

**CITY OF LIBERTY**  
**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2002**

**CITY OF LIBERTY**  
**LIBERTY, SOUTH CAROLINA**

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**TABLE OF CONTENTS**

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	
<b>GENERAL PURPOSE FINANCIAL STATEMENTS</b>	
<b>COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS</b>	3-5
<b>COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES</b>	
<b>IN FUND BALANCES – GENERAL FUND</b>	6
<b>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES</b>	
<b>BUDGET AND ACTUAL – GENERAL FUND</b>	7
<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS –</b>	
<b>ENTERPRISE FUND</b>	8
<b>STATEMENT OF CASH FLOWS – ENTERPRISE FUND</b>	9-10
<b>NOTES TO FINANCIAL STATEMENTS</b>	11-22
<b>SUPPORTING SCHEDULES</b>	
<b>GENERAL FUND:</b>	
<b>STATEMENT OF FINES, ASSESSMENTS AND SURCHARGES</b>	23
<b>SCHEDULE OF REVENUES – BUDGET AND ACTUAL</b>	24-25
<b>SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL</b>	26-30
<b>GENERAL FIXED ASSETS ACCOUNT GROUP:</b>	
<b>SCHEDULE OF GENERAL FIXED ASSETS</b>	31
<b>SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS</b>	32-35
<b>ENTERPRISE FUND:</b>	
<b>SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN RETAINED</b>	
<b>EARNINGS - ACTUAL COMPARED TO BUDGETARY BASIS – ENTERPRISE FUND</b>	36-38
<b>SINGLE AUDIT</b>	
<b>SCHEDULE OF FINDINGS AND QUESTIONED COST</b>	39
<b>SCHEDULE OF EXPENDITURES OF FEDERAL FUNDS</b>	40
<b>NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	41
<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL</b>	
<b>CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF</b>	
<b>FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH</b>	
<b>GOVERNMENT AUDITING STANDARDS</b>	42-43
<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS</b>	
<b>APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER</b>	
<b>COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	44-45

**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and Members of the City Council  
City of Liberty  
Liberty, South Carolina

We have audited the accompanying general purpose financial statements of the City of Liberty, South Carolina (the City) as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*. 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.

As explained in Note 1, the City has not historically maintained a record of its general fixed assets. As a result of such incomplete records, we were unable to satisfy ourselves, by appropriate audit tests or by other means, as to the reasonableness of the value of the general fixed assets.

In our opinion, except for the value of the general fixed assets, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City at June 30, 2002, and the results of its operations and the cash flows of its enterprise fund for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 9, 2002, on our consideration of the City of Liberty's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Also, all other supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Liberty. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the value of the general fixed assets, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Curry & Associates, P.A.*  
October 9, 2002

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South Carolina Association of Certified Public Accountants

**CITY OF LIBERTY, SOUTH CAROLINA  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPES		ACCOUNT GROUPS		TOTALS	
	GENERAL		ENTERPRISE		GENERAL	GENERAL	(MEMORANDUM ONLY)	
					FIXED ASSETS	LONG-TERM DEBT	JUNE 30, 2002	JUNE 30, 2001
<b>ASSETS AND OTHER DEBITS</b>								
Assets:								
Cash	\$ 883,485	\$	\$				\$ 883,485	\$ 940,864
Receivables:								
Taxes/finances	109,900						109,900	125,673
Loans	5,684						5,684	7,003
Trade accounts	7,565		120,313				127,878	250,128
Grants	23,811		27,101				50,912	83,226
Other	184,237		428				184,665	192,283
Due from general fund			155,380				155,380	139,500
Due from special revenue								
Prepaid expenses	1,166						1,166	1,587
<b>RESTRICTED ASSETS:</b>								
Cash			40,180				40,180	38,252
<b>FIXED ASSETS (NET, WHERE APPLICABLE)</b>			2,557,457		1,983,911		4,541,368	4,202,987
<b>CONSTRUCTION IN PROGRESS</b>			228,020				228,020	33,411
<b>DEFERRED CHARGES</b>			4,349				4,349	4,552
<b>OTHER DEBITS:</b>								
Amount to be provided for retirement of general long-term debt and other obligations						147,450	147,450	119,291
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u>\$1,215,848</u>		<u>\$3,133,228</u>		<u>\$1,983,911</u>	<u>\$147,450</u>	<u>\$6,480,437</u>	<u>\$6,138,757</u>

**LIABILITIES, EQUITY AND OTHER CREDITS**

	<u>GOVERNMENTAL FUND TYPES</u>		<u>PROPRIETARY FUND TYPES</u>		<u>ACCOUNT GROUPS</u>		<u>TOTALS</u>	
	<u>GENERAL</u>	<u>ENTERPRISE</u>	<u>GENERAL</u>	<u>FIXED ASSETS</u>	<u>GENERAL</u>	<u>LONG-TERM DEBT</u>	<u>JUNE 30, 2002</u>	<u>JUNE 30, 2001</u>
<b>LIABILITIES:</b>								
Accounts payable	\$ 30,283	\$ 80,110	\$	\$	\$		\$ 110,393	\$ 233,071
Accrued payroll taxes	1,872	330					2,202	2,233
Accrued liabilities	76,833	163,078					239,911	82,447
Accrued interest		1,702					1,702	
Due to enterprise fund	155,380						155,380	139,500
Deposits		12,100					12,100	10,722
Notes payable		17,728			10,000		27,728	45,686
Deferred revenue	191,806						191,806	198,429
	456,174	275,048			10,000		741,222	712,088
<b>PAYABLE FROM RESTRICTED ASSETS:</b>								
Current maturities of revenue bonds		7,500					7,500	7,800
Accrued interest of revenue bonds		8,457					8,457	8,911
		15,957					15,957	16,711
<b>LONG-TERM REVENUE BONDS COMPENSATED ABSENCES CAPITAL LEASES</b>								
		272,417					272,417	278,488
		6,848			17,040		23,888	32,524
		45,830			120,410		166,240	75,632
		325,095			137,450		462,545	386,644
<b>TOTAL LIABILITIES</b>	456,174	616,100			147,450		1,219,724	1,115,443

<b>LIABILITIES, EQUITY AND OTHER CREDITS (CONTINUED)</b>							
	<b>GOVERNMENTAL FUND TYPES</b>		<b>PROPRIETARY FUND TYPES</b>		<b>ACCOUNT GROUPS</b>		<b>TOTALS (MEMORANDUM ONLY)</b>
	<b>GENERAL</b>	<b>ENTERPRISE</b>	<b>GENERAL FIXED ASSETS</b>	<b>GENERAL LONG-TERM DEBT</b>	<b>JUNE 30, 2002</b>	<b>JUNE 30, 2001</b>	
<b>EQUITY AND OTHER CREDITS:</b>							
Contributed capital		2,124,005	1,983,911		2,124,005	1,804,211	
Investment in General Fixed Assets		2,124,005	1,983,911		1,983,911	1,782,585	
					4,107,916	3,586,796	
<b>RETAINED EARNINGS:</b>							
Reserved for revenue bond retirement/contingencies		24,223			24,223	21,541	
Unreserved		368,900			368,900	605,572	
<b>FUND BALANCES : UNRESERVED:</b>							
Undesignated	759,674				759,674	809,405	
	759,674	393,123			1,152,797	1,436,518	
<b>TOTAL EQUITY AND OTHER CREDITS</b>	759,674	2,517,128	1,983,911		5,260,713	5,023,314	
<b>TOTAL LIABILITIES, EQUITY AND OTHER CREDITS</b>	<u>\$1,215,848</u>	<u>\$3,133,228</u>	<u>\$1,983,911</u>	<u>\$147,450</u>	<u>\$6,480,437</u>	<u>\$6,138,757</u>	

See accompanying notes and independent auditors' report.

**CITY OF LIBERTY, SOUTH CAROLINA  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(With Comparative Actual Amounts For The Fiscal Year Ended June 30, 2001)**

	<u>JUNE 30, 2002</u>	<u>JUNE 30, 2001</u>
<b>REVENUES:</b>		
Taxes	\$ 532,197	\$ 492,303
Permits and fees	439,856	453,614
Fines and forfeitures	70,116	95,057
Shared revenues	119,050	124,850
Miscellaneous	222,353	505,454
Charges for services	<u>69,114</u>	<u>72,047</u>
Total Revenues	1,452,686	1,743,325
<b>EXPENDITURES:</b>		
<b>CURRENT:</b>		
Administrative Department	347,964	214,630
Police Department	523,310	526,264
Fire Department	241,176	244,822
Public Works Department	209,768	196,629
Recreation Department	1,000	
<b>CAPITAL EXPENDITURES</b>	207,627	252,305
<b>DEBT SERVICE:</b>		
Principal	30,770	25,503
Interest	<u>6,351</u>	<u>5,406</u>
Total Expenditures	1,567,966	1,465,559
Excess (deficit ) of revenues over expenditures	<u>(115,280)</u>	<u>277,766</u>
<b>OTHER FINANCING SOURCES:</b>		
Notes Payable	<u>65,549</u>	<u>83,062</u>
Total Other Financing Sources	<u>65,549</u>	<u>83,062</u>
Excess (deficit) of revenues and other financing sources over expenditures	(49,731)	360,828
<b>FUND BALANCES, BEGINNING</b>	809,405	539,596
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>          </u>	<u>(91,019)</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 759,674</u>	<u>\$ 809,405</u>

See accompanying notes and independent auditors' report.

**CITY OF LIBERTY, SOUTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL – GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**  
**(With Comparative Actual Amounts For The Fiscal Year Ended June 30, 2001)**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>	<u>ACTUAL 2001</u>
<b>REVENUES:</b>				
Taxes	\$ 532,197	\$ 504,800	\$ 27,397	\$ 492,303
Permits and fees	439,856	437,600	2,256	453,614
Fines and forfeitures	70,116	85,000	(14,884)	95,057
Shared revenues	119,050	121,000	(1,950)	124,850
Miscellaneous	222,353	132,000	90,353	505,454
Charges for services	<u>69,114</u>	<u>80,200</u>	<u>(11,086)</u>	<u>72,047</u>
Total Revenues	1,452,686	1,360,600	92,086	1,743,325
<b>EXPENDITURES:</b>				
<b>CURRENT:</b>				
Administrative Department	347,964	268,416	(79,548)	214,630
Police Department	523,310	515,102	(8,208)	526,264
Fire Department	241,176	217,553	(23,623)	244,822
Public Works Department	209,768	249,829	40,061	196,629
Recreation Department	1,000		(1,000)	
Capital expenditures	207,627		(207,627)	252,305
<b>DEBT SERVICE:</b>				
Principal	30,770	101,700	70,930	25,503
Interest	<u>6,351</u>	<u>8,000</u>	<u>1,649</u>	<u>5,406</u>
Total Expenditures	<u>1,567,966</u>	<u>1,360,600</u>	<u>(207,366)</u>	<u>1,465,559</u>
Excess ( deficit ) of revenues over expenditures	<u>(115,280)</u>	<u>          </u>	<u>(115,280)</u>	<u>277,766</u>
<b>OTHER FINANCING SOURCES:</b>				
Notes Payable	<u>65,549</u>	<u>          </u>	<u>65,549</u>	<u>83,062</u>
Total Other Financing Sources	<u>65,549</u>	<u>          </u>	<u>65,549</u>	<u>83,062</u>
Excess (deficit) of revenues and other financing sources over expenditures	(49,731)	<u>          </u>	(49,731)	360,828
FUND BALANCES, BEGINNING	809,405	809,405		539,596
PRIOR PERIOD ADJUSTMENT	<u>          </u>	<u>          </u>	<u>          </u>	<u>(91,019)</u>
FUND BALANCES, ENDING	<u>\$ 759,674</u>	<u>\$ 809,405</u>	<u>\$ (49,731)</u>	<u>\$ 809,405</u>

See accompanying notes and independent auditors' report.

**CITY OF LIBERTY, SOUTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS –**  
**ENTERPRISE FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**  
(With Comparative Amounts for the Fiscal Year Ended June 30, 2001)

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	<u>2002</u>	<u>2001</u>
<b>OPERATING REVENUES:</b>		
Water billings	\$ 683,277	\$ 684,644
Sewer billings	<u>462,402</u>	<u>491,533</u>
Total Operating Revenues	1,145,679	1,176,177
<b>OPERATING EXPENSES:</b>		
Water Department	861,569	761,408
Sewer Department	114,781	72,344
County facility fees	267,599	273,542
Depreciation	119,592	101,694
Amortization	<u>203</u>	<u>203</u>
Total Operating Expenses	<u>1,363,744</u>	<u>1,209,191</u>
Operating Income(Loss)	(218,065)	(33,014)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest income	1,427	1,358
Interest expense	(18,246)	(15,467)
Gain on sale of fixed assets	<u>895</u>	<u>          </u>
Total Non-Operating Revenues (Expenses)	<u>(15,924)</u>	<u>(14,109)</u>
Net Loss	(233,989)	(47,123)
<b>RETAINED EARNINGS, BEGINNING</b>	<u>627,112</u>	<u>674,235</u>
<b>RETAINED EARNINGS, ENDING</b>	<u>\$ 393,123</u>	<u>\$ 627,112</u>

See accompanying notes and independent auditors' report.

**CITY OF LIBERTY, SOUTH CAROLINA**  
**STATEMENT OF CASH FLOWS – ENTERPRISE FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**  
(With Comparative Amounts for the Fiscal Year Ended June 30, 2001)

	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (218,065)	\$ (33,014)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	119,795	101,897
(Increase) decrease in receivables	176,700	(201,686)
Increase(decrease) in accounts payable	(101,345)	177,614
Decrease in compensated absences	(2,017)	(80)
Increase(decrease) in deposits	1,378	262
Increase(decrease) in accrued liabilities	157,247	49
(Increase) decrease in due to/from general fund	<u>(15,880)</u>	<u>30,876</u>
Total adjustments	<u>335,878</u>	<u>108,932</u>
Net cash provided by operating activities	<u>117,813</u>	<u>75,918</u>
 <b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Construction in progress	(194,609)	(33,411)
Acquisition and construction of capital assets	(256,647)	(503,507)
Principal paid on revenue bonds, notes payable, and lease obligations	(22,950)	(14,535)
Interest paid on revenue bonds, notes payable, and lease obligations	(18,246)	(15,467)
Capital contributed by grants	303,794	443,773
Capital contributed by tap fees	16,000	46,300
Gain on sale of capital assets	895	
Proceeds from capital leases	<u>54,451</u>	<u>          </u>
Net cash used for capital and related financing activities	(117,312)	(76,847)

**CITY OF LIBERTY, SOUTH CAROLINA**  
**STATEMENT OF CASH FLOWS – ENTERPRISE FUND (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**  
**(With Comparative Amounts for the Fiscal Year Ended June 30, 2001)**

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	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	<u>1,427</u>	<u>1,358</u>
Net cash provided by investing activities	<u>1,427</u>	<u>1,358</u>
Net increase in cash	1,928	429
<b>BEGINNING CASH:</b>		
Restricted	<u>38,252</u>	<u>37,823</u>
<b>ENDING CASH:</b>		
Restricted	<u>40,180</u>	<u>38,252</u>
<b>TOTAL ENDING CASH:</b>	<u><b>\$ 40,180</b></u>	<u><b>\$ 38,252</b></u>

See accompanying notes and independent auditors' report.

**CITY OF LIBERTY, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Liberty, South Carolina (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for established governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**Reporting Entity:** The City operates under a Council form of government and provides the following services: public safety (police and fire), streets, sanitation, water and sewer, and general and administrative. 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 basic-but not the only- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the financial statements for the City consist only of the funds and account groups of the City. The City has no oversight responsibility for any other governmental entity.

**Fund Accounting:** The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The City classifies its funds into two categories: governmental and proprietary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of the City's general activities, including the collection and disbursement of earmarked monies (special revenue funds). The general fund is used to account for all activities of the City not accounted for in some other fund.

(NOTE 1 CONTINUED)

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the City (internal service funds). An enterprise fund has been set up by the City for the operation of the water and wastewater treatment plants.

**Basis of Accounting:** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The City applies all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements, in accounting and reporting for its proprietary operations.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**Budgets and Budgetary Accounting:** As set forth in the City Charter, the City Council adopts an annual budget for the general fund and enterprise fund. The annual budget for the general fund is prepared in accordance with the basis of accounting utilized by that fund. The budget for the enterprise fund is adopted under a basis consistent with generally accepted accounting principles, except that depreciation and amortization is not considered. Additionally, cash outlays for debt principal and fixed assets funded by operations are budgeted, but treated differently in accordance with generally accepted accounting principles. After joint workshops with the City Council, the Mayor submits to the City Council a proposed operating budget covering the general and enterprise funds for the fiscal year commencing the following July 1. These workshops and hearings are open to the public. The operating budget includes proposed expenditures and the means for financing them. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of an ordinance. Appropriations lapse at the end of each fiscal year.

The Mayor is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund or transfer amounts between departments must be approved by the City Council. The presented budgeted amounts are as originally adopted, or as last amended by the City Council.

(NOTE 1 CONTINUED)

The City does not budget for the combined special revenue funds, since budgetary control is maintained on an individual grant basis. Since grant periods may differ from the City's fiscal year, a comparison of budgetary information for the combined special revenue funds would not be meaningful and has not been presented in the accompanying financial statements.

**Cash and Investments:** Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Investments are stated at fair value. The calculation of realized gains and losses is independent of calculation of changes in fair value of investments. During the year ended June 30, 2002, the City of Liberty did not experience any significant changes in the fair value of its investments.

**Property Tax:** Taxes are levied on October 1, and are due and payable on or before January 15 of the following year. All unpaid taxes become delinquent March 15 of the following year. The City has by contract authorized Pickens County to assess and collect all property taxes. These collections are remitted to the City by the County Treasurer.

**Due From/To Other Funds:** During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**Restricted Assets:** Certain resources are set aside for the repayment of enterprise fund revenue bonds, because their use is limited by applicable bond covenants. Such resources are included in cash on the balance sheet and consist of the following:

Reserved for Contingency	\$ 9,686
Reserved for Depreciation	9,607
Reserved for Revenue Bond Retirement	<u>20,887</u>
	<u>\$ 40,180</u>

The "sewer contingency" account is used to report resources set aside to meet unexpected contingencies. The "depreciation" account is used to report resources set aside to fund asset renewals and replacements. The "revenue bond retirement" account is used to report resources set aside to subsidize potential deficiencies from the enterprise fund's operation that could adversely affect debt service payments.

**Fixed Assets:** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group.

The City has not historically maintained detailed fixed assets records to exercise accounting control over its property and equipment used in governmental fund type operations. As a result, all fixed assets acquired after October 1, 1971 are valued at historical costs, and all fixed assets acquired before September 30, 1971 are valued at the then estimated value. Donated fixed assets are not recorded. No depreciation has been provided on fixed assets used in governmental fund type operations.

Depreciation of fixed assets used in the enterprise fund is provided using the straight-line method over the following estimated useful lives:

Buildings	10-50 Years
Improvements	20-50 Years
Equipment	5-10 Years
Meters and Boxes	50 Years

(NOTE 1 CONTINUED)

**Deferred Charges:** Expenses incurred in the issuance of water and sewer system revenue bonds (\$8,125) have been deferred and are being amortized (\$203 in 2002) to the operations of the enterprise fund using the straight-line method over the length of the bond issue.

**Compensated Absences:** Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

**Long-Term Obligations:** Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**Fund Equity:** Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. Investment in general fixed assets represents funds invested in capital acquisition and construction. Reserves represent those portions of fund equity not appropriable for expenditure are legally segregated for a specific future use. Unreserved fund balances represent financial resources available for expenditure.

**Comparative Data:** Comparative total data for the prior year have been presented in the accompanying general purpose financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

**Total Columns on Combined Statements – Overview:** Total columns on the combined statements – overview are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**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.

**Encumbrances:** Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

## NOTE 2 – CASH AND INVESTMENTS

At June 30, 2002, the book balance of the City's cash deposits was \$923,665. Of the \$923,665 bank balance, \$100,000 was covered by federal depository insurance. Therefore, uninsured cash was \$823,665 on June 30, 2002.

As of June 30, 2002, the following collateral was pledged to secure the remaining cash deposits for the City of Liberty:

Description of <u>Securites</u>	Par <u>Value</u>	Maturity <u>Date</u>	Market <u>Value</u>
*FHLMC	\$847,233	05-15-04	\$878,740

\*Par value represents the assigned portion of a \$20,000,000 Federal Home Loan Bank Note pledged to secure PIMMC deposits.

The securities are held as book entries at the Federal Reserve in the name of the First Citizens Bank of North Carolina as escrow agent for the First Citizens Bank of South Carolina. The securities are pledged to the entity and can be substituted but not released without their consent.

## NOTE 3 – LOANS RECEIVABLE

Loans receivable of the general fund represents one installment contract from an individual pursuant to borrowing under the community development block grant program for rehabilitation purposes. The contract calls for the City to receive payments of \$101 per month, including interest at 3.00% per annum. The contract matures no later than 2007 and is secured by the property rehabilitated.

## NOTE 4 – ENTERPRISE FUND FIXED ASSETS AND CONTRUCTION IN PROGRESS

The following is a summary of the fixed assets of the enterprise fund as of June 30, 2002:

Land	\$ 6,414
Buildings	16,807
Machinery and equipment	381,081
Water and sewer improvements other than buildings	3,969,174
Construction in progress	<u>228,020</u>
	4,601,496
Accumulated depreciation	<u>(1,816,019)</u>
	<u>\$2,785,477</u>

## NOTE 5 – GENERAL FIXED ASSETS ACCOUNT GROUP

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2002</u>
Land, buildings and improvements	\$ 901,407	\$ 105,254	\$	\$ 1,006,661
Machinery and equipment	818,657	80,623	(6,300)	892,980
Office furniture and equipment	<u>62,521</u>	<u>21,749</u>		<u>84,270</u>
Total General Fixed Assets	<u>\$1,782,585</u>	<u>\$ 207,626</u>	<u>\$ (6,300)</u>	<u>\$1,983,911</u>

## NOTE 6 – LONG-TERM DEBT

The note payable of the general fund accounted for in the general long-term debt group of accounts consists of the following:

Note payable to a bank for capital improvements of \$10,000 due in annual installments of \$10,000, plus interest at 5.12% per annum, and maturity in September 2002. \$ 10,000

\$ 10,000

The following represents maturity of the note payable as of June 30, 2002:

June 30, 2003 \$ 10,000

\$ 10,000

Bonds payable and the note payable of the enterprise fund consist of the following:

Water System Improvement Revenue Bonds, series 1983, due in annual installments of \$21,305, including interest at 5.00% per annum, and maturity in November 2023. \$ 279,917

Note payable to a bank for a sewer jetting machine of \$25,686, due in monthly installments of \$742 including interest of 4.22% per annum, and maturity in July 2004. 17,728

\$ 297,645

The following represents maturity of the reserve bonds and the note payable as of June 30, 2002:

June 30, 2003 \$ 15,623

June 30, 2004 16,346

June 30, 2005 8,801

June 30, 2006 8,461

June 30, 2007 8,884

Thereafter 239,530

\$ 297,645

(NOTE 6 CONTINUED)

Annual debt service requirements to amortize all debt including interest outstanding of \$188,601 are as follows:

Year Ending <u>June 30</u>	Notes <u>Payable</u>	System <u>1983 Bonds</u>	<u>Total</u>
2003	\$ 19,417	\$ 21,305	\$ 40,722
2004	8,902	21,305	30,207
2005	742	21,305	22,047
2006		21,305	21,305
2007		21,305	21,305
Thereafter		360,660	360,660
	<u>\$ 29,061</u>	<u>\$ 467,185</u>	<u>\$ 496,246</u>

During the year ended June 30, 2002, the following changes occurred in long-term debt:

	Balance <u>July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2002</u>
<b>Enterprise Fund:</b>				
Revenue bonds	\$ 286,288	\$	\$ (6,371)	\$ 279,917
Note Payable	<u>25,686</u>	<u>          </u>	<u>(7,958)</u>	<u>17,728</u>
	<u>\$ 311,974</u>	<u>\$</u>	<u>\$ (14,329)</u>	<u>\$ 297,645</u>
<b>General Long-Term Debt Account Group:</b>				
Note payable	<u>\$ 20,000</u>	<u>\$</u>	<u>\$ (10,000)</u>	<u>\$ 10,000</u>

**NOTE 7 – CAPITAL LEASE OBLIGATIONS**

The City has entered into a lease agreement as lessee to finance the acquisition of a garbage truck. This lease qualifies as a capital lease for accounting purposes and, therefore has been recorded at the present value of the future minimum lease payments as of the date of its inception. The following is a summary of the equipment leased under this capital lease agreement as of June 30, 2002:

	General <u>Fixed Asset</u>	<u>Total</u>
Garbage Truck	\$ 83,062	\$ 83,062
Total	<u>\$ 83,062</u>	<u>\$ 83,062</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of June 30, 2002:

Year Ending <u>June 30</u>	<u>General Long-Term Debt</u>
2003	\$ 14,374
2004	14,374
2005	14,374
2006	14,374
2007	14,374
Thereafter	<u>3,420</u>
Total minimum lease payments	\$ 75,290
Less: amount representing interest	<u>(10,053)</u>
Present value of future minimum lease payments	<u>\$ 65,237</u>

The City has entered into a lease agreement as lessee to finance the acquisition of two Ford Crown Victorias, one Ford Ranger King Cab, and a Ford Backhoe. This lease qualifies as a capital lease for accounting purposes and, therefore has been recorded at the present value of the future minimum lease payments as of the date of its inception. The following is a summary of the equipment leased under the capital lease agreement as of June 30, 2002:

	<u>General Fixed Asset</u>	<u>Enterprise Fund</u>	<u>Total</u>
Two Crown Victorias	\$ 50,456		50,456
Ford Ranger	16,033		16,033
Backhoe		54,451	54,451
Total	<u>\$ 66,489</u>	<u>\$ 54,451</u>	<u>\$ 120,940</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of June 30, 2002:

Year Ending <u>June 30</u>	<u>General Long Term Debt</u>	<u>Enterprise Fund</u>	<u>Total</u>
2003	\$ 23,446	\$ 19,480	\$ 42,926
2004	23,446	19,480	42,926
2005	11,723	9,740	21,463
2006			
2007			
Thereafter	<u>          </u>	<u>          </u>	<u>          </u>
Total minimum lease payments	58,615	48,700	107,315
Less: amount representing interest	(3,442)	(2,870)	(6,312)
Present value of future minimum Lease payments	<u>\$ 55,173</u>	<u>\$ 45,830</u>	<u>\$ 101,003</u>

(NOTE 7 CONTINUED)

During the year ended June 30, 2002 the following changes occurred in capital leases:

	<u>Police Vehicles</u>	<u>Garbage Truck</u>	<u>Backhoe</u>	<u>Total</u>
Balance July 1, 2001	\$	\$ 75,632	\$	\$ 75,632
Additions	65,549		54,451	120,000
Payments	<u>(10,376)</u>	<u>(10,395)</u>	<u>(8,621)</u>	<u>(29,392)</u>
Balance June 30, 2002	<u>\$ 55,173</u>	<u>\$ 65,237</u>	<u>\$ 45,830</u>	<u>\$ 166,240</u>

**NOTE 8 – RETIREMENT PLANS**

The City participates in two statewide multiple employer public employee retirement systems. Both are cost sharing public employee retirement systems with one exception: All risks and costs are not shared by the City, but are the liability of the State of South Carolina. The two retirement systems are funded through city and employee contributions, and the city has no legal obligation for paying benefits. The South Carolina Retirement System covers substantially all of the City's general employees, and the South Carolina Police Officers Retirement System covers all of the City's public safety employees. These plans are administered by the Retirement Division of the State Budget and Control Board.

Both the South Carolina Retirement System and Police Officers Retirement System offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. The Plans' provisions are established under Title 9 of the SC Code of Laws. Any amendments would necessitate an amendment to the law.

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System and the Police Officers Retirement System is issued and publicly available by writing the South Carolina Retirement System, P.O. Box 11960, Columbia, S. C. 29211-1960.

Effective January 1, 2001, newly enrolled members of SCRS must have five years of earned service (paid employment as an employee during which regular contributions are paid to the system) to be eligible to receive a service or disability retirement annuity, or to qualify a survivor for a monthly annuity after an in-service death. This requirement does not apply to disability retirement eligibility if the disability is the result of a job-related injury.

Both employees and employers are required to contribute to the Plans under the authority of Title 9 of the SC Code of Laws.

Employee-required contributions to the Plans are as follows:

- South Carolina Retirement System – 6% of salary
- South Carolina Police Officers Retirement System – 6.5% of salary

In addition to the above rates, the City of Liberty as a participating employer with the South Carolina Retirement System contributes .15% of payroll to provide a group life insurance benefit for its participants. The City of Liberty as a participating employer under the Police Officers Retirement System also contributes .2% of payroll to provide a group life insurance benefit and .2% of payroll to provide an accidental death benefit for its participants.

(NOTE 8 CONTINUED)

The City's contribution on behalf of employees is at the following actuarially-determined rates:

- South Carolina Retirement System – 6.7% of salary
- South Carolina Police Officers Retirement System – 10.3% of salary

All employees contribute at the actuarially required contribution rates.

The total required contributions for both plans and the percentage of that amount contributed for the current year and each of the two preceding years are as follows:

	<u>Amount</u>	<u>Percentage Contribution</u>
Year ended June 30, 2002		
Employer	\$81,677	100%
Employee	\$47,348	100%
Year ended June 30, 2001		
Employer	\$67,275	100%
Employee	\$45,526	100%
Year ended June 30, 2000		
Employer	\$62,605	100%
Employee	\$42,427	100%

As of June 30, 2002, the City of Liberty has no outstanding pension liability or asset computed in accordance with GASB Statement No. 27

**NOTE 9 – ACCRUED LEGAL LIABILITIES**

In a prior year the City of Liberty was sued by a local developer. The local developer had alleged that the City of Liberty agreed to reimburse the developer for certain taxes, certain paving and certain sewer line expense that he had incurred prior to June 30, 1999. This lawsuit was settled in the fiscal year 2001. The City agreed to pay the developer \$23,500 in the prior fiscal year and to pay the developer 70% of the property taxes generated by the housing development over a ten year period. The total settlement is limited to \$269,111. Since the amount of property taxes generated is dependent on housing starts, currently there isn't any means to determine the total taxes that will be generated by the development. Since the expense will be paid yearly and the total settlement(dependent on housing starts) cannot be currently determined, the expense will be recognized as paid.

According to the City Attorney there were two potential other legal litigation suits pending trial at year-end. As regards to these cases the City has recognized potential liability of \$50,000 as of June 30, 2002.

**NOTE 10 – PRIOR PERIOD ADJUSTMENT**

In 1993 the City of Liberty sued the Fort Hill Natural Gas Authority for nonpayment of franchise fees for prior years. The City of Liberty prevailed in the case and was awarded the franchise fees. The fees were to be paid over 15 years. In a subsequent year the City recognized the fees as income. A prior period adjustment was made to the June 30, 2001 financial statements to recognize the accounts receivable balance at July 1, 2000 as deferred income ( a liability). Under the modified accrual basis of accounting the deferred income will be recognized as income when collected.

(NOTE 10 CONTINUED)

In past years police fines have been recognized when owed. As a result an accounts receivable and allowance for doubtful accounts had been recorded. A prior period adjustment was made to the June 30, 2001 financial statements to remove the police fines accounts receivable and the allowance for doubtful accounts as of July 1, 2000. Due to the uncertainty of the collections and on the timing of the collection of the police fines, the police fines are currently being recognized as collected. This will result in a more appropriate recognition of income and will be more consistent with the modified accrual basis of accounting.

The amount of the total prior period adjustment for both adjustments is as follows:

Fort Hill Natural Gas Deferred Revenue	\$76,993
Police Fines	<u>14,026</u>
	<u>\$91,019</u>

**NOTE 11 – LAND SALE**

For the year ended June 30, 2001, the City of Liberty recognized the revenue on the sale of land to Ingles Markets, Inc. of \$304,290. The gross sales price was \$450,000 and there were sales commissions paid of \$22,500.

Currently there is \$123,200 of the sales price being held in escrow to fund the City's portion of the cost of a roadway to the property. The \$123,200 is currently being recognized as deferred revenue on the City's combined balance sheet.

**NOTE 12 – COMMUNITY DEVELOPMENT BLOCK GRANTS**

The City of Liberty was awarded a \$500,000 Community Development Block Grant for the Liberty Little Mill Village Water/Sewer Project. The purpose of the grant is to replace and upgrade the public sewer and water system in the Little Mill Village area of the City of Liberty. The project will include sewer/water system renovations in the area of Calhoun, Jackson, Clay, Tillman, Clemson, Trammell and Peachtree Streets in the City of Liberty. The grant is ongoing with cumulative grant expenditures of \$469,146 and \$335,833 respectively as of June 30, 2002 and June 30, 2001.

The City of Liberty was awarded a \$700,000 Community Development Block Grant for the Liberty Big Mill Village Sewer Project. The purpose of the grant is to replace and upgrade the public sewer system in the Big Mill Village area of the City of Liberty. The project includes sewer system renovations in the area of Hedgepath, Alexander, East and West Beattie, Byrnes, Woodhaven, West Woodside, Iselin and Anderson Streets in the City of Liberty. There are cumulative grant expenditures of \$170,477 as of June 30, 2002.

The City of Liberty was awarded a \$20,000 Community Development Block Grant for the Big Mill Village and Little Mill Village areas of the City of Liberty. The project's objective is to identify the current conditions of the Big Mill Village and Little Mill Village areas and to develop a list of priority projects based upon the conditions and community involvement. The output from this grant is a study that assesses the current conditions of the Big Mill Village and Little Mill Village areas and identifies a list of priorities aimed at improving these conditions. The process includes a series of community meetings aimed at involving residents within the study area to identify priorities based on their awareness and knowledge of the area. The projects identified in the study included housing rehabilitation; storm-water runoff & erosion control; neighborhood cleanup of trash, vegetation, & rats; street widening, parking, and sidewalks; and a neighbor helping neighbors plan. The grant is ongoing with cumulative grant expenditures of \$10,385 at June 30, 2002.

**NOTE 13 – CONTRIBUTED CAPITAL**

Recorded as contributions to the Water and Sewer Utility System are those funds used by the System for operations and capital outlays which have not been generated by system operations.

The contributions to the Utility System are as follows:

Contributed Capital as of June 30, 2001	\$ 1,804,211
Community Development Block Grants	303,794
Connection Tap Fees	<u>16,000</u>
Contributed Capital as of June 30, 2002	<u>\$ 2,124,005</u>

**CITY OF LIBERTY, SOUTH CAROLINA  
GENERAL FUND  
STATEMENT OF FINES, ASSESSMENTS AND SURCHARGES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**COURT FINES**

Court fines collected	\$ 36,124
Court fines retained by City	<u>(36,124)</u>
Court fines remitted to State Treasurer	<u>\$</u>

**COURT ASSESSMENTS**

Court assessments collected	\$ 36,196
Court assessments retained by City	<u>(4,335)</u>
Court assessments remitted to State Treasurer	<u>\$ 31,861</u>

**COURT SURCHARGES**

Court surcharges collected	\$ 2,725
Court surcharges retained by City	<u>(2,125)</u>
Court surcharges remitted to State Treasurer	<u>\$ 600</u>

**VICTIMS SERVICES**

Court assessments allocated to Victim Services	\$ 4,335
Court surcharges allocated to Victim Services	<u>2,125</u>
Funds allocated to Victim Services	6,460
Victim Services expenditures	<u>(1,696)</u>
Funds available for carryforward	<u>\$ 4,764</u>

**CITY OF LIBERTY, SOUTH CAROLINA  
GENERAL FUND  
STATEMENT OF REVENUES – BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>
<b>TAXES:</b>			
Current Property	\$ 254,869	\$ 238,000	\$ 16,869
Manufacturer's	10,072		10,072
Local option sales tax	209,379	210,000	(621)
Merchant inventory	6,648	6,600	48
Accommodations	994	1,200	(206)
Homestead	<u>50,235</u>	<u>49,000</u>	<u>1,235</u>
	532,197	504,800	27,397
<b>PERMITS AND FEES:</b>			
Business license	244,693	209,000	35,693
Franchise fees	179,037	228,000	(48,963)
Rezoning fees		100	(100)
Portable sign fees	20	500	(480)
Land clearing permits	500		500
Election filing fees	475		475
Building permits	<u>15,131</u>		<u>15,131</u>
	439,856	<u>437,600</u>	2,256
<b>FINES AND FORFEITURES:</b>			
Police fines	<u>70,116</u>	<u>85,000</u>	<u>(14,884)</u>
	70,116	85,000	(14,884)
<b>SHARED REVENUES:</b>			
Fire district contract	36,000	36,000	
Local government	<u>83,050</u>	<u>85,000</u>	<u>(1,950)</u>
	119,050	121,000	(1,950)
<b>MISCELLANEOUS:</b>			
Police miscellaneous revenue	3,568		3,568
Admin miscellaneous revenue	52		52
Interest	16,596	32,000	(15,404)
Recyclables	1,027		1,027
Resources Officer Grant	35,500	35,000	500
Fire Department miscellaneous	73,066	44,000	29,066
Pickens Dispatch	25,000	21,000	4,000
Rental income	200		200
Planning Grant	10,385		10,385
Playground Grant	17,211		17,211
School Resource Officer Grant	<u>39,748</u>		<u>39,748</u>
	222,353	<u>132,000</u>	90,353

**CITY OF LIBERTY, SOUTH CAROLINA  
GENERAL FUND  
STATEMENT OF REVENUES – BUDGET AND ACTUAL (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>
<b>CHARGES FOR SERVICES:</b>			
Sanitation user fees	54,664	56,000	(1,336)
Garbage collections		1,200	(1,200)
Juvenile facility	<u>14,450</u>	<u>23,000</u>	<u>(8,550)</u>
	<u>69,114</u>	<u>80,200</u>	<u>(11,086)</u>
<b>TOTALS</b>	<u><b>\$1,452,686</b></u>	<u><b>\$1,360,600</b></u>	<u><b>\$92,086</b></u>

See accompanying notes and independent auditors' report.

**CITY OF LIBERTY, SOUTH CAROLINA  
GENERAL FUND  
STATEMENT OF EXPENDITURES – BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>UNFAVORABLE</u>
<b>ADMINISTRATION:</b>			
Salaries and wages – regular	\$ 36,226	\$ 36,000	\$ (226)
Salaries and wages – council	6,900	10,800	3,900
Admin health/life insurance	53,145	60,000	6,855
Payroll taxes	3,523	3,580	57
Pension	2,470	3,136	666
Workers compensation/liability insurance	47,283	36,000	(11,283)
Legal and accounting	36,888	15,000	(21,888)
Maintenance and service contracts	1,771	2,000	229
Maintenance and repairs	3,964	1,000	(2,964)
Telephone	5,348	3,500	(1,848)
Postage	810	600	(210)
Department supplies/printing	7,522	4,000	(3,522)
Seminars, conventions and meetings	4,364	7,000	2,636
Utilities	8,970	11,000	2,030
Dues and subscriptions	3,690	2,500	(1,190)
Janitorial supplies		300	300
Office furniture/equipment (noncapital)	1,941	5,000	3,059
Bad debt expense	2,123		(2,123)
Donations to recreation department	34,703	35,000	297
Christmas	3,228	5,000	1,772
Contributions	5,118	1,500	(3,618)
Debt service	11,024	32,581	21557
Capital outlay	104,079		(104,079)
Legion Hut expense	586	700	114
Landscape maintenance	9,217	4,000	(5,217)
Railroad lease	800	800	
Miscellaneous	3,206		(3,206)
Seniors Unlimited	1,000	1,000	
Magistrate's office expense	1,095		(1,095)
EMS expense	4,996		(4,996)
Rosewood expense	1,336		(1,336)
Recreation department expense	789		(789)
Safety program	7,727	5,000	(2,727)
Ordinance recodification	6,850	14,000	7,150
Rental expense	309		(309)
Veteran's memorial	578		(578)

**CITY OF LIBERTY, SOUTH CAROLINA  
GENERAL FUND  
STATEMENT OF EXPENDITURES – BUDGET AND ACTUAL (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>
<b>ADMINISTRATION:</b>			
Election expense	1,286		(1,286)
Building permit inspection expense	5,507		(5,507)
Medical expense	97		(97)
Planning grant	12,385		(12,385)
Recreation department grant	<u>20,213</u>		<u>(20,213)</u>
	463,067	<u>300,997</u>	<u>(162,070)</u>

**CITY OF LIBERTY, SOUTH CAROLINA  
GENERAL FUND  
STATEMENT OF EXPENDITURES – BUDGET AND ACTUAL (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>
<b>POLICE DEPARTMENT:</b>			
Salaries and wages - regular	338,598	340,000	1,402
Salaries and wages- overtime	9,554	6,000	(3,554)
Payroll taxes	26,811	27,234	423
Pension	35,342	36,668	1,326
Uniforms and accessories	6,305	4,000	(2,305)
Legal and accounting	752	1,000	248
Judge/Jury	7,966	10,500	2,534
Maintenance and service contracts	1,941	1,000	(941)
Maintenance and repairs to equipment	748	3,000	2,252
Computer expenses	3,941	5,000	1,059
Maintenance and repairs to buildings	4,235	3,000	(1,235)
Vehicle expense	17,412	20,000	2,588
Telephone	7,132	5,200	(1,932)
Department supplies	14,218	10,600	(3,618)
Seminars, conventions and meetings	2,873	2,000	(873)
Dues and subscriptions	1,014	1,000	(14)
Medical	817	500	(317)
Juvenile Center expenses	1,683	4,000	2,317
Shared fines – state	32,461	26,000	(6,461)
Janitorial		300	300
Film and processing	451	1,000	549
Victims' rights	1,696		(1,696)
Machinery/equipment (non capital)	1,998	2,000	2
Education expenses	1,231	2,000	769
OSHA immunizations	180	400	220
Debt service	11,723	34,643	22,920
Capital outlay	99,508		(99,508)
Memorials	335	200	(135)
Prisoner expense	2,203	2,500	297
Taps expense	1,389		(1,389)
Miscellaneous	24		(24)
	<u>634,541</u>	<u>549,745</u>	<u>(84,796)</u>

**CITY OF LIBERTY, SOUTH CAROLINA  
GENERAL FUND  
STATEMENT OF EXPENDITURES – BUDGET AND ACTUAL (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>
<b>FIRE DEPARTMENT:</b>			
Salaries and wages – regular	120,622	122,000	1,378
Salaries and wages – overtime	12,078	6,000	(6,078)
Salaries and wages – supplemental	995	6,000	5,005
Payroll taxes	9,672	10,251	579
Pension	14,149	13,802	(347)
Uniforms	3,394	2,200	(1,194)
Maintenance and repairs	6,175	8,000	1,825
Vehicle expense	5,832	5,000	(832)
Telephone	5,848	3,500	(2,348)
Department supplies	8,315	3,000	(5,315)
Seminars, conventions and meetings	3,029	4,500	1,471
Utilities	1,398	1,800	402
Dues and subscriptions	377	500	123
Fire calls reimbursement	21,614	16,500	(5,114)
Discretionary funds	5,725	6,000	275
Medical	5,828	5,000	(828)
1% expenses	9,057		(9,057)
Office supplies		2,500	2,500
Fire prevention	1,049	1,000	(49)
Fund raising expense	2,214		(2,214)
Office furniture and equipment (non capital)	<u>3,805</u>		<u>(3,805)</u>
	241,176	<u>217,553</u>	(23,623)

**CITY OF LIBERTY, SOUTH CAROLINA  
GENERAL FUND  
STATEMENT OF EXPENDITURES – BUDGET AND ACTUAL (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>
<b>PUBLIC WORKS:</b>			
Salaries and wages – regular	110,869	115,000	4,131
Salaries and wages – overtime	211	6,000	5,789
Salaries and wages – supplemental		10,000	10,000
Payroll taxes	8,049	10,022	1,973
Pension	7,630	8,107	477
Uniforms	2,594	2,500	(94)
Recycling expense	17,552	12,000	(5,552)
Animal control	4,870	2,500	(2,370)
Maintenance and repairs	4,348	11,000	6,652
Vehicle expense	6,806	18,000	11,194
Insurance, bonds and licenses	75		(75)
Telephone	369	1,000	631
Department supplies	4,778	10,500	5,722
Utilities	38,238	38,000	(238)
Medical		500	500
Asphalt, etc.	26	3,000	2,974
Small hand tools	230	1,000	770
Miscellaneous		600	600
Donations	23	100	77
Capital outlay	4,040		(4,040)
Cemetery expense	3,100		(3,100)
Debt service	<u>14,374</u>	<u>42,476</u>	<u>28,102</u>
	228,182	292,305	64,123
<b>RECREATION DEPARTMENT:</b>			
Salaries	558		(558)
Trophies	<u>442</u>		<u>(442)</u>
	1,000		(1,000)
<b>TOTAL</b>	<u><u>\$1,567,966</u></u>	<u><u>\$1,360,600</u></u>	<u><u>\$(207,366)</u></u>

See accompanying notes and independent auditors' report.

**CITY OF LIBERTY, SOUTH CAROLINA  
SCHEDULE OF GENERAL FIXED ASSETS**

**JUNE 30, 2002**

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**GENERAL FIXED ASSETS:**

Land, buildings, and improvements	\$ 1,006,661
Machinery and equipment	892,980
Office equipment	<u>84,270</u>

Total General Fixed Assets	<b><u>\$1,983,911</u></b>
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<b>INVESTMENT IN GENERAL FIXED ASSETS</b>	<b><u>\$1,983,911</u></b>
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See accompanying notes and independent auditors' report.

CITY OF LIBERTY, SOUTH CAROLINA

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS  
JUNE 30, 2002

	<u>BALANCE</u> <u>JULY 1, 2001</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>BALANCE</u> <u>JUNE 30, 2002</u>
<b>LAND, BUILDINGS AND IMPROVEMENTS:</b>			
Improvements – prior to 1971	\$ 204,728	\$	\$ 204,728
Church property for City Hall	36,509		36,509
Pipe and repairs	1,281		1,281
Air conditioner	870		870
Gas heater	310		310
Parks and recreation	67,634		67,634
Gymnasium renovation	28,484		28,484
Police Station	33,142		33,142
Fire Station	90,227		90,227
Carpet	486		486
Storage building	50,725		50,725
2 Williams gas furnaces	3,640		3,640
Heat and air conditioner improvements	20,270		20,270
Refinish gym floor	2,900		2,900
Real estate (brown house)	7,455		7,455
City parking lot improvements	87,975		87,975
City park	50,080		50,080
“Welcome to Liberty” (Sign 1)	750		750
“Welcome to Liberty” (Sign 2)	720		720
Fencing-ball park	12,541		12,541
City Hall renovations	64,093		64,093
Garage repairs – Fire Department	1,835		1,835
Fence	1,246		1,246
Sidewalk repairs	17,700		17,700
52’ Granger	6,000		6,000
Fire Department renovations	3,049		3,049
Baseball Field grading	6,000		6,000
Recreation Building	14,319		14,319
Garage door	1,738		1,738
Rosewood land	5,000		5,000
Rosewood building	78,000		78,000
Air conditioning condensing unit	1,700		1,700
Land Mt View/Blue Ridge		44,496	44,496
Fence – Church Street		750	750
Rosewood Center		55,968	55,968
Fence – Water tower		4,040	4,040
	<u>901,407</u>	<u>105,254</u>	<u>1,006,661</u>
<b>MACHINERY AND EQUIPMENT:</b>			
1970 Fire truck	18,560		18,560
1989 Ford truck	18,400		18,400
1990 Chevrolet	13,861		13,861
1992 Fire truck	75,760		75,760
1993 Garbage truck	54,845		54,845
1995 Police car	21,852		21,852
1994 Police car	14,419		14,419
1992 Police car	6,300	(6,300)	

CITY OF LIBERTY, SOUTH CAROLINA

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS (CONTINUED)  
JUNE 30, 2002

	<u>BALANCE</u> <u>JULY 1, 2001</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>BALANCE</u> <u>JUNE 30, 2002</u>
<b>MACHINERY &amp; EQUIPMENT (CONTINUED):</b>			
1992 Fire Department Car	6,567		6,567
Truck	13,685		13,685
1996 Police car	23,444		23,444
Chipper	25,350		25,350
1996 Flatbed truck	28,650		28,650
International tractor	6,069		6,069
Tractor	2,200		2,200
1997 Police car	16,237		16,237
Boom mower	33,000		33,000
Backhoe and trailer	12,189		12,189
Siren	1,562		1,562
Fire House	1,971		1,971
Equipment	14,706		14,706
Sewer line cleaner	1,340		1,340
Trailer	558		558
Chain saw	1,164		1,164
Vibrating roller	3,416		3,416
Brush clipper	6,682		6,682
Sweepster	2,415		2,415
Air compressor	547		547
Air conditioner	150		150
Whacker packer	600		600
18" bucket	656		656
Edger	152		152
Gardening equipment	918		918
Snow plows	2,877		2,877
Mowers	4,711		4,711
Portable smoke detector	222		222
Communications equipment	63,860		63,860
Tanks and air packs	5,816		5,816
Fire equipment	17,216		17,216
Pistols	3,089		3,089
Skid unit	5,718		5,718
Detroit diesel	4,438		4,438
Speed reader (mobile)	6,572		6,572
Radio set Fire Department	3,004		3,004
Blazer Public Works	4,500		4,500
2 Computers	7,467		7,467
Radio system	11,694		11,694
Fire Department stove	582		582
Fire Department refrigerator	933		933
1999 Crown Victoria	24,248		24,248
1993 Crown Victoria (2)	6,891		6,891
Police surveillance systems	3,500		3,500

CITY OF LIBERTY, SOUTH CAROLINA

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS (CONTINUED)  
 JUNE 30, 2002

	<u>BALANCE</u> <u>JULY 1, 2001</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>BALANCE</u> <u>JUNE 30, 2002</u>
<b>MACHINERY AND EQUIPMENT (CONTINUED):</b>			
Generator	1,485		1,485
Police radios	4,769		4,769
Air conditioning units	1,117		1,117
Scott air paks	7,830		7,830
Fire Department furniture	689		689
Computer	967		967
2000 Crown Victoria	21,710		21,710
Uniforms (5)	4,218		4,218
Fire Department radio	796		796
John Deere F-725	5,763		5,763
Shredder/hopper	4,237		4,237
Rear loader garbage truck	83,062		83,062
2000 Crown Victoria	22,130		22,130
3 Utility trucks	1,039		1,039
Ice machine	1,864		1,864
External defibulator	4,500		4,500
2001 Chevrolet pickup truck	16,033		16,033
4 Handguns	2,576		2,576
3 Radar guns	1,999		1,999
Rescue truck equipment	2,345		2,345
Dog kennel	1,385		1,385
2000 Crown Victoria	22,580		22,580
2001 Crown Victoria		25,454	25,454
2001 Crown Victoria		25,002	25,002
2001 Crown Victoria		24,129	24,129
MDS Matrx		4,346	4,346
Power Edge		<u>1,692</u>	<u>1,692</u>
	<u>818,657</u>	<u>74,323</u>	<u>892,980</u>

**CITY OF LIBERTY, SOUTH CAROLINA**

**SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS (CONTINUED)  
JUNE 30, 2002**

	<u>BALANCE</u> <u>JULY 1, 2001</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>BALANCE</u> <u>JUNE 30, 2002</u>
<b>OFFICE FURNITURE AND EQUIPMENT:</b>			
Desks and chairs	11,217		11,217
Telephone system	7,507		7,507
Copiers	4,386		4,386
Computer equipment	20,341		20,341
Water cooler	417		417
Computer	2,177		2,177
Software	4,390		4,390
Software	2,732		2,732
Copier	3,000		3,000
Computer	2,651		2,651
Computer	1,130		1,130
Computer/digital camera	2,573		2,573
Printer		1,627	1,627
Software		1,750	1,750
Computer		1,916	1,916
Computer		2,423	2,423
Computer		920	920
Printer		317	317
Computer		2,370	2,370
Computer		10,426	10,426
	<u>62,521</u>	<u>21,749</u>	<u>84,270</u>
 <b>TOTAL GENERAL FIXED ASSETS</b>	 <b><u>\$1,782,585</u></b>	 <b><u>\$ 201,326</u></b>	 <b><u>\$1,983,911</u></b>

See accompanying notes and independent auditors' report.

**CITY OF LIBERTY, SOUTH CAROLINA**  
**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS – ACTUAL**  
**COMPARED TO BUDGETARY BASIS – ENTERPRISE FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>ACTUAL</u>	<u>ADJUSTMENT TO BUDGETARY BASIS</u>	<u>ACTUAL TO BUDGETARY BASIS</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>
<b>OPERATING REVENUES:</b>					
Water billings	\$ 683,277	\$	\$ 683,277	\$ 594,000	\$ 89,277
Sewer billings	<u>462,402</u>		<u>462,402</u>	<u>520,000</u>	<u>(57,598)</u>
Total Operating Revenues	1,145,679		1,145,679	1,114,000	31,679
<b>OPERATING EXPENSES:</b>					
<b>WATER DEPARTMENT:</b>					
Salaries and wages – regular	74,037		74,037	78,216	4,179
Salaries and wages – overtime	812		812	7,500	6,688
Health insurance	5,339		5,339	7,200	1,861
Payroll taxes	6,375		6,375	6,557	182
Pension	18,082		18,082	5,743	(12,339)
Workers' compensation/liability	12,152		12,152	7,350	(4,802)
Uniforms	2,303		2,303	1,400	(903)
Legal & accounting	6,568		6,568	6,000	(568)
Lab fees	1,386		1,386	1,750	364
Purchased water	667,485		667,485	354,750	(312,735)
Repairs to equipment	2,961		2,961	3,300	339
Equipment lease	15		15	500	485
Vehicle expense	5,998		5,998	3,800	(2,198)
Insurance, bonds and licenses				200	200
DHEC fee	5,565		5,565	7,300	1,735
Telephone	4,260		4,260	2,420	(1,840)
Postage	6,023		6,023	3,000	(3,023)
Office	3,999		3,999	2,000	(1,999)
Seminars, conventions and meetings	1,111		1,111	2,200	1,089
Utilities	7,985		7,985	7,500	(485)
Dues and subscriptions	110		110	250	140
Repairs and maintenance	437		437		(437)
Miscellaneous	2,442		2,442		(2,442)

**CITY OF LIBERTY, SOUTH CAROLINA**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS – ACTUAL**  
**COMPARED TO BUDGETARY BASIS – ENTERPRISE FUND (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>ACTUAL</u>	<u>ADJUSTMENT TO BUDGETARY BASIS</u>	<u>ACTUAL TO BUDGETARY BASIS</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>
Janitorial				300	300
Medical services and supplies				200	200
Asphalt, cement, etc.	548		548	1,000	452
Supplies	23,781		23,781	25,000	1,219
Machinery and equipment				2,000	2,000
Refunds	919		919	1,000	81
Contributions	23		23	200	177
Consulting				5,000	5,000
Bad debt expense	853		853		(853)
	<u>861,569</u>		<u>861,569</u>	<u>543,636</u>	<u>(317,933)</u>
<b>SEWER DEPARTMENT:</b>					
Salaries and wages – regular	55,482		55,482	78,216	22,734
Salaries and wages – overtime	1,913		1,913	7,500	5,587
Health insurance	4,389		4,389	3,500	(889)
Payroll taxes	3,688		3,688	6,557	2,869
Retirement	4,005		4,005	5,743	1,738
Equipment rental				500	500
Seminars, conventions and meetings	131		131	1,000	869
Dues and subscriptions	15		15	200	185
Medical services and supplies				200	200
Machinery and equipment					
Legal and accounting	9,741		9,741	1,600	(8,141)
Consulting	5,367		5,367	3,500	(1,867)
Maintenance and repairs to equipment	1,394		1,394	3,300	1,906
Insurance, bonds and licenses	10,858		10,858	7,350	(3,508)
Postage	1,137		1,137	3,000	1,863
Department supplies	4,328		4,328	15,500	11,172
Collection fees	3,182		3,182	2,300	(882)
Utilities	6,310		6,310	10,000	3,690
Miscellaneous	2,442		2,442	500	(1,942)
Office	279		279	1,300	1,021
Railroad lease	120		120		(120)
	<u>114,781</u>		<u>114,781</u>	<u>151,766</u>	<u>36,985</u>

**CITY OF LIBERTY, SOUTH CAROLINA**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS -ACTUAL**  
**COMPARED TO BUDGETARY BASIS – ENTERPRISE FUND (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>ACTUAL</u>	<u>ADJUSTMENT TO BUDGETARY BASIS</u>	<u>ACTUAL ON BUDGETARY BASIS</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE UNFAVORABLE</u>
County Facility Fees	267,599		267,599	270,000	2,401
Depreciation	119,592	119,592			
Amortization	203	203			
	<u>387,394</u>	<u>119,795</u>	<u>267,599</u>	<u>270,000</u>	<u>2,401</u>
<b>Total Operating Expenses</b>	<u>1,363,744</u>	<u>119,795</u>	<u>1,243,949</u>	<u>965,402</u>	<u>(278,547)</u>
<b>Operating Income (Loss)</b>	(218,065)	119,795	(98,270)	148,598	248,868
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Interest income	1,427		1,427		1,427
Interest expense	(18,246)		(18,246)		(18,246)
Gain on Sale of assets	895		895		895
	<u>(15,924)</u>		<u>(15,924)</u>		<u>(15,924)</u>
<b>Total Non-operating Revenues (Expenses):</b>	<u>(15,924)</u>		<u>(15,924)</u>		<u>(15,924)</u>
<b>Net Income (Loss)</b>	(233,989)	119,795	(114,194)	148,598	(262,792)
<b>RETAINED EARNINGS, BEGINNING</b>	<u>627,112</u>		<u>627,112</u>	<u>627,112</u>	
<b>RETAINED EARNINGS, ENDING</b>	<u>\$ 393,123</u>	<u>\$ 119,705</u>	<u>\$ 512,918</u>	<u>\$ 775,710</u>	<u>\$ (262,792)</u>

See accompanying notes and independent auditors' report.

**CITY OF LIBERTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2002**

There are no findings or questioned costs.

**SUMMARY OF AUDITOR'S RESULTS**

An unqualified opinion was issued on the general purpose financial statements for the year ended June 30, 2002. The audit disclosed no instances of noncompliance which were material to the financial statements of the City of Liberty. An unqualified opinion on compliance for major programs was also issued.

For the Year ended June 30, 2002, the City's federal programs were not assessed as low-risk programs, and a \$300,000 threshold was used to distinguished between Type A and Type B programs.

The major program for the year ended June 30, 2002 was the U. S. Department of Housing and Urban Development Community Development Block Grant (CFDA # 14.228).

CITY OF LIBERTY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Liberty and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits Of States, Local Governments, and Non Profit Organizations*.

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

Honorable Mayor and Members of the City Council  
City of Liberty  
Liberty, South Carolina

We have audited the general purpose financial statements of the City of Liberty as of and for the year ended June 30, 2002, and have issued our report thereon dated October 9, 2002. In our report, our opinion was qualified because the general purpose financial statements do not include all of the fixed assets which should be included to conform with U. S. generally accepted accounting principles.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Liberty's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned conditions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Mayor and Members of the City Council  
City of Liberty  
Page Two

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Curry & Associates, P.A.*

Curry & Associates, P.A.

October 9, 2002

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of the City Council  
City of Liberty  
Liberty, South Carolina

Compliance

We have audited the general purpose financial statements of the City of Liberty as of and for the year ended June 30, 2002, and have issued our report thereon dated October 9, 2002. In our report, our opinion was qualified because the general purpose financial statements do not include all of the fixed assets which should be included to conform with U.S. generally accepted accounting principles.

We have audited the compliance of the City of Liberty with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. The City of Liberty's major federal program is 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 management. Our responsibility is to express an opinion on the City of Liberty's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards of the United States; 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, *Audits of States, Local Governments, and Non-Profits Organizations*. Those standards and OMB Circular A-133 require that we 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 of Liberty's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Liberty's compliance with those requirements.