

City of Easley, South Carolina

**Annual Financial Statements and Independent Auditors' Report
For the Year Ended June 30, 2005**

**City of Easley, South Carolina
Annual Financial Report
For the Year Ended June 30, 2005**

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Byerley, Payne & White

MEMBER OF
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
AND
SOUTH CAROLINA ASSOCIATION
OF CERTIFIED PUBLIC ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANTS, P.A.
114 WEST NORTH FIRST STREET
SENECA, SC 29678
TELEPHONE: (864) 882-1937 FAX: (864) 882-1938
E-mail mpayne@dslx.net

NEIL E. BYERLEY (Retired)
MARK A. PAYNE, CPA
JASON S. WHITE, CPA

Independent Auditors' Report

To the Honorable Mayor and Council
City of Easley, South Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit (as of and for the year-ended March 31, 2005), each major fund, and the aggregate remaining fund information of the City of Easley, South Carolina, as of and for the year ended June 30, 2005 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 of Easley's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The basic financial statements of the Combined Utility System of Easley, a discretely presented component unit was audited by other auditors. The Utility had total assets of \$90,875,887 as of March 31, 2005, and total revenues of \$33,869,185 for the year then ended. Our opinion on the basic financial statements, insofar as it relates to the amounts included for the Combined Utility System of Easley in the discretely presented component unit column is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors on the Combined Utility System of Easley, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit (as of March 31, 2005), each major fund, and the aggregate remaining fund information of the City of Easley, South Carolina, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and pages 30 to 33, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding

the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Easley, South Carolina's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and other schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules, and other schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Byerley, Payne & White, CPA, PA

Byerley, Payne & White, CPA, PA

November 16, 2005

CITY OF EASLEY, SOUTH CAROLINA

Management's Discussion and Analysis

Management of the City of Easley herein offers this overview and analysis of financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the information in the audited financial statements.

Financial Highlights

The largest change in the City's financial position in FY 2005 was passage of a Hospitality Tax increase from 1 % to 2% to fund debt service on financing and construction of a new \$6,000,000 gymnasium. The new rate of 2% became effective June 1, 2005, and is applicable to prepared food and beverages served at restaurants, bars, and other prepared food establishments in the city. Receipts are received in the in the Hospitality Tax Fund.

A 15-year, \$6,000,000 lease purchase financing agreement was approved to finance construction of the gym. Net proceeds of \$5,985,451 are reported in the Recreation Gym Capital Projects Fund.

This project is expected to increase revenues from Accommodations Taxes, Hospitality taxes, and Business License fees through the attraction of tournaments and other special events which increase business activity.

Overview of the Financial Statements

The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements.

The *statement of net assets* presents information on all of the City of Easley's assets and liabilities, with the difference between the two reported as *net assets*.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year.

Both of the government-wide financial statements distinguish functions of the City that are supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (*business-type activities*). The governmental activities of the City of Easley include general government, public safety, judicial services, public works, and recreation and tourism. The business-type activity of the City of Easley is storm water.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate entity, Combined Utility System of Easley, which is required by law to provide financial reports to the City and obtain concurrence from the City Council prior to incurring indebtedness. The governing body of Combined Utility System of Easley consists of three commissioners who are elected in the general elections for municipal officers on a six-year staggered term basis. The board of commissioners has decision-making authority to increase rates, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10-11 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 Easley, 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 Easley can be divided into these categories: governmental funds and proprietary 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.

The City maintains the following individual governmental funds

- General Fund
- Community Development Fund
- Tax Increment Financing (TIF) Fund
- Capital Projects Fund (Gym)
- Other (Non-Major) Governmental Funds:
 - Debt Service Fund
 - Special Revenue Funds
 - Hospitality Tax
 - Fireman's Fund
 - Recreation Fund

The basic governmental fund financial statements can be found on pages 12-15 of this report.

Proprietary, or Enterprise Funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide statements. The City of Easley uses an enterprise fund to account for its storm water operations. The Storm Water Fund financial statements can be found on pages 16-18 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* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

The city of Easley has no operations that meet the definition of this fund type.

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 19-29 of this report.

Other Supplemental Information. In addition to the basic financial statements and accompanying notes, the report also presents certain *required supplementary information in this report*.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the basic financial statements as other supplemental information. Combining and individual fund statements and schedules can be found on pages 34-37 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 Easley, assets exceeded liabilities by \$14,142,848 at the close of fiscal year 2005.

The largest portion of the City's net assets (\$7,753,197 or 54 percent) reflects its investment in capital assets (e.g. land, building, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens, consequently; these assets are *not* available for future spending. Although the City of Easley'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.

The balance of unrestricted net assets, \$4,256,027, may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities. Governmental activities increased the City of Easley's Fund Balances by \$841,203 thereby accounting for 79% of the total growth in the net assets of the city. Key elements of this increase are lower than budgeted expenditures, operating grants and capital grants.

Business-type Activities. Business-type activities increased in City of Easley's net assets by \$212,893, accounting for 21% of the total growth in the government's net assets. Substantially all of the increase was due to lower than budgeted expenditures, both operating and capital.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. The *unreserved fund balance* is a measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of FY 2005, the City's governmental funds reported combined ending fund balances of \$12,546,396. Approximately 24 percent of this total amount, \$4,355,726 constitutes *unreserved fund balance*, which is available for spending at the government's discretion within the objectives of the fund.

Note that the \$4,355,726 unreserved fund balance includes \$750,416 in special revenue funds and \$592,099 in the Debt Service Fund, leaving \$3,013,211 available for other uses, including cash flow management.

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 of Easley. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,013,211, while total fund balance was \$3,265,814. 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 28 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount.

The fund balance of the City's General Fund decreased by \$632,935 during FY 2005. Components of this change were as follows:

- Expenditures exceeded revenue by \$480,409
- Capital leases provided \$273,040 in funding sources
- Interfund transfers (out) were (\$425,566).

Proprietary Funds. The City of Easley's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the storm water operations at the end of the year amounted to \$243,116. This was the second year of operation for this fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Easley's business-type activities.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget for the fiscal year ending June 30, 2005.

For the year, total revenues were under budget by \$43,704. Property taxes were \$122,182 under budget while fines and forfeitures were \$198,645 under budget. This was partially offset by licenses, permits and fees being \$295,497 over budget, largely due to business growth and enhanced collections.

Likewise, total expenditures were \$716,901 over budget due to those unbudgeted receipts for capital projects and property additions. Operating expenditures for the city departments were mostly over budget due to unrealistic budget cuts. Capital expenditures were over budget by \$565,187 due to payment in FY 2005 for a fire truck budgeted in FY 2004.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$14,187,604 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and improvements, machinery and equipment, park facilities, roads, and drainage facilities.

Details are provided in notes to the financial statements.

Long-term Debt. At the end of the current fiscal year, the City of Easley had total bonded debt outstanding of \$12,561,500 of which \$4,910,000 is debt backed by the full faith and credit of the government. However, \$2,335,000 of this was approved by voters for the recreation complex project, and is therefore exempt from the state 8 percent debt limitation.

Other debt includes \$7,001,500 is in various lease-purchase agreements, including a \$6,000,000 agreement issued during FY 2005 for construction of a new gymnasium.

The City of Easley maintains an A3 rating from Moody's on all its debt by way of debt service insurance. The equivalent for other rating firms is A-.

State statutes limit the amount of general obligation debt a governmental entity may issue, without a referendum, to 8 percent of its total assessed valuation, which is approximately \$66,888,000. The current debt limitation for the City is \$5,351,040, which is significantly in excess of the City of Easley's non-exempt outstanding general obligation debt of \$2,575,000.

Additional information on the City of Easley's long-term debt can be found in notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The local economy has not experienced the full impact of the recent national recessions.

As we can see in the following discussions of growth in each of the City's budgets, Easley has a dynamic and growing economy. The main issue with the budget is that the growth is taxing the City's ability to finance services without new sources of revenue.

General Fund

Property tax growth from new construction is estimated at \$118,918 based on \$41.7 million of new construction completed the prior year. This is the largest growth the city has experienced over the past several years.

Unfortunately, tax revenues from growth have not covered cost increases. The Consumer Price Index (CPI) is up 9.7% since 2001. With a budget of approximately \$10 million, this means that the City of Easley needs at least \$970,000 more to provide the same services provided in 2001.

While costs are going up, state mandates are reducing revenues. Vehicle taxes at \$440,000 next year are some \$175,000 lower than they would have been if the assessment ratio were still 10.5% rather than the 2005 rate of 7.5%. By the year 2007 when the 6% assessment rate is in effect this mandate will be costing the city approximately \$300,000 annually in lost revenue, equivalent to almost 6 mills today.

The following increased costs in prior years were absorbed without any new revenues by selectively cutting or eliminating other line items in the budget.

- Fire ladder Truck, annual lease/purchase payments - \$ 47,753
 - Workers Compensation 65% cost increase.....- 110,413
 - New fireman position, with fringe benefits..... - 33,529
 - New detective position, with fringe benefits - 36,034
- TOTAL \$ 227,729

FY 2006 was also a reassessment year in Pickens County, with all real estate being brought up to true market value as of January 1, 2005. State law requires that millage rates be reduced to eliminate any windfall revenue from occurring. After the required rollback to 56.5 mills, property taxes were subsequently increased to 59.2 mills by majority vote of City Council. This was the first tax increase for general operations in more than 20 years.

Total General Fund budgeted expenditures for FY 2006 are \$10,727,290. Personnel is the largest expense in the budget, accounting for 56% of total expenditures. A 4% cost of living increase is included in the budget.

Debt service on the recreation and law enforcement bonds is \$551,963 for FY 2006. Lease-Purchase payments total \$315,725.

Major (over \$10,000) capital expenditures include \$50,000 for 2 police vehicles and equipment, and \$110,000 for a sanitation leaf truck.

County Road Fee and C-Fund projects total \$580,827 compared to \$440,000 budgeted last year. Revenues are recognized when expenditures are reimbursed by Pickens County. Note that as of October 1, 2005 Pickens County froze expenditure of Road Fee funds without first obtaining specific project approval.

With overall revenues and expenditures of \$10,727,290 the FY 2006 budget is in balance. Some \$961,000 in requests was not funded. City Departments are struggling to keep up with the demands of growth being placed upon them. There are over 2,000 new residential units on the drawing boards, which is approximately a 25 percent increase in service demand.

Hospitality Tax Fund

This fund accounts for the receipt and expenditure of the 2% hospitality tax. These revenues must be used for tourism related activities, and have been essentially dedicated to the development of the recreation complex. Additionally, grants and contributions for development of the park are accounted through this fund.

FY 2006 revenues are projected to total \$1,071,226. A \$6,000,000 gymnasium is to be constructed with lease purchase financing. Proposed expenditures include \$40,000 for preliminary architectural/engineering services, \$671,450 for debt service, and \$755,000 for capital construction and other improvements at the recreation complex.

Community Development Fund

Revenues of the Community Development Fund come from repayment of housing loans financed with older unrestricted HUD Community Development grants. The amounts available can be used for any legitimate city use. Recommended FY 2006 expenditures total \$39,000, coming from fund balance plus \$31,089 in revenues.

Recreation Fund

Revenues of this fund include city recreation programs (football, soccer, cheerleading, etc.), tournament and other activities, concession sales, field rentals, and other revenues received for recreation activities. All expenditures are in relation to the above.

For FY 2006 revenues are projected at \$256,100 and expenditures are proposed at \$251,500, including \$120,000 for concessions, and \$131,500 for sports/events and other.

TIF Fund

This is the third year of the TIF Fund which includes tax increment revenues from new developments in the downtown re-development, or TIF area. A special revenue bond in the amount of \$650,000 was obtained in FY 2004 to finance costs of architect, engineering, and legal fees, and Phase I property acquisition and capital improvements in the Old Easley High School block. Tax revenues expected to be received in this fund are from those new developments in the area that come on the tax books on or after January 1, 2004.

FY 2006 revenues are expected to be \$50,100 including interest. The only budgeted expenditure for FY2006 is debt service in the amount of \$43,900. Additional Phase I development costs exceeding available revenue bond financing are financed by and due to the General Fund.

Storm Water Fund

The Storm Water Fund is entering its third year. This is a Federal/State mandated program. A permit submitted to DHEC outlines the six main points of the City's program, including public education, public involvement, illicit discharge detection and elimination, construction site monitoring, post construction monitoring, and pollution prevention. A Storm Water Manager is employed to manage the program.

FY 2006 proposed expenditures total \$316,963 and includes \$116,963 for operating expenses and \$200,000 for capital drainage projects.

These costs are funded by storm water fees, as has been implemented by most other jurisdictions. Fees are \$24 per year for residences, or equivalent properties (5,000 sq. ft. impervious surface), billed on the county tax bill.

Summary

All funds are in balance. However, reductions or deferrals have been made which sooner or later must be addressed with new revenues. Otherwise continued strong growth will overload existing systems resulting in level of service declines.

Requests for Information

This financial report is designed to provide a general overview of the City of Easley'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 City Administrator, City of Easley, P.O. Box 466, Easley, South Carolina, 29641. Email inquires should be addressed to cityhall@Easley-sc.org. The City's webpage maybe found at www.cityofeasley.org

GOVERNMENT - WIDE FINANCIAL STATEMENTS

City of Easley, South Carolina
Statement of Net Assets
June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Combined Utility System of Easley FYE 3/31/05
Assets				
Cash and Other Cash Deposits	\$ 4,846,659	\$ -	\$ 4,846,659	\$ 7,369,143
Accounts Receivable	449,127	1,176	450,303	2,337,777
Rehabilitation Loans Receivable	1,044,823	-	1,044,823	-
Other Receivables	11,205	-	11,205	-
Property Taxes Receivable	51,483	-	51,483	-
Accrued Interest Receivable	81	-	81	-
Interfund Balances	(243,268)	243,268	-	-
Inventories	182,583	-	182,583	829,613
Prepaid Items	78,220	-	78,220	48,753
Restricted Assets:				
Cash and Other Cash Deposits	6,345,566	-	6,345,566	5,684,748
Bond Issue Cost, Net	-	-	-	968,050
Capital Assets:				
Non Depreciable	3,575,656	-	3,575,656	20,328,322
Depreciable	16,545,525	209,423	16,754,948	90,947,634
Less Accumulated Depreciation	(6,133,712)	(9,288)	(6,143,000)	(37,638,153)
Total Assets	<u>26,753,948</u>	<u>444,579</u>	<u>27,198,527</u>	<u>90,875,887</u>
Liabilities				
Accounts Payable	-	-	-	2,708,671
Other Payables	9,160	-	9,160	-
Accrued Salaries	142,520	1,045	143,565	-
Employee Benefits Withheld and Accrued	68,403	147	68,550	56,089
Accrued Interest Payable	96,129	-	96,129	563,566
Retainage Payable	-	-	-	794,418
Interest Rate Swap	-	-	-	192,705
Customer Deposits	-	-	-	915,675
Waste Water Contracts Payable	-	-	-	242,142
Non-Current Liabilities:				
Due Within One Year:				
Compensated Absences	17,664	17	17,681	19,700
Capital Leases Payable	574,180	-	574,180	414,134
Bonds Payable	340,000	-	340,000	965,000
Due in More Than One Year:				
Compensated Absences	158,976	119	159,095	177,300
Capital Leases Payable	6,427,319	-	6,427,319	1,295,239
Bonds Payable	5,220,000	-	5,220,000	33,890,894
Total Liabilities	<u>13,054,351</u>	<u>1,328</u>	<u>13,055,679</u>	<u>42,235,533</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	7,553,062	200,135	7,753,197	40,881,244
Restricted For:				
Capital Projects	-	-	-	1,986,934
Debt Service	510,439	-	510,439	-
Judicial Services	45,982	-	45,982	-
Public Safety	69,866	-	69,866	-
Recreation and Tourism	932,642	-	932,642	-
Community Development	574,695	-	574,695	-
Unrestricted	4,012,911	243,116	4,256,027	5,772,176
Total Net Assets	<u>\$ 13,699,597</u>	<u>\$ 443,251</u>	<u>\$ 14,142,848</u>	<u>\$ 48,640,354</u>

The accompanying notes are an integral part of the financial statements.

City of Easley, South Carolina
Statement of Activities
For the Year Ended June 30, 2005

Function/Program Activities	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			Component Unit Combined Utility System of Easley FYE 3/31/05	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities		Total
Primary Government:								
Governmental Activities:								
General Government	\$ 1,057,914	\$ 2,420,245	\$ -	\$ -	1,362,331	\$ -	\$ 1,362,331	\$ -
Judicial Services	709,433	635,893	-	-	(73,540)	-	(73,540)	-
Public Safety	4,127,373	744,821	113,910	-	(3,268,642)	-	(3,268,642)	-
Public Works	2,550,994	7,531	-	390,503	(2,152,960)	-	(2,152,960)	-
Recreation and Tourism	1,487,590	253,377	-	-	(1,234,213)	-	(1,234,213)	-
Community Development	438,400	-	-	318,029	(120,371)	-	(120,371)	-
Interest on Long-Term Debt	310,971	-	-	-	(310,971)	-	(310,971)	-
Total Governmental Activities	<u>10,682,675</u>	<u>4,061,867</u>	<u>113,910</u>	<u>708,532</u>	<u>(5,798,366)</u>	<u>-</u>	<u>(5,798,366)</u>	<u>-</u>
Business - Type Activities:								
Storm Water	87,163	300,056	-	-	-	212,893	212,893	-
Total Business - Type Activities	<u>87,163</u>	<u>300,056</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,893</u>	<u>212,893</u>	<u>-</u>
Total Primary Government	<u>\$ 10,769,838</u>	<u>\$ 4,361,923</u>	<u>\$ 113,910</u>	<u>\$ 708,532</u>	<u>(5,798,366)</u>	<u>212,893</u>	<u>(5,585,473)</u>	<u>-</u>
Component Unit (FYE 3/31/05):								
Combined Utility System of Easley	\$ 31,154,952	\$ 32,713,878	\$ -	\$ -	-	-	-	1,558,926
Total Component Units	<u>\$ 31,154,952</u>	<u>\$ 32,713,878</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,558,926</u>
General Revenues:								
Taxes:								
Property Taxes, Levied for General Purposes					2,298,491	-	2,298,491	-
Local Option Sales Tax					1,536,053	-	1,536,053	-
Hospitality Tax					551,576	-	551,576	-
State Accommodation Taxes					50,211	-	50,211	-
Payments in Lieu of Taxes and Franchise Fees					1,649,929	-	1,649,929	-
Grants and Contributions not Restricted to Specific Programs					480,750	-	480,750	-
Interest Income					50,344	-	50,344	321,716
Miscellaneous					22,215	-	22,215	-
Capital Contributions					-	-	-	833,591
Total General Revenues and Transfers					<u>6,639,569</u>	<u>-</u>	<u>6,639,569</u>	<u>1,155,307</u>
Change in Net Assets					<u>841,203</u>	<u>212,893</u>	<u>1,054,096</u>	<u>2,714,233</u>
Net Assets, Beginning					<u>12,824,312</u>	<u>230,358</u>	<u>13,054,670</u>	<u>45,926,121</u>
Prior Period Adjustment					<u>34,082</u>	<u>-</u>	<u>34,082</u>	<u>-</u>
Net Assets, Ending					<u>\$ 13,699,597</u>	<u>\$ 443,251</u>	<u>\$ 14,142,848</u>	<u>\$ 48,640,354</u>

The accompanying notes are an integral part of the financial statements.

FUND FINANCIAL STATEMENTS

City of Easley, South Carolina
 Balance Sheet
 Governmental Funds
 June 30, 2005

	General Fund	Community Development Special Revenue Fund	TIF Special Revenue Fund	Recreation Gym Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and Other Cash Deposits	\$2,997,739	\$ 318,267	\$ -	\$ -	\$ 1,530,653	\$ 4,846,659
Restricted Assets - Cash and Other Cash Deposits	174,383	-	185,732	5,985,451	-	6,345,566
Accounts Receivable	317,850	-	-	-	131,277	449,127
Rehabilitation Loans Receivable	-	1,044,823	-	-	-	1,044,823
Other Receivables	-	11,205	-	-	-	11,205
Property Taxes Receivable	51,483	-	-	-	-	51,483
Accrued Interest Receivable	26	55	-	-	-	81
Interfund Balances	102,814	-	-	-	-	102,814
Inventories	-	182,583	-	-	-	182,583
Prepaid Items	78,220	-	-	-	-	78,220
Total Assets	<u>\$3,722,515</u>	<u>\$ 1,556,933</u>	<u>\$ 185,732</u>	<u>\$ 5,985,451</u>	<u>\$ 1,661,930</u>	<u>\$ 13,112,561</u>
Liabilities and Fund Balances						
Liabilities:						
Accrued Salaries	\$ 142,520	\$ -	\$ -	\$ -	\$ -	\$ 142,520
Employee Benefits Withheld and Accrued	68,403	-	-	-	-	68,403
Other Payables	2,510	6,650	-	-	-	9,160
Interfund Balances	243,268	-	72,187	-	30,627	346,082
Total Liabilities	<u>456,701</u>	<u>6,650</u>	<u>72,187</u>	<u>-</u>	<u>30,627</u>	<u>566,165</u>
Fund Balances:						
Reserves For:						
Capital Assets	33,686	-	-	5,985,451	-	6,019,137
Public Safety	69,866	-	-	-	-	69,866
Judicial Services	45,982	-	-	-	-	45,982
Prepaid Items	78,220	-	-	-	-	78,220
Noncurrent Receivables	-	1,044,823	-	-	-	1,044,823
Recreation and Tourism	24,849	-	-	-	907,793	932,642
Unreserved	3,013,211	-	-	-	-	3,013,211
Unreserved Reported in:						
Special Revenue Funds	-	505,460	113,545	-	131,411	750,416
Debt Service Fund	-	-	-	-	592,099	592,099
Total Fund Balances	<u>3,265,814</u>	<u>1,550,283</u>	<u>113,545</u>	<u>5,985,451</u>	<u>1,631,303</u>	<u>12,546,396</u>
Total Liabilities and Fund Balances	<u>\$3,722,515</u>	<u>\$ 1,556,933</u>	<u>\$ 185,732</u>	<u>\$ 5,985,451</u>	<u>\$ 1,661,930</u>	<u>\$ 13,112,561</u>

The accompanying notes are an integral part of the financial statements.

City of Easley, South Carolina
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2005

Fund balances - total governmental funds		\$ 12,546,396
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital assets	\$ 20,121,181	
Less accumulated depreciation	<u>(6,133,712)</u>	13,987,469
<p>Long-term and other liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Governmental bonds payable	(5,560,000)	
Capital leases payable	(7,001,499)	
Interest payable	(96,129)	
Compensated absences	<u>(176,640)</u>	<u>(12,834,268)</u>
Net assets of governmental activities		<u><u>\$ 13,699,597</u></u>

The accompanying notes are an integral part of the financial statements.

City of Easley, South Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Community Development Special Revenue Fund	TIF Special Revenue Fund	Recreation Gym Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$ 2,237,322	\$ -	\$ 61,169	\$ -	\$ -	\$ 2,298,491
Intergovernmental Revenues	2,575,681	318,029	-	-	63,777	2,957,487
Licenses, Permits and Fees	3,053,463	-	-	-	253,377	3,306,840
Hospitality Tax	-	-	-	-	551,576	551,576
Fines and Forfeitures	651,355	-	-	-	-	651,355
Miscellaneous and Other	51,959	1,350	-	-	646	53,955
Payments in Lieu of Taxes and Franchise Fees	1,655,180	-	-	-	-	1,655,180
Interest Income	11,350	30,084	5,882	451	1,227	48,994
Total Revenues	<u>10,236,310</u>	<u>349,463</u>	<u>67,051</u>	<u>451</u>	<u>870,603</u>	<u>11,523,878</u>
Expenditures						
Current Operating:						
General Government	1,019,287	-	-	-	-	1,019,287
Judicial Services	686,470	-	-	-	-	686,470
Public Safety	3,797,149	-	-	-	54,392	3,851,541
Public Works	2,382,520	-	24,235	-	-	2,406,755
Recreation and Tourism	1,017,615	-	-	15,000	258,794	1,291,409
Community Development	-	396,775	-	-	-	396,775
Capital Expenditures	1,519,934	-	461,218	-	355,062	2,336,214
Debt Service:						
Principal Retirement	260,606	-	-	-	295,000	555,606
Interest and Fiscal Charges	33,138	-	24,030	-	259,686	316,854
Total Expenditures	<u>10,716,719</u>	<u>396,775</u>	<u>509,483</u>	<u>15,000</u>	<u>1,222,934</u>	<u>12,860,911</u>
Excess (Deficiency) of Revenues Over Expenditures	(480,409)	(47,312)	(442,432)	(14,549)	(352,331)	(1,337,033)
Other Financing Sources and (Uses)						
Face Amount of Bonds and Capital Leases	273,040	-	-	6,000,000	-	6,273,040
Interfund Transfers In	-	-	-	-	425,566	425,566
Interfund Transfers (Out)	(425,566)	-	-	-	-	(425,566)
Net Change in Fund Balances	<u>(632,935)</u>	<u>(47,312)</u>	<u>(442,432)</u>	<u>5,985,451</u>	<u>73,235</u>	<u>4,936,007</u>
Fund Balances, Beginning	3,898,749	1,597,595	555,977	-	1,523,125	7,575,446
Prior Period Adjustment	-	-	-	-	34,943	34,943
Fund Balances, Ending	<u>\$ 3,265,814</u>	<u>\$ 1,550,283</u>	<u>\$ 113,545</u>	<u>\$ 5,985,451</u>	<u>\$ 1,631,303</u>	<u>\$ 12,546,396</u>

The accompanying notes are an integral part of the financial statements.

City of Easley, South Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Governmental Funds
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 4,936,007

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	\$ 2,336,214	
Less current year depreciation	<u>(716,787)</u>	1,619,427

Face amount of bonds and capital leases payable provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeds repayments.

Face amount of bonds and capital leases	(6,273,040)	
Principal payments	<u>555,606</u>	(5,717,434)

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.

Change in long-term compensated absences	(2,680)	
Change in accrued interest on bonds and capital leases payable	<u>5,883</u>	<u>3,203</u>

Change in net assets of governmental activities		<u><u>\$ 841,203</u></u>
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The accompanying notes are an integral part of the financial statements.

City of Easley, South Carolina
Statement of Net Assets
Proprietary Fund
June 30, 2005

	Storm Water Fund
Assets	
Current Assets:	
Accounts Receivable	\$ 1,176
Interfund Balance	243,268
Total Current Assets	244,444
Non-Current Assets:	
Capital Assets:	
Equipment and Vehicles	20,463
Infrastructure	188,960
Less Accumulated Depreciation	(9,288)
Total Non-Current Assets	200,135
Total Assets	444,579
Liabilities	
Current Liabilities:	
Accrued Salaries	1,045
Employee Benefits Withheld and Accrued	147
Compensated Absences	17
Total Current Liabilities	1,209
Non-Current Liabilities:	
Compensated Absences	119
Total Non-Current Liabilities	119
Total Liabilities	1,328
Net Assets	
Invested in Capital Assets, Net of Related Debt	200,135
Unrestricted	243,116
Total Net Assets	\$ 443,251

The accompanying notes are an integral part of the financial statements.

City of Easley, South Carolina
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2005

	Storm Water Fund
Operating Revenues	
Stormwater Fees	\$ 300,056
Total Operating Revenues	300,056
Operating Expenses	
Salaries, Wages and Employee Benefits	39,665
Contractual Services, Materials, Supplies and Other Expenses	38,601
Depreciation Expense	8,897
Total Operating Expenses	87,163
Change in Net Assets	212,893
Net Assets, Beginning	230,358
Net Assets, Ending	\$ 443,251

The accompanying notes are an integral part of the financial statements.

City of Easley, South Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005

	Storm Water Fund
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operations:	
Receipts from Customers	\$ 220,849
Payments to Employees and Related Benefits	(40,248)
Payments to Suppliers	(38,601)
Net Cash Provided by (Used in) Operating Activities	142,000
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(142,000)
Net Cash Flows from Capital and Related Financing Activities	(142,000)
Net Increase (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	-
Cash and Cash Equivalents at End of Year	\$ -
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Change in Net Assets	\$ 212,893
Adjustments Not Affecting Cash:	
Depreciation	8,897
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	41,085
(Increase) Decrease in Interfund Balances	(120,292)
Increase (Decrease) in Accrued Liabilities	(84)
Increase (Decrease) in Compensated Absences	(499)
Total Adjustments	(70,893)
Net Cash Provided by (Used in) Operating Activities	\$ 142,000

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The City of Easley operates under a mayor-council form of government. For financial statement reporting purposes, the City has divided its operations into the functions of general government, judicial services, public safety, public works, recreation and tourism, and community development.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. This year the City has implemented the new reporting standards as required by GASB Statement 34.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The definition of a reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. Based upon the application of these criteria, the following is considered a component unit for financial reporting purposes.

Included in the reporting entity:

Combined Utility System of Easley

The Combined Utility System of Easley is fiscally dependent upon the City. It is governed by a separately elected commission and provides utility services to the residents of the City of Easley. Per Title 5 of the South Carolina Codes of Laws, all debt of the Utility must be approved by City Council before being issued. It is audited annually by other auditors and a copy of its financial statements for the year ended March 31, 2005 can be obtained from the Utility's office.

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the City) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

Fund Financial Statements: The fund financial statements provide information about the City's funds. Separate statements for each fund category—*governmental and proprietary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

TIF Special Revenue Fund. This fund accounts for the resources accumulated and payments made for principal and interest on the City's downtown renovation bonds as well as all the activities related to the project.

Community Development Special Revenue Fund. This fund accounts for the lending and collecting activity related to various community development projects within the City.

Recreation Gym Capital Projects Fund. This fund accounts for the construction costs related to the Recreation Gym project.

The City reports the following major enterprise fund:

Storm Water Fund. This fund accounts for the City's storm water operations.

C. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property, sales, franchise, and hospitality taxes, licenses, and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants. Thus, when program expenses are incurred, there are both restricted and

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

Governmental Fund Financial Statements (continued)

unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by general revenues.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Receivables

All accounts receivable and property tax receivables are shown net of an allowance for uncollectibles.

E. Inventories

Lots held for resale are reported at cost in the community development special revenue fund.

F. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

G. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>	<u>Capitalization Level</u>
Buildings and Improvements	10-39	\$ 15,000
Equipment and Vehicles	5-15	\$ 5,000
Road Infrastructure	25	\$ 25,000
Storm Water Infrastructure	30	\$ 25,000

H. Compensated Absences

The City accrues accumulated unpaid vacation when earned by the employee. The current portion is the amount estimated to be used in the following year. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

I. Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

J. Use of Estimates

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

Note 2 – Detail Notes – All Funds

A. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$11,035,403 of the City's bank balances of \$11,511,872 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 11,035,403</u>
Total	<u><u>\$ 11,035,403</u></u>

B. Property Taxes

Property taxes attach as an enforceable lien on real property as of January 1, and on motor vehicles during the month of the annual renewal. Real property taxes are levied on October 1 and are due and payable by January 15 of the following year. All unpaid taxes become delinquent March 15 of the following year. The County bills and collects the taxes for the City.

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

C. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Capital Assets not being				
 Depreciated:				
Land	\$ 2,369,549	\$ 433,527	\$ -	\$ 2,803,076
Infrastructure Land Rights and Other Cost	400,366	281,803	-	682,169
Construction in Progress	-	90,411	-	90,411
Total Capital Assets not being Depreciated	<u>2,769,915</u>	<u>805,741</u>	<u>-</u>	<u>3,575,656</u>
Capital Assets being Depreciated:				
Buildings and Improvements	9,705,077	97,691	-	9,802,768
Equipment and Vehicles	4,915,905	1,088,357	(95,267)	5,908,995
Infrastructure - Roads	489,336	344,426	-	833,762
Total Capital Assets being Depreciated	<u>15,110,318</u>	<u>1,530,474</u>	<u>(95,267)</u>	<u>16,545,525</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(2,645,566)	(261,308)	-	(2,906,874)
Equipment and Vehicles	(2,859,768)	(424,430)	90,344	(3,193,854)
Infrastructure - Roads	(1,935)	(31,049)	-	(32,984)
Total Accumulated Depreciation	<u>(5,507,269)</u>	<u>(716,787)</u>	<u>90,344</u>	<u>(6,133,712)</u>
Total Capital Assets being Depreciated, Net	<u>9,603,049</u>	<u>813,687</u>	<u>(4,923)</u>	<u>10,411,813</u>
Governmental Activities Capital Assets, Net	<u>\$12,372,964</u>	<u>\$ 1,619,428</u>	<u>\$ (4,923)</u>	<u>\$ 13,987,469</u>

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

Capital Assets (continued)

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Business-Type Activities:				
Capital Assets not being				
 Depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	-	-	-	-
Total Capital Assets not being Depreciated	-	-	-	-
Capital Assets being Depreciated:				
Buildings and Improvements	-	-	-	-
Equipment and Vehicles	20,463	-	-	20,463
Infrastructure - Storm Water	46,960	142,000	-	188,960
Total Capital Assets being Depreciated	67,423	142,000	-	209,423
Less Accumulated Depreciation for:				
Buildings and Improvements	-	-	-	-
Equipment and Vehicles	-	(4,093)	-	(4,093)
Infrastructure - Storm Water	(391)	(4,804)	-	(5,195)
Total Accumulated Depreciation	(391)	(8,897)	-	(9,288)
Total Capital Assets being Depreciated, Net	67,032	133,103	-	200,135
Business-Type Activities Capital Assets, Net	\$ 67,032	\$ 133,103	\$ -	\$ 200,135

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 36,495
Judicial Services	25,665
Public Safety	278,062
Public Works	137,869
Recreation and Tourism	197,071
Community Development	41,625
Total Depreciation Expense	\$ 716,787

D. Retirement Plans

The City of Easley contributes to the South Carolina Retirement System (SCRS) and to the Police Officers Retirement System (PORS), cost-sharing multiple-employer defined benefit pension plans administered by the State Budget and Control Board of South Carolina. SCRS and PORS provide retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. These benefit provisions are established under the authority of Title 9 of the SC Code of Laws. The SCRS and PORS

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

Retirement Plans (continued)

issue a publicly available financial report that includes financial statements and required supplementary information for the retirement systems. These reports may be obtained by writing to South Carolina Retirement System, Post Office Box 11960, Capitol Station, Columbia, South Carolina 29211-1960.

SCRS and PORS members are required to contribute 6.00% and 6.50% respectively of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rates for SCRS and PORS are 6.85% and 10.70% respectively of annual covered payroll. These percentages include amounts for group life and accidental death coverage. For the year ended June 30, 2005, \$4,035,102 of wages were subject to retirement, which is 98.9% of total salaries of \$4,077,569. The contribution requirements of plan members and the City are established and may be amended by the SCRS and PORS. The City's contributions to SCRS and PORS for the years ended June 30, 2005, 2004, 2003 were as follows:

	<u>SCRS</u>	<u>PORS</u>
2005	\$ 145,238	\$ 192,340
2004	\$ 145,205	\$ 189,503
2003	\$ 136,398	\$ 187,895

The above contributions are equal to the required contributions for each year.

E. Long-Term Obligations

Revenue bonds and other long-term liabilities directly related to and intended to be paid from proprietary funds of the primary government are included in the accounts of such funds. All other long-term indebtedness of the primary government is accounted for in the governmental column of the government-wide statement of net assets.

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

Long-Term Obligations (continued)

Summarized below are the City's individual bond and capital lease issues which are outstanding at June 30, 2005:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate	Maximum Annual Debt Service
Governmental Activities:					
General Obligation Bonds, Series 1996	Finance Construction of Recreation Complex	\$ 3,300,000	\$ 2,335,000	4.50 - 6.50%	\$ 294,560
General Obligation Bonds, Series 2000	Finance Construction of Law Enforcement Center	3,000,000	2,575,000	4.125 - 6.125%	287,119
Tax Increment Bond, Series 2004	Finance Construction of Downtown Improvements	650,000	650,000	3.440%	77,580
Capital Lease Payable	Acquire Fire Truck	549,865	521,703	3.660%	48,287
Capital Lease Payable	Acquire Vehicles/Equipment	372,255	127,592	2.853%	131,232
Capital Lease Payable	Acquire Police Vehicles	117,255	79,165	2.590%	41,127
Capital Lease Payable	Acquire Vehicles/Equipment	273,040	273,040	3.020%	96,565
Capital Lease Payable	Construct Recreation Complex	<u>6,000,000</u>	<u>6,000,000</u>	4.040%	556,614
Total Governmental Activities		<u>\$ 14,262,415</u>	<u>\$12,561,500</u>		

**City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005**

Long-Term Obligations (continued)

Long-term activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds and Capital Leases Payable:					
General Obligation and Other Bonds	\$ 5,855,000	\$ -	\$ (295,000)	\$ 5,560,000	\$ 340,000
Capital Leases Payable	993,126	6,273,040	(264,666)	7,001,500	574,180
Total Bonds and Capital Leases Payable	<u>6,848,126</u>	<u>6,273,040</u>	<u>(559,666)</u>	<u>12,561,500</u>	<u>914,180</u>
Other Liabilities - Compensated Absences	173,960	8,502	(5,822)	176,640	17,664
Governmental Activities Long-term Liabilities	<u>\$ 7,022,086</u>	<u>\$ 6,281,542</u>	<u>\$ (565,488)</u>	<u>\$ 12,738,140</u>	<u>\$ 931,844</u>
Business - Type Activities:					
Bonds Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total Bonds Payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Liabilities:					
Compensated Absences	635	-	(499)	136	14
Total Other Liabilities	<u>635</u>	<u>-</u>	<u>(499)</u>	<u>136</u>	<u>14</u>
Business-Type Activities Long-term Liabilities	<u>\$ 635</u>	<u>\$ -</u>	<u>\$ (499)</u>	<u>\$ 136</u>	<u>\$ 14</u>

The City's general and debt service funds are used to liquidate the governmental activities long-term liabilities. Debt service requirements in future years for bonds and capital leases payable are as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>			<u>Business-Type Activities</u>			<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Primary Government</u>
2006	\$ 914,180	\$ 500,903	\$ 1,415,083	\$ -	\$ -	\$ -	\$ 1,415,083
2007	816,336	501,488	1,317,824	-	-	-	1,317,824
2008	825,103	465,282	1,290,385	-	-	-	1,290,385
2009	777,517	427,773	1,205,290	-	-	-	1,205,290
2010	813,707	390,816	1,204,523	-	-	-	1,204,523
2011-2015	4,742,967	1,361,025	6,103,992	-	-	-	6,103,992
2016-2020	3,671,690	374,733	4,046,423	-	-	-	4,046,423
Total	<u>\$ 12,561,500</u>	<u>\$ 4,022,020</u>	<u>\$ 16,583,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,583,520</u>

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

F. Interfund Balances and Activity

The following schedule represents interfund receivables and payables at June 30, 2005:

	Interfund Receivable	Interfund Payable
Primary Government:		
By Major Fund:		
General	\$ 102,814	\$ 243,268
Storm Water Fund	243,268	-
TIF Special Revenue Fund	-	72,187
Recreation Fund	-	30,627
Total Primary Government	\$ 346,082	\$ 346,082

All of the above amounts will be liquidated within one year and represent short-term loans between funds to provide needed cash flow to the various funds.

Transfers to/from other funds for the year ended June 30, 2005 consisted of the following:

<u>\$ 425,566</u>	From the general fund to the debt service fund to pay current year debt service obligations.
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G. Contingent Liabilities

The City participates in a few federal grant programs. These programs are subject to compliance audits by grantors or their representatives. The audits of these programs for or including the year ended June 30, 2005 have not yet been conducted; therefore, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Effective January 1, 1978, the State of South Carolina extended unemployment insurance coverage to municipalities. The City elected to reimburse the unemployment fund for only those benefits actually paid rather than make contributions to the unemployment fund. The amount of any benefits that would become due in the future and, therefore, be required to be reimbursed by the City is not determinable. The City is of the opinion that the ultimate liability, if any, at June 30, 2005, will not have a material effect on the net assets of the City.

H. 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; injuries to employees; and natural disasters. Commercial insurance is carried for all these risks. Settled claims resulting from these risks have not exceeded the insurance coverage limits in any of the past three fiscal years.

City of Easley, South Carolina
Notes to Financial Statements
For the Year Ended June 30, 2005

I. Rehabilitation Loans

The City has \$1,044,823 outstanding in rehabilitation loans. These loans were funded by grants from the Federal Government, and the repayment of these loans by the borrowers belongs to the City for use to further develop and improve Easley. The City currently has 82 individual loans outstanding. These loans are for a period of twenty years, at an annual interest rate of three percent (3%). The City also has 5 business loans outstanding. These loans were for the purpose of improving the beautification of downtown by providing three percent (3%) interest loans to remodel the storefronts, and to provide money for facades. All loans are secured by real estate.

J. Prior Period Adjustment

During the year, the City made prior period adjustments totaling \$34,943 in the hospitality tax special revenue fund. These adjustments brought certain expense and revenue accounts into conformity with the modified accrual basis of accounting and full accrual basis of accounting. In order to properly reflect the prior period adjustments using the full accrual basis of accounting, certain numbers were altered to reflect a total prior period adjustment of \$34,082 in the statement of activities.

**REQUIRED SUPPLEMENTAL INFORMATION
OTHER THAN MD&A**

City of Easley, South Carolina
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property Taxes	\$ 2,359,504	\$ 2,359,504	\$ 2,237,322	\$ (122,182)
Intergovernmental Revenues	2,652,829	2,652,829	2,575,681	(77,148)
Licenses, Permits and Fees	2,757,966	2,757,966	3,053,463	295,497
Fines and Forfeitures	850,000	850,000	651,355	(198,645)
Miscellaneous and Other	62,940	62,940	51,959	(10,981)
Payments in Lieu of Taxes and Franchise Fees	1,585,600	1,585,600	1,655,180	69,580
Interest Income	11,175	11,175	11,350	175
Total Revenues	<u>10,280,014</u>	<u>10,280,014</u>	<u>10,236,310</u>	<u>(43,704)</u>
Expenditures				
Current Operating:				
General Government:				
General Government	239,474	239,474	255,275	(15,801)
Council	83,304	83,304	69,923	13,381
Finance	387,095	387,095	464,459	(77,364)
Building Official	222,386	222,386	229,630	(7,244)
Judicial Services:				
Court	631,946	631,946	638,292	(6,346)
Victim's Rights	57,481	57,481	48,178	9,303
Public Safety:				
Police	2,328,479	2,328,479	2,353,659	(25,180)
Fire	1,374,684	1,374,684	1,442,583	(67,899)
Animal Control	660	660	907	(247)
Public Works:				
Streets	1,332,378	1,332,378	1,362,060	(29,682)
Sanitation	1,101,825	1,101,825	993,742	108,083
Cemetery	31,809	31,809	26,718	5,091
Recreation and Tourism:				
Recreation	943,963	943,963	1,017,615	(73,652)
Capital Expenditures	954,747	954,747	1,519,934	(565,187)
Debt Service:				
Principal Retirement	267,614	267,614	260,606	7,008
Interest and Fiscal Charges	41,973	41,973	33,138	8,835
Total Expenditures	<u>9,999,818</u>	<u>9,999,818</u>	<u>10,716,719</u>	<u>(716,901)</u>
Excess (Deficiency) of Revenues Over Expenditures	280,196	280,196	(480,409)	(760,605)
Other Financing Sources (Uses)				
Face Amount of Bonds and Capital Leases	273,020	273,020	273,040	20
Interfund Transfers (Out)	(553,216)	(553,216)	(425,566)	127,650
Net Change in Fund Balances	-	-	(632,935)	(632,935)
Fund Balances, Beginning	3,898,749	3,898,749	3,898,749	-
Prior Period Adjustment	-	-	-	-
Fund Balances, Ending	<u>\$ 3,898,749</u>	<u>\$ 3,898,749</u>	<u>\$ 3,265,814</u>	<u>\$ (632,935)</u>

The accompanying notes are an integral part of the financial statements.

**City of Easley, South Carolina
 Budgetary Comparison Schedule
 Community Development Special Revenue Fund
 For the Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental Revenues	\$ -	\$ -	\$ 318,029	\$ 318,029
Miscellaneous and Other	43,000	43,000	1,350	(41,650)
Interest Income	-	-	30,084	30,084
Total Revenues	<u>43,000</u>	<u>43,000</u>	<u>349,463</u>	<u>306,463</u>
Expenditures				
Current Operating:				
Community Development	50,500	50,500	396,775	(346,275)
Total Expenditures	<u>50,500</u>	<u>50,500</u>	<u>396,775</u>	<u>(346,275)</u>
Net Change in Fund Balances	(7,500)	(7,500)	(47,312)	(39,812)
Fund Balances, Beginning	<u>1,597,595</u>	<u>1,597,595</u>	<u>1,597,595</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 1,590,095</u>	<u>\$ 1,590,095</u>	<u>\$ 1,550,283</u>	<u>\$ (39,812)</u>

The accompanying notes are an integral part of the financial statements.

City of Easley, South Carolina
 Budgetary Comparison Schedule
 TIF Special Revenue Fund
 For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Tax Increment Revenue	\$ 50,000	\$ 50,000	\$ 61,169	\$ 11,169
Interest Income	-	-	5,882	5,882
Total Revenues	<u>50,000</u>	<u>50,000</u>	<u>67,051</u>	<u>17,051</u>
Expenditures				
Current Operating:				
Public Works	380,000	380,000	509,483	(129,483)
Total Expenditures	<u>380,000</u>	<u>380,000</u>	<u>509,483</u>	<u>(129,483)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(330,000)</u>	<u>(330,000)</u>	<u>(442,432)</u>	<u>(112,432)</u>
Other Financing Sources and (Uses)				
Due From General Fund	(73,849)	(73,849)	-	73,849
Total Other Financing Sources and (Uses)	<u>(73,849)</u>	<u>(73,849)</u>	<u>-</u>	<u>73,849</u>
Net Change in Fund Balances	(403,849)	(403,849)	(442,432)	(38,583)
Fund Balances, Beginning	<u>555,977</u>	<u>555,977</u>	<u>555,977</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 152,128</u>	<u>\$ 152,128</u>	<u>\$ 113,545</u>	<u>\$ (38,583)</u>

The accompanying notes are an integral part of the financial statements.

City of Easley, South Carolina
Notes to Required Supplemental Information
For the Year Ended June 30, 2005

Note 1 – Budgetary Process and Basis of Accounting

The Mayor and Council approve an annual budget by ordinance before the beginning of each fiscal year. The City follows this basic process:

- a. Prior to July 1, the City Administrator submits to the Mayor and Council a recommended budget for the fiscal year commencing on that date. The operating budget includes proposed expenditures and the means of financing them.
- b. The recommended budget is discussed at budget work sessions.
- c. After a public reading and two (2) readings, the budget ordinance is legally enacted.

The City uses the modified accrual basis of accounting for its general and special revenue funds which is in accordance with generally accepted accounting principles for these funds. The City adopts the annual budget for these funds on this basis.

Note 2 – Excess of Expenditures Over Appropriations

The City's budgetary level of control is at the department level. The following is a summary of excess expenditures over appropriations at the department level for the general fund:

<u>Department</u>	<u>Final Budgeted Expenditures</u>	<u>Expenditures</u>	<u>Difference</u>
General Government	545,165	554,828	(9,663)
Finance	387,095	464,459	(77,364)
Fire	1,374,684	1,442,583	(67,899)
Animal Control	660	907	(247)
Streets	1,332,378	1,362,060	(29,682)

Traditionally, the City has not amended the original budget during the year.

SUPPLEMENTAL INFORMATION

City of Easley, South Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
Assets			
Cash and Other Cash Deposits	\$ 938,554	\$ 592,099	\$ 1,530,653
Accounts Receivable	131,277	-	131,277
Total Assets	\$ 1,069,831	\$ 592,099	\$ 1,661,930
Liabilities and Fund Balances			
Liabilities:			
Interfund Balances	30,627	-	30,627
Total Liabilities	30,627	-	30,627
Fund Balances:			
Reserved for Recreation and Tourism	907,793	-	907,793
Unreserved	131,411	592,099	723,510
Total Fund Balances	1,039,204	592,099	1,631,303
Total Liabilities and Fund Balances	\$ 1,069,831	\$ 592,099	\$ 1,661,930

See independent auditors' report.

City of Easley, South Carolina
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2005

	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues			
Intergovernmental Revenues	\$ 63,777	\$ -	\$ 63,777
Licenses, Permits and Fees	253,377	-	253,377
Hospitality Tax	551,576	-	551,576
Miscellaneous and Other	646	-	646
Interest Income	1,227	-	1,227
Total Revenues	<u>870,603</u>	<u>-</u>	<u>870,603</u>
Expenditures			
Current Operating:			
Public Safety	54,392	-	54,392
Recreation and Tourism	258,794	-	258,794
Capital Expenditures	355,062	-	355,062
Debt Service:			
Principal Retirement	-	295,000	295,000
Interest and Fiscal Changes	-	259,686	259,686
Total Expenditures	<u>668,248</u>	<u>554,686</u>	<u>1,222,934</u>
Excess (Deficiency) of Revenues Over Expenditures	202,355	(554,686)	(352,331)
Other Financing Sources and (Uses)			
Interfund Transfers In	-	425,566	425,566
Interfund Transfers (Out)	-	-	-
Net Change in Fund Balances	202,355	(129,120)	73,235
Fund Balances, Beginning	801,906	721,219	1,523,125
Prior Period Adjustment	34,943	-	34,943
Fund Balances, Ending	<u>\$ 1,039,204</u>	<u>\$ 592,099</u>	<u>\$ 1,631,303</u>

See independent auditors' report.

City of Easley, South Carolina
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2005

	Hospitality Tax	Firemen's Fund	Recreation Fund	Total Nonmajor Special Revenue Funds
Assets				
Cash and Other Cash Deposits	\$ 776,516	\$ 48,810	\$ 113,228	\$ 938,554
Accounts Receivable	131,277	-	-	131,277
Total Assets	\$ 907,793	\$ 48,810	\$ 113,228	\$ 1,069,831
Liabilities and Fund Balances				
Liabilities:				
Interfund Balances	\$ -	\$ -	\$ 30,627	\$ 30,627
Total Liabilities	-	-	30,627	30,627
Fund Balances:				
Reserved for Recreation and Tourism	907,793	-	-	907,793
Unreserved	-	48,810	82,601	131,411
Total Fund Balances	907,793	48,810	82,601	1,039,204
Total Liabilities and Fund Balances	\$ 907,793	\$ 48,810	\$ 113,228	\$ 1,069,831

See independent auditors' report.

City of Easley, South Carolina
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2005

	<u>Hospitality Tax</u>	<u>Firemen's Fund</u>	<u>Recreation Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
Revenues				
Intergovernmental Revenues	\$ -	\$ 63,777	\$ -	\$ 63,777
Licenses, Permits and Fees	-	-	253,377	253,377
Hospitality Tax	551,576	-	-	551,576
Miscellaneous and Other	-	646	-	646
Interest Income	805	422	-	1,227
Total Revenues	<u>552,381</u>	<u>64,845</u>	<u>253,377</u>	<u>870,603</u>
Expenditures				
Current Operating:				
Public Safety	-	54,392	-	54,392
Recreation and Tourism	19,127	-	239,667	258,794
Capital Expenditures	355,062	-	-	355,062
Total Expenditures	<u>374,189</u>	<u>54,392</u>	<u>239,667</u>	<u>668,248</u>
Net Change in Fund Balances	178,192	10,453	13,710	202,355
Fund Balances, Beginning	694,658	38,357	68,891	801,906
Prior Period Adjustment	<u>34,943</u>	<u>-</u>	<u>-</u>	<u>34,943</u>
Fund Balances, Ending	<u>\$ 907,793</u>	<u>\$ 48,810</u>	<u>\$ 82,601</u>	<u>\$ 1,039,204</u>

See independent auditors' report.

City of Easley, South Carolina
Schedule of Fines, Assessments, Surcharges and Other Fees
(For State Treasurer Requirements)
For the Year Ended June 30, 2005

	<u>Municipal Court</u>
Total Fines Collected and Retained by City	\$ 236,294
Total Assessments, Surcharges, and Other Fees Collected and Remitted to State	\$ 357,732
Total Assessments and Surcharges Collected and Retained by City (Victim Assistance)	\$ 41,868
Total Victim Assistance Fund Balance Available for Appropriation	\$ 45,982

See independent auditors' report.