

***CITY OF SUMTER,
SUMTER, SOUTH CAROLINA***

***FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT***

For the Fiscal Year Ended June 30, 2010



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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

December 2, 2010

City Council
City of Sumter, South Carolina

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Sumter, South Carolina (the City), as of, and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my 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, and each major fund of the City of Sumter, as of June 30, 2010, and the respective changes in financial position thereof and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

I also audited the adjustments described in Note IV G that were applied to restate net assets and fund balances as of July 1, 2009. In my opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 2, 2010 on my consideration of the City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of my audit.

Management's Discussion and Analysis on pages 5 through 13 and the Schedule of Funding Progress and Employer Contributions on page 51 are not required parts 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.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements listed in the table of contents as other supplementary information, the schedule of court fines and assessment activity and expenditures for victims' services, and the schedule of expenditures of federal awards in the compliance section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining statements listed in the table of contents as other supplementary information, the schedule of court fines and assessment activity and expenditures for victims' services, and the schedule of expenditures of federal awards in the compliance section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Walda Wildman LLC

WALDA WILDMAN, LLC
Certified Public Accountant

Sumter, South Carolina
Management's Discussion and Analysis
Year Ended June 30, 2010

As management of the City of Sumter, we offer readers of the City of Sumter's financial statements this narrative overview and analysis of the financial activities of the City of Sumter for the fiscal year ended June 30, 2010. The Management's Discussion and Analysis (MD&A) section is designed to assist the reader in focusing on significant financial issues, providing an overview of the City's financial activity and identifying changes in the City's financial condition, material deviations from financial budget and individual fund issues and concerns.

Financial Highlights

- The assets of the City of Sumter exceeded its liabilities at the close of the most recent fiscal year by \$99,785,963 (net assets). Of this amount, \$18,729,187 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$12,920,255 during the fiscal year ended June 30, 2010. Approximately 55% of this increase is attributable to resources from the "Penny for Progress", a 1% Capital Sales Tax, approved by Sumter County voters and implemented in May 2009.
- At the close of the current fiscal year, the City of Sumter's governmental funds reported combined ending fund balances of \$11,248,731, an increase of \$4,753,094 in comparison with the prior year. Approximately 67% of this total amount, \$7,580,641, is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$6,590,017, or 18 percent of total general fund expenditures.
- The City of Sumter's total debt at June 30, 2010 was \$49,434,139, a decrease of \$77,792. Governmental activities increased by \$1,618,067. The key factor in this increase was the issuance of a \$2,000,000 general obligation bond. Debt for the business-type activities decreased by \$1,695,859.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Sumter's basic financial statements. The City of Sumter's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Sumter's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Sumter's assets and liabilities, with the difference 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 of Sumter 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 the 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 (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Sumter that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Sumter include general government, public safety, public works, parks, recreation and culture, community development, and economic development. The business-type activities of the City of Sumter include water and sewer services.

The government-wide financial statements can be found on pages 17 and 18 of this report.

Fund financial statements. 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 of Sumter, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Sumter can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two major governmental funds, the general fund and the special revenue fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these funds. Individual fund data for each of the special revenue funds is provided in the form of combining statements elsewhere in this report.

The City of Sumter adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19-24 of this report.

Proprietary funds. The City of Sumter currently maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Sumter uses an enterprise fund to account for its water and sewer operation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer fund which is considered to be a major fund of the City of Sumter.

The basic proprietary fund financial statements can be found on pages 25-27 of this report.

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 statement because the resources of those funds are not available to support the City of Sumter's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 28 and 29 of this report.

Notes to the 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 financial statements can be found on pages 30-47 of this report.

Government-Wide Financial Analysis

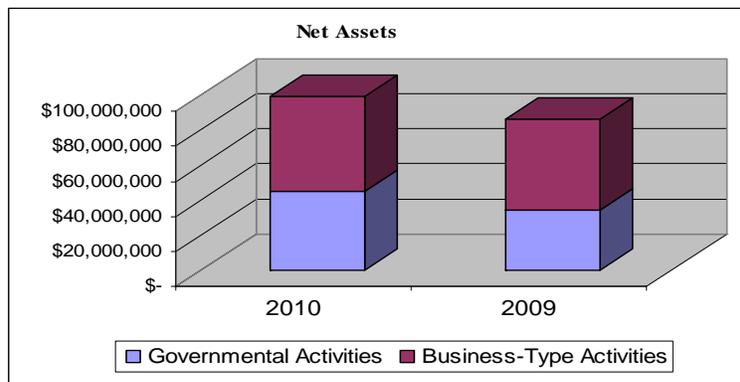
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Sumter, assets exceeded liabilities by \$99,785,963 as of June 30, 2010.

By far the largest portion of the City of Sumter's net assets (75%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Sumter uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Sumter's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Sumter's Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------------------------|-------------------------|--------------------|--------------------------|--------------------|---------------|--------------------|
| | 2010 | 2009, as restated* | 2010 | 2009, as restated* | 2010 | 2009, as restated* |
| Current and other assets | \$ 16,037,772 | \$ 10,618,859 | \$ 17,417,367 | \$ 17,149,861 | \$ 33,455,139 | \$ 27,768,720 |
| Capital assets | 44,794,992 | 36,880,529 | 79,008,477 | 80,438,865 | 123,803,469 | 117,319,394 |
| Total Assets | 60,832,764 | 47,499,388 | 96,425,844 | 97,588,726 | 157,258,608 | 145,088,114 |
| Noncurrent liabilities | 10,778,563 | 9,108,882 | 39,139,258 | 42,732,563 | 49,917,821 | 51,841,445 |
| Other liabilities | 4,435,715 | 3,869,592 | 3,119,109 | 2,511,369 | 7,554,824 | 6,380,961 |
| Total Liabilities | 15,214,278 | 12,978,474 | 42,258,367 | 45,243,932 | 57,472,645 | 58,222,406 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 36,003,190 | 30,714,618 | 38,366,140 | 33,073,500 | 74,369,330 | 63,788,118 |
| Restricted | - | 63,154 | - | 572,027 | - | 635,181 |
| Unrestricted | 9,615,296 | 3,743,142 | 15,801,337 | 18,699,267 | 25,416,633 | 22,442,409 |
| | \$ 45,618,486 | \$ 34,520,914 | \$ 54,167,477 | \$ 52,344,794 | \$ 99,785,963 | \$ 86,865,708 |

* See note to financial statements IV. G.



Unrestricted net assets of \$18,729,187 may be used to meet the government's ongoing obligations to citizens and creditors.

The City of Sumter was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

City of Sumter's Changes in Net Assets

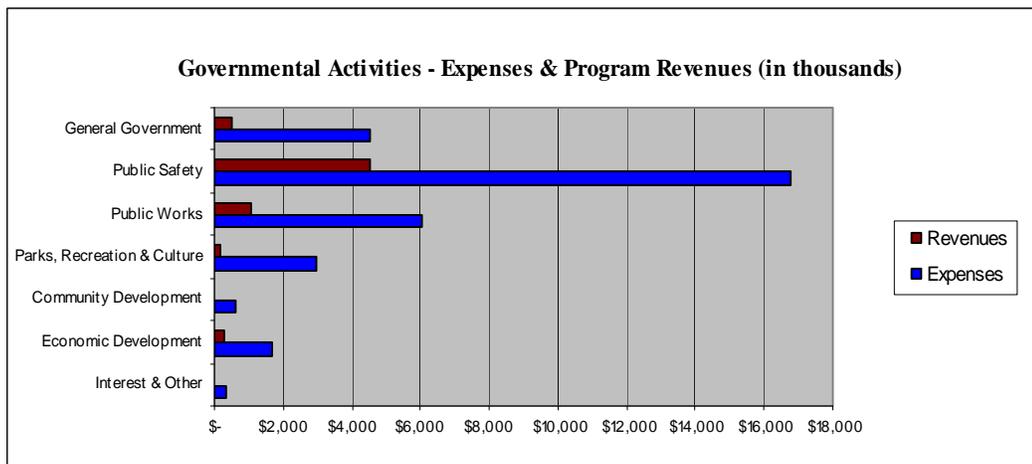
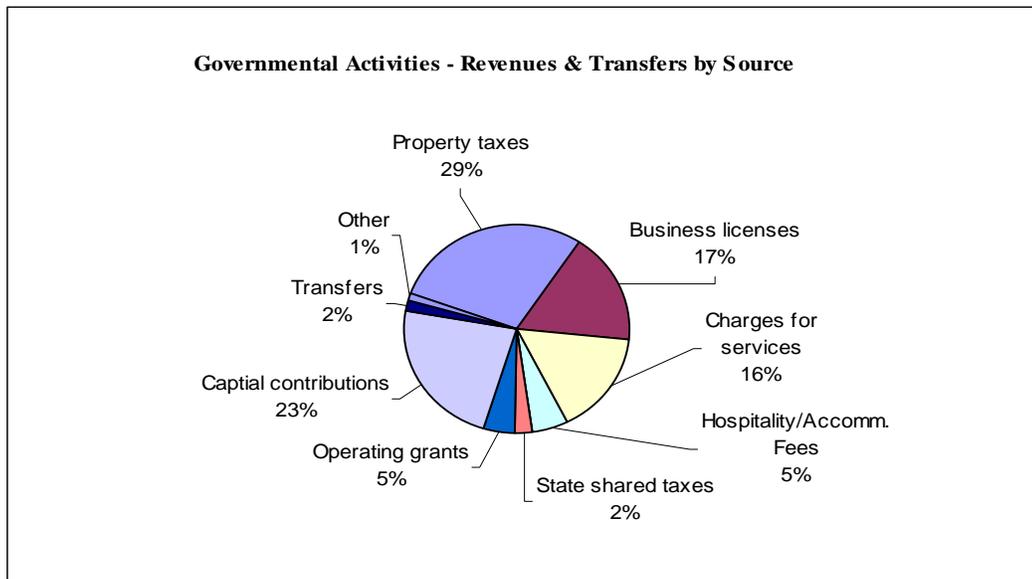
| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2010 | 2009, as restated* | 2010 | 2009, as restated* | 2010 | 2009, as restated* |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 6,933,644 | \$ 6,497,333 | \$ 18,654,564 | \$ 17,694,265 | \$ 25,588,208 | \$ 24,191,598 |
| Operating grants and contributions | 2,027,801 | 1,250,756 | - | - | 2,027,801 | 1,250,756 |
| Capital grants and contributions | 10,115,868 | - | - | - | 10,115,868 | - |
| Total program revenues | 19,077,313 | 7,748,089 | 18,654,564 | 17,694,265 | 37,731,877 | 25,442,354 |
| General Revenues: | | | | | | |
| Taxes | 12,762,373 | 13,161,860 | - | - | 12,762,373 | 13,161,860 |
| Business and franchise fees | 7,642,629 | 7,894,143 | - | - | 7,642,629 | 7,894,143 |
| State shared taxes | 1,090,927 | 1,752,048 | - | - | 1,090,927 | 1,752,048 |
| Payments in lieu of taxes | - | 2,090,937 | - | - | - | 2,090,937 |
| Accommodations taxes | 354,538 | 339,855 | - | - | 354,538 | 339,855 |
| Hospitality taxes | 1,932,113 | 1,928,002 | - | - | 1,932,113 | 1,928,002 |
| Other | 343,466 | 31,870 | 72,047 | 198,128 | 415,513 | 229,998 |
| Total general revenues | 24,126,046 | 27,198,715 | 72,047 | 198,128 | 24,198,093 | 27,396,843 |
| Total revenues | 43,203,359 | 34,946,804 | 18,726,611 | 17,892,393 | 61,929,970 | 52,839,197 |
| Expenses: | | | | | | |
| General Government | 4,506,622 | 6,431,099 | - | - | 4,506,622 | 6,431,099 |
| Public Safety | 16,793,744 | 17,290,295 | - | - | 16,793,744 | 17,290,295 |
| Public Works | 6,031,735 | 6,420,986 | - | - | 6,031,735 | 6,420,986 |
| Parks, Recreation and Culture | 2,973,471 | 2,637,829 | - | - | 2,973,471 | 2,637,829 |
| Community Development | 626,765 | 584,209 | - | - | 626,765 | 584,209 |
| Economic Development | 1,671,805 | 983,657 | - | - | 1,671,805 | 983,657 |
| Interest and other charges | 342,732 | 223,954 | - | - | 342,732 | 223,954 |
| Water and sewer services | - | - | 16,062,841 | 15,116,230 | 16,062,841 | 15,116,230 |
| Total expenses | 32,946,874 | 34,572,029 | 16,062,841 | 15,116,230 | 49,009,715 | 49,688,259 |
| Increase (decrease) in net assets | | | | | | |
| before transfers | 10,256,485 | 374,775 | 2,663,770 | 2,776,163 | 12,920,255 | 3,150,938 |
| Transfers | 841,087 | 852,287 | (841,087) | (852,287) | - | - |
| Increase (decrease) in net assets | 11,097,572 | 1,227,062 | 1,822,683 | 1,923,876 | 12,920,255 | 3,150,938 |
| Net assets at beginning of year, as restated | 34,520,914 | 33,293,852 | 52,344,794 | 50,420,918 | 86,865,708 | 83,714,770 |
| Net assets at end of year | \$ 45,618,486 | \$ 34,520,914 | \$ 54,167,477 | \$ 52,344,794 | \$ 99,785,963 | \$ 86,865,708 |

* See note to financial statements IV. G.

Governmental Activities: Governmental activities increased the City of Sumter’s net assets by \$11,097,572 thereby accounting for 86 percent of the total growth in the net assets of the City of Sumter.

Revenues for the current fiscal year from governmental activities were \$43,203,359 while expenses were \$32,946,874. Transfers in were \$841,087. Revenues were derived primarily from property taxes (29%), business license fees (17%), and charges for service (16%). Increases in capital grants and contributions of \$10,115,868 from the prior year accounted for 23% of total revenues. Key elements of this increase represents resources in the amount of \$6,000,000 from the county-wide 1% Capital Sales Tax implemented in May 2009, \$546,564 in American Recovery and Reinvestment Act public safety grants, \$924,263 from other public safety grants and \$1,466,754 from for the addition of donated infrastructure for new streets for which the City accepted ownership.

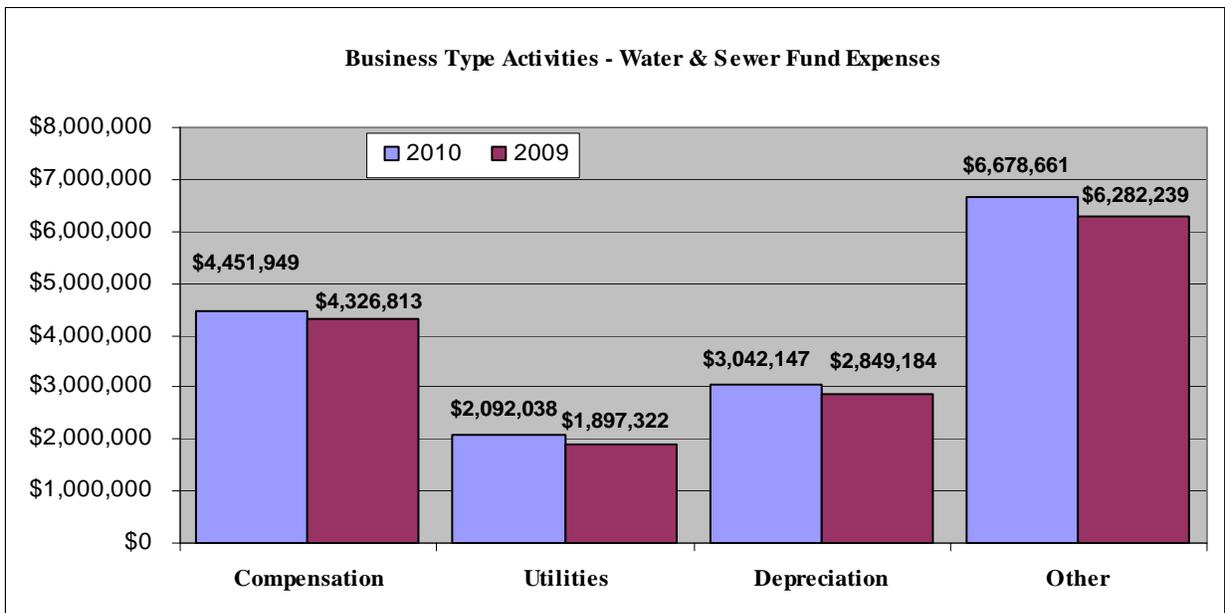
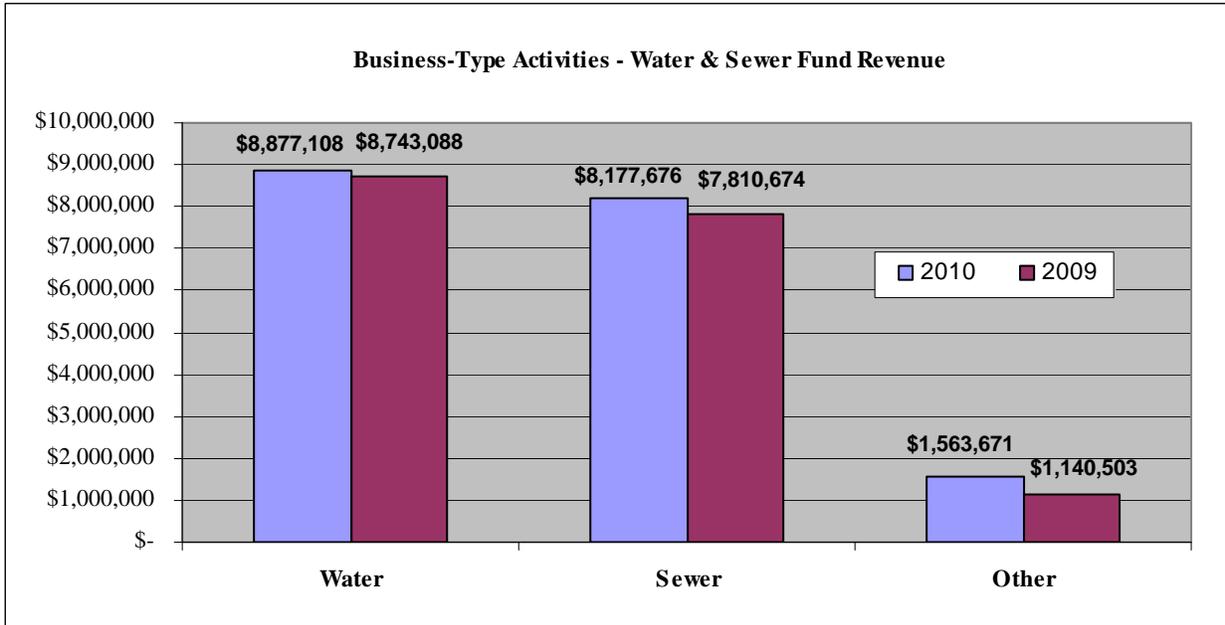
During the current fiscal year public safety related expenses accounted for 51% of the total governmental activities expenses. Public safety expenditures include police, fire, 911 communications, building inspections, codes enforcement, and municipal court. Public works related expenditures accounted for 18% of the total. Public works expenditures include construction, public works, sanitation, and vehicle maintenance services. General government expenditures accounted for 14% of the total.



Business-Type Activities: Business-type activities increased the City of Sumter’s net assets by \$1,822,683, accounting for 14 percent of the total growth in the government’s net assets.

Total revenues from the business-type activities were \$18,726,611. Overall revenue for charges for services increased by \$960,299 (5%) compared to the prior fiscal and is attributable to the final year of planned rate increases designed primarily to provide additional resources to meet debt service requirements for the newly completed Wastewater Treatment Plant expansion.

Total expenses were \$16,062,841 before transfers out and increased by \$946,611 (6%) from the prior year. This increase was a result of increased costs in utilities, other operating expenses and depreciation. Transfers out were \$841,087 for the fiscal year ended June 30, 2010.



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Sumter's governmental funds is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Sumter'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.

As of the end of the current fiscal year, the City of Sumter's governmental funds reported combined ending fund balances of \$11,248,731 an increase of \$4,753,094 in comparison with the prior year. \$7,580,641 (67%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,590,017 with a total fund balance \$8,586,507. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balance to total fund expenditures. Unreserved fund balance represents 18 percent of total general fund expenditures while total fund balance represents 24 percent of that same amount.

The fund balance of the City of Sumter's general fund increased by \$5,236,842 during the current fiscal year. Elements of this increase include an implementation of a charge for sanitation services, transfers in from fund closures, proceeds from a general obligation bond issuance which will be used for future expenditures, and resources from the implementation of the 1% capital sales tax.

General Fund Budgetary Highlights

City Council amended the General Fund budget during the fiscal year ended June 30, 2010. As a result of these amendments, the final amended budget for the General Fund was \$1,724,007 greater than the original adopted budget. The following changes were made to the original budget:

- Revenue increases of loan/lease purchase proceeds of \$1,340,000, inter-governmental revenues of \$300,000, and sale of fixed assets of \$84,007.
- Supplemental appropriations of \$300,000 to public works, \$33,007 to sanitation and \$2,000,000 to general government capital outlay.
- Reductions in expenditures in general government, fire and parks amounted to \$609,000.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2010, was \$123,803,469 (net of accumulated depreciation), an increase of \$6,484,075 from the prior year end. Following is a summary of capital assets and for more information see Note III.C. in the notes to the financial statements.

| | City of Sumter's Capital Assets (net of depreciation) | | | | | |
|---------------------------------|-------------------------------------------------------|---------------|--------------------------|---------------|----------------|----------------|
| | Governmental Activities | | Business-Type Activities | | Totals | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$ 9,608,214 | \$ 3,120,524 | \$ 240,938 | \$ 240,938 | \$ 9,849,152 | \$ 3,361,462 |
| Buildings | 11,854,536 | 12,043,623 | 222,145 | 234,486 | 12,076,681 | 12,278,109 |
| Plants, machinery and equipment | 5,891,178 | 4,657,519 | 47,343,363 | 20,680,031 | 53,234,541 | 25,337,550 |
| Infrastructure | 17,119,302 | 14,288,080 | 30,182,838 | 30,609,329 | 47,302,140 | 44,897,409 |
| Construction in progress | 321,762 | 2,770,783 | 1,019,193 | 28,674,081 | 1,340,955 | 31,444,864 |
| Totals | \$ 44,794,992 | \$ 36,880,529 | \$ 79,008,477 | \$ 80,438,865 | \$ 123,803,469 | \$ 117,319,394 |

Major capital asset additions during the current fiscal year included the following:

- Land and building acquisitions totaling \$7,014,160 for a new vehicle maintenance shop, future projects and acquisitions in the military protection district adjacent to Shaw.
- Improvements at parks, gardens and walking trails were completed at a cost of \$1,752,339 with current year improvements of \$589,842 within the Hospitality fund.
- The Police Department purchased vehicles and equipment at a cost of \$1,133,857.
- The Fire Department lease-purchased a rescue truck at a cost of \$220,680 and purchased equipment at a cost of \$217,856.
- The Public Services Department purchased a vehicle valued at \$50,998.
- The Sanitation Department lease-purchased two knuckle boom loaders and a front loader totaling \$440,853 and purchased another front loader at a cost of \$193,761.
- The Parks and Gardens Department lease purchased a bucket truck at a cost of \$135,480 and purchased various vehicles, mowers, and work utility vehicles totaling \$116,188.
- The Water & Sewer Fund purchased vehicles, trucks and equipment for maintaining the water and sewer systems in the amount of \$318,823.
- Various system additions and improvements were completed in the Water & Sewer Fund at a cost of \$281,112 which included water and sewer line extensions.
- Construction in progress continued in the Water and Sewer Fund on a new well with current year costs of \$456,962.
- Construction was completed on the Wastewater Treatment Plant expansion in the Water and Sewer Fund at a cost of \$28,440,766 with current year improvements of \$156,067.

Debt Administration. At the end of the current fiscal year, the City of Sumter had total debt outstanding of \$49,434,139. Of this amount, \$3,161,078 comprises debt backed by the full faith and credit of the government and \$46,273,061 is revenue bonds, capital leases, and notes payable. The City's total debt decreased \$77,792 during 2010. See Note III.D. in the notes to the financial statements for more information.

| City of Sumter's Outstanding Debt | | | | | | |
|--------------------------------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| General Obligation and Revenue Bonds and Notes Payable | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Totals | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| General Obligation Bonds | \$ 3,161,078 | \$ 1,712,336 | \$ - | \$ - | \$ 3,161,078 | \$ 1,712,336 |
| TIF bond | 859,138 | 1,006,273 | - | - | 859,138 | 1,006,273 |
| Notes Payable | 2,359,000 | 1,725,000 | - | - | 2,359,000 | 1,725,000 |
| Capital Lease Obligations | 2,412,586 | 2,730,126 | - | - | 2,412,586 | 2,730,126 |
| Revenue Bonds | - | - | 35,308,745 | 36,320,761 | 35,308,745 | 36,320,761 |
| State Revolving Fund Loans | - | - | 5,333,592 | 6,017,435 | 5,333,592 | 6,017,435 |
| Totals | \$ 8,791,802 | \$ 7,173,735 | \$ 40,642,337 | \$ 42,338,196 | \$ 49,434,139 | \$ 49,511,931 |

During the current fiscal year, the City of Sumter issued general obligation bonds in the amount of \$2,000,000 to finance capital projects and purchase equipment.

The City has recorded liabilities in the government-wide statements for compensated absences totaling \$2,366,732 with \$1,986,761 and \$379,971 in the governmental activities and business-type activities respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of its total assessed valuation of property. The current debt limitation for the City is \$9,560,056 which is in excess of the City's outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Sumter County for the most recent quarter was 12.1% which is a decrease from a rate of 13.8% for the same period last year. The current rate is slightly above the state's rate of 11% and above the national rate of 9.6% for the most recent quarter.

Retail sales are 6.9% higher for the three quarters of 2010 as compared to 2009; however, these sales are still below the 2007 and 2008 totals. Construction activity still remains difficult with the current economic situation.

Shaw Air Force base, home to the Ninth Air Force Headquarters and 20th Fighter Wing, is an integral part of the Sumter community. The headquarters for the Third Army/USARCENT will be relocating to Shaw Air Force Base in May 2011 with construction currently underway for the headquarters building, Patton Hall. This will be a bright spot in the local economy with an estimated 1400 to 1500 jobs coming into Shaw with this relocation.

The fiscal year 2010-2011 budget was adopted with an appropriation of \$31,705,496 for the general fund. There was no increase in the property tax rate for the 2011 budget. Local government funding from the State of South Carolina continues to decrease. Budgeted departmental expenditures were decreased by 3% in the 2011 budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Sumter's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, Post Office Box 1449, Sumter, South Carolina 29151.

BASIC FINANCIAL STATEMENTS

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2010

| | Governmental Activities | Business Type Activities | Total |
|--------------------------------------------------------------|----------------------------|--------------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 6,240,547 | \$ 8,382,956 | \$ 14,623,503 |
| Receivables, net of allowance for doubtful accounts | 4,748,963 | 3,759,963 | 8,508,926 |
| Inventories | 280,627 | - | 280,627 |
| Prepaid items | 298,261 | - | 298,261 |
| Property held for resale | 1,418,202 | - | 1,418,202 |
| Interest in joint venture | - | 200,000 | 200,000 |
| Deferred charges – bond issuance costs, net | - | 576,361 | 576,361 |
| Restricted cash and cash equivalents | 2,851,915 | 3,835,531 | 6,687,446 |
| Receivables, non-current portion | 164,185 | 662,556 | 826,741 |
| Due from others | 35,072 | - | 35,072 |
| Capital assets not being depreciated | 9,929,976 | 1,260,131 | 11,190,107 |
| Capital assets, depreciable, net of accumulated depreciation | 34,865,016 | 77,748,346 | 112,613,362 |
| Total assets | <u>60,832,764</u> | <u>96,425,844</u> | <u>157,258,608</u> |
| Liabilities | | | |
| Liabilities payable from restricted assets: | | | |
| Accrued interest payable | 177,507 | 159,725 | 337,232 |
| Retainage payable | - | 35,686 | 35,686 |
| Accounts payable | 1,188,281 | 627,183 | 1,815,464 |
| Accrued salaries and payroll withholdings | 1,006,672 | 149,439 | 1,156,111 |
| Due to others | 919,703 | - | 919,703 |
| Court bonds and confiscated funds payable | 116,601 | - | 116,601 |
| Customer deposits | - | 264,026 | 264,026 |
| Unearned revenue | 999,253 | - | 999,253 |
| Other post employment benefits payable | 27,698 | - | 27,698 |
| Noncurrent liabilities: | | | |
| Due within one year | 2,378,309 | 1,883,050 | 4,261,359 |
| Due in more than one year | 8,400,254 | 39,139,258 | 47,539,512 |
| Total liabilities | <u>15,214,278</u> | <u>42,258,367</u> | <u>57,472,645</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 38,855,105 | 41,013,302 | 79,868,407 |
| Restricted for debt service | - | 1,188,369 | 1,188,369 |
| Unrestricted | 6,763,381 | 11,965,806 | 18,729,187 |
| Total net assets | <u>\$ 45,618,486</u> | <u>\$ 54,167,477</u> | <u>\$ 99,785,963</u> |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--------------------------------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|-------------------------------------------------|--------------------------|----------------------|
| | Expenses | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Government activities: | | | | | | | |
| General government administration | \$ 4,506,622 | \$ 156,606 | \$ 1,032,293 | \$ - | \$ 3,317,723 | | \$ 3,317,723 |
| Public safety and law enforcement | 16,793,744 | 4,146,327 | 119,198 | 1,013,575 | 11,514,644 | | 11,514,644 |
| Public works | 6,031,735 | 2,175,180 | 2,089 | 1,502,354 | 2,352,112 | | 2,352,112 |
| Parks, recreation and culture | 2,973,471 | 235,540 | 7,416 | 6,368,764 | (3,638,249) | | (3,638,249) |
| Community development | 626,765 | - | 388,862 | 70,480 | 167,423 | | 167,423 |
| Economic development | 1,671,805 | 219,991 | 477,943 | 1,160,695 | (186,824) | | (186,824) |
| Interest on long-term debt | 342,732 | - | - | - | 342,732 | | 342,732 |
| Total governmental activities | 32,946,874 | 6,933,644 | 2,027,801 | 10,115,868 | 13,869,561 | | 13,869,561 |
| Business-type activities: | | | | | | | |
| Water and sewer | 16,062,841 | 18,654,564 | - | - | | (2,591,723) | (2,591,723) |
| Total business-type activities | 16,062,841 | 18,654,564 | - | - | - | (2,591,723) | (2,591,723) |
| Total | \$ 49,009,715 | \$ 25,588,208 | \$ 2,027,801 | \$ 10,115,868 | \$ 13,869,561 | \$ (2,591,723) | \$ 11,277,838 |
| General revenues: | | | | | | | |
| Property taxes | | | | | 12,762,373 | - | 12,762,373 |
| Franchise taxes and business licenses | | | | | 7,642,629 | - | 7,642,629 |
| Local Accommodations taxes | | | | | 354,538 | - | 354,538 |
| Local Hospitality taxes | | | | | 1,932,113 | - | 1,932,113 |
| Grants and contributions not restricted to specific programs | | | | | 1,090,927 | - | 1,090,927 |
| Gain on sale of capital assets | | | | | 262,829 | | 262,829 |
| Unrestricted interest income | | | | | 19,598 | 72,047 | 91,645 |
| Other | | | | | 61,039 | - | 61,039 |
| Transfers | | | | | 841,087 | (841,087) | - |
| Total general revenues and transfers | | | | | 24,967,133 | (769,040) | 24,198,093 |
| Change in net assets | | | | | 11,097,572 | 1,822,683 | 12,920,255 |
| Net assets - beginning of year restated | | | | | 34,520,914 | 52,344,794 | 86,865,708 |
| Net assets - end of year | | | | | <u>\$ 45,618,486</u> | <u>\$ 54,167,477</u> | <u>\$ 99,785,963</u> |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

| | General Fund | Special Revenue Fund | Total Governmental Funds |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------------------|--------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 4,922,861 | \$ 1,317,686 | \$ 6,240,547 |
| Receivables, net of allowance for doubtful accounts | 2,126,943 | 2,786,205 | 4,913,148 |
| Due from other funds | 599,516 | - | 599,516 |
| Restricted cash and cash equivalents | 2,851,915 | - | 2,851,915 |
| Inventories | 280,027 | 600 | 280,627 |
| Prepaid items | 298,261 | - | 298,261 |
| Property held for resale | 1,418,202 | - | 1,418,202 |
| Total assets | \$ 12,497,725 | \$ 4,104,491 | \$ 16,602,216 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 840,033 | \$ 348,248 | \$ 1,188,281 |
| Accrued salaries and payroll withholdings | 971,216 | 35,456 | 1,006,672 |
| Due to Sumter County | 78,042 | - | 78,042 |
| Unearned revenue | 459,727 | 270,141 | 729,868 |
| Deferred revenue | 720,539 | 107,377 | 827,916 |
| Escrow for seized funds | - | 116,601 | 116,601 |
| Due to other funds | 841,661 | 564,444 | 1,406,105 |
| Total liabilities | 3,911,218 | 1,442,267 | 5,353,485 |
| Fund Balances: | | | |
| Reserved for: | | | |
| Inventories | 280,027 | 600 | 280,627 |
| Prepaid items | 298,261 | - | 298,261 |
| Property held for resale | 1,418,202 | - | 1,418,202 |
| Notes receivable | - | 1,671,000 | 1,671,000 |
| Unreserved, undesignated, reported in: | | | |
| General fund | 6,590,017 | - | 6,590,017 |
| Special revenue funds | - | 990,624 | 990,624 |
| Total fund balances | 8,586,507 | 2,662,224 | 11,248,731 |
| Total liabilities and fund balances | \$ 12,497,725 | \$ 4,104,491 | |
| Amounts reported for government activities in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | | | 44,794,992 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds: | | | |
| Property taxes | | | 558,531 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported in the funds: | | | |
| Accrued compensated absences | | | (1,986,761) |
| Other post-employment benefits | | | (27,698) |
| Accrued interest | | | (177,507) |
| Bonds and leases payable | | | (8,791,802) |
| Net assets of governmental activities | | | \$ 45,618,486 |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

| | General Fund | Special Revenue Fund | Debt Service Fund | Total Governmental Funds |
|-----------------------------------------------------------|-------------------|----------------------------|-------------------------|--------------------------------|
| Revenues | | | | |
| Taxes - | | | | |
| Property and vehicle and fire fees | \$ 12,609,192 | \$ - | \$ - | \$ 12,609,192 |
| Sales | - | 2,286,651 | - | 2,286,651 |
| Licenses, permits, and franchise fees | 7,907,008 | 547,687 | - | 8,454,695 |
| Intergovernmental revenue | | | | |
| State and federal governments | 1,245,012 | 2,444,891 | - | 3,689,903 |
| Local governments | 10,871,490 | - | - | 10,871,490 |
| Charges for services | | | | |
| Sanitation fees and container rentals | 2,175,180 | - | - | 2,175,180 |
| Other | 337,793 | - | - | 337,793 |
| Fines, fees, and forfeitures | 294,628 | 151,976 | - | 446,604 |
| Interest income | 18,371 | 106,097 | - | 124,468 |
| Other | 66,899 | 121,354 | - | 188,253 |
| Total revenues | <u>35,525,573</u> | <u>5,658,656</u> | <u>-</u> | <u>41,184,229</u> |
| Expenditures | | | | |
| Current | | | | |
| General government administration | 4,302,085 | - | - | 4,302,085 |
| Public safety and law enforcement | 14,759,488 | 643,011 | - | 15,402,499 |
| Public works | 4,387,092 | 2,089 | - | 4,389,181 |
| Parks, recreation and culture | 1,998,475 | 313,642 | - | 2,312,117 |
| Community development | - | 489,124 | - | 489,124 |
| Economic development | 794,270 | 479,612 | - | 1,273,882 |
| Debt Service | | | | |
| Principal retirement-bond obligations | 637,309 | 127,084 | - | 764,393 |
| Principal retirement-capital lease obligations | 558,317 | 609,223 | - | 1,167,540 |
| Interest and fiscal charges | 167,443 | 149,504 | - | 316,947 |
| Capital Outlay | | | | |
| General government administration | 812,886 | - | - | 812,886 |
| Public safety | 657,025 | 924,015 | - | 1,581,040 |
| Public works | 838,780 | 35,600 | - | 874,380 |
| Parks, recreation and culture | 6,309,242 | 850,392 | - | 7,159,634 |
| Community development | - | 70,480 | - | 70,480 |
| Economic development | - | 168,863 | - | 168,863 |
| Total expenditures | <u>36,222,412</u> | <u>4,862,639</u> | <u>-</u> | <u>41,085,051</u> |
| Excess (deficiency) of revenues over (under) expenditures | (696,839) | 796,017 | - | 99,178 |

Continued

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

| | General Fund | Special Revenue Fund | Debt Service Fund | Total Governmental Funds |
|----------------------------------------------|---------------------|----------------------------|-------------------------|--------------------------------|
| Other financing sources (uses) | | | | |
| Transfers in | 2,204,120 | 223,268 | - | 2,427,388 |
| Transfers out | (83,268) | (849,892) | (653,141) | (1,586,301) |
| Sale of capital assets | 262,829 | - | - | 262,829 |
| Proceeds of capital leases | 850,000 | - | - | 850,000 |
| Proceeds of general obligation bonds issued | 2,000,000 | - | - | 2,000,000 |
| Proceeds of notes issued | 700,000 | - | - | 700,000 |
| Total other financing sources | <u>5,933,681</u> | <u>(626,624)</u> | <u>(653,141)</u> | <u>4,653,916</u> |
| Net change in fund balances | 5,236,842 | 169,393 | (653,141) | 4,753,094 |
| Fund balances, beginning of year as restated | <u>3,349,665</u> | <u>2,492,831</u> | <u>653,141</u> | <u>6,495,637</u> |
| Fund balances, end of year | <u>\$ 8,586,507</u> | <u>\$ 2,662,224</u> | <u>\$ -</u> | <u>\$ 11,248,731</u> |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Amounts reported for governmental activities in the statement of activities (page 18) are different because:

Net change in fund balances -- total governmental funds (page 21) \$ 4,753,094

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

| | |
|--------------------------------------------|-------------|
| Capital outlays capitalized | 10,667,283 |
| Depreciation expense not recorded in funds | (4,355,940) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

| | |
|------------------------|-----------|
| Property taxes | 153,181 |
| Donated capital assets | 1,603,120 |

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items:

| | |
|----------------------------|-------------|
| Payments on long-term debt | 1,931,933 |
| Issuance of long-term debt | (3,550,000) |

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 governmental funds:

| | |
|--------------------------------|----------|
| Accrued interest | (18,253) |
| Amortization of bond costs | (7,534) |
| Compensated absences | (51,614) |
| Other post employment benefits | (27,698) |

| | |
|-----------------------------------------------------------|---------------|
| Change in net assets of governmental activities (page 18) | \$ 11,097,572 |
|-----------------------------------------------------------|---------------|

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL -- GENERAL FUND
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget- |
|-------------------------------------------|-------------------|-------------------|-------------------|--------------------------------|
| | Original | Final | | Over (Under) |
| REVENUES | | | | |
| Property taxes | \$ 12,199,864 | \$ 12,199,864 | \$ 12,609,192 | \$ 409,328 |
| Licenses, permits and franchise fees | 8,166,622 | 8,166,622 | 7,907,008 | (259,614) |
| Intergovernmental revenue | | | | |
| State government | 1,273,540 | 1,273,540 | 1,245,012 | (28,528) |
| Local governments | 3,695,044 | 3,995,044 | 10,871,490 | 6,876,446 |
| Charges for services | | | | |
| Sanitation fees and container rentals | 2,275,463 | 2,275,463 | 2,175,180 | (100,283) |
| Other | 198,605 | 198,605 | 337,793 | 139,188 |
| Fines, fees, and forfeitures | 368,350 | 368,350 | 294,628 | (73,722) |
| Interest income | 15,000 | 15,000 | 18,371 | 3,371 |
| Other | 58,257 | 58,257 | 66,899 | 8,642 |
| Total revenues | <u>28,250,745</u> | <u>28,550,745</u> | <u>35,525,573</u> | <u>6,974,828</u> |
| EXPENDITURES | | | | |
| General government administration: | | | | |
| Administration | 1,316,726 | 1,316,726 | 1,448,264 | 131,538 |
| City store | 65,367 | 65,367 | 68,260 | 2,893 |
| Planning | 720,217 | 720,217 | 651,043 | (69,174) |
| Business license department | 206,558 | 206,558 | 208,370 | 1,812 |
| Appropriations to other agencies | 347,525 | 347,525 | 353,769 | 6,244 |
| General insurance | 443,589 | 443,589 | 456,214 | 12,625 |
| Retiree insurance | 906,756 | 906,756 | 782,051 | (124,705) |
| Computer maintenance | 229,803 | 229,803 | 187,013 | (42,790) |
| Miscellaneous | 107,819 | 107,819 | 147,101 | 39,282 |
| Contingency | 450,000 | 450,000 | - | (450,000) |
| | <u>4,794,360</u> | <u>4,794,360</u> | <u>4,302,085</u> | <u>(492,275)</u> |
| Public Safety and Law Enforcement: | | | | |
| Police department | 8,727,679 | 8,727,679 | 8,738,710 | 11,031 |
| Fire department | 5,440,375 | 5,355,895 | 5,046,423 | (309,472) |
| Building inspection | 773,826 | 773,826 | 690,172 | (83,654) |
| Codes Enforcement | 180,082 | 180,082 | 145,861 | (34,221) |
| Municipal Court | 116,331 | 116,331 | 138,322 | 21,991 |
| | <u>15,238,293</u> | <u>15,153,813</u> | <u>14,759,488</u> | <u>(394,325)</u> |
| Public Works: | | | | |
| Engineering | 200,148 | 200,148 | 191,476 | (8,672) |
| Construction | 601,469 | 601,469 | 387,248 | (214,221) |
| Public works | 703,183 | 1,003,183 | 1,037,241 | 34,058 |
| Buildings and grounds maintenance | 13,518 | 13,518 | 18,993 | 5,475 |
| Sanitation | 2,160,714 | 2,193,721 | 1,999,124 | (194,597) |
| Vehicle maintenance | 747,839 | 747,839 | 753,010 | 5,171 |
| | <u>4,426,871</u> | <u>4,759,878</u> | <u>4,387,092</u> | <u>(372,786)</u> |

Continued

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL -- GENERAL FUND
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget- Over (Under) |
|---------------------------------------------------|------------------|--------------|-------------------|---------------------------------------------------|
| | Original | Final | | |
| Parks, recreation and culture | | | | |
| Parks department | 892,200 | 887,680 | 873,745 | (13,935) |
| Gardens department | 606,736 | 606,736 | 619,852 | 13,116 |
| Tennis | 314,536 | 314,536 | 325,151 | 10,615 |
| Pool | 163,462 | 163,462 | 151,790 | (11,672) |
| Opera House | 21,150 | 21,150 | 27,937 | 6,787 |
| | 1,998,084 | 1,993,564 | 1,998,475 | 4,911 |
| Economic Development: | | | | |
| Downtown Program | 256,799 | 256,799 | 164,410 | (92,389) |
| Community promotions | 27,916 | 27,916 | 28,191 | 275 |
| Liberty Center | - | - | 34,866 | 34,866 |
| Hope Centers | 558,235 | 558,235 | 566,803 | 8,568 |
| | 842,950 | 842,950 | 794,270 | (48,680) |
| Debt service | | | | |
| Principal retirement-bond obligations | 1,156,741 | 636,741 | 637,309 | 568 |
| Principal retirement-capital lease obligations | 537,561 | 537,561 | 558,317 | 20,756 |
| Interest and fiscal charges | 178,031 | 178,031 | 167,443 | (10,588) |
| | 1,872,333 | 1,352,333 | 1,363,069 | 10,736 |
| Capital Outlay | | | | |
| General government administration | 14,255 | 2,014,255 | 812,886 | (1,201,369) |
| Public safety | 773,255 | 773,255 | 657,025 | (116,230) |
| Public works | 860,951 | 860,951 | 838,780 | (22,171) |
| Parks, recreation and culture | 278,480 | 278,480 | 6,309,242 | 6,030,762 |
| | 1,926,941 | 3,926,941 | 8,617,933 | 4,690,992 |
| | | | | |
| Total expenditures | 31,099,832 | 32,823,839 | 36,222,412 | 3,398,573 |
| | | | | |
| Excess (deficiency) of revenues over expenditures | (2,849,087) | (4,273,094) | (696,839) | 3,576,255 |
| | | | | |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 1,289,087 | 1,289,087 | 2,204,120 | 915,033 |
| Transfers out | - | - | (83,268) | (83,268) |
| Sale of capital assets | 50,000 | 134,007 | 262,829 | 128,822 |
| Proceeds of capital leases | 990,000 | 850,000 | 850,000 | - |
| Proceeds of general obligation bonds issued | 520,000 | 2,000,000 | 2,000,000 | - |
| Proceeds of notes issued | - | - | 700,000 | 700,000 |
| Total other financing sources (uses) | 2,849,087 | 4,273,094 | 5,933,681 | 1,660,587 |
| | | | | |
| Net change in fund balances | - | - | 5,236,842 | 5,236,842 |
| Fund balances, beginning of year, as restated | 3,349,665 | 3,349,665 | 3,349,665 | - |
| Fund balances, end of year | \$ 3,349,665 | \$ 3,349,665 | \$ 8,586,507 | \$ 5,236,842 |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

Assets

| | |
|--------------------------------------------------------------|-------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 8,382,956 |
| Accounts receivable, net of allowance for uncollectibles | <u>3,759,963</u> |
| Total current assets | <u>12,142,919</u> |
| Non-current assets: | |
| Restricted cash and cash equivalents | 3,835,531 |
| Accounts receivable, net of allowance for uncollectibles | 662,556 |
| Interest in joint venture | 200,000 |
| Deferred charges - bond issuance costs, net | 576,361 |
| Capital assets not being depreciated | 1,260,131 |
| Capital assets, depreciable, net of accumulated depreciation | <u>77,748,346</u> |
| Total non-current assets | <u>84,282,925</u> |
| Total assets | <u>96,425,844</u> |

Liabilities

| | |
|---------------------------------------------|-------------------|
| Current liabilities: | |
| Liabilities payable from restricted assets: | |
| Accrued interest payable | 159,725 |
| Retainage payable | 35,686 |
| Accounts payable | 627,183 |
| Accrued payroll | 149,439 |
| Customer deposits | 264,026 |
| Compensated absences payable | 94,993 |
| Bonds and leases payable - current portion | <u>1,788,057</u> |
| Total current liabilities | <u>3,119,109</u> |
| Non-current liabilities: | |
| Compensated absences payable | 284,978 |
| Bonds and leases payable | <u>38,854,280</u> |
| Total non-current liabilities | <u>39,139,258</u> |
| Total liabilities | <u>42,258,367</u> |

Net Assets

| | |
|-------------------------------------------------|----------------------|
| Invested in capital assets, net of related debt | 41,013,302 |
| Restricted for debt service | 1,188,369 |
| Unrestricted | <u>11,965,806</u> |
| Total net assets | <u>\$ 54,167,477</u> |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER CITY, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

| | |
|-------------------------------------------------|----------------------|
| Operating revenue | |
| Charges for services | |
| Water | \$ 8,877,108 |
| Sewer | 8,177,676 |
| Other operating revenue | <u>1,563,671</u> |
| Total operating revenues | <u>18,618,455</u> |
| | |
| Operating expenses | |
| Salaries and benefits | 4,451,949 |
| Bad debts | 421,789 |
| Utilities | 2,092,038 |
| Other operating expense | 4,210,615 |
| Depreciation | <u>3,042,147</u> |
| Total operating expenses | <u>14,218,538</u> |
| | |
| Operating income(loss) | 4,399,917 |
| | |
| Non-operating revenues (expenses) | |
| Interest expense | (1,844,303) |
| Interest income | 72,047 |
| Gain on sale of capital assets | <u>36,109</u> |
| Total non-operating revenues (expenses) | <u>(1,736,147)</u> |
| | |
| Income before transfers | 2,663,770 |
| | |
| Transfers | |
| Transfers out | <u>(841,087)</u> |
| Change in net assets | 1,822,683 |
| | |
| Total net assets, beginning of year as restated | <u>52,344,794</u> |
| | |
| Total net assets, end of year | <u>\$ 54,167,477</u> |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

| | |
|---------------------------------------------------------------------------------------------------|----------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers and users | \$ 18,264,132 |
| Payments to suppliers | (7,578,935) |
| Payments to employees | (4,455,492) |
| Net Cash Flows Provided by Operating Activities | <u>6,229,705</u> |
| | |
| Cash Flows from Non-capital Financing Activities | |
| Advance to other funds | <u>(841,087)</u> |
| Net Cash Flows Used by Non-Capital Financing Activities | <u>(841,087)</u> |
| | |
| Cash Flows from Capital and Related Financing Activities | |
| Proceeds from disposition of capital assets | 36,109 |
| Purchase and construction of capital assets | (1,611,755) |
| Principal paid on capital debt | (1,671,977) |
| Interest paid on capital debt | (1,855,655) |
| Net Cash Flows Used by Capital Financing Activities | <u>(5,103,278)</u> |
| | |
| Cash Flows from Investing Activities | |
| Interest on cash and cash equivalents | <u>72,047</u> |
| Net Cash Flows Provided by Investing Activities | <u>72,047</u> |
| | |
| Increase in cash and cash equivalents | 357,387 |
| Cash and cash equivalents, beginning of year | <u>11,861,100</u> |
| Cash and cash equivalents, end of year | <u>\$ 12,218,487</u> |
| | |
| Reconciliation of net operating income to net cash flows provided by operating activities: | |
| Operating income | \$ 4,399,917 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation expense | 3,042,147 |
| Amortization | 58,677 |
| Change in current assets and liabilities: | |
| Decrease in accounts receivable | 7,316 |
| Decrease in accrued absences | (14,396) |
| Increase in customer deposits | 24,464 |
| Decrease in accounts payable | (1,299,273) |
| Increase in accrued payroll | 10,853 |
| Net cash flows provided by operating activities | <u>\$ 6,229,705</u> |
| | |
| Non-cash capital financing activities: | |
| Capitalized interest | <u>\$ 46,920</u> |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2010

| | Private Purpose Trusts | Agency Funds |
|----------------------------------|------------------------------|-----------------|
| Assets | | |
| Cash | \$ 9,515 | \$ 842,240 |
| Due from other fund | | 841,661 |
| Receivables | - | 93,813 |
| Total revenues | \$ 9,515 | \$ 1,777,714 |
| Liabilities | | |
| Accounts payable | \$ - | \$ 71,249 |
| Due to other funds | - | 35,072 |
| Due to customers | - | 33,300 |
| Due to other organization | - | 1,638,093 |
| Total liabilities | - | 1,777,714 |
| Net Assets | | |
| Held in trust for other purposes | \$ 9,515 | \$ - |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2010

| Additions | |
|-------------------------------|------------------------|
| Interest | \$ 49 |
| Total additions | <u>49</u> |
| Change in net assets | 49 |
| Net assets, beginning of year | <u>9,466</u> |
| Net assets, end of year | <u><u>\$ 9,515</u></u> |

The accompanying notes are an integral part of these statements.

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Sumter, South Carolina was chartered in 1845 and incorporated in 1976. The City operates under a Council-Administrator form of government which it adopted in 1912. Under this form of government, the City is governed by six council members elected from single-member districts and a mayor elected at large who serves as council chair. The council is the legislative body of the City and has the major responsibility for determining the policies and direction of the municipal government. The City manager reports to Council and is responsible for the City's daily operations.

As required by accounting principles generally accepted in the United States of America (GAAP), basic financial statements of governmental units include not only information about the reporting, (i.e., primary) government but also about component units. Component units are organizations for which the primary government is financially accountable or organizations which are sufficiently significant to the primary government that their exclusion could cause the financial statements to be misleading or incomplete. Based on the applicable criteria, the City has determined it has no component units and that it is not a component unit of another entity. Therefore, the City reports as a primary entity.

B. Government-wide and Fund Financial Statements

Financial statements for governments like that of the City are presented from two perspectives, the government-wide perspective and the fund perspective.

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"). The effect of interfund activity has been removed from these 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.

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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund 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.

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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.

C. Measurement focus, basis of accounting, and financial statement presentation

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, intergovernmental revenues, franchise taxes, licenses, 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 considers property taxes to be available if they are collected within 30 days of the end of the current fiscal period. A 60-day availability period is used for revenue recognition for all other governmental fund revenue with the exception of certain expenditure driven grants for which a one-year availability period is used. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt 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.

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 maintained is 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 Funds) 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 reports two major governmental fund types:

The **General Fund** is the general operating fund of the City and accounts for all revenues and expenditures of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in the General Fund. General operating expenditures, capital improvement costs, and general debt service that are not paid through other funds are paid from the General Fund. The General Fund is a budgeted fund, and any unreserved fund balance is generally considered a resource available for use.

**CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

The *Special Revenue Fund*, the City's second major fund, is used to account for the proceeds of designated specific revenue sources that are restricted by law or administrative actions to expenditures for specified purposes. Special revenue funds consist of the following:

| | | |
|------------------------------------|--------------------------|---------------------|
| USDA Rural Business | Empowerment Zone | Narcotics Fund |
| HUD Section 8 | Main Street Society | Victim's Assistance |
| Federal/State Grants | Airport Commission | Emergency 911 |
| Community Development Block Grants | Local Hospitality Tax | Firemen's Fund |
| CDBG HOME | State Accommodations Tax | Facilities Rental |
| Downtown Loan | Local Accommodations Tax | Leisure Fund |

During the year, the City closed the Facilities Rental and Leisure funds and transferred the remaining net assets to the general fund. Also during the year, the City added the State Accommodations Tax fund to account for State Accommodations tax receipts and expenditures.

For fiscal 2010, the City reports one non-major governmental fund, the Debt Service Fund. As of July 1, 2009, the City determined that its Debt Service Fund was unnecessary and transferred the fund's \$653,141 fund balance to the General Fund.

Proprietary Funds 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 the Financial Accounting Standards Board (FASB) issued prior to December 1, 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 this definition are reported as non-operating revenues and expenses.

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

The City reports the following major enterprise fund:

The **Water and Sewer Fund** is used to account for operations of the City's water and sewer system.

Fiduciary Fund Types include the *Private Purpose Trust Fund* and the *Agency Fund*. These funds are used to account for assets held by the City in a trustee capacity for individuals, other governments, and/or other funds. The private purpose trust fund is used to account for resources legally held in trust. The Agency Fund is generally used to account for miscellaneous assets that the government holds on behalf of others. The Agency Fund is custodial in nature and does not present results of operations.

D. Assets, Liabilities and Net Assets or Equity

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). Short-term advances between funds are accounted for in the appropriate inter-fund receivable and payable accounts as "due to/from" funds.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 47 percent of outstanding property taxes at June 30, 2010.

Taxes on real property are assessed as of January 1, levied the following September, due January 15, and become delinquent March 15. Liens attach to the property at the time the taxes are levied. The levy date for motor vehicle taxes is the first day of the month in which the motor vehicle license expires. These taxes are due by the last day of the same month.

Notes receivable are housing rehabilitation loans which were made under terms of expired Federal grant programs and recorded as receivables with offsetting liabilities under the caption "deferred revenue". Revenue is recognized only when cash is received.

Inventories and Prepaid Items

Inventories are valued at cost using the average cost method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Inventories in the general fund consist of fuel, cleaning and office supplies and promotional items. Payments to vendors that reflect costs applicable to future period are recorded as prepaid items in both the government-wide and the fund financial statements. Prepaid items consist primarily of insurance coverage paid for in advance.

Real Estate Held for Resale

Real estate held for resale is recorded at the lower of cost or its net realizable value.

Restricted Assets

Certain proceeds of general fund bonds and capital leases and enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets

Capital assets include all property, plant, equipment, vehicles, furniture, and infrastructure assets acquired or constructed. Capital assets are defined by the government as assets with a unit cost in excess of \$5,000 and an estimated useful life in excess of one year. These assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

**CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred (net of interest earned for tax exempt debt) is capitalized during the construction of qualifying assets. Construction in progress represents funds expended for construction of capital assets which have not yet been placed into service.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| <u>Asset</u> | <u>Years</u> |
|----------------------------|--------------|
| Machinery and equipment | 3 to 10 |
| Vehicles | 5 to 10 |
| Buildings and improvements | 15 to 40 |
| Water and sewer systems | 40 to 75 |
| Infrastructure | 10 to 20 |

Capitalized Interest

Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset being constructed. Interest is not capitalized on assets acquired by gifts and grants that are restricted by the donor or grantor to the acquisition of those assets. The City does not capitalize interest on fixed assets used in governmental activities. During the year ended June 30, 2010, capitalized interest incurred for the Water and Sewer Enterprise Fund was \$46,920.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period, that is, when assets are recognized before revenue recognition criteria have been met. In subsequent periods, when revenue recognition criteria have been met, the liability is removed and the revenue is recognized.

Compensated Absences

City employees may accumulate up to 90 days of earned but unused sick leave, but the City does not pay employees separating from service for unused sick leave. Fire suppression employees may carry forward a maximum of 900 unused vacation hours from one year to the next, and other employees may carry forward up to 600 such hours. Employees who terminate employment with the City prior to retirement can be paid for up to 24 days of unused vacation, provided they work a two week notice and have not been discharged for disciplinary reasons. In the year of their retirement from service with the city, employees may use up to 30 days of annual leave and be paid for up to 45 days of unused annual leave. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only when they mature because an employee resigns or retires.

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the lives of the bonds using the straight line method which approximates the effective interest rate. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Governmental Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by an outside party for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

The City's net assets are classified as follows:

- *Invested in capital assets:* This represents the City's total investment in capital assets, net of any outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets.
- *Restricted net assets:* Restricted net assets include resources in which the City is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties such as state laws and lenders.
- *Unrestricted net assets:* Unrestricted net assets represent resources which may be used to meet current expenses for any purpose.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted for the general fund, the Hospitality Tax and Accommodations Tax special revenue funds, and the water and sewer enterprise fund. The general fund and the two special revenue funds budgets are prepared on a basis consistent with generally accepted accounting principles. The City administrator prepares the budget which is presented to City Council for review and approval. The Council holds public hearings and adopts the budget no later than June 30. The appropriated budget is prepared by fund, function, department, activity and object and can be amended throughout the year by City Council approval. The City Manager may make transfers of appropriations within and among functions and funds. The legal level of budgetary control is total expenditures for the four budgeted funds on an individual basis. All annual appropriations lapse at fiscal year end.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2010, expenditures exceeded appropriations by \$3,398,573 in the general fund. The over-expenditures were funded by revenue which exceeded budgeted amounts by \$6,974,828.

C. Fund Deficit

At June 30, 2010, the Firemen's Special Revenue Fund had a deficit of \$17,495.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

It is the City's policy to follow South Carolina state law applicable to local government deposits and investments. This policy limits investments to: (1) obligations of the United States and agencies thereof; (2) general obligations of the State of South Carolina or any of its political units; (3) savings and loan association deposits to the extent insured by the Federal Deposit Insurance Corporation (FDIC); (4) certificates of deposits and repurchase agreements

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

collateralized by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, at a market value not less than the amount of certificates of deposit and repurchase agreements so secured, including interest; and (5) no load open and closed-end portfolios of certain investment companies with issues of the US Government.

At June 30, 2010, all City deposits were held in commercial banks or in the Local Government Investment Pool maintained by the South Carolina Treasurer's Office (the Pool). The South Carolina State Treasurer's Office established the Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies held by county treasurers or other South Carolina political subdivisions which exceed current needs may be deposited. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but which has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are carried at fair value determined annually based on quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00

Cash deposits are subject to custodial credit risk, which, in the case of deposits, is the risk that in the event of a bank failure, the City's deposits may not be returned to it. It is the City's policy is to obtain adequate collateralization on all deposits that exceed FDIC insurance coverage. As of June 30, 2010, the City had cash on hand of \$3,625 and cash deposits in demand and certificate of deposit accounts totaling \$6,979,914. Of the deposit amounts, \$1,503,605 was covered by FDIC insurance, and the remainder was collateralized by federal agency securities held by a third party agent in the City's name.

At year end, the Local Government Investment Pool held \$14,843,873 for the City which was subject to the following risks:

Custodial credit risk. In the case of the Pool, there is the risk that, in the event of the failure of the counter party, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. As of June 30, 2010, all investments in the State Treasurer's investment pool were collateralized by underlying securities held by third party financial institutions for the investment pool.

Interest rate risk. Interest rate risk is the risk that fair value may decline when interest rates decline. Such risk can be mitigated by placing money only in instruments with short-term maturities. The Local Government Investment Pool and short term certificates of deposit meet this criterion.

Credit risk. Credit risk is the risk that investment principal may not be recovered if issuers of the investment securities fail. The State Treasurer's investment pool is not rated, but generally, investments in the State Treasurer's investment pool are collateralized by debt securities in corporate obligations, state or political subdivision obligations of investment grade or higher quality and in federal agency securities.

Concentration of Credit Risk. Investments which are concentrated in only a few securities or industries are subject to concentration of credit risk. Concentration of credit risk is limited as regards investment in the State Treasurer's investment pool via allocation of investments over a broad range of securities

B. Receivables

Receivables as of year end for the government's individual major funds, including the applicable allowances for

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

uncollectible accounts are as follows:

| | General Fund | Special Revenue Fund | Water and Sewer Fund | Total |
|------------------------------------|---------------------|----------------------------|----------------------------|---------------------|
| Current: | | | | |
| Taxes | | | | |
| Property | \$ 1,188,824 | \$ - | \$ - | \$ 1,188,824 |
| Sales | - | 219,545 | - | 219,545 |
| Intergovernmental | | | | |
| Federal | 34,211 | 425,934 | - | 460,145 |
| State | 991,959 | 96,524 | - | 1,088,483 |
| Local | 180,605 | 58,605 | 1,436 | 240,646 |
| Accounts | 115,536 | 5,650 | 2,976,888 | 3,098,074 |
| Unbilled receivables | - | - | 881,220 | 881,220 |
| Loans and notes | 132,437 | 1,778,377 | 42,240 | 1,953,054 |
| Other | 41,880 | 37,385 | 80,233 | 159,498 |
| Non-current: | | | | |
| Intergovernmental | - | 164,185 | - | 164,185 |
| Notes | - | - | 457,650 | 457,650 |
| Other | - | - | 204,906 | 204,906 |
| Gross receivables | 2,685,452 | 2,786,205 | 4,644,573 | 10,116,230 |
| Less, allowance for uncollectibles | (558,509) | - | (222,054) | (780,563) |
| Net total receivables | <u>\$ 2,126,943</u> | <u>\$ 2,786,205</u> | <u>\$ 4,422,519</u> | <u>\$ 9,335,667</u> |

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. At year end, deferred and unearned revenue reported in the governmental funds was as follows:

| | Deferred | Unearned |
|--------------------------------------------------------------|-------------------|-------------------|
| Delinquent property taxes and fees receivable (general fund) | \$ 558,531 | \$ - |
| Loans receivable (general fund) | 162,008 | - |
| Local Option Sales Tax (general fund) | - | 440,628 |
| Other (general fund) | - | 19,099 |
| Loans receivable (special revenue fund) | 107,377 | - |
| Unearned grant revenue (special revenue fund) | - | 270,141 |
| | <u>\$ 827,916</u> | <u>\$ 729,868</u> |

C. Capital Assets

Capital asset activity for the City for the year ended June 30, 2010 was as follows:

| Restated Beginning | Ending |
|-----------------------|--------|
|-----------------------|--------|

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

| | Balance | Increases | Decreases | Balance |
|----------------------------------------------|---------------|---------------|---------------|---------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,120,524 | \$ 6,487,690 | \$ - | 9,608,214 |
| Construction in progress | 2,770,783 | 281,120 | 2,730,141 | 321,762 |
| Total capital assets not being depreciated | 5,891,307 | 6,768,810 | 2,730,141 | 9,929,976 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 23,765,928 | 4,734,408 | - | 28,500,336 |
| Buildings and improvements | 19,937,701 | 515,644 | - | 20,453,345 |
| Motor vehicles and outdoor equipment | 13,485,589 | 2,940,573 | 825,259 | 15,600,903 |
| Office equipment | 3,129,340 | 41,109 | - | 3,170,449 |
| Total capital assets being depreciated | 60,318,558 | 8,231,734 | 825,259 | 67,725,033 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | 9,477,848 | 1,903,186 | - | 11,381,034 |
| Buildings and improvements | 7,894,078 | 704,731 | - | 8,598,809 |
| Motor vehicles and outdoor equipment | 9,287,578 | 1,352,125 | 825,259 | 9,814,444 |
| Office equipment | 2,669,832 | 395,898 | - | 3,065,730 |
| Total accumulated depreciation | 29,329,336 | 4,355,940 | 825,259 | 32,860,017 |
| Total capital assets being depreciated, net | 30,989,222 | 3,875,794 | - | 34,865,016 |
| Governmental activities capital assets, net | \$ 36,880,529 | \$ 10,644,604 | \$ 2,730,141 | \$ 44,794,992 |
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 240,938 | \$ - | \$ - | 240,938 |
| Construction in progress | 28,674,081 | 630,011 | 28,284,899 | 1,019,193 |
| Total capital assets not being depreciated | 28,915,019 | 630,011 | 28,284,899 | 1,260,131 |
| Capital assets being depreciated: | | | | |
| Buildings | 493,653 | - | - | 493,653 |
| Plants and improvements | 41,826,242 | 28,440,766 | 14,002 | 70,253,006 |
| Distribution and collection system | 43,615,619 | 281,112 | 41,667 | 43,855,064 |
| Wells and tanks | 4,693,055 | - | 298,666 | 4,394,389 |
| Machinery and equipment | 6,999,150 | 544,769 | - | 7,543,919 |
| Total capital assets being depreciated | 97,627,719 | 29,266,647 | 354,335 | 126,540,031 |
| Less accumulated depreciation for: | | | | |
| Buildings | 259,167 | 12,341 | - | 271,508 |
| Plants and improvements | 24,255,341 | 1,760,137 | 14,002 | 26,001,476 |
| Distribution and collection system | 13,006,290 | 707,603 | 41,667 | 13,672,226 |
| Wells and tanks | 2,988,513 | 84,585 | - | 3,073,098 |
| Machinery and equipment | 5,594,562 | 477,481 | 298,666 | 5,773,377 |
| Total accumulated depreciation | 46,103,873 | 3,042,147 | 354,335 | 48,791,685 |
| Total capital assets being depreciated, net | 51,523,846 | 26,224,500 | - | 77,748,346 |
| Business-type activities capital assets, net | \$ 80,438,865 | \$ 26,854,511 | \$ 28,284,899 | \$ 79,008,477 |

Depreciation expense was charged to functions/programs of the primary government as follows:

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| | |
|-------------------------------------------------------|---------------------|
| Governmental activities: | |
| General government | \$ 157,850 |
| Public safety | 1,348,330 |
| Public works | 1,646,967 |
| Parks, recreation and culture | 664,659 |
| Community development | 137,641 |
| Economic development | 400,493 |
| Total depreciation expense - governmental activities | <u>\$ 4,355,940</u> |
| Business-type activities: | |
| Water and sewer services | <u>\$ 3,042,147</u> |
| Total depreciation expense - business type activities | <u>\$ 3,042,147</u> |

Construction commitments at year end included a contract totaling \$712,925 for improvements to the City's water system. At June 30, 2010, \$320,860 remained to be billed on the contract and retainage payable was \$35,686.

D. Long-Term Obligations

Changes in long-term obligation for the year ended June 30, 2010 for both the City's governmental activities and business-type activities were as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 1,712,336 | \$ 2,000,000 | \$ 551,258 | \$ 3,161,078 | \$ 482,383 |
| TIF bonds | 1,006,273 | - | 147,135 | 859,138 | 154,929 |
| Notes payable | 1,725,000 | 700,000 | 66,000 | 2,359,000 | 421,000 |
| Capital leases | 2,730,126 | 850,000 | 1,167,540 | 2,412,586 | 823,307 |
| Compensated absences | 1,935,147 | 781,640 | 730,026 | 1,986,761 | 496,690 |
| Governmental activity long-term liabilities | <u>\$ 9,108,882</u> | <u>\$ 4,331,640</u> | <u>\$ 2,661,959</u> | <u>\$ 10,778,563</u> | <u>\$ 2,378,309</u> |
| Business-type activities: | | | | | |
| Revenue bonds | \$ 36,320,761 | - | \$ 1,012,016 | \$ 35,308,745 | \$ 1,050,589 |
| Notes payable | 6,017,435 | - | 683,843 | 5,333,592 | 713,588 |
| Compensated absences | 394,367 | 161,163 | 175,559 | 379,971 | 94,993 |
| Business-type activity long-term liabilities | <u>\$ 42,732,563</u> | <u>\$ 161,163</u> | <u>\$ 1,871,418</u> | <u>\$ 41,022,308</u> | <u>\$ 1,859,170</u> |

General Obligation Bonds Payable. The City has issued general obligation bonds to provide for construction and purchase of capital assets used in carrying out its governmental activities. General obligation bonds have been issued only for general government activities. General obligation bonds are direct obligations and pledge the City's full faith and credit. General obligation bonds outstanding as of yearend are as follows:

| | |
|---------------------------------------------------------------------------------------------------------------------------|-----------|
| \$300,000, Series 2000, payable in annual installments of \$39,548, including interest at 5.369%, maturing August 2010 | \$ 37,533 |
|---------------------------------------------------------------------------------------------------------------------------|-----------|

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
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| | |
|-----------------------------------------------------------------------------------------------------------------------------------|--------------|
| \$550,000 Series 2001, payable in annual installments of \$69,988 including interest at 4.64%, maturing August 2011 | 130,803 |
| \$500,000 Series 2005, payable in annual installments of \$66,812 including interest at 5.65%, maturing April 2015 | 284,136 |
| \$1,500,000 Series 2006, payable in annual installments of 180,090 including interest at 3.7%, maturing May 2015 | 808,606 |
| \$2,000,000 Series 2010, payable in annual installments varying from \$247,436 to \$255,773 including interest at 3.63%, May 2019 | 1,900,000 |
| Total General Obligation Bonds | \$ 3,161,078 |

Tax Increment Financing (TIF) Bonds Payable. The City has issued a tax increment financing (TIF) bond to pay for downtown redevelopment projects. These bonds will be retired from the incremental increase in property tax revenue from the applicable redevelopment area. The bonds are also collateralized by a junior lien pledge of the gross revenues of the water and sewer system. The TIF bond outstanding as of year end was:

| | |
|-----------------------------------------------------------------------------------------------------------------|------------|
| \$2,000,000 TIF bond payable in annual installments of \$199,343 including interest at 5.1%, maturing June 2015 | \$ 859,138 |
|-----------------------------------------------------------------------------------------------------------------|------------|

Notes Payable. The City has issued notes to finance various development projects. Notes payable at year end were as follows:

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| \$1,000,000 note payable to the US Department of Housing and Urban Development in annual installments ranging from \$41,000 to \$77,000 including interest at 4.5%, maturing August 2023 | \$ 857,000 |
| \$843,000 note payable in annual installments to the US Department of Housing and Urban Development in annual installments ranging from \$30,000 to \$69,000 including interest at 4.5%, maturing August 2026 | 802,000 |
| \$700,000 note payable to an individual in annual installments of \$350,000 including interest, maturing October 2011 | 700,000 |
| Total Notes Payable | \$ 2,359,000 |

Revenue Bonds Payable. The City has issued revenue bonds to finance construction and expansion of the water and sewer system. These bonds are secured by liens on and pledges of water and sewer revenue net of system operating and maintenance costs. Revenue bonds outstanding at year end were as follows:

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| \$6,015,000 Series 1999, payable in annual installments varying from \$134,343 to \$1,015,663 including interest varying from 4.5% to 5.25%, maturing June 2019 | \$ 2,100,000 |
| \$815,000 Series 2000, payable in annual installments of \$65,768 including interest at 5.29%, maturing June 2020 | 500,672 |
| \$2,000,000 Series 2005, payable in annual installments of \$238,910 including interest at 3.37%, maturing June 2015 | 1,082,672 |
| \$31,855,000 Series 2007, payable in annual installments varying from \$808,882 to \$2,165,000 including interest varying from 4 to 5%, maturing December 2032 | 31,625,401 |

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

| | |
|--|---------------|
| | \$ 35,308,745 |
|--|---------------|

South Carolina Revolving Loan Fund Notes Payable. The City has issued notes payable to the South Carolina Revolving Loan Fund to finance construction and expansion of the water and sewer system. These notes are secured by a lien on and pledge of water and sewer revenue and, in case of default, state aid to which the City may be entitled. Notes payable at year end were as follows:

| | |
|-------------------------------------------------------------------------------------------------------------------------|--------------|
| \$1,204,056 1992 note payable in quarterly installments of \$22,975 including interest at 4.5%, maturing November 2011 | \$ 132,581 |
| \$11,243,345 1995 note payable in quarterly installments of \$209,335 including interest at 4.25%, maturing August 2017 | 5,201,011 |
| Total South Carolina Revolving Loan Funds Notes Payable | \$ 5,333,592 |

Capital Leases. The City has entered into lease agreements to finance acquisition of buildings, vehicles and heavy equipment and office equipment used in governmental activities. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date as follows:

| Year Ending June 30, | Governmental Activities |
|-----------------------------------------|----------------------------|
| 2011 | \$ 823,307 |
| 2012 | 543,950 |
| 2013 | 561,268 |
| 2014 | 318,403 |
| 2015 | 165,658 |
| 2012 | - |
| Thereafter | - |
| Total minimum lease payments | 2,412,586 |
| Less: amount representing interest | (154,793) |
| Present value of minimum lease payments | \$ 2,257,793 |

The assets acquired through capital leases are as follows:

| | Governmental Activities |
|--------------------------------------|----------------------------|
| Asset: | |
| Buildings and improvements | \$ 2,795,490 |
| Motor vehicles and outdoor equipment | 2,430,908 |
| Less: accumulated depreciation | (1,643,803) |
| Total | \$ 3,582,595 |

Summary of Debt Service Requirements. Following is a summary of debt service requirements to maturity by year for the governmental and business-type activities:

| | |
|------|---------------------------|
| Debt | Capital Lease Obligations |
|------|---------------------------|

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

| Year Ending June 30, | Principal | Interest | Principal | Interest | Totals |
|---------------------------------|----------------------|----------------------|---------------------|-------------------|----------------------|
| <u>Governmental Activities</u> | | | | | |
| 2011 | \$ 1,058,312 | \$ 254,058 | \$ 823,307 | \$ 70,839 | \$ 2,206,516 |
| 2012 | 1,049,183 | 222,752 | 543,950 | 44,626 | 1,860,511 |
| 2013 | 665,438 | 192,091 | 561,268 | 27,307 | 1,446,104 |
| 2014 | 694,548 | 162,813 | 318,403 | 9,546 | 1,185,310 |
| 2015 | 729,735 | 132,197 | 165,658 | 2,475 | 1,030,065 |
| 2016-2020 | 1,468,000 | 361,619 | - | - | 1,829,619 |
| 2021-2025 | 579,000 | 114,646 | - | - | 693,646 |
| 2026-2027 | 135,000 | 7,867 | - | - | 142,867 |
| Thereafter | - | - | - | - | - |
| Total | <u>\$ 6,379,216</u> | <u>\$ 1,448,043</u> | <u>\$ 2,412,586</u> | <u>\$ 154,793</u> | <u>\$ 10,394,638</u> |
| <u>Business-Type Activities</u> | | | | | |
| 2011 | \$ 1,764,177 | \$ 1,815,446 | \$ - | \$ - | \$ 3,579,623 |
| 2012 | 1,817,840 | 1,743,665 | - | - | 3,561,505 |
| 2013 | 1,885,165 | 1,670,807 | - | - | 3,555,972 |
| 2014 | 1,964,184 | 1,593,589 | - | - | 3,557,773 |
| 2015 | 2,049,840 | 1,512,981 | - | - | 3,562,821 |
| 2016-2020 | 9,299,550 | 6,278,720 | - | - | 15,578,270 |
| 2021-2025 | 6,854,410 | 4,337,500 | - | - | 11,191,910 |
| 2026-2030 | 8,744,409 | 2,443,800 | - | - | 11,188,209 |
| 2031-2033 | 6,262,762 | 427,832 | - | - | 6,690,594 |
| Thereafter | - | - | - | - | - |
| Total | <u>\$ 40,642,337</u> | <u>\$ 21,824,340</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 62,466,677</u> |

E. Inter-fund Receivables and Payables

Inter-fund balances arise because the City utilizes a cash pool to maximize potential interest earnings. Inter-fund balances at June 30, 2010 were:

| Receivable Fund | Payable Fund | Amount |
|-----------------|----------------------|---------------------|
| General Fund | Special Revenue Fund | \$ 564,444 |
| General Fund | Agency Fund | 35,072 |
| Agency Fund | General Fund | 841,661 |
| | | <u>\$ 1,441,177</u> |

F. Transfers In and Out

During the course of normal operations, the City makes numerous transactions between funds. Transfers of resources from a fund receiving revenue to a fund through which the resources are expended are recorded as transfers and are reported as other financing sources (uses) in the governmental funds and as non-operating revenues (expenses) in proprietary funds.

Transfers into the general fund were primarily to recover overhead and related costs. However, during fiscal 2010, the City closed its debt service fund and the leisure and facilities rental special revenue funds and transferred their balances to the general fund. Transfers to the state accommodations tax fund were made from the general fund and

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

from the local accommodations tax fund to support tourism promotion. The general fund transferred funds to the airport fund to cover costs in that fund.

Transfers between funds for the year ended June 30, 2010, consisted of the following:

| Fund | Transfers In | Transfers Out |
|--------------------------|--------------|---------------|
| General Fund | \$ 2,204,120 | |
| Water and Sewer | | \$ 841,087 |
| Debt Service | | 653,141 |
| Special Revenue | | |
| Local Hospitality Tax | | 383,000 |
| Local Accommodations Tax | | 65,000 |
| Empowerment Zone | | 97,598 |
| Leisure | | 13,650 |
| Facilities Rental | | 150,644 |
| | | 709,892 |
| | 2,204,120 | 709,892 |
| General Fund | | 83,268 |
| Special Revenue | | |
| State Accommodations Tax | 76,295 | |
| Airport Commission | 6,973 | |
| | 83,268 | 83,268 |
| Special Revenue | | |
| Local Accommodations Tax | | 140,000 |
| State Accommodations Tax | 140,000 | |
| Totals | \$ 2,427,388 | \$ 2,427,388 |

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and job related illnesses and accidents. The City carries insurance for these risks of loss. Premiums for workers' compensation are paid to a public entity risk pool. The public entity risk pool promises to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There has been no significant reduction in coverage and amounts of settlements have not exceeded coverage in any of the last three years.

The City is also subject to risks of loss from providing health, life, accident, dental, and other medical benefits to employees, retirees, and their dependents. The City has enrolled substantially all its employees in the State's health insurance plans administered by the South Carolina Budget and Control Board.

B. Pension Plan

City employees participate in either the South Carolina Retirement System (SCRS) or the South Carolina Police Officers Retirement System (PORS), depending on their particular duties. Both plans are administered by the South Carolina Retirement System and are classified as cost-sharing multiple-employer, Public Employee Retirement Systems (PERS). SCRS and PORS provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions for SCRS are established pursuant to Section 9-

**CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

1-20 of the 1976 South Carolina Code of Laws. Benefit provisions for PORS are established pursuant to Section 9-11-20 of the Code of Laws. The South Carolina Retirement System issues a publicly available stand-alone report, which may be obtained by writing to South Carolina Retirement Systems, P.O. Box 11960, Columbia, South Carolina 29211 or by calling 803-737-6800.

SCRS and PORS members are required to contribute 6.5%, of their annual covered salaries, and the City is required to contribute at an actuarially determined rate. The current rates actuarially determined are 9.24% and 10.65% respectively. The contribution requirements of the plan members and the City are established and may be amended by the South Carolina General Assembly.

The City's contributions (which equaled required contributions) to SCRS and PORS for the last three fiscal years were as follows:

| | | <u>SCRS</u> | | <u>PORS</u> |
|------|----|-------------|----|-------------|
| 2010 | \$ | 956,074 | \$ | 831,666 |
| 2009 | | 962,367 | | 839,493 |
| 2008 | \$ | 892,099 | \$ | 817,253 |

C. Deferred Compensation Plans

Certain City employees participate in one of two optional deferred compensation plans which are available to them in conjunction with the State Retirement System. The multiple-employer plans, created under Internal Revenue Code Sections 457 and 401(k) are administered for the State Retirement System by third parties. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate their employment with the City. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

D. Other Post-Employment Benefits

Plan Description

The City's defined benefit postemployment healthcare plan (the plan) provides medical insurance to eligible retirees. Spouses and dependents are not covered. Employees become eligible for full benefits when they have 20 years of service with the City. Employees who retire with at least 15 years of service but less than 20 years are eligible to participate if they pay the full cost of their coverage, including any implicit subsidy. Retirees eligible for disability retirement may participate but must pay their entire premiums. The Plan is approved each year by City Council; the contribution requirements of the City and plan members are established and amended by Council. The contributions are neither guaranteed nor mandatory. Council has retained the right to modify its payments for retiree health care benefits.

As of July 1, 2007, the measurement date for the plan year, there were 544 covered participants; 98 members were retirees receiving benefits and 446 were active participants.

The plan is affiliated with the South Carolina Other Retirement Benefits Employer Trust (SCORBET), an agent multiple employer irrevocable trust administered by the Municipal Association of South Carolina. Each participating employer is responsible for determining the appropriate amount of contributions to remit to the Trust. SCORBET issues a publicly available financial report that includes audited financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to the Chief Financial Officer for Risk Management Services, Municipal Association of South Carolina, P. O. Box 12109, Columbia, South Carolina 29211.

Funding Policy

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
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The City establishes its contribution requirement annually. Retirees participating in the plan are not required to contribute to the cost of coverage. Participants who reached retirement age by July 1, 2007, may receive benefits for life. For participants retiring after July 1, 2007, benefits end at age 65. For fiscal 2010, the City contributed \$618,816 for current premiums and an additional \$429,000 to amortize the unfunded liability.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the requirements of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting for Employers for Post Employment Benefits Other Than Pensions (OPEB)*. The (ARC) is equal to the normal cost plus the amortization of any unfunded actuarial accrued liability. The normal cost represents the annual ongoing cost of the benefits accruing to active participants. The actuarial accrued liability is the portion of the total present value of benefits that is attributable to service up to the date of the valuation. The amount of the actuarially accrued liability in excess of the plan's assets is the unfunded actuarially accrued liability which is amortized over a period not to exceed 30 years. The unfunded actuarially accrued liability is amortized over 30 years starting July 1, 2008. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan and any changes in the City's obligation under the plan:

| | | |
|----------------------------------------------------------|----|----------------------|
| Net liability for OPEB, beginning of year | \$ | - |
| Components of increase for year: | | |
| Interest on unfunded OPEB obligation | | - |
| Normal cost for current year | | 592,000 |
| Amortization of unfunded actuarially accrued liabilities | | <u>429,000</u> |
| Annual required contribution (ARC) for current year: | | 1,021,000 |
| Actual contribution | | <u>(993,302)</u> |
| Net increase in obligation for OPEB | | <u>27,698</u> |
| Net liability for OPEB, end of year | \$ | <u><u>27,698</u></u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and for 2009 (the first year of implementation of GASB Statement 45) were as follows:

| | Annual | Percentage of | Net |
|--------|--------------|---------------|------------|
| Fiscal | OPEB | Annual OPEB | OPEB |
| Year | Cost | Contributed | Obligation |
| 2009 | \$ 991,000 | 100.0% | \$ - |
| 2010 | \$ 1,021,000 | 97.3% | \$ 27,698 |

Funded Status and Funding Progress

Based on an actuarial valuation date of July 1, 2007, the funded status of the plan as of year end was as follows:

| | | |
|----------------------------------------|----|-------------------|
| Actuarially accrued liabilities (AAL): | \$ | 13,563,000 |
| Actuarial value of plan assets: | | <u>828,000</u> |
| Unfunded AAL (UAAL): | | <u>12,735,000</u> |
| Funded ratio: | | 6.1% |

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

| | |
|------------------------------------------|---------------|
| Covered payroll: | \$ 13,661,508 |
| UAAL as a percentage of covered payroll: | 93% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (i.e., the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The Projected Unit Credit Cost Method actuarial cost method was used to calculate the ARC, based on an assumed level percent of payroll funding and an assumed 5 percent rate of return on investments for the current year. The assumed general inflation rate was 3 percent. The assumed annual payroll growth was 4 percent. The assumed rate of annual increase in health costs varied from 4.5 to 8.1 percent. The actuarial methods and assumptions and calculations reflect a long-term perspective and are designed to reduce short-term volatility in actuarially accrued liabilities and in the actuarial value of assets

E. Joint Venture

The City's Water and Sewer fund entered into a joint venture arrangement in January 2000 with Black River Development Corporation to develop and construct a commercial building to be held for sale. The City contributed \$200,000 in exchange for a 15% interest in the joint venture. The financial statements for the joint venture are available from the Black River Economic Development Corporation, P O Box 130, Sumter, SC 29151.

F. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute liabilities of the applicable funds. The amount, if any, of expenditures which may be disallowed by a grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

G. Restatement Adjustments

During the year management determined that certain errors were made in prior year ending fund and net asset balances. Adjustments were made as follows:

| | Governmental Funds | | | Total | |
|--------------------------------------------------------|--------------------|-----------------|--------------------|----------------------------|---------------------|
| | General | Debt Service | Special Revenue | Governmental Activities | Total Net Assets |
| Governmental activities: | | | | | |
| Fund balances, beginning of year, as originally stated | \$ 3,515,926 | \$ 583,154 | \$ 2,562,818 | \$ 6,661,898 | |

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

| | | | | | |
|-------------------------------------------------------------------------------------------|---------------------|-------------------|---------------------|-----------|----------------------|
| Restatement adjustments: | | | | | |
| Remove land held for resale disposed of in prior year | (26,606) | - | - | (26,606) | |
| Charge vehicle maintenance expense to correct year | (78,742) | - | - | (78,742) | |
| Remove duplicate receivable from magistrate's court | (60,913) | - | - | (60,913) | |
| Correct fund charged for airport loan payments | - | 69,987 | (69,987) | - | |
| Fund balances, beginning of year, as restated | <u>\$ 3,349,665</u> | <u>\$ 653,141</u> | <u>\$ 2,492,831</u> | 6,495,637 | 6,495,637 |
| Net differences between governmental fund balances and governmental activities net assets | | | | | 28,371,038 |
| Restatement adjustments | | | | | |
| Remove land held for resale from capital assets | | | | | <u>(345,761)</u> |
| Net assets, governmental activities, restated | | | | | <u>34,520,914</u> |
| Business-type activities: | | | | | |
| Net assets, beginning of the year, business-type activities-proprietary fund | | | | | 52,867,466 |
| Restatement adjustment: | | | | | |
| Correct accumulated amortization of bond premium | | | | | 47,765 |
| Remove error in beginning capital assets balances | | | | | <u>(570,437)</u> |
| Net assets, beginning of the year, business-type activities, restated | | | | | <u>52,344,794</u> |
| Total net assets, beginning of year, restated | | | | | <u>\$ 86,865,708</u> |

H. New Accounting Pronouncements

As of July 1, 2010, the City will implement Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which revises fund definitions and establishes new fund balance classifications based on the extent to which a government is bound to honor constraints imposed on the use of resources reported in governmental funds.

I. Subsequent Event

Management has evaluated subsequent events through December 2, 2010 the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SUMTER, SOUTH CAROLINA
 REQUIRED SUPPLEMENTARY INFORMATION –
 SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS – OTHER POSTEMPLOYMENT
 BENEFITS –DEFINED BENEFIT HEALTH CARE PLAN
 For the Year Ended June 30, 2010**

Schedule of Funding Progress

| Fiscal Year | Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial accrued liability (AAL) (b) | Total unfunded actuarial liability (UAAL) (b)-(a) | Actuarial value of assets as percentage of actuarial accrued liability (Funded Ratio) (a/b) | Annual Covered Payroll (c) | UAAL as a percentage of covered payroll ((b-a)/c) |
|----------------|--------------------------------|------------------------------------------------|---------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------|
| | | | | | | | |
| 2009 | 7/1/2007 | \$ 399,000 | \$ 13,563,000 | \$ 13,164,000 | 2.9% | \$ 13,263,600 | 99.2% |
| 2010 | 7/1/2007 | \$ 828,000 | \$ 13,563,000 | \$ 12,735,000 | 6.1% | \$ 17,860,201 | 71.3% |

Schedule of Employer Contributions

| Fiscal Year | Annual Required Contribution | Actual Contribution | Annual Percentage Contributed |
|----------------|------------------------------------|------------------------|-------------------------------------|
| 2009 | \$ 991,000 | \$ 991,000 | 100.0% |
| 2010 | \$ 1,021,000 | \$ 993,302 | 97.3% |

Fiscal 2009 was the year of implementation of GASB Statement No. 45 applicable to policies allowing retirees to participate in a government’s health insurance plan. The City has elected to implement the standard prospectively. Accordingly, data for prior years which would provide trend information are not available. The City’s next required actuarial valuation will be prepared as of June 30, 2011.

OTHER SUPPLEMENTARY INFORMATION

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are restricted to expenditure for particular purposes. The City uses the following such funds:

USDA Rural Business Fund – Accounts for grant funding and expenditures of a Revolving Loan Fund to revitalize downtown Sumter.

HUD Section 108 Fund – Accounts for a downtown redevelopment project and related financing.

Federal/State Grants Fund – Accounts for federal and state grant funds not accounted for in another fund.

Community Development Block Grants Fund – Accounts for the expenditures of Community Development Block Grants for redevelopment activities.

CDBG Home Fund – Accounts for the City Home Building and Home Rehabilitation Program through Home Funds and related program income.

Downtown Loan Fund – Accounts for Downtown area small business loans.

Empowerment Zone Fund – Accounts for the funding provided to the City for the Empowerment Zone from the US Department of Housing and Urban Development.

Main Street Society Fund – Accounts for revenue provided by Sumter residents and businesses restricted for use in revitalizing downtown Sumter.

Airport Commission Fund – Accounts for the Airport Commission revenues and expenditures.

Local Hospitality Tax Fund – Accounts for the revenues and expenditures of local hospitality tax funds which are restricted to use in promotion of tourism in Sumter.

State Accommodations Tax Fund—Accounts for expenditure of State accommodations tax revenue which are restricted to use in promotion of tourism in Sumter.

Local Accommodations Tax Fund – Accounts for expenditure of local accommodations tax revenue which is restricted to use in promotion of tourism in Sumter.

Narcotics Fund – Accounts for expenditures of revenue restricted to expenditure by the City of Sumter's Police Department Narcotics Unit.

Victim's Assistance Fund - Accounts for revenue restricted for use in the Victim's Assistance Program.

Emergency 911 Fund – Accounts for the expenditures of revenues restricted to Emergency 911 services in the City of Sumter.

Fireman's Fund – Accounts for insurance premium rebates from the State of South Carolina restricted to use by the City's fire department.

Facilities Rental Fund – This fund was terminated as of July 1, 2009.

Leisure Fund – This fund was terminated as of July 1, 2009.

CITY OF SUMTER, SOUTH CAROLINA
COMBINING BALANCE SHEET –SPECIAL REVENUE FUNDS
June 30, 2010

| | USDA Rural Business Fund | HUD Section 108 Fund | Federal/ State Grants Fund | Community Development Block Grant Fund | CDBG Home Fund | Downtown Loan Fund |
|-----------------------------------------------------|-----------------------------------|-------------------------------|-------------------------------------|----------------------------------------------------|----------------------|--------------------------|
| ASSETS | | | | | | |
| Cash | \$ 78,050 | \$ - | \$ 217,240 | \$ - | \$ 337,704 | \$ 14,647 |
| Receivables, net of allowance for doubtful accounts | - | 1,708,018 | 288,903 | 123,044 | 107,744 | - |
| Inventory | - | - | - | - | - | - |
| Total assets | \$ 78,050 | \$ 1,708,018 | \$ 506,143 | \$ 123,044 | \$ 445,448 | \$ 14,647 |
| LIABILITIES AND FUND BALANCES (DEFICITS) | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ - | \$ 44,155 | \$ 230,894 | \$ 24,566 | \$ 53 | \$ - |
| Accrued compensation and benefits | - | - | 5,108 | 12,573 | - | - |
| Due to other funds | - | 145,632 | - | 85,241 | - | - |
| Unearned revenue | - | - | 270,141 | - | - | - |
| Deferred revenue | - | - | - | - | 107,377 | - |
| Escrow for seized funds | - | - | - | - | - | - |
| Total liabilities | - | 189,787 | 506,143 | 122,380 | 107,430 | - |
| Fund balances (deficits) | | | | | | |
| Reserved - notes receivable | - | 1,671,000 | - | - | - | - |
| Reserved for inventory | - | - | - | - | - | - |
| Unreserved | 78,050 | (152,769) | - | 664 | 338,018 | 14,647 |
| Total fund balances (deficits) | 78,050 | 1,518,231 | - | 664 | 338,018 | 14,647 |
| Total liabilities and fund balances (deficits) | \$ 78,050 | \$ 1,708,018 | \$ 506,143 | \$ 123,044 | \$ 445,448 | \$ 14,647 |

Continued

CITY OF SUMTER, SOUTH CAROLINA
COMBINING BALANCE SHEET –SPECIAL REVENUE FUNDS
June 30, 2010

| | Empowerment Zone Fund | Main Street Society Fund | Airport Commission Fund | Local Hospitality Tax Fund | State Accommodations Tax Fund | Local Accommodations Tax Fund |
|-----------------------------------------------------|-----------------------------|-----------------------------------|-------------------------------|-------------------------------------|----------------------------------------|----------------------------------------|
| ASSETS | | | | | | |
| Cash | \$ 100,926 | \$ 12,748 | \$ - | \$ - | \$ - | \$ 186,752 |
| Receivables, net of allowance for doubtful accounts | 1,565 | - | 208,554 | 183,678 | 23,433 | 35,867 |
| Inventory | - | - | - | - | 600 | - |
| Total assets | \$ 102,491 | \$ 12,748 | \$ 208,554 | \$ 183,678 | \$ 24,033 | \$ 222,619 |
| LIABILITIES AND FUND BALANCES (DEFICITS) | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 6,860 | \$ 555 | \$ - | \$ 6,081 | \$ 9,621 | \$ 3,636 |
| Accrued compensation and benefits | - | - | - | - | 14,412 | - |
| Due to other funds | - | - | 208,554 | 107,642 | - | - |
| Unearned revenue | - | - | - | - | - | - |
| Deferred revenue | - | - | - | - | - | - |
| Escrow for seized funds | - | - | - | - | - | - |
| Total liabilities | 6,860 | 555 | 208,554 | 113,723 | 24,033 | 3,636 |
| Fund balances (deficits) | | | | | | |
| Reserved - notes receivable | - | - | - | - | - | - |
| Reserved for inventory | - | - | - | - | 600 | - |
| Unreserved | 95,631 | 12,193 | - | 69,955 | (600) | 218,983 |
| Total fund balances (deficits) | 95,631 | 12,193 | - | 69,955 | - | 218,983 |
| Total liabilities and fund balances (deficits) | \$ 102,491 | \$ 12,748 | \$ 208,554 | \$ 183,678 | \$ 24,033 | \$ 222,619 |

Continued

CITY OF SUMTER, SOUTH CAROLINA
COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS
June 30, 2010

| | Victim's | | E911 | Facilities | | | Total |
|-----------------------------------------------------|-------------------|--------------------|------------|-------------------|----------------|-----------------|--------------|
| | Narcotics Fund | Assistance Fund | | Firemen's Fund | Rental Fund | Leisure Fund | |
| ASSETS | | | | | | | |
| Cash | \$ 173,028 | \$ 50,452 | \$ 146,139 | \$ - | \$ - | \$ - | \$ 1,317,686 |
| Receivables, net of allowance for doubtful accounts | - | - | 105,399 | - | - | - | 2,786,205 |
| Inventory | - | - | - | - | - | - | 600 |
| Total assets | \$ 173,028 | \$ 50,452 | \$ 251,538 | \$ - | \$ - | \$ - | \$ 4,104,491 |
| LIABILITIES AND FUND BALANCES (DEFICITS) | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 8,795 | \$ 13 | \$ 12,899 | \$ 120 | \$ - | \$ - | \$ 348,248 |
| Accrued compensation and benefits | - | 1,396 | 1,967 | - | - | - | 35,456 |
| Due to other funds | - | - | - | 17,375 | - | - | 564,444 |
| Unearned revenue | - | - | - | - | - | - | 270,141 |
| Deferred revenue | - | - | - | - | - | - | 107,377 |
| Escrow for seized funds | 116,601 | - | - | - | - | - | 116,601 |
| Total liabilities | 125,396 | 1,409 | 14,866 | 17,495 | - | - | 1,442,267 |
| Fund balances (deficits) | | | | | | | |
| Reserved - notes receivable | - | - | - | - | - | - | 1,671,000 |
| Reserved for inventory | - | - | - | - | - | - | 600 |
| Unreserved | 47,632 | 49,043 | 236,672 | (17,495) | - | - | 990,624 |
| Total fund balances (deficits) | 47,632 | 49,043 | 236,672 | (17,495) | - | - | 2,662,224 |
| Total liabilities and fund balances (deficits) | \$ 173,028 | \$ 50,452 | \$ 251,538 | \$ - | \$ - | \$ - | \$ 4,104,491 |

CITY OF SUMTER, SOUTH CAROLINA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) –
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2010

| | USDA Rural Business Fund | HUD Section 108 Fund | Federal/ State Grants Fund | Community Development Block Grant Fund | CDBG Home Fund | Downtown Loan Fund |
|--------------------------------------------------------------|-----------------------------------|-------------------------------|-------------------------------------|----------------------------------------------------|----------------------|--------------------------|
| REVENUES | | | | | | |
| Intergovernmental revenue | \$ - | \$ - | \$ 1,439,176 | \$ 459,342 | \$ - | \$ - |
| Sales taxes | - | - | - | - | - | - |
| Licenses, permits and fees | - | - | - | - | - | - |
| Fines and forfeitures | - | - | - | - | - | - |
| Rent and miscellaneous | 22,885 | - | - | - | 14,860 | 3,117 |
| Interest income | 5,099 | 96,804 | - | - | 837 | 744 |
| Total revenues | 27,984 | 96,804 | 1,439,176 | 459,342 | 15,697 | 3,861 |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Public safety | - | - | 126,890 | - | - | - |
| Public works | - | - | 2,089 | - | - | - |
| Parks, recreation and culture | - | - | 7,415 | - | - | - |
| Community development | - | - | 42,683 | 388,862 | 57,579 | - |
| Economic development | 16,000 | - | 103,998 | - | - | - |
| Debt service | | | | | | |
| Bond principal | - | 66,000 | - | - | - | - |
| Capital leases | - | - | - | - | - | - |
| Interest and fiscal charges | - | 89,638 | - | - | - | - |
| Capital outlay | | | | | | |
| Public safety | - | - | 905,394 | - | - | - |
| Public works | - | - | 35,600 | - | - | - |
| Parks, recreation and culture | - | - | 205,547 | - | - | - |
| Community development | - | - | - | 70,480 | - | - |
| Economic development | - | - | 9,560 | - | - | - |
| Total expenditures | 16,000 | 155,638 | 1,439,176 | 459,342 | 57,579 | - |
| Excess (deficiency) of revenues over (under) expenditures | 11,984 | (58,834) | - | - | (41,882) | 3,861 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - | - |
| Net change in fund balances | 11,984 | (58,834) | - | - | (41,882) | 3,861 |
| Fund balances, beginning of year, restated | 66,066 | 1,577,065 | - | 664 | 379,900 | 10,786 |
| Fund balances, end of year | \$ 78,050 | \$ 1,518,231 | \$ - | \$ 664 | \$ 338,018 | \$ 14,647 |

Continued

CITY OF SUMTER, SOUTH CAROLINA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) –
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2010

| | Empowerment Zone Fund | Main Street Society Fund | Airport Commission Fund | Local Hospitality Tax Fund | State Accommodations Tax Fund | Local Accommodations Tax Fund |
|--------------------------------------------------------------|-----------------------------|-----------------------------------|-------------------------------|-------------------------------------|----------------------------------------|----------------------------------------|
| REVENUES | | | | | | |
| Intergovernmental revenue | \$ 68,450 | \$ - | \$ 155,050 | \$ - | \$ 222,384 | \$ - |
| Sales taxes | - | - | - | 1,932,113 | - | 354,538 |
| Licenses, permits and fees | - | - | - | - | - | - |
| Fines and forfeitures | - | - | - | - | - | - |
| Rent and miscellaneous | 74,258 | 6,150 | - | 84 | - | - |
| Interest income | 2,353 | - | - | - | - | - |
| Total revenues | 145,061 | 6,150 | 155,050 | 1,932,197 | 222,384 | 354,538 |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Public safety | - | - | - | - | - | - |
| Public works | - | - | - | - | - | - |
| Parks, recreation and culture | - | - | - | 143,195 | 97,821 | 65,211 |
| Community development | - | - | - | - | - | - |
| Economic development | 1,367 | 9,363 | - | 8,026 | 340,858 | - |
| Debt service | | | | | | |
| Bond principal | - | - | 61,084 | - | - | - |
| Capital leases | - | - | - | 430,168 | - | - |
| Interest and fiscal charges | - | - | 8,904 | 45,321 | - | - |
| Capital outlay | | | | | | |
| Public safety | - | - | - | - | - | - |
| Public works | - | - | - | - | - | - |
| Parks, recreation and culture | - | - | - | 644,845 | - | - |
| Community development | - | - | - | - | - | - |
| Economic development | - | - | 92,035 | 66,068 | - | 1,200 |
| Total expenditures | 1,367 | 9,363 | 162,023 | 1,337,623 | 438,679 | 66,411 |
| Excess (deficiency) of revenues over (under) expenditures | 143,694 | (3,213) | (6,973) | 594,574 | (216,295) | 288,127 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | - | 6,973 | - | 216,295 | - |
| Transfers out | (97,598) | - | - | (383,000) | - | (205,000) |
| Total other financing sources (uses) | (97,598) | - | 6,973 | (383,000) | 216,295 | (205,000) |
| Net change in fund balances | 46,096 | (3,213) | - | 211,574 | - | 83,127 |
| Fund balances, beginning of year, restated | 49,535 | 15,406 | - | (141,619) | - | 135,856 |
| Fund balances, end of year | \$ 95,631 | \$ 12,193 | \$ - | \$ 69,955 | \$ - | \$ 218,983 |

Continued

CITY OF SUMTER, SOUTH CAROLINA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) –
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2010

| | Narcotics Fund | Victim's Assistance Fund | E911 Fund | Firemen's Fund | Facilities Rental Fund | Leisure Fund | Total |
|--------------------------------------------------------------|-------------------|--------------------------------|--------------|-------------------|------------------------------|-----------------|--------------|
| REVENUES | | | | | | | |
| Intergovernmental revenue | \$ - | \$ - | \$ - | \$ 100,489 | \$ - | \$ - | \$ 2,444,891 |
| Sales taxes | - | - | - | - | - | - | 2,286,651 |
| Licenses, permits and fees | - | - | 547,687 | - | - | - | 547,687 |
| Fines and forfeitures | 103,769 | 48,207 | - | - | - | - | 151,976 |
| Rent and miscellaneous | - | - | - | - | - | - | 121,354 |
| Interest income | 132 | - | 119 | 9 | - | - | 106,097 |
| Total revenues | 103,901 | 48,207 | 547,806 | 100,498 | - | - | 5,658,656 |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| Public safety | 43,157 | 43,821 | 335,136 | 94,007 | - | - | 643,011 |
| Public works | - | - | - | - | - | - | 2,089 |
| Parks, recreation and culture | - | - | - | - | - | - | 313,642 |
| Community development | - | - | - | - | - | - | 489,124 |
| Economic development | - | - | - | - | - | - | 479,612 |
| Debt service | | | | | | | |
| Bond principal | - | - | - | - | - | - | 127,084 |
| Capital leases | - | - | 179,055 | - | - | - | 609,223 |
| Interest and fiscal charges | - | - | 5,641 | - | - | - | 149,504 |
| Capital outlay | | | | | | | |
| Public safety | 9,975 | - | 8,646 | - | - | - | 924,015 |
| Public works | - | - | - | - | - | - | 35,600 |
| Parks, recreation and culture | - | - | - | - | - | - | 850,392 |
| Community development | - | - | - | - | - | - | 70,480 |
| Economic development | - | - | - | - | - | - | 168,863 |
| Total expenditures | 53,132 | 43,821 | 528,478 | 94,007 | - | - | 4,862,639 |
| Excess (deficiency) of revenues over (under) expenditures | 50,769 | 4,386 | 19,328 | 6,491 | - | - | 796,017 |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfers in | - | - | - | - | - | - | 223,268 |
| Transfers out | - | - | - | - | (150,644) | (13,650) | (849,892) |
| Total other financing sources (uses) | - | - | - | - | (150,644) | (13,650) | (626,624) |
| Net change in fund balances | 50,769 | 4,386 | 19,328 | 6,491 | (150,644) | (13,650) | 169,393 |
| Fund balances, beginning of year, restated | (3,137) | 44,657 | 217,344 | (23,986) | 150,644 | 13,650 | 2,492,831 |
| Fund balances, end of year | \$ 47,632 | \$ 49,043 | \$ 236,672 | \$ (17,495) | \$ - | \$ - | \$ 2,662,224 |

FIDUCIARY FUNDS
PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used by the City to account for assets held by the City in a trustee capacity which are to be used for specific purposes established by donors. The City uses the following private-purpose trust funds:

Neil O'Donnell Fund – Accounts for funds donated by Neil O'Donnell to be used for charitable purposes.

George Reardon Fund – Accounts for funds donated by George Reardon to be used for charitable purposes.

Ella Tuomey Fund – Accounts for funds donated by Ella Tuomey to be used for charitable purposes.

Emergency Responders Trust Fund – Accounts for monies donated to the First Responders Trust Fund to be used for charitable purposes.

CITY OF SUMTER, SOUTH CAROLINA
COMBINING SCHEDULE OF FIDUCIARY NET ASSETS – PRIVATE-PURPOSE TRUST FUNDS
June 30, 2010

| | Nell O'Donnell Fund | George Reardon Fund | Ella Tuomey Fund | Emergency Responders Trust Fund | Total |
|----------------------------------------------------|---------------------------|---------------------------|------------------------|------------------------------------------|-----------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 3,599 | \$ 564 | \$ 1,684 | \$ 3,668 | \$ 9,515 |
| Total assets | <u>\$ 3,599</u> | <u>\$ 564</u> | <u>\$ 1,684</u> | <u>\$ 3,668</u> | <u>\$ 9,515</u> |
| Liabilities | - | - | - | - | - |
| Net assets held in trust for other purposes | <u>\$ 3,599</u> | <u>\$ 564</u> | <u>\$ 1,684</u> | <u>\$ 3,668</u> | <u>\$ 9,515</u> |

CITY OF SUMTER, SOUTH CAROLINA
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS – PRIVATE-PURPOSE TRUST FUNDS
For the Year Ended June 30, 2010

| | Neil O'Donnell Fund | George Reardon Fund | Ella Tuomey Fund | Emergency Responders Trust Fund | Total |
|-------------------------------|---------------------------|---------------------------|------------------------|------------------------------------------|----------|
| ADDITIONS | | | | | |
| Interest | \$ 18 | \$ 3 | \$ 8 | \$ 20 | \$ 49 |
| Total additions | 18 | 3 | 8 | 20 | 49 |
| Change in net assets | 18 | 3 | 8 | 20 | 49 |
| Net assets, beginning of year | 3,581 | 561 | 1,676 | 3,648 | 9,466 |
| Net assets, end of year | \$ 3,599 | \$ 564 | \$ 1,684 | \$ 3,668 | \$ 9,515 |

FIDUCIARY FUNDS
AGENCY FUNDS

Agency funds are used by the City to account for assets held by the City in a trustee capacity which are to be used for specific purposes established by donors. The City uses the following agency funds:

Tourism Fund – Accounts for the expenditures whose purpose is to promote tourism in Sumter, South Carolina. This fund was terminated as of July 1, 2009.

CHDO Fund – Accounts for the activities of the City of Sumter Housing and Economic Development Corporations, a Community Housing Development Organization as defined by the State Housing Authority. This is a legally separate non-profit organization.

Sumter Green Fund – Accounts for the activities of the Sumter Green Organization, a organization legally separate from the City, the purpose of which is the beautification of Sumter and its entryways.

Swan Fund – Accounts for private donations restricted to use for the Swan Lake Iris Gardens.

Sumter City/County Credit Union Fund – Accounted for certain activity of the City/County Credit Union, an organization legally separate from the City. This fund was terminated as of July 1, 2009.

Vector Control Fund – Accounts for certain activities of the Sumter County Health Department’s insect control program. This fund was terminated as of July 1, 2009.

Sumter County Visions Fund – Accounts for funds restricted for use by the Sumter County Visions Project.

Friends of Swan Lake Fund – Accounts for funds contributed to the Friends of Swan Lake which are restricted to the promotion of Swan Lake.

Support of Shaw Fund – Accounts for funds contributed to a legally separate not for profit organization which works to retain Shaw Air Force Base in Sumter.

Dalzell Water District Fund– Accounts for the collections of the Dalzell Water and Sewer System that are billed on behalf of that entity by the City of Sumter.

Sumter County (Shiloh) Water District Fund – Accounted for the collections of the Shiloh Water and Sewer System that were billed on behalf of that entity by the City of Sumter. This fund was terminated as of July 1, 2009.

Oswego Water District Fund – Accounts for the collections and payments of the Oswego Water System which are managed on behalf of that entity by the City of Sumter.

CITY OF SUMTER, SOUTH CAROLINA
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS
For the Year Ended June 30, 2010

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---------------------------|---------------------------------|-------------------|---------------------|---------------------------|
| Tourism Fund | | | | |
| Assets | | | | |
| Receivables | \$ 28,668 | \$ - | \$ (28,668) | \$ - |
| Inventory | 600 | - | (600) | - |
| | <u>\$ 29,268</u> | <u>\$ -</u> | <u>\$ (29,268)</u> | <u>\$ -</u> |
| Liabilities | | | | |
| Accounts payable | \$ 17,857 | \$ - | \$ (17,857) | \$ - |
| Due to other organization | 11,411 | - | (11,411) | - |
| | <u>\$ 29,268</u> | <u>\$ -</u> | <u>\$ (29,268)</u> | <u>\$ -</u> |
| CHDO Fund | | | | |
| Assets | | | | |
| Due from other fund | \$ 614,536 | \$ 63,091 | \$ (276,534) | \$ 401,093 |
| Receivables | 406 | 50,046 | (28,019) | 22,433 |
| | <u>\$ 614,942</u> | <u>\$ 113,137</u> | <u>\$ (304,553)</u> | <u>\$ 423,526</u> |
| Liabilities | | | | |
| Accounts payable | \$ 37,690 | \$ 282,056 | \$ (276,535) | \$ 43,211 |
| Due to other fund | - | 35,072 | - | 35,072 |
| Due to other organization | 577,252 | - | (232,009) | 345,243 |
| | <u>\$ 614,942</u> | <u>\$ 317,128</u> | <u>\$ (508,544)</u> | <u>\$ 423,526</u> |
| Sumter Green Fund | | | | |
| Assets | | | | |
| Due from other fund | \$ 38,639 | \$ 47,023 | \$ (34,140) | \$ 51,522 |
| Cash and cash equivalents | - | 300 | - | 300 |
| | <u>\$ 38,639</u> | <u>\$ 47,323</u> | <u>\$ (34,140)</u> | <u>\$ 51,822</u> |
| Liabilities | | | | |
| Accounts payable | \$ 929 | \$ 5,540 | \$ (5,462) | \$ 1,007 |
| Due to other organization | 37,710 | 13,105 | - | 50,815 |
| | <u>\$ 38,639</u> | <u>\$ 18,645</u> | <u>\$ (5,462)</u> | <u>\$ 51,822</u> |
| Swan Fund | | | | |
| Assets | | | | |
| Due from other fund | \$ 326 | \$ - | \$ - | \$ 326 |
| | <u>\$ 326</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 326</u> |
| Liabilities | | | | |
| Due to other organization | \$ 326 | \$ - | \$ - | \$ 326 |
| | <u>\$ 326</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 326</u> |

Continued

CITY OF SUMTER, SOUTH CAROLINA
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS
For the Year Ended June 30, 2010

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---------------------------------------------|---------------------------------|------------------|--------------------|---------------------------|
| Sumter City/County Credit Union Fund | | | | |
| Assets | | | | |
| Receivables | \$ 3,501 | \$ - | \$ (3,501) | \$ - |
| | <u>\$ 3,501</u> | <u>\$ -</u> | <u>\$ (3,501)</u> | <u>\$ -</u> |
| Liabilities | | | | |
| Accounts payable | \$ 1,049 | \$ - | \$ (1,049) | \$ - |
| Due to other organization | 2,452 | - | (2,452) | - |
| | <u>\$ 3,501</u> | <u>\$ -</u> | <u>\$ (3,501)</u> | <u>\$ -</u> |
| Vector Control Fund | | | | |
| Assets | | | | |
| Receivables | \$ 12,389 | \$ - | \$ (12,389) | \$ - |
| | <u>\$ 12,389</u> | <u>\$ -</u> | <u>\$ (12,389)</u> | <u>\$ -</u> |
| Liabilities | | | | |
| Accounts payable | \$ 3,782 | \$ - | \$ (3,782) | \$ - |
| Due to other organization | 8,607 | - | (8,607) | - |
| | <u>\$ 12,389</u> | <u>\$ -</u> | <u>\$ (12,389)</u> | <u>\$ -</u> |
| Sumter County Visions Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 60 | \$ 12 | \$ (72) | \$ - |
| Receivables | 12 | - | (12) | - |
| | <u>\$ 72</u> | <u>\$ 12</u> | <u>\$ (84)</u> | <u>\$ -</u> |
| Liabilities | | | | |
| Accounts payable | \$ 71 | \$ - | \$ (71) | \$ - |
| Due to other organization | 1 | - | (1) | - |
| | <u>\$ 72</u> | <u>\$ -</u> | <u>\$ (72)</u> | <u>\$ -</u> |
| Friend of Swan Lake | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 41,901 | \$ - | \$ - | \$ 41,901 |
| Due from other funds | 58,444 | 65,774 | (85,797) | 38,421 |
| | <u>\$ 100,345</u> | <u>\$ 65,774</u> | <u>\$ (85,797)</u> | <u>\$ 80,322</u> |
| Liabilities | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| Due to other organization | 100,345 | 65,774 | (85,797) | 80,322 |
| | <u>\$ 100,345</u> | <u>\$ 65,774</u> | <u>\$ (85,797)</u> | <u>\$ 80,322</u> |

Continued

CITY OF SUMTER, SOUTH CAROLINA
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS
For the Year Ended June 30, 2010

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---------------------------------------------------|---------------------------------|---------------------|-----------------------|---------------------------|
| Support of Shaw Fund | | | | |
| Assets | | | | |
| Due from other fund | \$ 157,841 | \$ - | \$ (50) | \$ 157,791 |
| | <u>\$ 157,841</u> | <u>\$ -</u> | <u>\$ (50)</u> | <u>\$ 157,791</u> |
| Liabilities | | | | |
| Due to other organization | \$ 157,841 | \$ - | \$ (50) | \$ 157,791 |
| | <u>\$ 157,841</u> | <u>\$ -</u> | <u>\$ (50)</u> | <u>\$ 157,791</u> |
| Dalzell Water District Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 662,377 | \$ 208,563 | \$ (70,901) | \$ 800,039 |
| Due from other fund | 87,689 | 630,211 | (556,844) | 161,056 |
| Receivables | 83,110 | 496,284 | (556,985) | 22,409 |
| | <u>\$ 833,176</u> | <u>\$ 1,335,058</u> | <u>\$ (1,184,730)</u> | <u>\$ 983,504</u> |
| Liabilities | | | | |
| Accounts payable | \$ 132,579 | \$ 397,522 | \$ (527,325) | \$ 2,776 |
| Due to customers | 34,387 | - | (1,087) | 33,300 |
| Due to other organization | 666,210 | 382,066 | (100,848) | 947,428 |
| | <u>\$ 833,176</u> | <u>\$ 779,588</u> | <u>\$ (629,260)</u> | <u>\$ 983,504</u> |
| Sumter County (Shiloh) Water District Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 80,018 | \$ - | \$ (80,018) | \$ - |
| | <u>\$ 80,018</u> | <u>\$ -</u> | <u>\$ (80,018)</u> | <u>\$ -</u> |
| Liabilities | | | | |
| Accounts payable | \$ 25 | \$ - | \$ (25) | \$ - |
| Due to other organization | 79,993 | - | (79,993) | - |
| | <u>\$ 80,018</u> | <u>\$ -</u> | <u>\$ (80,018)</u> | <u>\$ -</u> |
| Oswego Water District Fund | | | | |
| Assets | | | | |
| Due from other fund | \$ 24,883 | \$ 384,135 | \$ (377,566) | \$ 31,452 |
| Receivables | 42,232 | 390,874 | (384,135) | 48,971 |
| | <u>\$ 67,115</u> | <u>\$ 775,009</u> | <u>\$ (761,701)</u> | <u>\$ 80,423</u> |
| Liabilities | | | | |
| Accounts payable | \$ 27,158 | \$ 374,663 | \$ (377,566) | \$ 24,255 |
| Due to other organization | 39,957 | 16,211 | - | 56,168 |
| | <u>\$ 67,115</u> | <u>\$ 390,874</u> | <u>\$ (377,566)</u> | <u>\$ 80,423</u> |

Continued

CITY OF SUMTER, SOUTH CAROLINA
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS
For the Year Ended June 30, 2010

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---------------------------|---------------------------------|---------------------|-----------------------|---------------------------|
| Total Agency Funds | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 784,356 | \$ 208,875 | \$ (150,991) | \$ 842,240 |
| Due from other fund | 982,358 | 1,190,234 | (1,330,931) | 841,661 |
| Receivables | 170,318 | 937,204 | (1,013,709) | 93,813 |
| Inventory | 600 | - | (600) | - |
| | <u>\$ 1,937,632</u> | <u>\$ 2,336,313</u> | <u>\$ (2,496,231)</u> | <u>\$ 1,777,714</u> |
| Liabilities | | | | |
| Accounts payable | \$ 221,140 | \$ 1,059,781 | \$ (1,209,672) | \$ 71,249 |
| Due to other funds | - | 35,072 | - | 35,072 |
| Due to customers | 34,387 | - | (1,087) | 33,300 |
| Due to other organization | 1,682,105 | 477,156 | (521,168) | 1,638,093 |
| | <u>\$ 1,937,632</u> | <u>\$ 1,572,009</u> | <u>\$ (1,731,927)</u> | <u>\$ 1,777,714</u> |

SCHEDULE REQUIRED BY STATE LAW

CITY OF SUMTER, SOUTH CAROLINA
SCHEDULE OF COURT FINE AND ASSESSMENT ACTIVITY AND EXPENDITURES FOR
VICTIMS SERVICES -- REQUIRED BY STATE LAW
For the Year Ended June 30, 2010

| | |
|----------------------------------------------------------------------------------|-------------------------|
| Court fines, assessments and surcharges: | |
| Collected | \$ 521,973 |
| Remitted to State Treasurer | <u>(255,556)</u> |
| Retained by the City | <u><u>266,417</u></u> |
| Fines, assessments and surcharges retained by the City: | |
| General fund | 218,210 |
| Victims advocate services | <u>48,207</u> |
| Total assessments and surcharges retained by the City | <u><u>266,417</u></u> |
| Funds allocated to victims advocate service special revenue fund | |
| Carryover from prior year | 44,657 |
| Surcharges and assessments retained current year | 48,207 |
| Expenditures for victims advocate services | <u>(43,575)</u> |
| Total (over) under expenditure of victims advocate service special revenue funds | <u><u>\$ 49,289</u></u> |

COMPLIANCE SECTION

**CITY OF SUMTER, SOUTH CAROLINA
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010**

Page 1 of 2

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|--------------------------------------------------------------------------------|---------------------------|-------------------------------------------------|-------------------------|
| Department of Agriculture Pass-through Programs From: | | | |
| South Carolina Forestry Commission | | | |
| Cooperative Forestry Assistance | 10.664 | 2008U24 | \$ 4,831 |
| Cooperative Forestry Assistance | 10.664 | 2008U25 | 4,884 |
| Cooperative Forestry Assistance | 10.664 | 2008U27 | <u>2,349</u> |
| | | | <u>12,064</u> |
| South Carolina Natural Resources Conservation Service | | | |
| ARRA Emergency Watershed Protection Program | 10.923 | 69-4639-10-1009 | <u>35,600</u> |
| Total Department of Agriculture | | | <u>47,664</u> |
| Department of Housing and Urban Development Direct Programs: | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | B-05-MC-450011 | 2,102 |
| Community Development Block Grants/Entitlement Grants | 14.218 | B-06-MC-450011 | <u>361,358</u> |
| | | | <u>363,460</u> |
| ARRA Community Development Block Grant ARRA Entitlement Grants | 14.254 | B-09-MY-45-0011 | 95,883 |
| Department of Housing and Urban Development Pass-through Programs From: | | | |
| City of Columbia | | | |
| Empowerment Zones Program | 14.244 | EZ-99-SC-0011 | 68,450 |
| Total Department of Housing and Urban Development | | | <u>527,793</u> |
| Department of the Interior Pass-through Programs From: | | | |
| South Carolina Department of Archives and History | | | |
| Federal Historic Preservation Grant | 15.904 | 45-09-21846 | 18,900 |
| Department of Justice Direct Programs: | | | |
| Bullet Proof Vest Partnership Program | 16.607 | 2007BUBX07040474 | 1,184 |
| Bullet Proof Vest Partnership Program | 16.607 | 2009BUBX09049235 | <u>8,575</u> |
| | | | <u>9,759</u> |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2007DJBX1124 | 62,598 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2007DJBX0429 | <u>21,169</u> |
| | | | <u>83,767</u> |
| ARRA Edward Byrne Memorial Justice Assistance Grant Program | 16.803 | SBB92297 | 253,828 |

Continued

**CITY OF SUMTER, SOUTH CAROLINA
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2010**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|----------------------------------------------------------------------|------------------------------------|-----------------------------------------------------------|---------------------------------|
| Department of Justice Pass-through Programs From: | | | |
| South Carolina Department of Public Safety | | | |
| ARRA Edward Byrne Memorial Justice Assistance Grant Program | 16.803 | 1GS09009 | 64,274 |
| ARRA Edward Byrne Memorial Justice Assistance Grant Program | 16.803 | GS15909 | 482,290 |
| | | | <u>546,564</u> |
| Total Department of Justice | | | <u>893,918</u> |
| Department of Transportation Direct Programs: | | | |
| Airport Improvement Program | 20.106 | 3-45-0054-11 | 76,219 |
| Department of Transportation Pass-through Programs From: | | | |
| South Carolina Department of Transportation | | | |
| Federal Transit-Metropolitan Planning Grants | 20.505 | PL44011 | 154,084 |
| Department of Energy Direct Programs: | | | |
| ARRA - Energy Efficiency and Conservation Block Grant Program | 81.128 | DE-EE0002302 | 103,998 |
| Department of Homeland Security Direct Program: | | | |
| Assistance to Firefighters Grant | 97.044 | EMW-2008-FO-03522 | 106,434 |
| Total Expenditures of Federal Awards | | | <u><u>\$ 1,929,010</u></u> |

CITY OF SUMTER, SOUTH CAROLINA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes federal grant activity of the City of Sumter under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Sumter, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Sumter.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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

December 2, 2010

City Council
City of Sumter, South Carolina

I have audited the financial statements of the City of Sumter, South Carolina (the City) as of and for the year ended June 30, 2010, and have issued my report thereon dated December 2, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City'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 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 questioned costs, I identified a certain deficiency in internal control over financial reporting that I consider to be a material weakness and another deficiency that I consider to be a significant deficiency.

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. I consider the deficiency 2010-1 described in the accompanying schedule of findings and questioned costs to be a material weakness.

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. I consider the deficiency described as 2010-2 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

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

The City of Sumter's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the City's responses and, accordingly, I express no opinion on them.

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

Walda Wildman LLC

WALDA WILDMAN, LLC
Certified Public Accountant

WALDA WILDMAN, LLC
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

December 2, 2010

City Council
City of Sumter, South Carolina

Compliance

I have audited the City of Sumter's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. My responsibility is to express an opinion on the City's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City's compliance with those requirements.

In my opinion, the City of Sumter, South Carolina complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

Management of the City of Sumter is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over

compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-3 and 2010-4. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the City's responses and, accordingly, I express no opinion on the responses.

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



WALDA WILDMAN, LLC
Certified Public Accountant

CITY OF SUMTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Type of auditor’s report issued on compliance
For major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with Section
510(a) of OMB Circular A-133 Yes No

Identification of major programs:

| CFDA Number | Program Name |
|-------------|---------------------------------------------------------------|
| 16.803 | ARRA Edward Byrne Memorial Justice Assistance Grant Program |
| 81.128 | ARRA - Energy Efficiency and Conservation Block Grant Program |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee? Yes No

Section II – Financial Statement

2010-1 Responsibility for External Financial Reporting

Criteria: Sound internal control requires that specific staff be given responsibility for the preparation of an accurate trial balance from which an entity’s financial statements are prepared as well as the related subsidiary accounting records which support account balances in the financial statements.

Condition: While the City has capable and dedicated employees in its finance department, no single employee is tasked with reviewing the City’s trial balance and agreeing all the balances thereon to supporting schedules. As a result, I proposed and management accepted a number of material adjustments to account balances.

Context: Adjustments reduced the City’s beginning net capital assets by \$1,034,694 to \$86,865,708.

Effect: The City’s beginning net assets were overstated by 1.1 percent.

Cause: In prior years, management has relied on its audit firm to detect errors in schedules supporting many of the numbers on its financial statements. In addition, it was the audit firm’s responsibility to bring the trial balance and all the

related documentation together to prepare financial statements for the convenience of management. As a result, management does not have designated staff who review the complete trial balance and the underlying subsidiary reports. In addition, it is difficult to get the City's accounting software to produce the kinds of reports necessary to expedite trial balance preparation. This is especially true of the capital asset module, reports from which are so difficult to use, that city staff use Excel spreadsheets to maintain current year fixed asset activity.

Recommendation: The Finance Department should designate specific staff to be responsible for its final trial balance and the preparation and/or review of documentation supporting account balances. This person(s) should also be given authority over City departments sufficient to expedite closing the City's books at year end so that a meaningful deadline for completion of the work can be established and met. The City should also consider whether its current software is cost beneficial, and at least purchase fixed asset accounting software which City staff can use efficiently.

Views of responsible officials and planned corrective actions: Management will evaluate staffing assignments and restructure the Finance Department in order to designate a single staff person that will be responsible for the year-end closing and related reporting. Management will research a separate fixed asset module that will more closely meet the needs of the City. Since management will be restructuring the department, management will be consulting with an outside CPA firm for guidance.

2010-2 Internal Control over Tennis Complex Inventory

Criteria: Sound internal control requires that controls be in place to properly report and to safeguard inventory held for retail sale to the public.

Condition: Management cannot explain why purchases of items for resale in the Tennis Complex exceed sales revenue and have done so for four years.

Context: During fiscal 2010, the City purchased \$33,075 of inventory for resale and reported sales revenue of \$36,743. Management of the Tennis Complex indicates that it is their intention to sell purchased goods at a standard retail mark up. At such a mark up, given the dollar amount of inventory purchased, sales receipts should be in the range of \$45,000 to \$55,000. On the other hand, if much of the inventory was purposely given away or sold at significant discounts to promote the Tennis Complex, the sales would be less.

Effect: Management of the Tennis Complex cannot account for the flow of its inventory and cannot determine whether the sales receipts reported are correct or whether part of the inventory purchased should properly have been recorded as promotional expense.

Cause: Management has not installed adequate inventory controls at the Tennis Center.

Recommendation: Management should consider removing the City from the retail business by leasing the tennis shop to a tennis professional. If the City continues to operate the tennis pro shop, it should establish internal control procedures to timely detect errors in reporting and/or in pricing and/or to prevent fraud.

Views of responsible officials and planned corrective actions: Management believes that the pricing on inventory sales at the Tennis Complex led to a poor profit margin. Management had already taken corrective action to resolve this issue prior to year-end. An Administrative Assistant was added to the Tennis Center staff to assist with the administrative duties of the department and a Point of Sale computer system was purchased and installed to track inventory and receipts. Additional corrective action will be taken by the Department Head to regularly monitor all sales and inventory at the Tennis Complex.

Section III – Federal Award Findings and Questioned Costs

2010-3 Failure to Check for Suspended or Debarred Contractors

Information on federal programs:

CFDA No. and Title: 16.803 - ARRA Edward Byrne Memorial Justice Assistance Grant Program

Agency: Department of Justice

Federal award number and year: SBB92297 2010

Name of pass-thru entity: Not applicable

CFDA No. and Title: 16.803 - ARRA Edward Byrne Memorial Justice Assistance Grant Program

Agency: Department of Justice

Federal award number and year: 1GS09009 and GS15909 2010
Name of pass-thru entity: South Carolina Department of Public Safety

CFDA No. and Title: 81.128 – ARRA – Energy Efficiency and Conservation Block Grant Program
Agency: Department of Energy
Federal award number and year: DE-EE0002302 2010
Name of pass-thru entity: Not applicable

Criteria or specific requirement: Federal funds may not be expended with vendors who have been debarred.

Condition: Management has no procedure in its purchasing process to confirm that vendors who are paid federal funds are not debarred.

Questioned costs: None.

Context: All major program expenditures (\$904,390) were made without determining that the applicable vendors were not debarred.

Effect: At the time major program expenditures were made, staff had not confirmed that applicable vendors were not debarred. Had they been debarred, the City could have had to return federal funds which had been spent with debarred vendors.

Cause: City purchasing staff was not aware of the general requirements applicable to expenditures of federal funds.

Recommendation: Management should consider developing a checklist of requirements applicable to federal funds expenditures so that purchasing staff can demonstrate compliance with federal general requirements.

Views of responsible officials and planned corrective actions: Management will implement a corrective action to require that all grant award documents are reviewed at time of award and a checklist specific to the individual grant will be created. This checklist will include the specific requirement to check for suspended and debarred contractors for all grants.

2010-4 Program Omitted from SEFA

Information on federal program:

CFDA No. and Title: 20.505 – Federal Transit-Metropolitan Planning Grants
Agency: Department of Transportation
Federal award number and year: PL44011 2009
Name of pass-thru entity: South Carolina Department of Transportation

Criteria or specific requirement: Sound internal control requires that management *monitor* whether controls are functioning as designed to prevent and/or timely detect and correct reporting errors.

Condition: Management has established a procedure to assign project numbers to federal grants. These project numbers are used to identify in the accounting records expenditures of federal awards. The numbers are also used by the grants accountant to prepare the Schedule of Expenditures of Federal Awards (SEFA). I received the SEFA from the grants accountant in mid-August and performed my Single Audit fieldwork on August 17, 2010. On August 30, 2010, two months after year end and after my fieldwork, I received a revised SEFA which added an additional Federal grant. I inquired why this expenditure was being added and was told that the grants accountant had only then learned that the grant was Federal because she received a document applicable to a Single Audit of the funds.

Questioned Costs: None

Context: The federal program added to the SEFA as of August 30, 2010 increased total federal expenditures by \$154,084 to \$1,929,010, an 8.7 percent increase. The grant was of sufficient size that it required risk assessment for possible major program status.

Effect: The funds expended under terms of this grant were not assigned a project number so were expended without having been identified as Federal. As a result, Finance Department personnel were not able to provide oversight to 8

percent of federal funds expended during the year.

Cause: The Finance Department is dependent on staff in the operating departments to inform it of federal grants they obtain. Staff in the Planning Department which expended the funds has not been trained to provide timely, complete information about grant money they are receiving.

Recommendation: Management should consider conducting periodic training sessions for personnel regarding the importance of identifying federal money and about restrictions placed on its use.

Views of responsible officials and planned corrective actions: Management and staff were aware that the Federal Transit-Metropolitan Planning grant had been awarded to the City; however, this award was inadvertently omitted on the SEFA provided by staff. The corrective action to avoid this in the future is to require that all grants are recorded in Special Revenue Fund 252 with the exception of the Community Development Block Grant which will continue to be recorded separately in Special Revenue Fund 261.

**CITY OF SUMTER
SUMMARY OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2010**

There were no federal award-related audit findings in the prior year.

**City of Sumter
Corrective Action Plan
June 30, 2010**

2010-1 Responsibility for External Financial Reporting

B. Actions Taken or Planned:

Management will evaluate staffing assignments and restructure the Finance Department in order to designate a single staff person that will be responsible for the year-end closing and related reporting. Management will research a separate fixed asset module that will more closely meet the needs of the City. Since management will be restructuring the department, management will be consulting with an outside CPA firm for guidance.

C. Staff Person/s Responsible for implementing Corrective Action Plan:

The Finance Director will be responsible for the corrective action.

D. Time Frame for Completion/Implementation:

The time frame for the implementation for these changes will be February 28, 2011.

2010-2 Internal Control over Tennis Complex Inventory

B. Actions Taken or Planned:

Management believes that the pricing on inventory sales at the Tennis Complex led to a poor profit margin. Management had already taken corrective action to resolve this issue prior to year-end. An Administrative Assistant was added to the Tennis Center staff to assist with the administrative duties of the department and a Point of Sale computer system was purchased and installed to track inventory and receipts. Additional corrective action will be taken by the Department Head to regularly monitor all sales and inventory at the Tennis Complex.

C. Staff Person/s Responsible for implementing Corrective Action Plan:

The Administrative Services Director, Tennis Complex Department Head and Finance Department Staff Accountant will be responsible for the additional corrective actions. The Finance Director will monitor this Plan.

D. Time Frame for Completion/Implementation:

The Corrective Action Plan has already been implemented and evaluation of this Plan will be completed by January 31, 2011.

2010-3 Failure to Check for Suspended or Debarred Contractors

B. Actions Taken or Planned:

Management will implement a corrective action to require that all grant award documents are reviewed at time of award and a checklist specific to the individual grant will be created. This checklist will include the specific requirement to check for suspended and debarred contractors for all grants.

C. Staff Person/s Responsible for implementing Corrective Action Plan:

The Finance Department Staff Accountant assigned to grant management will be responsible for this corrective action. The Finance Director will monitor this Plan.

D. Time Frame for Completion/Implementation:

The Corrective Action Plan on this matter has already been implemented.

2010-4 Program Omitted from SEFA

B. Actions Taken or Planned:

Management and staff were aware that the Federal Transit-Metropolitan Planning grant had been awarded to the City; however, this award was inadvertently omitted on the SEFA provided by staff. The corrective action to avoid this in the future is to require that all grants are recorded in Special Revenue Fund 252 with the exception of the Community Development Block Grant which will continue to be recorded separately in Special Revenue Fund 261.

C. Staff Person/s Responsible for implementing Corrective Action Plan:

The Finance Department Staff Accountant assigned to grant management will be responsible for following this Corrective Action Plan and the Finance Director will monitor this Plan.

D. Time Frame for Completion/Implementation:

The Corrective Action Plan on this matter has already been implemented.