



CITY OF WALHALLA, SOUTH CAROLINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2016

CITY OF WALHALLA, SOUTH CAROLINA

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Walhalla, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Walhalla's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Walhalla's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.² Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Modified Opinion

Management was unable to provide the required actuarial report related to accounting and financial reporting by employers for postemployment benefits other than pensions in accordance with Governmental Accounting Standards Board Statement No. 45. The amount by which the aforementioned documentation would affect the liabilities and expenses of the City, if provided, is not reasonably determinable.

Modified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Walhalla, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Walhalla's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of municipal court fines, assessments, and surcharges 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 schedule of municipal court fines, assessments, and surcharges is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedule of municipal court fines, assessments, and surcharges are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The combining and individual nonmajor fund financial statements and schedule of municipal court fines, assessments, and surcharges has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Payne, White & Schmutz, CPA, PA

Payne, White & Schmutz, CPA, PA

October 18, 2016

GOVERNMENT - WIDE FINANCIAL STATEMENTS

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2016

	PRIMARY GOVERNMENT		
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL
	ACTIVITIES	ACTIVITIES	
ASSETS			
Cash and Other Cash Deposits	\$ 4,880,785	\$ 102,473	\$ 4,983,258
Investments	1,449,345	-	1,449,345
Accounts Receivable	169,898	569,801	739,699
Taxes Receivable	10,023	-	10,023
Interfund Balances	(3,763,001)	3,763,001	-
Inventories	-	116,037	116,037
RESTRICTED ASSETS:			
Cash and Other Cash Deposits	88,001	-	88,001
CAPITAL ASSETS:			
Non Depreciable	671,382	1,056,154	1,727,536
Depreciable	8,215,433	10,528,432	18,743,865
Less Accumulated Depreciation	(4,047,302)	(6,060,903)	(10,108,205)
TOTAL ASSETS	7,674,564	10,074,995	17,749,559
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Net Pension Obligation (Net)	248,946	106,445	355,391
TOTAL DEFERRED OUTFLOWS OF RESOURCES	248,946	106,445	355,391
LIABILITIES			
Accounts Payable	11,888	197,702	209,590
Accrued Salaries	27,814	12,598	40,412
Employee Benefits Withheld and Accrued	32,323	20,090	52,413
Accrued Interest Payable	5,011	-	5,011
NON-CURRENT LIABILITIES:			
DUE WITHIN ONE YEAR:			
Compensated Absences	4,202	2,434	6,636
Capital Leases Payable	116,079	19,809	135,888
DUE IN MORE THAN ONE YEAR:			
Compensated Absences	37,816	21,903	59,719
Capital Leases Payable	151,689	58,228	209,917
Refundable Connection Fees	-	89,726	89,726
Net Pension Obligation	3,083,023	947,410	4,030,433
TOTAL LIABILITIES	3,469,845	1,369,900	4,839,745
DEFERRED INFLOWS OF RESOURCES			
Deferred Net Pension Obligation (Net)	55,462	12,096	67,558
TOTAL DEFERRED INFLOWS OF RESOURCES	55,462	12,096	67,558
NET POSITION			
Net Investment in Capital Assets	4,566,734	5,523,683	10,090,417
RESTRICTED FOR:			
Judicial Services	64,172	-	64,172
Public Safety	23,828	-	23,828
Recreation and Tourism	82,810	-	82,810
New Water Source	1,449,345	-	1,449,345
Unrestricted	(1,788,686)	3,275,761	1,487,075
TOTAL NET POSITION	\$ 4,398,203	\$ 8,799,444	\$ 13,197,647

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

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

FUNCTION/PROGRAM ACTIVITIES	PROGRAM REVENUES				NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION		
	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	\$ 91,869	\$ 414,740	\$ -	\$ -	\$ 322,871	\$ -	\$ 322,871
Judicial Services	91,580	61,847	-	-	(29,733)	-	(29,733)
Public Safety	1,482,795	62,505	-	1,058,969	(361,321)	-	(361,321)
Public Works	965,392	586,970	12,602	324,283	(41,537)	-	(41,537)
Recreation and Tourism	433,908	33,392	-	-	(400,516)	-	(400,516)
Interest on Long-Term Debt	8,384	-	-	-	(8,384)	-	(8,384)
TOTAL GOVERNMENTAL ACTIVITIES	3,073,928	1,159,454	12,602	1,383,252	(518,620)	-	(518,620)
BUSINESS-TYPE ACTIVITIES							
Water System	1,910,652	3,144,056	-	317,488	-	1,550,892	1,550,892
Sewer System	704,744	684,375	-	-	-	(20,369)	(20,369)
TOTAL BUSINESS-TYPE ACTIVITIES	2,615,396	3,828,431	-	317,488	-	1,530,523	1,530,523
TOTAL PRIMARY GOVERNMENT	\$ 5,689,324	\$ 4,987,885	\$ 12,602	\$ 1,700,740	(518,620)	1,530,523	1,011,903
GENERAL REVENUES:							
TAXES:							
Property Taxes, Levied for General Purposes					701,798	-	701,798
State Accommodation Taxes					5,889	-	5,889
Hospitality Taxes					215,587	-	215,587
Payments in Lieu of Taxes and Franchise Fees					220,390	-	220,390
Grants and Contributions not Restricted to Specific Programs					398,343	-	398,343
Interest Income					12,579	213	12,792
Miscellaneous					93,032	2,789	95,821
Interfund Transfers					850,000	(850,000)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS AND TRANSFERS					2,497,618	(846,998)	1,650,620
CHANGE IN NET POSITION					1,978,998	683,525	2,662,523
NET POSITION - BEGINNING					2,419,205	8,115,919	10,535,124
NET POSITION - ENDING					\$ 4,398,203	\$ 8,799,444	\$ 13,197,647

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

FUND FINANCIAL STATEMENTS

CITY OF WALHALLA, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2016

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Other Cash Deposits	\$ 4,758,693	\$ 122,092	\$ 4,880,785
Restricted Assets - Cash and Other Cash Deposits	88,000	-	88,000
Investments	1,449,345	-	1,449,345
Property Taxes Receivable	10,024	-	10,024
Accounts Receivable	169,898	-	169,898
Interfund Balances	81,029	64,172	145,201
TOTAL ASSETS	\$ 6,556,989	\$ 186,264	\$ 6,743,253
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts Payable	11,888	-	11,888
Accrued Salaries	27,814	-	27,814
Employee Benefits Withheld and Accrued	32,323	-	32,323
Interfund Balances	3,908,184	18	3,908,202
TOTAL LIABILITIES	3,980,209	18	3,980,227
FUND BALANCES:			
RESTRICTED FOR:			
Judicial Services	-	64,172	64,172
Public Safety	5,659	18,169	23,828
Recreation and Tourism	-	82,811	82,811
New Water Source	1,449,345	-	1,449,345
ASSIGNED TO:			
Recreation and Tourism	-	21,094	21,094
UNASSIGNED:	1,121,776	-	1,121,776
TOTAL FUND BALANCES	2,576,780	186,246	2,763,026
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,556,989	\$ 186,264	\$ 6,743,253

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

CITY OF WALHALLA, SOUTH CAROLINA

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

JUNE 30, 2016

Fund balances - total governmental funds \$ 2,763,026

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	8,886,815	
Less accumulated depreciation	<u>(4,047,302)</u>	4,839,513

Long-term and other liabilities, including bonds payable and net pension obligation are not due and payable in the current period and therefore are not reported in the governmental funds.

Capital leases payable	(267,768)	
Interest payable	(5,011)	
Net pension obligation	(3,083,023)	
Compensated absences	<u>(42,018)</u>	(3,397,820)

Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	248,946	
Deferred inflows of resources related to pensions	<u>(55,462)</u>	<u>193,484</u>

Net position of governmental activities		<u><u>\$ 4,398,203</u></u>
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CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2016

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property Taxes	\$ 701,798	\$ -	\$ 701,798
Intergovernmental Revenues	1,782,659	12,602	1,795,261
Licenses, Permits and Fees	1,068,949	-	1,068,949
Fines and Forfeitures	52,245	9,602	61,847
Miscellaneous and Other	123,309	2,750	126,059
Payments in Lieu of Taxes and Franchise Fees	220,390	-	220,390
Hospitality Tax	-	173,834	173,834
Interest Income	12,571	8	12,579
TOTAL REVENUES	3,961,921	198,796	4,160,717
EXPENDITURES			
CURRENT OPERATING:			
General Government	87,924	-	87,924
Judicial Services	65,531	26,044	91,575
Public Safety	1,338,918	6,978	1,345,896
Public Works	877,908	-	877,908
Recreation and Tourism	307,295	115,904	423,199
Capital Expenditures	1,985,751	41,753	2,027,504
DEBT SERVICE:			
Principal Retirement	113,517	-	113,517
Interest and Fiscal Charges	8,802	-	8,802
TOTAL EXPENDITURES	4,785,646	190,679	4,976,325
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(823,725)	8,117	(815,608)
OTHER FINANCING SOURCES AND (USES)			
Insurance Recovery	456	-	456
Interfund Transfers In	919,450	(69,450)	850,000
NET CHANGE IN FUND BALANCES	96,181	(61,333)	34,848
FUND BALANCES, BEGINNING	2,480,599	247,579	2,728,178
FUND BALANCES, ENDING	\$ 2,576,780	\$ 186,246	\$ 2,763,026

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

CITY OF WALHALLA, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds \$ 34,848

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	2,027,504	
Less current year depreciation	<u>(169,136)</u>	1,858,368

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 position. 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 position.

Principal payments		113,517
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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	4,457	
Change in accrued interest on capital leases payable	<u>419</u>	4,876

Governmental funds report pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Pension contributions	189,766	
Cost of benefits earned net of employee contributions	<u>(222,377)</u>	<u>(32,611)</u>

Change in net position of governmental activities		<u><u>\$ 1,978,998</u></u>
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CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2016

	ENTERPRISE		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash	\$ 89,217	\$ 13,256	\$ 102,473
Accounts Receivable	560,329	9,472	569,801
Interfund Balances	3,110,040	1,115,266	4,225,306
Inventory	108,950	7,087	116,037
TOTAL CURRENT ASSETS	3,868,536	1,145,081	5,013,617
NON-CURRENT ASSETS:			
CAPITAL ASSETS:			
Land and Other Non-Depreciable Assets	1,056,154	-	1,056,154
Buildings and Improvements	1,228,727	282,454	1,511,181
Equipment and Vehicles	937,132	481,623	1,418,755
Infrastructure	6,174,585	1,423,911	7,598,496
Less Accumulated Depreciation	(4,329,290)	(1,731,613)	(6,060,903)
TOTAL NON-CURRENT ASSETS	5,067,308	456,375	5,523,683
TOTAL ASSETS	8,935,844	1,601,456	10,537,300
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	102,482	3,963	106,445
TOTAL DEFERRED OUTFLOWS OF RESOURCES	102,482	3,963	106,445
LIABILITIES			
CURRENT LIABILITIES:			
Accounts Payable	147,157	50,545	197,702
Accrued Salaries	12,096	502	12,598
Employee Benefits Withheld and Accrued	19,471	619	20,090
Compensated Absences	2,339	95	2,434
Capital Leases Payable	19,809	-	19,809
Interfund Balances	458,655	3,650	462,305
TOTAL CURRENT LIABILITIES	659,527	55,411	714,938
NON-CURRENT LIABILITIES:			
Compensated Absences	21,052	851	21,903
Refundable Connection Fees	89,726	-	89,726
Capital Leases Payable	58,228	-	58,228
Net Pension Obligation	909,591	37,819	947,410
TOTAL NON-CURRENT LIABILITIES	1,078,597	38,670	1,117,267
TOTAL LIABILITIES	1,738,124	94,081	1,832,205
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	11,613	483	12,096
TOTAL DEFERRED INFLOWS OF RESOURCES	11,613	483	12,096
NET POSITION			
Net Investment in Capital Assets	5,067,308	456,375	5,523,683
Unrestricted	2,221,281	1,054,480	3,275,761
TOTAL NET POSITION	\$ 7,288,589	\$ 1,510,855	\$ 8,799,444

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

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

	ENTERPRISE		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
OPERATING REVENUES			
Utility Service	\$ 3,089,106	\$ 684,375	\$ 3,773,481
Taps	54,950	-	54,950
Miscellaneous Income	-	2,789	2,789
TOTAL OPERATING REVENUES	3,144,056	687,164	3,831,220
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	985,189	44,006	1,029,195
Contractual Services, Materials, Supplies and Other Expenses	752,426	626,760	1,379,186
Depreciation Expense	168,756	33,978	202,734
TOTAL OPERATING EXPENSES	1,906,371	704,744	2,611,115
OPERATING INCOME (LOSS)	1,237,685	(17,580)	1,220,105
NON-OPERATING REVENUES AND (EXPENSES)			
Interest Income	200	13	213
Interest Expense	(4,281)	-	(4,281)
Grant Income	317,488	-	317,488
TOTAL NON-OPERATING REVENUES AND (EXPENSES)	313,407	13	313,420
INCOME (LOSS) BEFORE TRANSFERS	1,551,092	(17,567)	1,533,525
Interfund Transfers In	-	40,000	40,000
Interfund Transfers (Out)	(890,000)	-	(890,000)
CHANGE IN NET POSITION	661,092	22,433	683,525
NET POSITION, BEGINNING	6,627,497	1,488,422	8,115,919
NET POSITION, ENDING	\$ 7,288,589	\$ 1,510,855	\$ 8,799,444

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

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

	ENTERPRISE		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:			
CASH FLOWS FROM OPERATIONS:			
Receipts from Customers	\$ 3,230,583	\$ 681,571	\$ 3,912,154
Payments to Employees and Related Benefits	(994,442)	(44,080)	(1,038,522)
Payments to Suppliers	398,343	(677,502)	(279,159)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>2,634,484</u>	<u>(40,011)</u>	<u>2,594,473</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Interfund Transfers In	-	40,000	40,000
Interfund Transfers (Out)	(890,000)	-	(890,000)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>(890,000)</u>	<u>40,000</u>	<u>(850,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from Capital Lease	97,846	-	97,846
Principal Paid on Capital Lease	(19,809)	-	(19,809)
Interest Paid on Interfund Loan	(4,439)	(2)	(4,441)
Capital Grant	317,488	-	317,488
Acquisition of Capital Assets	(2,135,729)	-	(2,135,729)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,744,643)</u>	<u>(2)</u>	<u>(1,744,645)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Income from Investments	200	13	213
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>200</u>	<u>13</u>	<u>213</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41	-	41
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>32,989</u>	<u>-</u>	<u>32,989</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 33,030</u>	<u>\$ -</u>	<u>\$ 33,030</u>
CLASSIFIED AS:			
Current Assets	\$ 33,030	\$ -	\$ 33,030

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

(continued)

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

	ENTERPRISE		TOTAL
	WATER SYSTEM	SEWER SYSTEM	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
OPERATING INCOME (LOSS)	<u>\$ 1,237,685</u>	<u>\$ (17,580)</u>	<u>\$ 1,220,105</u>
ADJUSTMENTS NOT AFFECTING CASH:			
Depreciation	168,756	33,978	202,734
CHANGE IN ASSETS AND LIABILITIES:			
Accounts Receivable	86,527	(5,593)	80,934
Due From Other Funds	1,052,992	(49,142)	1,003,850
Inventory	6,109	(2,789)	3,320
Accounts Payable	97,953	882	98,835
Customer Deposits	(6,791)	-	(6,791)
Compensated Absences	(2,252)	298	(1,954)
Accrued Liabilities	(7,001)	(372)	(7,373)
Net Pension Obligation	71,449	2,967	74,416
CHANGE IN DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:			
Deferred Pension Charges	(11,895)	(201)	(12,096)
Deferred Pension Credits	<u>(59,048)</u>	<u>(2,459)</u>	<u>(61,507)</u>
TOTAL ADJUSTMENTS	<u>1,396,799</u>	<u>(22,431)</u>	<u>1,374,368</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 2,634,484</u>	<u>\$ (40,011)</u>	<u>\$ 2,594,473</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

The City of Walhalla (City) operates under a council-mayor 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, and recreation and tourism.

The financial statements of the City have been prepared in conformity with general accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 to its governmental and business-type activities and to its Proprietary fund provided they do not conflict with or contradict GASB pronouncements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

As required by GAAP, the financial statements must present the City's financial information with any of its component units. The primary criterion for determining inclusion or exclusion of a legally separate entity ("component unit") is financial accountability, which is presumed to exist if the City both appoints a voting majority of the entity's governing body, and either 1) the City is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the City. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the City and there is a potential that the entity could either provide specific financial benefits to, or to impose specific financial burdens on the City.

In order to be considered fiscally independent, an entity must have the authority to do all of the following: (a) determine its budget without the City having the authority to approve or modify that budget; (b) levy taxes or set rates or charges without approval by the City; and (c) issue bonded debt without approval by the City. An entity has a financial benefit or burden relationship with the City if, for example, any one of the following conditions exists: (a) the City is legally entitled to or can otherwise access the entity's resources, (b) the City is legally obligated or has otherwise assumed the obligation to finance the deficits or, or provide financial support to, the entity, or (c) the City is obligated in some manner for the debt of the entity. Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the City's financial statements to be misleading. Blended component units, although legally separate entities, are in substance, part of the government's operations and data from these units are combined with data of the primary government in the fund financial statements. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Major Operations

The City's major governmental operations include: administrative and general, police, fire, streets, recreation and parks, and hospitality. In addition, the City provides water and sewer operations through its utility fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the City (the "Primary Government"). For the most part, the effect of interfund activity (except for interfund services provided and used between functions) has been removed from these financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

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

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, includes property taxes, grants, and donations. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. The government-wide financial statements are prepared using a different measurement focus from the manner in which the governmental fund financial statements are prepared (see further detail below). Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the governmental fund financial statements.

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

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

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, lease purchase expenditures, capital lease expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due and payable. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. Proceeds of long-term debt, lease purchase obligations, and acquisitions under capital leases are reported as other financing sources. Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. When both restricted and unrestricted resources are available for use, it is the City's practice to use restricted resources first, then unrestricted resources as they are needed.

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

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

The **General Fund, a major fund and a budgeted fund**, is the general operating fund of the City and accounts for all governmental revenues and expenditures of the City. All general tax revenues and other receipts that (a) are not allocated by law or contractual agreement to other funds or (b) that have not been restricted, committed, or assigned to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (that are expected to continue to comprise a substantial portion of the inflows of the fund) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The City has the following non-major special revenue funds:

Cemetery Fund Firemen's Fund Victim's Assistance Fund Hospitality Tax Fund

Proprietary Fund Types are accounted for based on the economic resources measurement focus and use of the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds are made up of two classes: enterprise funds and internal service funds. The City does not have any internal service funds and has one enterprise fund.

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

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

The *Water and Sewer Funds, major funds and budgeted funds*, are used to account for the City's water and sewer operations.

Change in Accounting Principle

The City implemented GASB Statement No. 72 "*Fair Value Measurement and Application*" ("GASB #72" or "Statement") for the year ended June 30, 2016. The primary objective of this Statement was to address accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this Statement had no impact on the City's financial statements but did result in expanded note disclosures.

C. Cash, Cash Equivalents, and Investments

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

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

- (a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
- (b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (c) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Cash, Cash Equivalents, and Investments (continued):

- (d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
- (e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
- (f) Repurchase agreements when collateralized by securities as set forth in this section.
- (g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

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

South Carolina Local Government Investment Pool ("LGIP" or "Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any City treasurer or any governing body of a political subdivision of the State, may be deposited. In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments are carried at fair value determined annually based upon quoted market prices for identical or similar investments. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by Pool participants at any time and may be withdrawn upon 24 hours' notice. Financial statements for the Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211- 1960.

D. Receivables and Payables

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

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

E. Inventories and Prepaid Items

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

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. 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	10-50	\$ 15,000
Equipment and Vehicles	5-50	\$ 5,000
Infrastructure	50	\$ 25,000

G. 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.

H. Accrued Liabilities and Long-Term Obligations

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

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

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

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one type of deferred outflow of resources, deferred pension charges. This item is deferred and recognized as an outflow of resources (expense).

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

I. Deferred Outflows/Inflows of Resources (continued);

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of deferred inflow of resources, deferred pension charges. This item is deferred and recognized as an inflow of resources (revenue) in the period for which it was intended to finance.

J. 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 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.

K. Fund Balance

In accordance with GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" ("GASB #54"), the City classifies its governmental fund balances as follows:

Nonspendable – includes amounts that inherently cannot be spent either because it is not in spendable form (i.e. prepaids, inventories, etc.) or because of legal or contractual requirements (i.e. principal on an endowment, etc.).

Restricted – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action made by the highest level of decision making authority (City Council) before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned – includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed and for which such assignments are made before the report issuance date. City Council formally granted the City Administrator the right to make assignments of fund balance for the City.

Unassigned – includes amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

K. Fund Balance (continued):

The City generally uses restricted amounts to be spent first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, the City generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

L. Net Position

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

M. Property Tax

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

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

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

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

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

N. Encumbrances

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

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

O. Accounting 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, disclosures of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Pensions

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note IV.B and the required supplementary information immediately following the notes to the financial statements for more information), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The City recognizes a net pension liability for its participation in the Plans, which represents the City's proportionate share of the total pension liability over the fiduciary net position of the Plans, measured as of the City's preceding fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

Q. Fair Value

The fair value measurement and disclosure framework provides for a three-tier fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City can access at the measurement date.

Level 2 – Inputs to the valuation methodology, other than quoted prices included in Level 1 that are observable for an asset or liability either directly or indirectly and include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology that are unobservable for an asset or liability and include:

- Fair value is often based on developed models in which there are few, if any, observable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Q. Fair Value (continued):

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable values or reflective of future fair values. The City believes that the valuation methods used are appropriate and consistent with GAAP. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no significant changes from the prior year in the methodologies used to measure fair value.

NOTE 2 – DEPOSITS AND INVESTMENTS:

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. The City does not have a formal deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. At June 30, 2016, the carrying amount of the City's deposits of \$5,071,258 and the bank balance of \$5,156,050 were exposed to custodial credit risk.

Investments

As of June 30, 2016, the City had the following investments:

Investment Type	Credit Rating	Fair Value	Investment Maturities in Years			
			< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs
State Government Local Investment Pool	*	\$ 1,449,345	\$ 1,449,345	-	-	-

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

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

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

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

Certain deposits and investments of the City are legally restricted for specified purposes. The major types of restrictions at June 30, 2016 were (a) those imposed by the revenue source (i.e. hospitality fees, grants, etc.).

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED):

The following reconciles total cash and investments reported in the statement of net position to cash and cash equivalents reported in the statement of cash flows:

Cash and Certificates of Deposit	\$ 102,473
Less Certificates of Deposit that are not a Cash Equivalent	<u>(69,443)</u>
Cash and Cash Equivalents per Statement of Cash Flows	<u>\$ 33,030</u>

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Interfund Receivables and Payables

Interfund balances at June 30, 2016, consisted of the following individual fund receivables and payables (all of which are expected to be repaid within one year):

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Primary Government:		
By Major Fund:		
General	\$ 81,029	\$ 4,758,184
Sewer System	1,075,266	3,650
Water System	3,960,040	418,655
Other Governmental:		
Cemetery Special Revenue Fund	-	18
Victim Assistance Special Revenue Fund	<u>64,172</u>	<u>-</u>
Total Primary Government	<u>\$ 5,180,507</u>	<u>\$ 5,180,507</u>

Transfers to/from the City's funds for the year consisted of the following:

From the water fund to the sewer fund to provide needed resources.	<u>\$ 40,000</u>
From the water fund to the general fund to provide needed resources.	<u>\$ 850,000</u>

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the City’s governmental activities for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 524,014	\$ -	\$ -	\$ 524,014
Construction in Progress	316,916	147,368	(316,916)	147,368
Total Capital Assets not being Depreciated	<u>840,930</u>	<u>147,368</u>	<u>(316,916)</u>	<u>671,382</u>
Capital Assets being Depreciated:				
Buildings and Improvements	3,151,594	2,172,445	-	5,324,039
Equipment and Vehicles	2,839,207	24,607	-	2,863,814
Infrastructure	27,580	-	-	27,580
Total Capital Assets being Depreciated	<u>6,018,381</u>	<u>2,197,052</u>	<u>-</u>	<u>8,215,433</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,868,402)	(58,451)	-	(1,926,853)
Equipment and Vehicles	(2,003,923)	(110,133)	-	(2,114,056)
Infrastructure	(5,841)	(552)	-	(6,393)
Total Accumulated Depreciation	<u>(3,878,166)</u>	<u>(169,136)</u>	<u>-</u>	<u>(4,047,302)</u>
Total Capital Assets being Depreciated, Net	<u>2,140,215</u>	<u>2,027,916</u>	<u>-</u>	<u>4,168,131</u>
Governmental Activities Capital Assets, Net	<u>\$2,981,145</u>	<u>\$2,175,284</u>	<u>\$ (316,916)</u>	<u>\$ 4,839,513</u>

Depreciation expense was charged to governmental functions as follows:

<u>Function/Program</u>	<u>Expense</u>
General Government	\$ 4,593
Public Safety	62,258
Public Works	90,541
Recreation and Tourism	11,744
Total Depreciation Expense	<u>\$ 169,136</u>

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

NOTE 4 – CAPITAL ASSETS (CONTINUED):

Capital asset activity for the City’s business-type activities for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 160,226	\$ -	\$ -	\$ 160,226
Construction in Progress	530,098	827,005	(461,175)	895,928
Total Capital Assets not being Depreciated	<u>690,324</u>	<u>827,005</u>	<u>(461,175)</u>	<u>1,056,154</u>
Capital Assets being Depreciated:				
Buildings and Improvements	1,511,181	-	-	1,511,181
Equipment and Vehicles	1,240,600	178,155	-	1,418,755
Infrastructure	6,006,752	1,591,744	-	7,598,496
Total Capital Assets being Depreciated	<u>8,758,533</u>	<u>1,769,899</u>	<u>-</u>	<u>10,528,432</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(890,600)	(33,262)	-	(923,862)
Equipment and Vehicles	(909,699)	(71,282)	-	(980,981)
Infrastructure	(4,057,870)	(98,190)	-	(4,156,060)
Total Accumulated Depreciation	<u>(5,858,169)</u>	<u>(202,734)</u>	<u>-</u>	<u>(6,060,903)</u>
Total Capital Assets being Depreciated, Net	<u>2,900,364</u>	<u>1,567,165</u>	<u>-</u>	<u>4,467,529</u>
Business-Type Activities Capital Assets, Net	<u>\$3,590,688</u>	<u>\$2,394,170</u>	<u>\$ (461,175)</u>	<u>\$ 5,523,683</u>

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

<u>Function/Program</u>	<u>Expense</u>
Water System	\$ 168,756
Sewer System	33,978
Total Depreciation Expense	<u>\$ 202,734</u>

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

NOTE 5 – 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 Position.

Summarized below are the City’s individual bond issues which are outstanding at June 30, 2016:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate	Maximum Annual Debt Service
Governmental Activities:					
Capital Lease Payable	Acquire Garbage Truck	\$ 309,000	\$ 92,730	2.990%	48,454
Capital Lease Payable	Acquire Pumper Truck	143,524	124,288	2.120%	22,279
Capital Lease Payable	Acquire Fire Truck	249,168	50,750	1.650%	51,588
Capital Lease Payable	Acquire Backhoe	97,846	78,037	1.500%	19,809
Total Governmental Activities		<u>\$ 799,538</u>	<u>\$ 345,805</u>		

Presented below is a summary of changes in long-term obligations for the City’s governmental activities for the year ended June 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Capital Leases Payable:					
Capital Leases Payable	\$ 381,285	\$ -	\$ (113,517)	\$ 267,768	\$ 116,079
Total Capital Leases Payable	<u>381,285</u>	<u>-</u>	<u>(113,517)</u>	<u>267,768</u>	<u>116,079</u>
Other Liabilities - Compensated Absences	46,475	-	(4,457)	42,018	4,202
Governmental Activities Long-term Liabilities	<u>\$ 427,760</u>	<u>\$ -</u>	<u>\$ (117,974)</u>	<u>\$ 309,786</u>	<u>\$ 120,281</u>

Presented below is a summary of changes in long-term obligations for the City’s business-type activities for the year ended June 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Business - Type Activities:					
Capital Leases Payable	\$ -	\$ 97,846	\$ (19,809)	\$ 78,037	\$ 19,809
Total Capital Leases Payable	<u>-</u>	<u>97,846</u>	<u>(19,809)</u>	<u>78,037</u>	<u>19,809</u>
Other Liabilities:					
Compensated Absences	26,291	-	(1,954)	24,337	2,434
Refundable Connection Fees	96,517	-	(6,791)	89,726	-
Total Other Liabilities	<u>122,808</u>	<u>-</u>	<u>(8,745)</u>	<u>114,063</u>	<u>2,434</u>
Business-Type Activities Long-term Liabilities	<u>\$ 122,808</u>	<u>\$ 97,846</u>	<u>\$ (28,554)</u>	<u>\$ 192,100</u>	<u>\$ 22,243</u>

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED):

Presented below is a summary of debt service requirements to maturity by year for the City’s governmental and business-type activities as of June 30, 2016:

Fiscal Year	Governmental Activities			Business-Type Activities			Total
	Principal	Interest	Total	Principal	Interest	Total	Primary Government
2017	\$ 116,076	\$ 6,245	\$ 122,321	\$ 19,509	\$ -	\$ 19,509	\$ 141,830
2018	67,108	3,625	70,733	19,509	-	19,509	90,242
2019	20,485	1,793	22,278	19,509	-	19,509	41,787
2020	20,920	1,359	22,279	19,510	-	19,510	41,789
2021	21,363	915	22,278	-	-	-	22,278
2022-2026	21,816	463	22,279	-	-	-	22,279
Total	\$ 267,768	\$ 14,400	\$ 282,168	\$ 78,037	\$ -	\$ 78,037	\$ 360,205

NOTE 6 – PENSION PLAN:

Plan Description

The City participates in the South Carolina Retirement System (SCRS) and the South Carolina Police Officers Retirement System (PORS). The South Carolina Retirement System (SCRS) is a cost-sharing multiple-employer defined benefit pension plan, which was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions. The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems’ Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits’ link on PEBA’s website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under SCRS and PORS is presented below.

SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 6 – PENSION PLAN (CONTINUED):

Membership (continued):

PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for SCRS and PORS is presented below.

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 6 – PENSION PLAN (CONTINUED):

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

- Required employee contribution rates for the following fiscal years are as follows:

	Fiscal Year 2016	Fiscal Year 2015
SCRS		
Employee Class Two	8.16%	8.00%
Employee Class Three	8.16%	8.00%
PORS		
Employee Class Two	8.74%	8.41%
Employee Class Three	8.74%	8.41%

- Required employer contributions for the following fiscal years are as follows:

	Fiscal Year 2016	Fiscal Year 2015
SCRS		
Employer Class Two	10.91%	10.75%
Employer Class Three	10.91%	10.75%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	13.34%	13.01%
Employer Class Three	13.34%	13.01%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

Contributions to the pension plan from the City were as follows:

<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
\$ 251,346	\$ 236,666	\$ 226,896 ¹

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

NOTE 6 – PENSION PLAN (CONTINUED):

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study performed on data through June 30, 2015, is currently underway.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS and PORS:

	<u>SCRS</u>	<u>PORS</u>
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	3.5% to 12.5%	4.0% to 10.0%
Includes inflation at	2.75%	2.75%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member’s job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Net Pension Liability of the Plan

The net pension liability (NPL) is calculated separately for each system and represents that particular system’s total pension liability determined in accordance with GASB No. 67 less that System’s fiduciary net position. NPL totals, as of June 30, 2015, for SCRS and PORS are as follows:

Plan	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$44,097,310,230	\$25,131,828,101	\$18,965,482,129	57.0%
PORS	6,151,321,222	3,971,824,838	2,179,496,384	64.6%

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 6 – PENSION PLAN (CONTINUED):

Long-term expected rate of return

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the fourth quarter 2013. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	1.9	0.04
Short Duration	3.0%	2.0	0.06
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	2.7	0.19
Mixed Credit	6.0%	3.8	0.23
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	2.8	0.08
Emerging Markets Debt	6.0%	5.1	0.31
Global Public Equity	31.0%	7.1	2.20
Global Tactical Asset Allocation	10.0%	4.9	0.49
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.3	0.34
Private Debt	7.0%	9.9	0.69
Private Equity	9.0%	9.9	0.89
Real Estate (Broad Market)	5.0%	6.0	0.30
Commodities	3.0%	5.9	0.18
Total Expected Real Return	100.0%		6.00
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			8.75

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following table presents the sensitivity of the net pension liability to changes in the discount rate.

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

NOTE 6 – PENSION PLAN (CONTINUED):

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers’ net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$3,988,675	\$3,163,822	\$2,472,490
PORS	1,180,527	866,611	585,988

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$3,083,023 for the governmental activities and \$947,410 for the business-type activities on the government wide financial statements for its proportionate share of the net pension liability. The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2014. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2014 actuarial valuations, using membership data as of July 1, 2014, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2015, using generally accepted actuarial procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined by PEBA’s consulting actuary, Gabriel, Roeder, Smith and Company. At July 1, 2014, the City’s proportion for SRCS and PORS was 0.016682% and 0.03976% of the total.

For the year ended June 30, 2016, the City recognized pension expense of \$306,978.

At June 30, 2016, the City’s reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SCRS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 56,210	\$ 5,658
Net difference between projected and actual investment earnings	21,177	34,736
Contributions after the measurement date	183,397	-
Total	<u>\$ 260,784</u>	<u>\$ 40,394</u>

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

NOTE 6 – PENSION PLAN (CONTINUED):

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued):

	<u>PORS</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$	17,176	\$ 27,164
Net difference between projected and actual investment earnings		9,482	-
Contributions after the measurement date		<u>67,949</u>	<u>-</u>
Total	\$	<u>94,607</u>	\$ <u>27,164</u>

Approximately \$183,000 and \$68,000 that were reported as deferred outflows of resources related to the City's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liabilities in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS and PORS will increase (decrease) pension expense as follows:

<u>Fiscal Year</u>	<u>SCRS Amount</u>	<u>PORS Amount</u>	<u>Total</u>
2017	\$ 2,567	\$ (4,461)	\$ (1,894)
2018	2,567	(4,461)	(1,894)
2019	(16,740)	(5,220)	(21,960)
2020	48,599	13,636	62,235
2021	-	-	-
Thereafter	-	-	-
Total	<u>\$ 36,993</u>	<u>\$ (506)</u>	<u>\$ 36,487</u>

South Carolina Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the SCRS plan administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

NOTE 7 – 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 WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 8 – POST EMPLOYMENT HEALTH BENEFITS:

The City provides group health, dental, and vision insurance benefits for retirees per the terms of an approved policy. The City pays 10% to 50% of the monthly premiums for employees, depending upon an employee's length of service. All benefits cease at age 65. Retirees may, at their option, include dependent coverage. The City's regular health and dental care benefit providers underwrite the retiree's policies.

Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. This plan is funded on a pay-as-you-go basis. As of June 30, 2016, there were no retirees who were covered under the City's group insurance plan.

As referenced in the opinion letter, the City has not complied with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.

NOTE 9 – CONTINGENT LIABILITIES AND COMMITMENTS

Litigation

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

Grants

The City receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the City at June 30, 2016.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 18, 2016, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION
OTHER THAN MD&A

CITY OF WALHALLA, SOUTH CAROLINA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (UNAUDITED)

YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property Taxes	\$ 669,520	\$ 656,800	\$ 701,798	\$ 44,998
Intergovernmental Revenues	884,910	884,300	1,782,659	898,359
Licenses, Permits and Fees	1,071,627	1,115,734	1,068,949	(46,785)
Fines and Forfeitures	58,000	58,000	52,245	(5,755)
Miscellaneous and Other	42,750	18,500	123,309	104,809
Payments in Lieu of Taxes and Franchise Fees	214,920	191,809	220,390	28,581
Interest Income	-	-	12,571	12,571
TOTAL REVENUES	<u>2,941,727</u>	<u>2,925,143</u>	<u>3,961,921</u>	<u>1,036,778</u>
EXPENDITURES				
CURRENT OPERATING:				
GENERAL GOVERNMENT:				
Administration	101,337	101,337	67,784	33,553
Swimming Pool	16,100	16,100	16,099	1
Depot Park	10,100	10,100	10,766	(666)
Tunnel	10,557	10,557	10,608	(51)
JUDICIAL SERVICES:				
Court	66,226	66,226	65,531	695
PUBLIC SAFETY:				
Police	889,119	889,119	844,672	44,447
Fire	529,471	529,471	494,246	35,225
PUBLIC WORKS:				
Streets	946,793	946,793	877,908	68,885
RECREATION AND TOURISM:				
Recreation	308,804	308,804	289,962	18,842
Capital Expenditures	500,000	500,000	1,985,751	(1,485,751)
DEBT SERVICE:				
Principal Retirement	152,377	152,377	113,517	38,860
Interest and Fiscal Charges	8,810	8,810	8,802	8
TOTAL EXPENDITURES	<u>3,539,694</u>	<u>3,539,694</u>	<u>4,785,646</u>	<u>(1,245,952)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(597,967)	(614,551)	(823,725)	(209,174)
OTHER FINANCING SOURCES AND (USES)				
Insurance Recovery	-	-	456	456
Interfund Transfers In	597,967	597,967	919,450	321,483
NET CHANGE IN FUND BALANCES	-	(16,584)	96,181	112,765
FUND BALANCES, BEGINNING	<u>2,480,599</u>	<u>2,480,599</u>	<u>2,480,599</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 2,480,599</u>	<u>\$ 2,464,015</u>	<u>\$ 2,576,780</u>	<u>\$ 112,765</u>

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

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2016

NOTE 1 – BASIS OF ACCOUNTING AND BUDGETARY PROCESS:

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 follows the following budgetary process:

Prior to April 15, the department heads and committee chairmen submit operating budgets to the Council Finance Committee.

The Finance Committee prepares the proposed budget and conducts a public hearing at City Hall. The budget contains the projected revenues and the proposed expenditures including capital outlay.

Prior to the beginning of the forthcoming fiscal year, the final budget is approved by the council through passage of an ordinance.

Budget revisions are authorized by council.

Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles.

Budgets were not enacted for the Special Revenue funds.

The budgetary level of control is at the department level.

CITY OF WALHALLA

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF CITY CONTRIBUTIONS TO THE COST SHARING PENSION PLAN

JUNE 30, 2016

The City's proportionate share of the net pension liability is as follows:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>SCRS</u>	<u>PORS</u>	<u>SCRS</u>	<u>PORS</u>
City's proportion of the net pension liability (asset)	0.016682%	0.03976%	0.016933%	0.04140%
City's proportion share of the net pension liability (asset)	\$ 3,163,822	\$ 866,611	\$ 2,915,301	\$ 792,611
City's covered payroll	\$ 1,358,811	\$ 821,291	\$ 1,234,535	\$ 821,291
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	232.84%	105.52%	236.15%	96.51%
Plan fiduciary net position as a percentage of the total pension liability	57.00%	64.60%	59.90%	67.50%

The City's contributions to the cost sharing pension plan was as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution	\$ 251,346	\$ 236,666	\$ 226,896
Contributions in relation to the contractually required contribution	(251,346)	(236,666)	(226,896)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 2,180,102	\$ 2,055,826	\$ 2,035,298
Contributions as a percentage of covered-employee payroll	11.53%	11.51%	11.15%

SUPPLEMENTAL INFORMATION

CITY OF WALHALLA, SOUTH CAROLINA

COMBINING AND INDIVIDUAL BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2016

	CEMETERY FUND	FIREMEN'S FUND	VICTIM'S ASSISTANCE FUND	HOSPITALITY TAX FUND	TOTAL NONMAJOR SPECIAL REVENUE FUND
ASSETS					
Cash and Other Cash Deposits	\$ 21,112	\$ 18,169	\$ -	\$ 82,811	\$ 122,092
Interfund Balance	-	-	64,172	-	64,172
TOTAL ASSETS	\$ 21,112	\$ 18,169	\$ 64,172	\$ 82,811	\$ 186,264
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Interfund Balance	18	-	-	-	18
TOTAL LIABILITIES	18	-	-	-	18
FUND BALANCES:					
RESTRICTED FOR:					
Judicial Services	-	-	64,172	-	64,172
Public Safety	-	18,169	-	-	18,169
Recreation and Tourism	-	-	-	82,811	82,811
ASSIGNED TO:					
Recreation and Tourism	21,094	-	-	-	21,094
TOTAL FUND BALANCES	21,094	18,169	64,172	82,811	186,246
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,112	\$ 18,169	\$ 64,172	\$ 82,811	\$ 186,264

See independent auditor's report.

CITY OF WALHALLA, SOUTH CAROLINA

COMBINING AND INDIVIDUAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2016

	CEMETERY FUND	FIREMEN'S FUND	VICTIM'S ASSISTANCE FUND	HOSPITALITY TAX FUND	TOTAL NONMAJOR SPECIAL REVENUE FUND
REVENUES					
Intergovernmental Revenues	\$ -	\$ 12,602	\$ -	\$ -	\$ 12,602
Fines and Forfeitures	-	-	9,602	-	9,602
Hospitality Tax	-	-	-	173,834	173,834
Interest Income	-	8	-	-	8
Miscellaneous Income	-	2,750	-	-	2,750
TOTAL REVENUES	-	15,360	9,602	173,834	198,796
EXPENDITURES					
CURRENT OPERATING:					
Judicial Services	-	-	26,044	-	26,044
Public Safety	-	6,978	-	-	6,978
Recreation and Tourism	-	-	-	115,904	115,904
Capital Expenditures	-	-	-	41,753	41,753
TOTAL EXPENDITURES	-	6,978	26,044	157,657	190,679
OTHER FINANCING SOURCES AND (USES)					
Interfund Transfers In	-	-	-	(69,450)	(69,450)
NET CHANGE IN FUND BALANCES	-	8,382	(16,442)	(53,273)	(61,333)
FUND BALANCES, BEGINNING	21,094	9,787	80,614	136,084	247,579
FUND BALANCES, ENDING	\$ 21,094	\$ 18,169	\$ 64,172	\$ 82,811	\$ 186,246

See independent auditor's report.

CITY OF WALHALLA, SOUTH CAROLINA

SCHEDULE OF MUNICIPAL COURT FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED JUNE 30, 2016

Court Fines and Assessments

Court Fines and Assessments Collected	\$ 104,520
Court Fines and Assessments Retained by the Town	(52,260)
Total Court Fines and Assessments Remitted to the State Treasurer	<u>\$ 52,260</u>

Court Surcharges

Court Surcharges Collected	\$ 25,318
Total Court Surcharges Remitted to State Treasurer	<u>\$ 25,318</u>

Victims Fund

Funds Available for Carryforward, Beginning of Year	\$ 80,614
Court Assessments Allocated to Victim Assistance Fund - Current Year	9,602
Victim Assistance Fund Expenditures	(26,044)
Funds Available for Carryforward, End of Year	<u>\$ 64,172</u>

See independent auditor's report.