year were \$3,508.8 thousand as compared to \$3,685.4 thousand in the previous year. The total yearly cost of all programs and services was \$3,210.9 thousand as compared to \$3,102.1 thousand in the previous year.

Management's Discussion and Analysis Financial Report

Town of Chapin December 31, 2011

Table 2
Changes in Net Assets
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Revenues						
Program Revenues						
Restricted						
Charges for Services	108.7	228.4	2,183.5	2,131.2	2,292.1	2,359.6
Restricted Operating Grants						
Restricted Capital Grants						
Restricted Other						
General Revenue						
Property Taxes	135.0	144.7			135.0	144.7
Other Taxes						
Interest & Investment Income	11.0	2.9	7.7	11.4	18.8	14.3
Other General Revenues	868.0	849.3	194.9	317.5	1,062.8	1,166.8
Total Revenues	<u>1,122.7</u>	<u>1,225.3</u>	<u>2,386.1</u>	<u>2,460.1</u>	<u>3,508.8</u>	<u>3,685.4</u>
Program Expenses						
General Government	271.5	233.6			271.5	233.6
Public Safety	535.9	586.4			535.9	586.4
Public Works	56.7	57.6			56.7	57.6
Engineering Services						
Health & Sanitation						
Cemetery						
Culture & Recreation						
Community Development						
Education						
Interest on Long-Term Debt						
Business Activities						
Water &/or Sewer			2,346.9	2,224.5	2,346.9	2,224.5
Other Utilities						
Parking Facilities						
Other Expenses						
Total Expenses	<u>864.0</u>	<u>877.6</u>	<u>2,346.9</u>	<u>2,224.5</u>	<u>3,210.9</u>	<u>3,102.1</u>
Excess (deficiency) Before Extraordinary Items & Transfers:	258.6	347.7	39.2	235.6	297.9	583.3
Extraordinary Items						
Transfers						
Increase (Decrease) in Net Assets	<u>\$258.6</u>	<u>\$347.7</u>	<u>\$39.2</u>	<u>\$235.6</u>	<u>\$297.9</u>	<u>\$583.3</u>

Management's Discussion and Analysis Financial Report

**Town of Chapin
December 31, 2011**

GOVERNMENTAL ACTIVITIES

This year's governmental activities revenues were \$1,122.7 thousand as compared to \$1,225.3 thousand last year. The year's governmental activities cost was \$864.0 thousand as compared to \$877.6 thousand in the previous year.

Chapin's business climate continues to remain steady, with Business License Revenues up around 5%. MASC Tax and Insurance collections as well as franchise fees remain steady.

In 2011 we had major turnovers in Law Enforcement and Utility personnel. As a result of being understaffed in Law Enforcement, gas expenditures in 2011 were down, but now we are at full force and they will certainly even out. No new police vehicles were purchased in 2011, but we will purchase two in 2012. In lieu of new police vehicles in 2011, six new video cameras were purchased.

Due to our Officer shortage in 2011, court fines and forfeitures were way down, however with a new Police Chief and three new officers just out of training, we expect to be close to budget predictions in fines and forfeitures for 2012. Our operating cost for Judges and Attorneys did not go down in 2011, but will only increase slightly for 2012. With the new Police Chief comes many changes such as new uniforms, new vests, cameras, and unexpected items being acquired for the Police Department. However, the K-9 unit has been disbanded and we will not have the expense related to that department. Car computers and desktops are being upgraded in 2012 as well as blackberries and other phone equipment.

Town Council did not receive lap tops in 2011 and have not yet gone paperless, but we are hopeful this can occur in 2013.

The Streetscape scheduled for 2012 will not take place until 2013, however the Town's share (\$67,400.) was paid in 2010.

The Utility Dept. had a major turnover and we had unexpected training and adjusting for 2011. This has settled and the employee situation now looks good.

Table 3 details the cost of the town's major programs as well as each program's net cost (total cost less revenues generated by the program). The net cost indicates the financial burden that was shifted to the town's taxpayers by each of these programs.

Management's Discussion and Analysis Financial Report

Town of Chapin December 31, 2011

Table 3
Governmental Activities
(In Thousands)

	Total Cost of Services		Net Cost of Services	
	Current Year	Previous Year	Current Year	Previous Year
Police Department	533.9	586.4	425.2	437.0
Fire Department				
Public Works	56.7	57.6	56.7	57.6
Education				
Parks and Recreation				
All others	273.5	233.6	273.5	233.6
Totals	<u>\$864.0</u>	<u>\$877.6</u>	<u>\$755.4</u>	<u>\$728.2</u>

BUSINESS-TYPE ACTIVITIES

This year's Business-type activities revenues (see Table 2) were \$2,386.1 thousand as compared to \$2,460.1 thousand last year. This year's expenses were \$2,346.9 thousand as compared to \$2,224.5 thousand in the previous year. These figures are somewhat due to these reasons:

As predicted in 2010, the building boom is still subsided and again tap fees have dwindled. It looks like this will not improve for 2012. However, the City of Columbia is replacing the majority of their water lines and building a new water tower in Chapin and this will make more property available for development.

Our major Businesses continue to remain strong and are growing in spite of unfavorable economic conditions. Smaller businesses continue to come and go, with an abundance of vacant commercial real estate available. Several major projects that were planned have fallen by the wayside with financing unavailable.

GENERAL FUND BUDGETARY STATEMENTS

The Town Council revisits the budget several times during the year. The current year's budgets focus on general funds, major funds and on availability of fund resources.

With the exception of major personnel changes and the revenue loss related to having had a shortage of Police Officers, the Town of Chapin is right on budget with very minor variances.

TOWN FUNDS

At year end the town reported a government funds balance of \$22,978.4 thousand as compared to \$22,657.3 thousand in the previous year. These figures are somewhat due to these reasons:

Management's Discussion and Analysis Financial Report

Town of Chapin December 31, 2011

Our State shared funds were up in 2011 due to the new census information. They will also be up in 2012. The amount will be determined by the State Budget amendments. Chapin does not rely on these funds as they play a minor role in our budget.

Chapin does not plan to increase our milage, however our Tax revenues are expected to increase consistant with mild growth.

CAPITAL ASSETS

Table 4
Capital Assets at Year-End
(Net of Depreciation, in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Land:	586.8	586.8	954.5	954.5	1,541.3	1,541.3
Buildings and Improvements:	1,464.0	1,186.6	21,298.5	21,586.6	22,762.5	22,773.2
Equipment:	285.9	252.4	62.1	37.4	348.0	289.8
Infrastructure						
Other:						
Totals	\$2,336.7	\$2,025.8	\$22,315.1	\$22,578.5	\$24,651.8	\$24,604.3

At the close of the year, the town had invested \$24,651.8 thousand in capital assets such as land, buildings and improvements, equipment or infrastructure (see Table 4). \$24,604.3 thousand was invested in similar assets last year.

The current year's chief capital asset additions included:

A Utility truck was purchased along with additional maintenance equipment.

Our closed circuit TV equipment was updated, and this continues to be a positive outreach into the community.

Management's Discussion and Analysis Financial Report

Town of Chapin December 31, 2011

Table 5
Outstanding Debt at Year-End
(In Thousands)

	Governmental Activities		Business-type Activities		Totals	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
General obligation bonds (backed by the city)	794.0				794.0	
Revenue bonds and notes (backed by specific tax and fee revenues)						
Other bonds or outstanding obligations						
Totals	<u>\$794.0</u>				<u>\$794.0</u>	

DEBT MANAGEMENT

At the close of the year, the town had \$794.0 thousand in outstanding bonds and notes as compared to \$0.0 thousand in the previous year (see table 5).

The only outstanding debt we have is committed to the bulding of the new Town Hall which is scheduled to begin in 2012.

ECONOMIC ISSUES/UPCOMING YEARLY BUDGETS

Town public officials considered many issues when establishing the upcoming year's budget, tax rates, and fees.

The new Town Hall has been bid and the expected cost is \$3,500,000. The money has been put aside for this project for several years, and we are in dire need of the additional space. We will be building "Green", and construction should start in July of 2012.

The utility department is looking into a new billing system as their current system is not able to be updated, and we would have to purchase antiquated equipment to back our current programs up. This will probably be budgeted for in the 2013 budget. The new Amick's Ferry water line engineering and easement fees have been paid. The City of Columbia will be paying for the water line. Also the City of Columbia is in the process of updating all the Chapin water lines and building a new water tower. They have agreed to put in the new water line necessary for the new Town Hall and a new sewer line from Columbia Avenue to the Sewer Plant. No other major expenditures for the Utility department are expected.

Management's Discussion and Analysis Financial Report

**Town of Chapin
December 31, 2011**

Chapin Fire Department has moved into their new building provided by Lexington County. Chapin now has control of the old Fire Halls, and one is being used as the headquarters for the American Legion. The Legion is in control of scheduling other non-profit organizations use of this building. The Town will update the bathrooms, kitchen and plans to add Air-Conditioning to the Bay areas.

The Old, Old Fire Hall is being used as a maintenance building for our Utility technician, his equipment, and a storage area for the Town's decorations and supplies. A streetscape will take place on the street where these buildings are located, (Lexington Avenue) in 2013, but the Town's share has already been paid.

The new Comprehensive Plan for the Town was completed in 2011 and the money for an update of the Town Code has been allocated in the 2012 budget. Additions and improvements are underway on our High School, and the widening of our main road, Columbia Avenue, has money set aside by DOT for engineering and right of way acquisitions which will take place in 2012.

Chapin has a rich history of "people helping people" and our service organizations (over 20) continue to add to the unique character of our Town and make Chapin a wonderful place to live and visit. We are a small Town with a big heart and dedication to our community.

CONTACT INFORMATION

This report has been created to give our citizens, taxpayers, customers, investors and creditors a summary of town finances and to show how its revenues are used. If you have any questions regarding this report, or if you need additional financial information, please contact:

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TOWN OF CHAPIN
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

<u>ASSETS</u>	<u>PRIMARY GOVERNMENT</u>		<u>TOTALS</u>
	<u>GOVERNMENTAL</u>	<u>BUSINESS-TYPE</u>	
	<u>ACTIVITIES</u>	<u>ACTIVITIES</u>	
Current Assets:			
Cash and Temp Cash Investments	\$ 1,022,877	943,834	1,966,711
Receivables:			
Accounts Receivable	269,643	176,735	446,378
Due from State Agencies	6,559	-	6,559
Unbilled Earned Revenues	<u>-</u>	<u>74,346</u>	<u>74,346</u>
Total Current Assets	<u>1,299,079</u>	<u>1,194,915</u>	<u>2,493,994</u>
Restricted Assets			
Escrow Funds	67,757	17,900	85,657
Council Restricted	<u>749,679</u>	<u>3,172,028</u>	<u>3,921,707</u>
Total Restricted Assets	<u>817,436</u>	<u>3,189,928</u>	<u>4,007,364</u>
Non-Current Assets			
Bond Expense	15,000	-	15,000
Capital Assets			
Land	127,409	954,476	1,081,885
Property, Plant and Equipment	-	-	-
Net of Depreciation	<u>1,678,851</u>	<u>14,844,900</u>	<u>16,523,751</u>
Total Non-Current Assets	<u>1,821,260</u>	<u>15,799,376</u>	<u>17,620,636</u>
Total Assets	\$ <u>3,937,775</u>	<u>20,184,219</u>	<u>24,121,994</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Current Liabilities			
Bonds Payable	\$ 67,797	-	67,797
Accounts Payable & Accrued Interest	50,319	200,563	250,882
Accrued Absences	<u>7,100</u>	<u>5,000</u>	<u>12,100</u>
Total Current Liabilities	<u>125,216</u>	<u>205,563</u>	<u>330,779</u>
Non-Current Liabilities:			
Escrow and Deposits	67,757	17,900	85,657
Bonds Payable	<u>727,202</u>	<u>-</u>	<u>727,202</u>
Total Non-Current Liabilities	<u>794,959</u>	<u>17,900</u>	<u>812,859</u>
Net Assets:			
Investment in Capital Assets net of related debt	1,806,260	15,799,376	17,605,636
Unrestricted	461,661	4,161,380	4,623,041
Council Restricted	<u>749,679</u>	<u>-</u>	<u>749,679</u>
Total Net Assets	<u>3,017,600</u>	<u>19,960,756</u>	<u>22,978,356</u>

See Notes to Financial Statements.

TOWN OF CHAPIN
STATEMENT OF ACTIVITIES
DECEMBER 31, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Net (Expenses) Revenues</u>
Primary Government			
Council	\$ 65,020	-	(65,020)
Public Safety			
Police	533,862	108,651	(425,211)
Fire	2,000	-	(206,513)
General Administrative	206,513	-	(2,000)
Street	<u>56,651</u>	<u>-</u>	<u>(56,651)</u>
Total Government Activities	864,046	108,651	(755,395)
Business Type Activities			
Water and Sewer			
Total Business- Type Activities	<u>2,346,863</u>	<u>2,378,366</u>	<u>31,503</u>
Total Primary Government	<u>3,210,909</u>	<u>2,487,017</u>	<u>(723,892)</u>

PRIMARY GOVERNMENT

Changes in Net Assets:	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Totals</u>
Net (Expense) Revenues	(755,395)	31,503	(723,892)
Taxes	135,043	-	135,043
Licenses	799,195	-	799,195
State Revenues	29,655	-	29,655
Interest	11,025	7,734	18,759
Other	<u>28,084</u>	<u>-</u>	<u>28,084</u>
Total	247,607	39,237	286,844
Net Assets, Beginning	<u>2,769,993</u>	<u>19,921,519</u>	<u>22,691,512</u>
Net Assets, Ending	<u>3,017,600</u>	<u>19,960,756</u>	<u>22,978,356</u>

See notes to Financial Statements.

TOWN OF CHAPIN
BALANCE SHEET – GOVERNMENT FUND TYPES
DECEMBER 31, 2011

GOVERNMENT FUND TYPES

ASSETS	<u>General</u>
Cash and Temp Cash Investments	\$ 1,022,877
Receivables:	
Accounts Receivable	269,643
Due from State Agencies	6,559
Restricted Assets	-
Council Restricted	<u>832,436</u>
Total Assets	<u>2,131,515</u>
LIABILITIES AND FUND EQUITY	
Liabilities:	
Bonds Payable	794,999
Accounts Payable & Accrued Interest	50,319
Accrued Absences	7,100
Escrow Funds	<u>67,757</u>
Total Liabilities	<u>920,175</u>
Fund Equity:	
Restricted Funds	749,959
Fund Balances	<u>461,381</u>
Total Fund Equity	<u>1,211,340</u>
Total Liabilities and Fund Equity:	\$ <u>2,131,515</u>

See Notes to Financial Statements.

TOWN OF CHAPIN
 RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
 DECEMBER 31, 2011

Total Fund Balance – Total Government Funds	\$ 1,211,340
Amounts reported for government activities in the Statement of Net Assets are different because:	
Capital Assets of \$ 1,806,260 net of depreciation are not financial resources and, therefore, are not reported in the funds.	<u>1,806,260</u>
Net Assets of Government Activities	\$ <u>3,017,600</u>

See Notes to Financial Statements.

TOWN OF CHAPIN
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES – ALL GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2011

	<u>General</u>
Revenues	
Licenses	\$ 799,195
Taxes	135,043
State Revenues	29,655
Interest	11,025
Fines	108,651
Other	<u>28,084</u>
Total Revenues	<u>1,111,653</u>
Expenditures	
General Administrative	194,391
Council	65,020
Public Safety	512,457
Street Department	21,055
Fire Department	2,000
Capital Outlay	<u>300,957</u>
Total Expenditures	<u>1,095,880</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	15,773
Fund Balance, Beginning	<u>1,195,567</u>
Fund Balance, Ending	\$ <u>1,211,340</u>

See Notes to Financial Statements.

TOWN OF CHAPIN
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
 BUDGET TO ACTUAL – GENERAL FUND
 YEAR ENDED DECEMBER 31, 2011

	<u>Budget</u>	<u>Actual</u>	Variance <u>Favorable (Unfavorable)</u>
Revenues			
Local Sources	\$ 1,039,975	1,053,914	13,939
State Sources	24,000	29,655	5,655
Other Sources	<u>22,000</u>	<u>28,084</u>	<u>6,084</u>
Total Revenue	<u>1,085,975</u>	<u>1,111,653</u>	<u>25,678</u>
Expenditures			
General Government	161,008	194,391	(33,383)
Public Safety	645,267	514,457	130,810
Public Works	27,200	21,055	6,145
Council	53,330	65,020	(11,690)
Capital Expenditures	<u>199,170</u>	<u>300,957</u>	<u>(101,787)</u>
Total Expenditures	<u>1,085,975</u>	<u>1,095,880</u>	<u>(9,905)</u>
Deficiency of Revenues Over Expenditures	<u>-</u>	15,773	<u>15,773</u>
Fund Balance at Beginning of Year		<u>1,195,567</u>	
Fund Balance at End of Year		<u>1,211,340</u>	

See Notes to Financial Statements.

TOWN OF CHAPIN
STATEMENT OF NET ASSETS – WATER & SEWER FUND
YEAR ENDED DECEMBER 31, 2011

ASSETS

Current Assets:		
Cash and Temporary Cash Investments	\$	943,834
Receivables:		
Accounts Receivable		176,735
Unbilled Earned Revenues		<u>74,346</u>
Total Current Assets		<u>1,194,915</u>
Restricted Assets		
Escrow Funds		17,900
Council Restricted		<u>3,172,028</u>
Total Restricted Assets		<u>3,189,928</u>
Non-Current Assets		
Capital Assets		
Land		954,476
Property, Plant and Equipment		-
Net of Depreciation		<u>14,844,900</u>
Total Non-Current Assets		<u>15,799,376</u>
Total Assets	\$	<u>20,184,219</u>

LIABILITIES AND FUNDEQUITY

Current Liabilities:		
Accounts Payable	\$	200,563
Accrued Absences		<u>5,000</u>
Total Current Liabilities		<u>205,563</u>
Non-Current Liabilities:		
Escrow and Deposits		<u>17,900</u>
Total Non Current Liabilities		<u>17,900</u>
Net Assets:		
Investment in Capital Assets Net		15,799,376
Unrestricted		<u>4,161,380</u>
Total Net Assets	\$	<u>19,960,756</u>

See Notes to Financial Statements.

TOWN OF CHAPIN
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 WATER & SEWER FUND
 YEAR ENDED DECEMBER 31, 2011

REVENUES	
Water and Sewer	\$ 2,183,486
Tap and Reconnection Fees	<u>194,880</u>
Total Revenues	<u>2,378,366</u>
EXPENSES	
Water and Sewer Operations	1,792,249
Depreciation and Amortization	<u>554,614</u>
Total Expenses	<u>2,346,863</u>
Operating Income (Loss)	31,503
Nonoperating Revenues (Expenses)	
Interest Income	<u>7,734</u>
Total Nonoperating Revenues (Expenses)	<u>7,734</u>
Net Income (Loss)	39,237
Total Net Assets, Beginning	<u>19,921,519</u>
Total Net Assets, Ending	\$ <u>19,960,756</u>

See Notes to Financial Statements.

TOWN OF CHAPIN
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
WATER & SEWER SYSTEM
YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 2,122,787
Other operating receipts	156,357
Payments to suppliers	<u>(1,944,150)</u>
NET CASH PROVIDED OPERATING ACTIVITIES	<u>334,994</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Decrease in refundable deposits	<u>(10,413)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>(10,413)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>7,734</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>332,315</u>
Cash and cash equivalents at beginning of year	<u>3,801,447</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>4,133,762</u>

TOWN OF CHAPIN
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
WATER & SEWER SYSTEM
YEAR ENDED DECEMBER 31, 2011

COMPONENTS	
Unrestricted cash and cash equivalents	\$ 943,834
Restricted cash	<u>3,189,928</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 \$ <u>4,133,762</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 39,237
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense and amortization	554,614
Change in assets and liabilities	
Accounts receivables and unbilled revenue	(94,930)
Accounts payable	122,645
Accrued liabilities	(10,412)
Property, Plant, Equipment	<u>(278,839)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ <u>332,315</u>

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Chapin, South Carolina (Town) was originally incorporated in 1950 under the laws of the State of South Carolina. The Town adopted the Council form of government pursuant to the Home Rule Statute, Act No. 283 of 1995. The Town operates under the Council form of government with the Mayor and five council members comprising the governing body. As authorized by its Code of Ordinances, the Town provides public safety (police), public works (streets), health and sanitation, licensing and regulation and general administrative services to its constituents.

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. GASB is the accepted standard setting body for establishing governmental accounting and financial accounting principles. In both the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB pronouncements are followed. FASB and APB are the accepted standard setting bodies for establishing financial and reporting principles for business-type and enterprise reporting principles.

Financial Reporting Entity

In evaluating how to define the Town's financial reporting entity, management has considered all potential component units associated with the Town. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth by GAAP regardless of legal arrangements. The basic criterion for including a potential component unit is the Town's ability to exercise financial interdependency. Other manifestations include the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion is the scope of public service provided by the potential component unit and considering the extent to which the activity benefits the Town or its constituents, to the extent to which the activity is conducted within the Town's geographic boundaries and is generally available to its constituents.

A third criterion is the existence of special financing relationships between potential component unit and the Town, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, the Town's financial reporting entity comprises the primary government, the Town of Chapin. Currently, the Town has no component units.

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Blended Component Units

Blended component units are separate but legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. These component units' funds are blended into those of the Town by appropriate activity type to compose the primary government presentation. Currently, the Town has no blended component units.

Discretely Presented Component Units

Discretely presented component units are separate but legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, inter-governmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total funds of that category or type; and

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

General Fund

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. Currently, the Town has no Special Revenue Funds.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only the Capital Project Fund and it is used to account for the acquisition of Capital assets with transfers and/or advances made from other funds.

The Town accounts for the master plan development costs, real estate acquisition costs, architectural and engineering costs, and land improvement and survey costs incurred for its Downtown "Master Plan" Development Project on the General Fund for revitalization and improvements of its downtown infrastructure.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the Town other than debt service payments made by enterprise funds. Ad valorem taxes are used for the payment of principle and interest on the Town's judgment. Currently, the Town has no requirements to utilize a Debt Service Fund.

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanent Fund

The Permanent Fund accounts for assets held by the Town pursuant to a trust agreement. The principal portion of this fund must remain intact, but the earnings may be used to achieve the objectives of the fund. Currently, the Town has no Permanent Funds.

Proprietary Fund

Enterprise Fund

Enterprise Funds account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to private sector. The reporting entity includes the Town of Chapin Water & Sewer System.

Fiduciary Funds (not included in government-wide statements)

Agency Funds

Agency Funds account for significant assets held by the Town in a purely custodial capacity. Currently, the Town has no significant Agency Funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in Item (b.) below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate.

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

- b. The proprietary fund utilizes and “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations: therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like activities are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities and Equity

Cash and Investments

For purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand savings accounts, and certificates of deposits of the Town. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments of the promissory note trustee accounts are not considered cash equivalents.

The Town is authorized by ordinance to invest in obligations to the U.S. Treasury and commercial paper. The Town's investments consist of short-term certificates of deposits with a remaining maturity date of one year or less at the time of purchase. These investments are carried at cost.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible amounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes, business licenses, and intergovernmental revenues and grants. Business-type activities report utilities and sanitation charges as their major receivables.

In the fund financial statements materials receivables in governmental funds include revenue accruals such as local option sales tax, property taxes, business licenses, and other grants and other similar intergovernmental revenues since they are usually both measurable

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and available. Nonexchange transactions collectible, but not available, are deferred in the government-wide financial statements in accordance with the accrual basis. In instances in which differences between the use of the full accrual method and the modified accrual method (i.e. 60 day rule) of revenue recognition is not considered to be material the Town utilizes the modified-accrual basis for both government-wide and governmental fund financial reporting where both are reasonably expected to result in similar results.

Capital Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost is actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. The Town has maintained historical cost records on the majority of its fixed assets and, accordingly, carries these assets at historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight line method of depreciation. The range of estimated useful lives of type of assets is as follows:

Buildings	25-50 years
Improvements	10-50 years
Machinery and Equipment	3-20 years
Utility System	25-50 years
Infrastructure	25-50 years

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as their use. The primary restricted assets are related to promissory note trustee accounts and utility customer deposits.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations of proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and obligations under capital lease agreements.

Long term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Revenues, Expenditures and Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – by character	Current (further classified by function)
	Debt service
	Capital outlay

Proprietary Fund – by operating and nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources. In instances in which a procurement outlay can be defrayed from both unrestricted and restricted resources, the Town customarily follows a practice of first applying restricted resources toward acquisition followed, secondarily, by restricted resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and proprietary funds. All annual appropriations lapse at the fiscal year end. Project length financial plans are adopted for all capital project funds whenever such projects are in force.

Encumbrances

The Town does not record encumbrances. Normally, encumbrances represent executor contracts including purchase orders that are outstanding commitments of the Town and are reported as a reservation of the respective fund balance of the Governmental Funds and an appropriation of retained earnings of the Proprietary Fund. They do not constitute an expenditure (expense) or liability under such until such time the goods are received or the service rendered, but are an extension of formal budgetary integration of the Governmental Funds and a commitment of the Proprietary Fund.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported by the governmental fund that will pay it as an expenditure and a fund liability. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement, where applicable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the Town's financial position and results of operations and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE B – COMPLIANCE AND ACCOUNTABILITY

Property Taxes

Real Property and all personal property taxes, other than automobile property taxes, attach as an enforceable lien on January 1st of each year. Real property taxes are levied in September of each year and are payable before January 15th of the subsequent year. Automobile property taxes attach a lien and are levied throughout the year depending on when the vehicle's license tag expires. These taxes are assessed and collected by Lexington County, South Carolina under a joint billing and collection agreement. Other personal property taxes are levied in September of each year and are payable by January 15th of the subsequent year.

In the fund financial statements, property taxes are recorded as revenue in the period they are levied and become due and available within the current period or expected to be collected soon enough thereafter, within 60 days of each year end, to be used to pay liabilities of the current period. Additional amounts due to be collected after the 60-day period are considered immaterial in total and no additional accrual in the government-wide financial statements is recorded.

NOTE C – CASH AND INVESTMENTS

At December 31, 2011, the Town's deposits were \$ 5,974,075, and the bank balance was \$ 6,035,123. The bank balances were classified into three categories of custody risk assumed by the Town based upon how its deposits were insured or secured with collateral at December 31, 2011. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Town (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name; or collateralized with no written or approved collateral agreement.

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE C – CASH AND INVESTMENTS (continued)

	Category			Bank Balances
	1	2	3	
Demand deposits	\$ 1,000,000	5,035,123	-	\$ 6,035,123
Time deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ 1,000,000	5,035,123	-	\$ <u>6,035,123</u>
Carrying value on Government-wide Statement of Net Assets				
Unrestricted cash, including time deposits				1,966,711
Restricted cash, including time deposits				<u>4,007,364</u>
				\$ <u>5,974,075</u>

NOTE D – RECEIVABLES

Receivables at December 31, 2011 consisted of the following:

	Governmental Activities	Business Type Activities	Total
Property taxes	\$ 106,507	-	\$ 106,507
Service customers	-	199,081	199,081
Intergovernmental-	163,135	-	163,135
State of South Carolina	6,559	-	6,559
Less allowance for uncollectable	<u>-</u>	<u>(22,346)</u>	<u>(22,346)</u>
	\$ <u>276,201</u>	<u>176,735</u>	<u>452,936</u>

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE E – COMPONENTS OF PROPERTY, PLANT, EQUIPMENT

Water Enterprises Fund:	
Land	\$ 954,475
Vehicles	24,732
Office Equipment	37,363
Water and Sewer Systems	21,586,824
Less. Accumulated Depreciation	(6,804,019)
Total	\$ 15,799,376

General Fund:			
	Balance	Net	Balance
	<u>1/1/11</u>	<u>Additions</u>	<u>12/31/11</u>
Construction in Process	\$ -	267,425	267,425
Land and Buildings	1,783,329	-	1,783,329
Vehicles and Equipment	252,415	33,532	285,947
Less, Depreciation	(461,318)	(69,123)	(530,441)
Total	\$ <u>1,574,426</u>	<u>231,834</u>	<u>1,806,260</u>

Depreciation for the year ended December 31, 2011 was allocated to General Fund departmental expenses as follows:

Administration	\$ 12,122
Police	21,405
Streets	<u>35,596</u>
Total	\$ <u>69,123</u>

NOTE F – RETIREMENT PLAN

Substantially all police officers are covered by a retirement plan through the South Carolina Police Officers Retirement System (PORS), as cost-sharing multiple-employer defined benefit public employee retirement system. Generally, all state, county and municipal law enforcement employees are required to participate in and contribute to the System as a condition of employment unless exempted by law. This plan provides annuity benefits as well as deniability, group-life and accidental death insurance to eligible employees.

South Carolina Retirement System plan benefits are established by state law. Employees are eligible for a service retirement annuity upon reaching age 65 or completion of 30 years

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE F – RETIREMENT PLAN (continued)

of credit service. The benefit formula effective July 1, 1994 for the System is 1.82% of employee's average final compensation multiplied by the number of years of credited service. An early retirement option with reduced benefits is available as early as age 55. Employees are vested for a deferred annuity after 5 years of service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years of credited serve.

A group life insurance benefit equal to an employee's annual rate of compensation is payable upon death of an employee with a minimum of one year of credited service.

South Carolina Police Officers Retirement benefits are also established by state law. Employees are eligible for a service retirement annuity upon reaching age 55 with at least 5 years of service or completion of 25 years of credited service. The benefit formula effective July 1, 1992, for the system is 2.14% of an employee's average final compensation multiplied by the number of years of credited service. Employees are vested for a deferred annuity after 5 years of service and qualify for a survivor's benefit upon completion of 15 years of credit service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years credited service. An accidental death insurance benefit equal to one-half an employee's annual rate of compensation is payable upon the death of an employee if the employee dies during the performance of his duties without willful negligence.

The following information briefly describes the plans:

	SCRS	PORS
Employee contributions	6% total salary	6% total salary
Employer contributions	6.85% total salary	10.7% total salary
Vesting requirements	5 years	5 years
Normal retirement age	65	55 with 5 yrs service
Employer's current year:		
Covered payroll	\$ 198,980	183,146
Total payroll	\$ 198,980	183,146
Contributions required:		
Employees	\$ 128,934	11,905
Employer	\$ 18,531	20,556
Contribution as % of Total Payroll:	31,465	32,461
Employees	6.5%	6.5%
Employer	9.3%	11.2%

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE F – RETIREMENT PLAN (continued)

The amounts paid by the government for pension, group-life, and accidental death benefits are reported as employer retirement expenditures.

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. By state law, the Town's liability under the Retirement Plans is limited to the amounts contributed for the applicable year. Accordingly, the Town recognizes no contingent liability for unfunded costs associated with participation in the plans. All actuarially required contributions due to the plans were paid. Information concerning the authority under which benefit provisions and employee obligations to contribute are established, the significant actuarial assumptions for the plan, and explanation of the pension benefit obligation, the pension benefit obligation for the systems, the total net assets available for benefits, and ten-year historical trend information showing the Systems' progress in accumulating sufficient assets to pay benefits when due is presented in the Systems' December 31, 2011 separately issued reports.

NOTE G – MANAGEMENT AND CONTINGENCIES

The Town is exposed to various risks of losses related to torts, thefts of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disaster. The Town manages risk through employee educational and prevention programs and through the purchase of casualty and liability insurance. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims the Town considers all events that might give rise to possible claims both reported and unreported.

In the nominal course of operations, the Town participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

TOWN OF CHAPIN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE H – LONG-TERM DEBT

Bond Payable

General Obligation Bond

Issued 3/8/2011, the original issued was for \$795,000. Payments are due for 10 years annually. Interest rate is due on unpaid balance. Balance is 3.490%.

Total	\$ 795,000
Less Current Portion	<u>67,798</u>
Due Long-Term	<u>\$ 727,202</u>

Long-term debt for subsequent to June 30, 2011, including interest is as follows:

2012	\$ 95,544
2013	95,544
2014	95,544
2015	95,544
2016-21	<u>573,264</u>
TOTAL	\$955,440

NOTE I – CONSTRUCTION IN PROCESS

The Town plans to construct a Town Complex Center at an estimated budget of \$3,500,000. At 12/31/2011 the Town has spent \$267,425.

SUPPLEMENTARY INFORMATION

Schedule 1

TOWN OF CHAPIN
Supplementary Schedule of Fines and Assessments
Year Ended December 31, 2011

Collections:

Fines and assessments	\$	<u>108,651</u>
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Disbursements:

State Treasurer		57,786
Audit Fee		875
Revenues Town		44,059
Surcharges and Victims Assist.		<u>5,931</u>
Total	\$	<u>108,651</u>

TOWN OF CHAPIN
Supplementary Schedule of Victim's Assistance
Collections and Disbursements
Year Ended December 31, 2011

Balance Per Bank Account December 31, 2010		
Collections:	\$	42,241
Fines and assessment		<u>5,931</u>
Total fund available during year		<u>48,172</u>
Disbursements:		
Victim's Assistance		<u>-</u>
Balance Per Bank Account December 31, 2011		<u>48,172</u>

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AICPA PRIVATE COMPANIES
PRACTICE SECTION
SOUTH CAROLINA ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and Town Council
Town of Chapin
Chapin, South Carolina

I have audited the financial statements of the governmental activities, business-type activities, major funds, and remaining fund information which collectively comprise the basic financial statements of the Town of Chapin, South Carolina (Town) as of and for the year ended December 31, 2012, as listed in the table of contents, and have issued our report thereon dated June 28, 2012. I 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, I considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency 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 misstatements in a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. The following deficiencies are considered by default under current auditing standards to be significant deficiencies in internal control over financial reporting.

Accordingly, they are reported by me as significant deficiencies.

Segregation of Duties

There is an absence of an absolute segregation of duties in the accounting process due primarily to an accounting department that lacks the size and resources to function in an ideal manner that could assist in reducing the likelihood of a material misstatement. While it is virtually impossible or, in most cases, cost prohibitive, to have a perfect segregation of duties within the accounting process, it should be noted, that a deficiency does exist when one individual performs accounting functions that may be considered incompatible to the extent that there is some degree of limitation on independent verification of transactions processed by the Town, thereby, to some extent, weakening its internal control structure's ability to absolutely prevent and/or detect possible misstatements. For example, ideally, bank reconciliations should be performed by someone who is independent of the general ledger, accounts receivable, and accounts payable transaction recording process.

This is rarely, if ever, seen within small-to-medium-sized organizations simply because of the lack of a cost-benefit justification for the added segregation of duties. In the absence of absolute segregation of duties, management does, however, implore mitigating controls that reduce the likelihood of material misstatement. I understand that the added costs of providing an absolute segregation of duties will, in most cases, out-weigh the projected benefits of the added controls, and therefore, may be considered unjustified. However, I am obligated by recently adopted auditing standards to bring this condition to your attention. You are obligated to consider the validity of these comments in light of the circumstances surrounding this condition and respond as you consider necessary. Your response may very well entail acceptance and continuation of this condition as the best perceived alternative under the circumstances.

Preparation of Financial Statements

Like most small-to-medium-sized organizations, the Town lacks the personnel with the accounting expertise and training such as that possessed by a Certified Public Accountant or a Chief Financial Officer of a large organization who customarily and regularly prepares full-disclosure year-end financial statements. Consequently, management is unable to prepare the Town's full-disclosure year-end financial statements. The Town is dependent upon its external auditors to prepare these financial statements as part of their audit process. The Town calls upon its external auditors to identify commitments and contingencies, concentrations, subsequent events, compliance with grantor restrictions, compliance with debt covenants, related party transactions, fair values of financial instruments, or other events and conditions that are significant to the preparation of financial statements, including disclosures.

This is a customary and fully-acceptable practice and will continue to be so in the foreseeable future. However, I am obligated by recently adopted auditing standards to bring this condition to your attention. You are obligated to consider the validity of these comments in light of the circumstances surrounding this condition and respond as you consider necessary. Your response

may very well entail acceptance and continuation of this condition as the best perceived alternative under the circumstances.

Fixed-Asset Ledgers

The Town does not maintain fixed-asset (property and equipment) ledgers which appropriately itemize the capital assets acquired and owned by the Town. Such ledgers, customarily itemize the acquisition date, cost or adjusted basis, description and identification model and/or serial numbers, depreciation expense and accumulated depreciation. Fixed-asset ledgers provide ready-available inventory and historical cost data for the assets that the Town owns along with provisions for depreciation (wear and tear) and accumulated depreciation which is used by many organizations as a gage to fund reserves to replace these property and equipment assets over time.

The Town is dependent upon its external auditors to update and maintain these fixed-asset ledgers for them as part of their audit process. This is a customary and fully-acceptable practice and will continue to be so in the foreseeable future. However, I am obligated by recently adopted auditing standards to bring this condition to your attention. You are obligated to consider the validity of these comments in light of the circumstances surrounding this condition and respond as you consider necessary. Your response may very well entail acceptance and continuation of this condition as the best perceived alternative under the circumstances.

Incompatible Functions

The Town's Water Clerk is responsible for the billing and tracking as well as the collection of water and sewer and general revenues. This severely limits any independent verification of the propriety of these collections that would assist in the detection of errors or irregularities in the normal course of processing these transactions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I wish to communicate to you that there are no material uncorrected misstatements, individually or in aggregate to the financial statements taken as a whole; the significant accounting policies are described in the notes to the financial statements; the financial statements include no significant accounting estimates other than those, if any, reflected in the financial statements. All audit adjustments proposed have been reviewed and accepted by management and have been reflected in the financial statements. I have no knowledge of management consulting with other independent auditors, and I encountered no disagreements or substantial difficulties in dealing with management in performing and completing this audit. I must also point out that although a financial statement audit is a component of good governance, it cannot however, be construed as a substitute for, or reduction to, the total overall due diligence responsibilities of those charged with governance.



Leonard K. Jackson

June 28, 2012

