



CITY OF WALHALLA, SOUTH CAROLINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2019

CITY OF WALHALLA, SOUTH CAROLINA

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YEAR ENDED JUNE 30, 2019

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PAYNE, WHITE & SCHMUTZ
— CERTIFIED PUBLIC ACCOUNTANTS, PA —

114 West North First Street, Seneca, SC 29678 (864) 882-1937 (864) 882-0849

Independent Auditor's Report

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

Report on the Financial Statements

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 the City of Walhalla, South Carolina (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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. 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 opinions.

Opinions

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 the City of Walhalla, as of June 30, 2019, 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.

Emphasis of Matter – Restatement of Financial Statements

As described in Note 9 to the financial statements, the City corrected an error related to the reporting of interfund balances and transfers between the General, Water, Sewer, and Cemetery Funds as well as the committed and assigned fund balance for the General Fund. As a result, the balances of the impacted accounts have been restated in the current year financial statements. Our opinion on the financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis, the budgetary comparison information, and the pension plan schedules, as listed in the table of contents, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2020 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.

Payne, White & Schmutz, CPA, PA

Payne, White & Schmutz, CPA, PA

February 13, 2020, except for the changes summarized in Note 9, as to which the date is November 18, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

The management of the City of Walhalla ("City") offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019 ("FY 2019" or "2019") compared to the fiscal year ended June 30, 2018 ("FY 2018" or "2018"). The intent of this management's discussion and analysis ("MD&A") is to look at the City's financial performance as a whole. Readers are encouraged to not only consider the information presented here, but also the information provided in the financial statements, the notes to the financial statements, the required supplementary information, and the supplementary information to enhance their understanding of the City's overall financial performance.

Financial Highlights

- In the Statement of Net Position, the City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$15,695,219. Unrestricted net position has a balance of \$249,405 at June 30, 2019.
- The City's total net position increased by \$501,207 compared to the prior year net position, as revenues of \$7,889,920 exceeded expenses of \$7,388,713.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$2,249,003, a decrease of \$399,603.
- At the end of the current year, unassigned fund balance for the General Fund was \$1,858,486, 55% of total General Fund expenditures for 2019.
- The City's capital assets increased by \$5,957,344. The increase in capital assets was primarily due to water plant construction.
- The City's total debt increased by \$20,549,984 during 2019 due to the issuance of revenue bonds.
- The City's net pension liability decreased by \$154,964 to \$4,485,767 at June 30, 2019.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of two parts – *Financial Section* (which includes the MD&A, the financial statements, the required supplementary information, and the supplementary information) and the *Compliance Section* (if applicable).

Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's financial statements comprise three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statements present two different views of the City through the use of government-wide and fund financial statements. In addition to the financial statements, this report contains required supplementary information and supplementary information that will enhance the reader's understanding of the financial condition of the City.

Government-Wide Financial Statements. The financial statements include two statements that present different views of the City. These are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and deferred outflows of resources ("deferred outflows") and liabilities and deferred inflows of resources ("deferred inflows"), with the differences between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

The government-wide financial statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include administrative and general, public safety, judicial services, and recreation and tourism. The business-type activities are the City's water and sewer operations. The government-wide financial statements can be found as listed in the table of contents.

Fund Financial Statements. The fund financial statements provide a more detailed look at the City's most significant activities. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – The City uses *governmental funds* to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. The focus of these funds is on how assets can readily be converted into cash flow (in and out), and what monies are left at year-end that will be available for spending in the next year. The governmental funds report using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental funds financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's services. The relationship between *governmental activities* (reported in the government-wide financial statements) and *governmental funds* is described in a reconciliation that is a part of the fund financial statements.

The City maintains four individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenue, expenditures and changes in fund balances for the General Fund. The Hospitality Tax Fund, Victim's Fund, and Cemetery Fund are non-major funds and are combined for presentation purposes. The governmental funds financial statements can be found as listed in the table of contents.

Proprietary Funds – The City maintains two types of proprietary fund – the water fund and sewer fund. *Enterprise Funds* are used to account for operations that (a) 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 uses an enterprise fund to account for its water, sewer, electric and solid waste operations. The proprietary fund financial statements can be found as listed in the table of contents.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as listed in the table of contents.

Required Supplementary Information – A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with their budgets. Required pension plan schedules have been included which provide relevant information regarding the City's participation in the State retirement plans. Required supplementary information can be found as listed in the table of contents.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Supplementary Information – In addition to the financial statements, notes, and required supplementary information, this report includes certain supplementary information which is presented immediately following the required supplementary information. These schedules can be found as listed in the table of contents.

Figure A-1 Major Features of the City's Government-Wide and Fund Financial Statements			
	Government-Wide Financial Statements	Fund Financial Statements	
	Government-Wide Financial Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government.	The activities of the City that are not proprietary.	Activities the City operates similar to private businesses, in the City's case, all activities related to the water and sewer operations.
Required Financial Statements	<ul style="list-style-type: none"> ▪ Statement of Net Position. ▪ Statement of Activities. 	Balance Sheet. Statement of Revenues, Expenditures, and Changes in Fund Balances.	<ul style="list-style-type: none"> ▪ Statement of Net Position. ▪ Statement of Revenues, Expenses and Change in Net Position. ▪ Statement of Cash Flows.
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of Balance Sheet Information	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, and short-term and long-term.	Only assets and deferred outflows (if any) expected to be used and liabilities and deferred inflows that come due during the year or soon, thereafter; no capital assets or long-term obligations included.	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital and short-term and long-term.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the City's net position for June 30, 2019 and 2018:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$ 2,657,453	\$ 2,805,028	\$ 26,191,509	\$ 6,660,805	\$ 28,848,962	\$ 9,465,833
Capital Assets	4,835,534	4,635,519	11,564,759	5,807,431	16,400,293	10,442,950
Total Assets	<u>7,492,987</u>	<u>7,440,547</u>	<u>37,756,268</u>	<u>12,468,236</u>	<u>45,249,255</u>	<u>19,908,783</u>
Deferred Outflows of Resources	486,490	473,025	184,251	252,336	670,741	725,361
Current Liabilities	424,013	147,538	4,622,728	206,840	5,046,741	354,378
Long-Term Liabilities	106,535	107,885	20,281,508	108,796	20,388,043	216,681
Net Pension Liability	3,327,875	3,032,891	1,157,892	1,535,844	4,485,767	4,568,735
Total Liabilities	<u>3,858,423</u>	<u>3,288,314</u>	<u>26,062,128</u>	<u>1,851,480</u>	<u>29,920,551</u>	<u>5,139,794</u>
Deferred Inflows of Resources	237,537	208,846	66,689	91,492	304,226	300,338
Net Investment in Capital Assets	4,722,748	4,549,033	10,255,340	5,807,431	14,978,088	10,356,464
Restricted	369,423	275,044	98,303	-	467,726	275,044
Unrestricted	(1,208,654)	(407,665)	1,458,059	4,970,169	249,405	4,562,504
Total Net Position	<u>\$ 3,883,517</u>	<u>\$ 4,416,412</u>	<u>\$ 11,811,702</u>	<u>\$ 10,777,600</u>	<u>\$ 15,695,219</u>	<u>\$ 15,194,012</u>

The City's total assets increased \$25,340,472 from the prior year. Current and other assets increased \$19,383,128 primarily due to an increase in unspent proceeds related to the revenue bond issuance. Capital assets increased \$5,957,344 from the prior year due to water plant construction. Total liabilities increased \$24,780,757 from the prior year primarily due to the issuance of revenue bonds. The changes in deferred outflows and inflows of resources was primarily due to differences between expected and actual liability/investment experience and changes in the percentage of the City's share of the net pension liability in the State retirement plans.

The City's net position increased by \$501,207 during the current fiscal year primarily due to general revenues exceeding expenses in 2019. Please see the discussion following the next table regarding this increase.

The City's assets and deferred outflows exceeded liabilities and deferred inflows by \$15,695,219 as of June 30, 2019. \$14,978,088 of total net position reflects the City's net investment in capital assets (i.e., land, buildings, water and sewer utility system, equipment, vehicles, infrastructure, etc.) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$467,726 of net position represents resources that are subject to external restrictions on how they may be used. This net position is restricted primarily for tourism related expenditures (hospitality taxes) and judicial services.

The remaining portion of the City's net position is an unrestricted balance of \$249,405.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the City's net position for June 30, 2019 and 2018:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,378,693	\$ 1,234,574	\$ 4,549,153	\$ 3,897,494	\$ 5,927,846	\$ 5,132,068
Operating Grants and Contributions	300,000	3,676	-	-	300,000	3,676
Capital Grants and Contributions	74,275	101,476	-	-	74,275	101,476
General Revenues:						
Taxes	1,184,298	1,126,466	-	-	1,184,298	1,126,466
Other	184,764	467,811	218,737	426	403,501	468,237
Total Revenues	<u>3,122,030</u>	<u>2,934,003</u>	<u>4,767,890</u>	<u>3,897,920</u>	<u>7,889,920</u>	<u>6,831,923</u>
Expenses:						
Administrative and General	281,616	103,302	-	-	281,616	103,302
Judicial Services	52,560	70,839	-	-	52,560	70,839
Public Safety	1,840,127	1,863,135	-	-	1,840,127	1,863,135
Public Works	935,059	895,683	-	-	935,059	895,683
Recreation and Tourism	541,984	386,484	-	-	541,984	386,484
Interest on Long-Term Debt	3,579	5,222	-	-	3,579	5,222
Utility	-	-	3,733,788	2,653,108	3,733,788	2,653,108
Total Expenses	<u>3,654,925</u>	<u>3,324,665</u>	<u>3,733,788</u>	<u>2,653,108</u>	<u>7,388,713</u>	<u>5,977,773</u>
Change in Net Position Before Transfers	(532,895)	(390,662)	1,034,102	1,244,812	501,207	854,150
Transfers	-	-	-	-	-	-
Change in Net Position	(532,895)	(390,662)	1,034,102	1,244,812	501,207	854,150
Net Position - Beginning of Year	<u>4,416,412</u>	<u>4,807,074</u>	<u>10,777,600</u>	<u>9,532,788</u>	<u>15,194,012</u>	<u>14,339,862</u>
Net Position - End of Year	<u>\$ 3,883,517</u>	<u>\$ 4,416,412</u>	<u>\$ 11,811,702</u>	<u>\$ 10,777,600</u>	<u>\$ 15,695,219</u>	<u>\$ 15,194,012</u>

Governmental Activities: Governmental activities had a decrease in net position of \$532,895. Governmental activities revenues increased by \$188,027 from the prior year.

Expenses related to total governmental activities increased by \$330,260 from the prior year.

Business-Type Activities: Net position related to business-type activities (i.e., water and sewer operations) increased by \$1,034,102. This increase was primarily due to revenues of \$4,767,890 exceeding expenses of \$3,733,788. Revenues increased by \$869,970 primarily due to the increase in utility rates. Expenses increased by \$1,080,680.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported ending fund balance of \$2,249,003 a decrease of \$399,603, or 15% lower than the prior year fund balance.

\$1,858,486 of the total fund balance of the governmental funds constitutes a surplus in unassigned fund balance, which, if positive, is available for spending at the City's discretion. The remainder of the fund balance is restricted, committed, or assigned to indicate that it is not available for new spending: (1) for victims services (\$87,085), (2) for tourism (\$282,338), and (3) for cemetery operations (\$21,112). Total unassigned fund balance of the governmental funds represents 52% of total governmental funds expenditures.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Highlights for the General Fund were as follows:

- Total General Fund revenues increased by \$191,606 from the prior year, primarily due to higher licenses, permits, and fees.
- Total General Fund expenditures increased by \$524,175 from the prior year.

Proprietary Fund. The City's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Net position of the Utility Fund at the end of 2019 was \$11,811,702. Please see "Business-Type Activities" discussion in the previous section for details.

General Fund Budgetary Highlights: If budget amendments are made, they generally fall into one of three categories: amendments made to adjust the estimates used to prepare the original budget ordinance once exact information is available; amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and increases in appropriations that become necessary to maintain services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets as of June 30, 2019 amounted to \$16,400,293. The City's capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, vehicles, infrastructure, and the water and sewer utility system. The City's capital assets (net of depreciation) as of June 30, 2019 and 2018 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 585,644	\$ 585,644	\$ 160,226	\$ 160,226	\$ 745,870	\$ 745,870
Construction in Progress	-	-	7,286,105	1,356,146	7,286,105	1,356,146
Buildings and Improvements	3,336,980	3,437,948	487,533	520,795	3,824,513	3,958,743
Vehicles and Equipment	893,377	591,841	315,921	347,905	1,209,298	939,746
Infrastructure	19,533	20,085	3,314,974	3,422,359	3,334,507	3,442,444
Total	<u>\$ 4,835,534</u>	<u>\$ 4,635,518</u>	<u>\$ 11,564,759</u>	<u>\$ 5,807,431</u>	<u>\$ 16,400,293</u>	<u>\$ 10,442,949</u>

The total increase in the City's capital assets for 2019 was \$5,957,344. Major capital asset events during 2019 included the following:

- Capital asset additions of \$6,393,506 consisted primarily of:
 - Water Treatment Plant - \$5,929,959
 - Equipment and Vehicles - \$463,547
- Depreciation expense of \$205,701 for governmental activities and \$230,461 for business-type activities.

Additional information on the City's capital assets can be found in Note 4 in the notes to the financial statements.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

Debt

As of June 30, 2019, the City had total outstanding debt of \$20,673,994. The City's total debt as of June 30, 2019 and 2018 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Capital Leases	\$ 109,507	\$ 84,992	\$ 19,509	\$ 39,018	\$ 129,016	\$ 124,010
Bonds Payable	-	-	20,544,978	-	20,544,978	-
Total	<u>\$ 109,507</u>	<u>\$ 84,992</u>	<u>\$ 20,564,487</u>	<u>\$ 39,018</u>	<u>\$ 20,673,994</u>	<u>\$ 124,010</u>

The total increase in the City's debt for 2019 was \$20,549,984. Major events during 2019 included the following:

Governmental Activities:

- Issuance of ~\$20,600,000 of revenue bond debt.
- Scheduled principal payments of \$834,994.

Additional information regarding the City's long-term obligations can be found in Note 5 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials and staff considered many factors when setting the fiscal year 2020 budget. The state of the economy, anticipated construction activity, future capital needs, and the best interests of the City's residents were all taken into account.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Walhalla's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the public assets under its management. Please contact the City of Walhalla Administration Department, 206 N Church St, Walhalla, SC 29691 with any questions or to request additional information.

GOVERNMENT - WIDE FINANCIAL STATEMENTS

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2019

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Other Cash Deposits	\$ 8,039,237	\$ 102,473	\$ 8,141,710
Restricted Cash and Other Cash Deposits	390,536	19,255,068	19,645,604
Accounts Receivable	164,754	795,434	960,188
Taxes Receivable	14,619	-	14,619
Interfund Balances	(5,951,693)	5,951,693	-
Inventories	-	86,841	86,841
CAPITAL ASSETS:			
Non Depreciable	585,644	7,446,331	8,031,975
Depreciable	8,846,794	10,856,718	19,703,512
Less Accumulated Depreciation	(4,596,904)	(6,738,290)	(11,335,194)
TOTAL ASSETS	7,492,987	37,756,268	45,249,255
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	486,490	184,251	670,741
TOTAL DEFERRED OUTFLOWS OF RESOURCES	486,490	184,251	670,741
LIABILITIES			
Accounts Payable	291,230	4,131,098	4,422,328
Accrued Salaries	35,024	18,314	53,338
Employee Benefits Withheld and Accrued	34,659	18,118	52,777
Accrued Interest Payable	3,279	69,552	72,831
NON-CURRENT LIABILITIES:			
DUE WITHIN ONE YEAR:			
Compensated Absences	28,425	2,909	31,334
Capital Leases Payable	31,396	19,509	50,905
Bonds Payable	-	363,228	363,228
DUE IN MORE THAN ONE YEAR:			
Compensated Absences	28,424	26,183	54,607
Refundable Connection Fees	-	73,575	73,575
Capital Leases Payable	78,111	-	78,111
Bonds Payable	-	20,181,750	20,181,750
Net Pension Obligation	3,327,875	1,157,892	4,485,767
TOTAL LIABILITIES	3,858,423	26,062,128	29,920,551
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	47,537	-	47,537
Deferred Pension Credits	190,000	66,689	256,689
TOTAL DEFERRED INFLOWS OF RESOURCES	237,537	66,689	304,226
NET POSITION			
Net Investment in Capital Assets	4,722,748	10,255,340	14,978,088
RESTRICTED FOR:			
Judicial Services	87,085	-	87,085
Tourism	282,338	-	282,338
Debt Service	-	98,303	98,303
Unrestricted	(1,208,654)	1,458,059	249,405
TOTAL NET POSITION	\$ 3,883,517	\$ 11,811,702	\$ 15,695,219

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

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

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		TOTAL
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
PRIMARY GOVERNMENT:							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 281,616	\$ 554,919	\$ -	\$ -	\$ 273,303	\$ -	\$ 273,303
Judicial Services	52,560	31,635	-	-	(20,925)	-	(20,925)
Public Safety	1,840,127	64,691	300,000	74,275	(1,401,161)	-	(1,401,161)
Public Works	935,059	657,589	-	-	(277,470)	-	(277,470)
Recreation and Tourism	541,984	69,859	-	-	(472,125)	-	(472,125)
Interest on Long-Term Debt	3,579	-	-	-	(3,579)	-	(3,579)
TOTAL GOVERNMENTAL ACTIVITIES	3,654,925	1,378,693	300,000	74,275	(1,901,957)	-	(1,901,957)
BUSINESS-TYPE ACTIVITIES							
Water System	3,088,416	3,787,485	-	-	-	699,069	699,069
Sewer System	645,372	761,668	-	-	-	116,296	116,296
TOTAL BUSINESS-TYPE ACTIVITIES	3,733,788	4,549,153	-	-	-	815,365	815,365
TOTAL PRIMARY GOVERNMENT	\$ 7,388,713	\$ 5,927,846	\$ 300,000	\$ 74,275	(1,901,957)	815,365	(1,086,592)
GENERAL REVENUES:							
TAXES:							
Property Taxes, Levied for General Purposes					716,890	-	716,890
State Accommodation Taxes					14,007	-	14,007
Hospitality Taxes					244,444	-	244,444
Payments in Lieu of Taxes and Franchise Fees					208,957	-	208,957
Grants and Contributions not Restricted to Specific Programs					97,471	-	97,471
Interest Income					40,791	218,737	259,528
Miscellaneous					46,502	-	46,502
TOTAL GENERAL REVENUES, SPECIAL ITEMS AND TRANSFERS					1,369,062	218,737	1,587,799
CHANGE IN NET POSITION					(532,895)	1,034,102	501,207
NET POSITION, BEGINNING					4,416,412	10,777,600	15,194,012
NET POSITION - ENDING					\$ 3,883,517	\$ 11,811,702	\$ 15,695,219

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

FUND FINANCIAL STATEMENTS

CITY OF WALHALLA, SOUTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Other Cash Deposits	\$ 8,039,237	\$ -	\$ 8,039,237
Restricted Assets - Cash and Other Cash Deposits	87,085	303,450	390,535
Property Taxes Receivable	14,620	-	14,620
Accounts Receivable	164,754	-	164,754
Interfund Balance	58,220	87,085	145,305
TOTAL ASSETS	\$ 8,363,916	\$ 390,535	\$ 8,754,451
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts Payable	291,230	-	291,230
Accrued Salaries	35,024	-	35,024
Employee Benefits Withheld and Accrued	34,659	-	34,659
Interfund Balance	6,096,980	18	6,096,998
TOTAL LIABILITIES	6,457,893	18	6,457,911
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	47,537	-	47,537
TOTAL DEFERRED INFLOWS OF RESOURCES	47,537	-	47,537
FUND BALANCES:			
RESTRICTED FOR:			
Judicial Services	-	87,085	87,085
Tourism	-	282,338	282,338
ASSIGNED TO:			
Cemetery	-	21,094	21,094
UNASSIGNED:	1,858,486	-	1,858,486
TOTAL FUND BALANCES	1,858,486	390,517	2,249,003
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,363,916	\$ 390,535	\$ 8,754,451

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, 2019

Fund balances - total governmental funds \$ 2,249,003

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 as assets in the governmental funds. The cost of the assets was \$9,432,438 and the accumulated depreciation was \$4,596,904. 4,835,534

The City's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State retirement plans are not recorded in the governmental funds but are recorded in the Statement of Net Position. (3,031,385)

Accrued interest on long-term obligations in governmental accounting is not due and payable in the current period and therefore is not reported as a liability in the governmental funds. (3,279)

Long-term liabilities, debt and lease purchase obligations, are not due or payable in the current period and therefore are not reported as liabilities in the governmental funds.

Long-term liabilities consisted of the following:

Capital leases payable	(109,507)	
Compensated absences	(56,849)	(166,356)

Net position of governmental activities \$ 3,883,517

CITY OF WALHALLA, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2019

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property Taxes	\$ 716,890	\$ -	\$ 716,890
Intergovernmental Revenues	485,753	-	485,753
Licenses, Permits and Fees	1,347,058	-	1,347,058
Fines and Forfeitures	27,550	4,085	31,635
Miscellaneous and Other	46,457	46	46,503
Payments in Lieu of Taxes and Franchise Fees	208,957	-	208,957
Hospitality Tax	-	244,444	244,444
Interest Income	40,791	-	40,791
TOTAL REVENUES	2,873,456	248,575	3,122,031
EXPENDITURES			
CURRENT OPERATING:			
General Government	274,205	-	274,205
Judicial Services	56,015	-	56,015
Public Safety	1,465,266	-	1,465,266
Public Works	812,903	-	812,903
Recreation and Tourism	372,623	157,626	530,249
Capital Expenditures	405,717	-	405,717
DEBT SERVICE:			
Principal Retirement	20,485	-	20,485
Interest and Fiscal Charges	1,794	-	1,794
TOTAL EXPENDITURES	3,409,008	157,626	3,566,634
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(535,552)	90,949	(444,603)
OTHER FINANCING SOURCES AND (USES)			
Capital Lease Proceeds	45,000	-	45,000
Interfund Transfers (Net) - See Note 3	(3,430)	3,430	-
TOTAL OTHER FINANCING SOURCES AND (USES)	41,570	3,430	45,000
NET CHANGE IN FUND BALANCES	(493,982)	94,379	(399,603)
FUND BALANCES, BEGINNING	2,352,468	296,138	2,648,606
FUND BALANCES - ENDING	\$ 1,858,486	\$ 390,517	\$ 2,249,003

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, 2019

Net change in fund balances - total governmental funds \$ (399,603)

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

The governmental funds report capital asset additions as expenditures. However, in the Statement of Activities, capital outlay expenditures that qualify as capital assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions of \$405,717 exceeded depreciation expenses of \$205,701, in the current period. 200,016

Repayment of bond principal (including refunding principal payments) is recognized in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position. This amount is the total reduction in outstanding principal in the current year. 20,485

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (1,785)

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 the governmental funds. (8,652)

Capital lease proceeds provide current financial resources to the governmental fund, but entering into capital lease obligations increase long-term liabilities in the Statement of Net Position. (45,000)

Changes in the City's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources for the current year are not reported in the governmental funds but are reported in the Statement of Activities. (298,356)

Change in net position of governmental activities \$ (532,895)

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2019

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
ASSETS			
CURRENT ASSETS:			
Cash	\$ 89,217	\$ 13,256	\$ 102,473
Restricted Assets - Cash and Other Cash Deposits	19,255,068	-	19,255,068
Accounts Receivable	791,354	4,080	795,434
Interfund Balances	4,984,850	1,406,339	6,391,189
Inventory	81,631	5,210	86,841
TOTAL CURRENT ASSETS	25,202,120	1,428,885	26,631,005
NON-CURRENT ASSETS:			
CAPITAL ASSETS:			
Land and Other Non-Depreciable Assets	7,446,331	-	7,446,331
Buildings and Improvements	1,228,727	282,454	1,511,181
Equipment and Vehicles	1,070,925	481,623	1,552,548
Infrastructure	6,369,078	1,423,911	7,792,989
Less Accumulated Depreciation	(4,940,298)	(1,797,992)	(6,738,290)
TOTAL NON-CURRENT ASSETS	11,174,763	389,996	11,564,759
TOTAL ASSETS	36,376,883	1,818,881	38,195,764
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	178,934	5,317	184,251
TOTAL DEFERRED OUTFLOWS OF RESOURCES	178,934	5,317	184,251
LIABILITIES			
CURRENT LIABILITIES:			
Accounts Payable	4,081,782	49,316	4,131,098
Accrued Salaries	18,314	-	18,314
Employee Benefits Withheld and Accrued	18,118	-	18,118
Interest Payable	69,552	-	69,552
Compensated Absences	2,909	-	2,909
Interfund Balances	435,846	3,650	439,496
Capital Leases Payable	19,509	-	19,509
Bonds Payable	363,228	-	363,228
TOTAL CURRENT LIABILITIES	5,009,258	52,966	5,062,224
NON-CURRENT LIABILITIES:			
Compensated Absences	26,183	-	26,183
Refundable Connection Fees	72,845	730	73,575
Bonds Payable	20,181,750	-	20,181,750
Net Pension Obligation	1,124,478	33,414	1,157,892
TOTAL NON-CURRENT LIABILITIES	21,405,256	34,144	21,439,400
TOTAL LIABILITIES	26,414,514	87,110	26,501,624
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	64,765	1,924	66,689
TOTAL DEFERRED INFLOWS OF RESOURCES	64,765	1,924	66,689
NET POSITION			
Net Investment in Capital Assets	9,865,344	389,996	10,255,340
Restricted for Debt Service	98,303	-	98,303
Unrestricted	112,891	1,345,168	1,458,059
TOTAL NET POSITION	\$ 10,076,538	\$ 1,735,164	\$ 11,811,702

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, 2019

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
OPERATING REVENUES			
Utility Service	\$ 3,727,909	\$ 761,668	\$ 4,489,577
Taps	59,576	-	59,576
TOTAL OPERATING REVENUES	3,787,485	761,668	4,549,153
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	756,126	22,925	779,051
Contractual Services, Materials, Supplies and Other Expenses	1,066,696	600,765	1,667,461
Depreciation Expense	208,779	21,682	230,461
TOTAL OPERATING EXPENSES	2,031,601	645,372	2,676,973
OPERATING INCOME (LOSS)	1,755,884	116,296	1,872,180
NON-OPERATING REVENUES AND (EXPENSES)			
Interest Income	218,737	-	218,737
Interest Expense	(447,432)	-	(447,432)
TOTAL NON-OPERATING REVENUES AND (EXPENSES)	(228,695)	-	(228,695)
INCOME (LOSS) BEFORE TRANSFERS	1,527,189	116,296	1,643,485
OTHER FINANCING SOURCES AND (USES)			
Bond Issuance Costs	(609,383)	-	(609,383)
TOTAL OTHER FINANCING SOURCES AND (USES)	(609,383)	-	(609,383)
CHANGE IN NET POSITION	917,806	116,296	1,034,102
NET POSITION, BEGINNING	9,158,732	1,618,868	10,777,600
NET POSITION, ENDING	\$ 10,076,538	\$ 1,735,164	\$ 11,811,702

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, 2019

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:			
CASH FLOWS FROM OPERATIONS:			
Receipts from Customers	\$ 3,651,892	\$ 761,012	\$ 4,412,904
Payments to Employees and Related Benefits	(814,460)	(112,521)	(926,981)
Payments to Suppliers	2,648,482	(648,491)	1,999,991
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>5,485,914</u>	<u>-</u>	<u>5,485,914</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of Capital Assets	(5,987,789)	-	(5,987,789)
Proceeds from Revenue Bonds	21,349,092	-	21,349,092
Issuance Cost on Revenue Bonds	(609,383)	-	(609,383)
Principal Paid on Revenue Bonds	(804,114)	-	(804,114)
Principal Paid on Capital Leases	(19,509)	-	(19,509)
Interest Paid	(377,880)	-	(377,880)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>13,550,417</u>	<u>-</u>	<u>13,550,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Income from Investments	218,737	-	218,737
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>218,737</u>	<u>-</u>	<u>218,737</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,255,068	-	19,255,068
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>33,030</u>	<u>-</u>	<u>33,030</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 19,288,098</u>	<u>\$ -</u>	<u>\$ 19,288,098</u>
CLASSIFIED AS:			
Current Assets	\$ 33,030	\$ -	\$ 33,030
Restricted Assets	19,255,068	-	19,255,068
TOTALS	<u>\$ 19,288,098</u>	<u>\$ -</u>	<u>\$ 19,288,098</u>

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, 2019

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL ENTERPRISE FUNDS</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
OPERATING INCOME (LOSS)	\$ 1,755,884	\$ 116,296	\$ 1,872,180
ADJUSTMENTS NOT AFFECTING CASH:			
Depreciation	208,779	21,682	230,461
CHANGE IN ASSETS AND LIABILITIES:			
Accounts Receivable	(135,593)	(656)	(136,249)
Due from Other Funds	(66,968)	(88,134)	(155,102)
Inventory	14,771	943	15,714
Accounts Payable	4,029,195	(45,902)	3,983,293
Customer Deposits	2,385	730	3,115
Compensated Absences	8,174	-	8,174
Accrued Liabilities	460	(1,462)	(1,002)
Net Pension Obligation	(373,927)	(4,025)	(377,952)
CHANGE IN DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:			
Deferred Pension Charges	67,251	834	68,085
Deferred Pension Credits	(24,497)	(306)	(24,803)
TOTAL ADJUSTMENTS	<u>3,730,030</u>	<u>(116,296)</u>	<u>3,613,734</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 5,485,914</u>	<u>\$ -</u>	<u>\$ 5,485,914</u>

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

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

JUNE 30, 2019

	<u>FIREMAN'S 1% AGENCY FUND</u>	<u>POLICE ACTIVITY AGENCY FUND</u>	<u>TOTAL AGENCY FUNDS</u>
ASSETS			
Cash and Other Cash Deposits	\$ 29,943	\$ 7,374	\$ 37,317
TOTAL ASSETS	<u>\$ 29,943</u>	<u>\$ 7,374</u>	<u>\$ 37,317</u>
LIABILITIES			
Amounts Held in Custody for Others	\$ 29,943	\$ 7,374	\$ 37,317
TOTAL LIABILITIES	<u>\$ 29,943</u>	<u>\$ 7,374</u>	<u>\$ 37,317</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, 2019

The City of Walhalla (the "City") was incorporated in 1850. Section 47-26 of the 1962 Code of Laws, as amended (Home Rule Act), requires that municipalities adopt a specific form of government. The City operates under a Council Form of government with a Mayor and six council members elected at large by a nonpartisan general election. The Mayor and Council are vested with the legislative and policymaking powers of the City. The Council appoints a City Administrator who serves as the chief executive officer of the City and is responsible to the Council for proper administration of all affairs of the City.

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.

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.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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

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

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). 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.

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.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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

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

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	Victim's Assistance Fund	Hospitality Tax Fund
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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 proprietary fund is as follows:

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 funds:

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

The City reports the following other fund type:

Agency Fund is used to account for the financial transactions of the Fire Department 1% fund, Police Department Drug Seizure and Cops Board.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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

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.
- (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.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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

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

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).

F. Capital Assets

General capital assets are those assets specifically related to activities reported in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position, but are not reported in the fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for any additions and retirements during the year. Donated capital assets are recorded at their acquisition value (as estimated by the City) as of the date received. Infrastructure assets include streets, curbs, sidewalks, paved recreation trails, streetlights, signs, signals, and storm drains. The City maintains a capitalization threshold of \$5,000 for its capital assets other than infrastructure assets, for which the capitalization threshold is \$25,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. The City considers resurfacing of streets and parking lots to be normal maintenance that does not add to the value of those assets.

All reported capital assets except land and construction in progress are depreciated. Construction projects begin being depreciated once they are complete and placed in service, at which time the complete costs of the project are transferred to the appropriate capital asset category. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed 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

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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

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 City reports compensated absences in accordance with the provisions of GASB Statement No. 16 “*Accounting for Compensated Absences*.” The entire compensated absence liability and expense is reported on the government-wide financial statements. The portion applicable to the proprietary fund is also recorded in the Utility Fund. The governmental funds will not recognize a liability for compensated absences unless they have matured, for example, as a result of employee resignation or retirement prior to fiscal year end (if material).

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 City has one type of deferred outflow of resources, Deferred Pension Charges. This item is deferred and recognized as an outflow of resources (expense). These *Deferred Pension Charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

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 two types of deferred inflow of resources: (1) *Deferred Revenue – Business Licenses* not only in the governmental funds balance sheet but also in the government-wide Statement of Net Position. This item is deferred and recognized as an inflow of resources (revenue) in the period for which it was intended to finance. (2) *Deferred Pension Credits*. This item is deferred and recognized as an inflow of resources (revenue) in the period for which it was intended to finance. These *deferred pension credits* are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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

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.

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.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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

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.

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.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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

P. Pensions

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting, 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.

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.

R. Comparative Data

Comparative data (i.e. presentation of prior year totals by fund type) has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2019

NOTE 2 – DEPOSITS AND INVESTMENTS:

Deposits

Custodial credit risk for deposits - Custodial credit risk is the risk that the City's deposits will not be returned to it. The City has no formal policy regarding custodial credit risk. The total cash balances are insured by the FDIC up to \$250,000 per bank. From time to time during the year, the City may have cash on deposit with banks that exceeds the balance insured by the FDIC. At June 30, 2019, approximately \$87,500 of the City's bank balances of approximately \$26,275,000 (with a carrying value of approximately \$26,255,000) were exposed to custodial credit risk.

Investments

As of June 30, 2019, 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	N/A	\$ 1,484,756	\$ 1,484,756	-	-	-

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, 2019 were (a) those imposed by the revenue source (i.e. hospitality fees, grants, etc.).

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:

	Water Fund	Sewer Fund
Cash and Certificates of Deposit	\$ 19,344,285	\$ 13,256
Less Certificates of Deposit that are not a Cash Equivalent	(56,187)	(13,256)
Cash and Cash Equivalents per Statement of Cash Flows	\$ 19,288,098	\$ -

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2019

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Interfund balances at June 30, 2019, consisted of the following individual fund receivables and payables, all of which are due on demand:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Fund:		
General	\$ 58,220	\$ 6,096,980
Water System	4,984,850	435,846
Sewer System	1,406,339	3,650
Other Non-Major Funds:		
Hospitality Tax Fund	87,085	-
Cemetery Fund	-	18
Total	<u>\$ 6,536,494</u>	<u>\$ 6,536,494</u>

Interfund transfers for the year ended June 30, 2019, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Fund:		
General	\$ -	\$ 3,430
Other Non-Major Funds:		
Hospitality Tax Fund	3,430	-
Total	<u>\$ 3,430</u>	<u>\$ 3,430</u>

Funds may be transferred to the General Fund from the Water and Sewer Fund in lieu of property taxes and franchise fees (that would be collected if a private utility company provided water and sewer services), and from the Water Fund to the General Fund to support General Fund operations. The Water Fund also may funds to the Sewer Fund to support Sewer Fund operations. Funds are transferred by the General Fund to the Hospitality Tax Fund for reimbursement for certain capital projects. The Victims Fund may also transfer funds collected for Victims assistance to the General Fund cash account. Council approves budgeted transfers annually during the budget process, although actual results may differ.

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2019

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the City’s governmental activities for the year ended June 30, 2019, 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	\$ 585,644	\$ -	\$ -	\$ 585,644
Construction in Progress	-	-	-	-
Total Capital Assets not being Depreciated	<u>585,644</u>	<u>-</u>	<u>-</u>	<u>585,644</u>
Capital Assets being Depreciated:				
Buildings and Improvements	5,575,077	-	-	5,575,077
Equipment and Vehicles	2,838,420	405,717	-	3,244,137
Infrastructure	27,580	-	-	27,580
Total Capital Assets being Depreciated	<u>8,441,077</u>	<u>405,717</u>	<u>-</u>	<u>8,846,794</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(2,137,129)	(100,968)	-	(2,238,097)
Equipment and Vehicles	(2,246,579)	(104,181)	-	(2,350,760)
Infrastructure	(7,495)	(552)	-	(8,047)
Total Accumulated Depreciation	<u>(4,391,203)</u>	<u>(205,701)</u>	<u>-</u>	<u>(4,596,904)</u>
Total Capital Assets being Depreciated, Net	<u>4,049,874</u>	<u>200,016</u>	<u>-</u>	<u>4,249,890</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,635,518</u>	<u>\$ 200,016</u>	<u>\$ -</u>	<u>\$ 4,835,534</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 4,593
Public Safety	54,031
Public Works	128,974
Recreation and Tourism	<u>18,103</u>
Total Depreciation Expense	<u>\$ 205,701</u>

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 4 – CAPITAL ASSETS (CONTINUED):

Capital asset activity for the City’s business-type activities for the year ended June 30, 2019, 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	1,356,146	5,929,959	-	7,286,105
Total Capital Assets not being Depreciated	<u>1,516,372</u>	<u>5,929,959</u>	<u>-</u>	<u>7,446,331</u>
Capital Assets being Depreciated:				
Buildings and Improvements	1,511,181	-	-	1,511,181
Equipment and Vehicles	1,552,549	-	-	1,552,549
Infrastructure	7,792,989	-	-	7,792,989
Total Capital Assets being Depreciated	<u>10,856,719</u>	<u>-</u>	<u>-</u>	<u>10,856,719</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(990,386)	(33,262)	-	(1,023,648)
Equipment and Vehicles	(1,146,813)	(89,814)	-	(1,236,627)
Infrastructure	(4,370,630)	(107,385)	-	(4,478,015)
Total Accumulated Depreciation	<u>(6,507,829)</u>	<u>(230,461)</u>	<u>-</u>	<u>(6,738,290)</u>
Total Capital Assets being Depreciated, Net	<u>4,348,890</u>	<u>(230,461)</u>	<u>-</u>	<u>4,118,429</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,865,262</u>	<u>\$ 5,699,498</u>	<u>\$ -</u>	<u>\$ 11,564,760</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	\$ 185,765
Sewer System	44,696
Total Depreciation Expense	<u>\$ 230,461</u>

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 5 – LONG-TERM OBLIGATIONS:

Revenue Bonds Payable

The City may issue bonds to provide funds for the acquisition and construction of major capital facilities. Revenue bonds and directly related to and intended to be paid from proprietary funds of the primary government are included in the accounts of such funds. The revenue bonds are generally secured/collateralized by the gross revenues of the water system. The debt also requires various restricted accounts (i.e. debt service reserve, renewal and replacement, etc.) to be established and maintained by the City.

Summarized below are the City’s individual revenue bond issues (publicly traded) that are outstanding as of June 30, 2019 and serviced by the Water and Sewer Fund:

Revenue Bonds Payable

Series 2018 Water and Sewer System Revenue Bond dated December 2018 with annual principal payments ranging from \$795,000 to \$1,140,000 plus interest at 3-5% percent payable semi-annually through June 2048.	\$ 19,825,000
Premium on Series 2018 Bonds	<u>719,978</u>
Net Debt	20,544,978
Less Current Portion	<u>(345,000)</u>
Long-Term Portion	<u><u>\$ 20,199,978</u></u>

Interest expense on revenue bonds totaled \$446,751 for the year ended June 30, 2019. Amortization of the 2018 bond premium totaled \$9,114 for the year ended June 30, 2019.

The revenue bonds require the City to maintain user rates sufficient to generate net revenues, as defined by the agreements, ranging from 100% to 120% of the annual principal and interest payments on the revenue bonds. The revenue bonds contain significant requirements for annual debt service, various restrictive covenants which requires the City to maintain various restricted cash and investment accounts and to meet various other general requirements.

Future amounts required to pay principal and interest on (publicly traded) revenue bonds (Series 2018 bonds) outstanding at June 30, 2019 are as follows:

<u>Fiscal Year</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 345,000	\$ 829,450	\$ 1,174,450
2021	355,000	815,400	1,170,400
2022	375,000	797,150	1,172,150
2023	395,000	777,900	1,172,900
2024	410,000	757,775	1,167,775
2025-2029	2,395,000	3,452,125	5,847,125
2030-2034	2,965,000	2,872,200	5,837,200
2035-2039	3,710,000	2,100,219	5,810,219
2040-2044	4,565,000	1,248,281	5,813,281
2045-2049	4,310,000	330,750	4,640,750
Total	<u><u>\$19,825,000</u></u>	<u><u>\$13,981,250</u></u>	<u><u>\$33,806,250</u></u>

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2019

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED):

Other Long-Term Debt

The City is obligated on various other long-term debt issued for purposes of upgrading equipment. Each of the other long-term debt issues are considered direct borrowings/placements and are generally secured/collateralized by the underlying property and contain acceleration clauses in an event of default (as defined).

Summarized below are the City’s individual capital leases (direct borrowings) from governmental activities that are outstanding as of June 30, 2019:

Capital Leases Payable

Serviced by the General Fund:

\$143,524 Capital Lease initiated in September 2014, due in annual installments of approximately \$20,500 beginning in September 2015 through September 2021, plus interest of 2.12%. The City purchased a Knuckleboom Truck for Public Works with the proceeds. \$ 64,507

\$45,000 Capital Lease initiated in July 2018, due in annual installments of approximately \$12,600 beginning in July 2019 through July 2020. The City purchased a vehicle for the recreation department and a vehicle for the police department with the proceeds. 45,000

109,507

Serviced by the Water Fund:

\$97,548 Capital Lease initiated in October 2015, due in annual installments of approximately \$19,500 beginning in October 2015 through October 2019, The City purchased a backhoe for Public Works with the proceeds. 19,509

Total Capital Leases Payable \$ 129,016

Less Current Portion (50,905)

Long-Term Portion \$ 78,111

Interest expense on other long-term debt totaled \$3,579 for the year ended June 30, 2019.

Future amounts required to pay principal and interest on other long-term debt outstanding (direct borrowings) at June 30, 2019 are as follows:

Fiscal Year	Governmental Activities			Business-Type Activities			Total
	Principal	Interest	Total	Principal	Interest	Total	Primary Government
2020	\$ 31,396	\$ 3,506	\$ 34,902	\$ 19,509	\$ -	\$ 19,509	\$ 54,411
2021	32,339	2,562	34,901	-	-	-	34,901
2022	33,724	1,586	35,310	-	-	-	35,310
2023	12,048	575	12,623	-	-	-	12,623
Total	<u>\$ 109,507</u>	<u>\$ 8,229</u>	<u>\$ 117,736</u>	<u>\$ 19,509</u>	<u>\$ -</u>	<u>\$ 19,509</u>	<u>\$ 137,245</u>

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED):

Presented below is a summary of changes in long-term obligations for the City’s governmental activities for the year ended June 30, 2019:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balances</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Capital Leases Payable:					
Capital Lease - 9/14	\$ 84,992	\$ -	\$ (20,485)	\$ 64,507	\$ 20,920
Capital Lease - 7/18	-	45,000	-	45,000	10,476
Total Debt	84,992	45,000	(20,485)	109,507	31,396
Other Liabilities:					
Compensated Absences	48,198	8,651	-	56,849	28,425
Net Pension Liability	3,032,891	294,984	-	3,327,875	-
Total Other Liabilities	3,081,089	303,635	-	3,384,724	28,425
Governmental Activities Long-term Liabilities	\$ 3,166,081	\$ 348,635	\$ (20,485)	\$ 3,494,231	\$ 59,821

Presented below is a summary of changes in long-term obligations for the City’s business-type activities for the year ended June 30, 2019:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balances</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Business - Type Activities:					
Revenue Bond - 12/18	\$ -	\$ 20,620,000	\$ (795,000)	\$ 19,825,000	\$ 345,000
Net Premium on Revenue Bonds - 12/18	-	729,092	(9,114)	719,978	18,228
Capital Lease - 10/15	39,018	-	(19,509)	19,509	19,509
Total Debt	39,018	21,349,092	(823,623)	20,564,487	382,737
Other Liabilities:					
Compensated Absences	18,161	10,931	-	29,092	14,546
Refundable Connection Fees	63,349	9,497	-	72,846	-
Net Pension Liability	1,535,844	-	377,952	1,157,892	-
Total Other Liabilities	1,617,354	20,428	377,952	1,259,830	14,546
Business-Type Activities Long-term Liabilities	\$ 1,656,372	\$ 21,369,520	\$ (445,671)	\$ 21,824,317	\$ 397,283

NOTE 6 – PENSION PLAN:

The City participates in the State of South Carolina’s retirement plans, which are administered by the South Carolina Public Employee Benefit Authority (“PEBA”), which was created July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division.

Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (“RSIC”) as co-trustees of the Retirement Trust Funds.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with GAAP.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

NOTE 6 – PENSION PLAN (CONTINUED):

For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at value.

The PEBA issues a Comprehensive Annual Financial Report (“CAFR”) containing financial statements and required supplementary information for the Systems’ Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits’ link on the 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. The 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.

Plan Description

The South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan, was established 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 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.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system 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.

- 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.

NOTE 6 – PENSION PLAN (CONTINUED):

Plan 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 each system 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 credible service equals at least 90 years. Both Class Two and 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.

The annual 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. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- 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 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.

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. If the scheduled employee and employer contributions provided in statute, or the rates last adopted by the board, are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rates as necessary.

After June 30, 2027, if the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of the system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than eighty-five percent, then the board, effective on the following July 1st, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than eighty-five percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than eighty-five percent, then effective on the following July 1st, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than eighty-five percent.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 6 – PENSION PLAN (CONTINUED):

The Retirement System Funding and Administration Act increases employer contribution rates to 14.56 percent for SCRS and 16.24 percent for POR, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation’s ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty year amortization schedule.

- Required employee contribution rates (1) for the following fiscal years are as follows:

	Fiscal Year 2019	Fiscal Year 2018
SCRS		
Employee Class Two	9.00%	9.00%
Employee Class Three	9.00%	9.00%
PORS		
Employee Class Two	9.75%	9.75%
Employee Class Three	9.75%	9.75%

- Required employer contributions rates (1) for the following fiscal years are as follows:

	Fiscal Year 2019	Fiscal Year 2018
SCRS		
Employer Class Two	14.41%	13.41%
Employer Class Three	14.41%	13.41%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	16.84%	15.84%
Employer Class Three	16.84%	15.84%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

(1) Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

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. An experience report on the Systems was most recently issued as of June 30, 2015.

The June 30, 2018, total pension liability (“TPL”), net pension liability (“NPL”), and sensitivity information shown in this report were determined by Gabriel, Roeder, Smith and Company (“GRS”) and are based on an actuarial valuation performed as of July 1, 2017. The TPL was rolled-forward from the valuation date to the plans’ fiscal year end, June 30, 2018, using generally accepted actuarial principles.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

NOTE 6 – PENSION PLAN (CONTINUED):

The following table provides a summary of the actuarial assumptions and methods used to calculate TPL as of June 30, 2018.

	<u>SCRS</u>	<u>PORS</u>
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	3.0% to 12.5%	3.5% to 9.5%
Includes inflation at	2.25%	2.25%
Benefit adjustments	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually

The post-retiree mortality assumption is dependent upon the member’s job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (“2016 PRSC”), was developed using the Systems’ mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016. Assumptions used in the determination of the June 30, 2018, TPL are as follows:

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

Net Pension Liability of the Plan

The NPL is calculated separately for each system and represents that particular system’s TPL determined in accordance with GASB No. 67 less that System’s fiduciary net position. NPL totals, as of the June 30, 2018 measurement date, 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	\$48,821,730,067	\$26,414,916,370	\$22,406,813,697	54.1%
PORS	\$7,403,972,673	\$4,570,430,247	\$2,833,542,426	61.7%

Net Pension Liability of the Plan

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems’ audited financial statements for the fiscal year ended June 30, 2018 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2018.

The TPL is calculated by the Systems’ actuary, and each plan’s fiduciary net position is reported in the Systems’ financial statements. The NPL is disclosed in accordance with the requirements of GASB 67 in the Systems’ notes to the financial statements and required supplementary information. Liability calculations performed by the Systems’ actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans’ funding requirements.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

NOTE 6 – PENSION PLAN (CONTINUED):

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 30-year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach, primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	47.0%		
Global Public Equity	33.0%	6.99%	2.31%
Private Equity	9.0%	8.73%	0.79%
Equity Options Strategies	5.0%	5.52%	0.28%
Real Assets	10.0%		
Real Estate (Private)	6.0%	3.54%	0.21%
Real Estate (REITs)	2.0%	5.46%	0.11%
Infrastructure	2.0%	5.09%	0.10%
Opportunistic	13.0%		
GTAA/Risk Parity	8.0%	3.75%	0.30%
Hedge Funds (non-PA)	2.0%	3.45%	0.07%
Other Opportunistic Strategies	3.0%	3.75%	0.11%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.05%	0.18%
Emerging Markets Debt	5.0%	3.94%	0.20%
Private Debt	7.0%	3.89%	0.27%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	0.94%	0.09%
Cash and Short Duration (Net)	2.0%	0.34%	0.01%
Total Expected Real Return	100.0%		5.03%
Inflations for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.28%

Discount Rate

The discount rate used to measure the TPL was 7.25%. 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 Code of Laws. Based on those assumptions, each 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 TPL.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 6 – PENSION PLAN (CONTINUED):

Sensitivity Analysis

The following table presents the proportionate share of the NPL of the plans calculated using the discount rate of 7.25 percent, as well as what the City’s NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	\$4,433,625	\$3,469,694	\$2,780,576
PORS	1,369,794	1,016,073	726,346

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

At June 30, 2019, the City reported a liability of \$3,327,875 for the governmental activities and \$1,157,892 for the business-type activities on the government wide financial statements for its proportionate share of the net pension liability. The NPL was measured as of June 30, 2018, and the TPL used to calculate the NPL was determined by an actuarial valuation as of that date. The City’s proportion of the NPL 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. At June 30, 2018, the City’s proportion for SCRS was 0.015485% (0.015775% at June 30, 2017). The City’s proportion for PORS at June 30, 2018 was 0.035859% (0.03714% at June 30, 2017).

For the year ended June 30, 2019, the City recognized pension expense of approximately \$374,000 (approximately \$268,000 for the SCRS and approximately \$106,000 for the PORS).

At June 30, 2019, the City 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	\$ 6,263	\$ 20,418
Changes of assumptions	137,658	-
Net difference between projected and actual investment earnings	55,117	-
Change in allocated proportion	21,935	179,421
Contributions after the measurement date	241,496	-
Total	<u>\$ 462,469</u>	<u>\$ 199,839</u>

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2019

NOTE 6 – PENSION PLAN (CONTINUED):

Pension Liability, Pension Expense, and Deferred Outflows/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	\$ 31,307	\$ -
Changes of assumptions	66,995	-
Net difference between projected and actual investment earnings	20,319	-
Change in allocated proportion	-	56,850
Contributions after the measurement date	89,651	-
Total	<u>\$ 208,272</u>	<u>\$ 56,850</u>

The amount of \$241,496 and \$89,651 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u>	<u>SCRS Amount</u>	<u>PORS Amount</u>	<u>Total</u>
2020	\$ 74,946	\$ 37,645	\$ 112,591
2021	11,033	27,083	38,116
2022	(57,935)	(1,841)	(59,776)
2023	(6,910)	(1,116)	(8,026)
Total	<u>\$ 21,134</u>	<u>\$ 61,771</u>	<u>\$ 82,905</u>

Payable to Plans

The City reported a payable of approximately \$44,000 to the PEBA as of June 30, 2019, representing required employer and employee contributions for the month of June 2019 for the SCRS and PORS.

NOTE 7 – 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, 2019.

Construction

The City has active construction projects as of June 30, 2019. The major active project is the construction of the water treatment plant. The City has a remaining commitment of approximately \$15,000,000 to complete the project.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 8 – 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.

NOTE 9 – RESTATEMENT:

Management of the City has determined that the treatment of Interfund Balances and Transfers as previously reported was inappropriate, resulting in inaccuracies in the determination of receivables, payables, and transfers between the City’s General, Water, Sewer and Cemetery Fund.

The City has determined that a correction was required, and as such, has restated its previously reported financial statements as of and for the year ended June 30, 2019 and all related disclosures. The impact of the correction is as follows:

<u>Fund</u>	<u>Restatement</u>	<u>Impact</u>
General Fund	Understatement of Beginning of Year Interfund Liability	\$ (5,796,573)
	Overstatement of Interfund Transfers In	<u>(155,102)</u>
	Net Decrease to the General Fund's Fund Balance	(5,951,675)
Water Fund	Understatement of Beginning of Year Interfund Asset	4,482,036
	Overstatement of Interfund Transfers Out	<u>66,968</u>
	Net Increase to the Water Fund's Net Position	4,549,004
Sewer Fund	Understatement of Beginning of Year Interfund Asset	1,314,555
	Overstatement of Interfund Transfers Out	<u>88,134</u>
	Net Increase to the Sewer Fund's Net Position	1,402,689
Cemetery Fund	Understatement of Beginning of Year Interfund Liability	<u>(18)</u>
	Net Decrease to the Cemetery Fund's Fund Balance	(18)
Net Increase (Decrease) to the Fund Balances/Net Position		<u><u>-</u></u>

For the government-wide statements, there was an increase to governmental activities interfund payables and an increase to business type activities interfund receivables of \$5,951,693. There was no change in total net position for the City’s government-wide financial statements as a result of this change.

In addition, the City determined that the previously reported General Fund balance commitment of \$1,521,451 and General Fund balance assignment of \$5,699,691 should not be reported as committed or assigned in the government fund balance sheet. There was no change in total governmental fund balance or total net position for the City’s government-wide financial statements as a result of this change.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 10 – SUBSEQUENT EVENTS:

In July 2019, the City purchased computer equipment and associated software for the police department for approximately \$75,000.

In July 2019, the City purchased four vehicles for approximately \$114,000.

In July 2019, the City executed a capital lease to borrow approximately \$410,000. The proceeds were used to purchase vehicles and a truck for the streets department.

In August 2019, the City purchased sewer equipment for approximately \$62,000.

In September 2019, the City purchased a vehicle for approximately \$33,000.

In September 2019, the City received a capital contribution from Oconee Joint Regional Sewer Authority for approximately \$984,000.

In December 2019, the City spent approximately \$182,000 on road paving and grading.

In May 2020, the City executed a capital lease to borrow approximately \$566,000. The proceeds were used to purchase vehicles, equipment and a fire truck.

In May 2020, the City purchased property at West Main Street for approximately \$225,000.

In May/June 2020, the City received approximately \$400,000 in grant monies from the State of South Carolina to be used for paving of roads.

In July 2020, the City purchased a tractor and associated equipment for approximately \$94,000.

In August 2020, the City purchased three vehicles for approximately \$129,000.

In August 2020, the City received approval for a Appalachian Regional Commission grant of \$500,000.

In October 2020, the City purchased industrial equipment for approximately \$185,000.

During the 2020/21 fiscal year, the City completed construction of the Lake Hartwell Water Treatment Plant at a cost of approximately \$23,000,000.

During the 2020/21 fiscal year, the City received or was approved for approximately \$608,000 in rural infrastructure funding and \$445,000 in Economic Development Funding for Utility infrastructure projects.

In January 2021, the City executed a capital lease to borrow approximately \$463,000. The proceeds were used to purchase vehicles, a tractor, and a leaf collection truck.

REQUIRED SUPPLEMENTAL INFORMATION
OTHER THAN MD&A

CITY OF WALHALLA, SOUTH CAROLINA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property Taxes	\$ 704,000	\$ 704,000	\$ 716,890	\$ 12,890
Intergovernmental Revenues	404,000	404,000	485,753	81,753
Licenses, Permits and Fees	1,170,950	1,170,950	1,347,058	176,108
Fines and Forfeitures	86,000	86,000	27,550	(58,450)
Miscellaneous and Other	98,850	98,850	46,457	(52,393)
Payments in Lieu of Taxes and Franchise Fees	200,500	200,500	208,957	8,457
Interest Income	-	-	40,791	40,791
TOTAL REVENUES	2,664,300	2,664,300	2,873,456	209,156
EXPENDITURES				
CURRENT OPERATING:				
GENERAL GOVERNMENT:				
Administration	237,567	237,567	263,583	(26,016)
Swimming Pool	17,175	17,175	18,997	(1,822)
Depot Park	9,950	9,950	15,152	(5,202)
Tunnel	61,400	61,400	22,310	39,090
JUDICIAL SERVICES:				
Court	37,122	37,122	56,015	(18,893)
PUBLIC SAFETY:				
Police	945,609	945,609	917,148	28,461
Fire	597,309	597,309	548,118	49,191
PUBLIC WORKS:				
Streets	988,329	988,329	812,903	175,426
RECREATION AND TOURISM:				
Recreation	274,664	274,664	326,786	(52,122)
Capital Expenditures	159,341	159,341	405,717	(246,376)
DEBT SERVICE:				
Principal Retirement	20,485	20,485	20,485	-
Interest and Fiscal Charges	3,349	3,349	1,794	1,555
TOTAL EXPENDITURES	3,352,300	3,352,300	3,409,008	(56,708)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(688,000)	(688,000)	(535,552)	152,448
OTHER FINANCING SOURCES AND (USES)				
Capital Lease Proceeds	-	-	45,000	45,000
Interfund Transfers In	521,000	521,000	(3,430)	(524,430)
TOTAL OTHER FINANCING SOURCES AND (USES)	521,000	521,000	41,570	(479,430)
NET CHANGE IN FUND BALANCES	(167,000)	(167,000)	(493,982)	(326,982)
FUND BALANCES, BEGINNING	2,352,468	2,352,468	2,352,468	-
FUND BALANCES, ENDING	\$ 2,185,468	\$ 2,185,468	\$ 1,858,486	\$ (326,982)

Note: The budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

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, 2019

NOTE 1 – SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE SCRS AND PORS NET PENSION LIABILITY:

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

	SCRS				
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportion of the net pension liability (asset)	0.015485%	0.015775%	0.017120%	0.016682%	0.016933%
City's proportion share of the net pension liability (asset)	\$ 3,327,875	\$ 3,551,206	\$ 3,656,807	\$ 3,163,822	\$ 2,915,301
City's covered payroll	\$ 1,615,177	\$ 1,591,652	\$ 1,658,201	\$ 1,564,110	\$ 1,551,777
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	206.04%	223.11%	220.53%	202.28%	187.87%
Plan fiduciary net position as a percentage of the total pension liability	54.10%	53.30%	52.91%	57.00%	59.90%

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

	PORS				
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportion of the net pension liability (asset)	0.035859%	0.03976%	0.04140%	0.04140%	0.04140%
City's proportion share of the net pension liability (asset)	\$ 1,157,892	\$ 983,924	\$ 866,611	\$ 792,611	\$ 792,611
City's covered payroll	\$ 480,647	\$ 493,160	\$ 494,534	\$ 493,497	\$ 483,521
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	240.90%	199.51%	175.24%	160.61%	160.61%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	60.44%	64.60%	67.50%	67.50%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year.

The City adopted GASB #68/71 during the year ended June 30, 2015. Information before 2015 is not available.

CITY OF WALHALLA, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2019

NOTE 1 – SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE SCRS AND PORS NET PENSION LIABILITY (CONTINUED):

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

	SCRS				
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	\$ 241,496	\$ 219,018	\$ 183,995	\$ 183,397	\$ 170,488
Contributions in relation to the contractually required contribution	(241,496)	(219,018)	(183,995)	(183,397)	(170,488)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 1,658,626	\$ 1,615,177	\$ 1,591,652	\$ 1,658,201	\$ 1,564,110
Contributions as a percentage of covered payroll	14.56%	13.56%	11.56%	11.06%	10.90%

Notes to SCRS Schedule:

The City adopted GASB #68/71 during the year ended June 30, 2015. Information before 2015 is not available.

The contractually required contribution rate was increased from 13.56% to 14.56% of eligible payroll effective July 1, 2018.

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

	PORS				
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2016
Contractually required contribution	\$ 89,651	\$ 78,057	\$ 70,226	\$ 67,949	\$ 66,178
Contributions in relation to the contractually required contribution	(89,651)	(78,057)	(70,226)	(67,949)	(66,178)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 520,017	\$ 480,647	\$ 493,160	\$ 494,534	\$ 493,497
Contributions as a percentage of covered payroll	17.24%	16.24%	14.24%	13.74%	13.41%

Notes to PORS Schedule:

The City adopted GASB #68/71 during the year ended June 30, 2015. Information before 2015 is not available.

The contractually required contribution rate was increased from 16.24% to 17.24% of eligible payroll effective July 1, 2018.

SUPPLEMENTAL INFORMATION

CITY OF WALHALLA, SOUTH CAROLINA

COMBINING AND INDIVIDUAL BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2019

	CEMETERY FUND	VICTIM'S ASSISTANCE FUND	HOSPITALITY TAX FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
ASSETS				
Restricted Cash and Other Cash Deposits	\$ 21,112	\$ -	\$ 282,338	\$ 303,450
Interfund Balances	-	87,085	-	87,085
TOTAL ASSETS	\$ 21,112	\$ 87,085	\$ 282,338	\$ 390,535
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts Payable	-	-	-	-
Interfund Balance	18	-	-	18
TOTAL LIABILITIES	18	-	-	18
FUND BALANCES:				
RESTRICTED FOR:				
Judicial Services	-	87,085	-	87,085
Recreation and Tourism	-	-	282,338	282,338
ASSIGNED TO:				
Recreation and Tourism	21,094	-	-	21,094
TOTAL FUND BALANCES	21,094	87,085	282,338	390,517
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,112	\$ 87,085	\$ 282,338	\$ 390,535

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, 2019

	CEMETERY FUND	VICTIM'S ASSISTANCE FUND	HOSPITALITY TAX FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
REVENUES				
Fines and Forfeitures	\$ -	\$ 4,085	\$ -	\$ 4,085
Hospitality Tax	-	-	244,444	244,444
Miscellaneous Income	-	46	-	46
TOTAL REVENUES	<u>-</u>	<u>4,131</u>	<u>244,444</u>	<u>248,575</u>
EXPENDITURES				
CURRENT OPERATING:				
Recreation and Tourism	-	-	157,626	157,626
Capital Expenditures	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>157,626</u>	<u>157,626</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	4,131	86,818	90,949
OTHER FINANCING SOURCES AND (USES)				
Interfund Transfers In	-	-	3,430	3,430
NET CHANGE IN FUND BALANCES	-	4,131	90,248	94,379
FUND BALANCES, BEGINNING	<u>21,094</u>	<u>82,954</u>	<u>192,090</u>	<u>296,138</u>
FUND BALANCES, ENDING	<u>\$ 21,094</u>	<u>\$ 87,085</u>	<u>\$ 282,338</u>	<u>\$ 390,517</u>

See independent auditor's report.

CITY OF WALHALLA, SOUTH CAROLINA

UNIFORM SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES (PER ACT 96)

YEAR ENDED JUNE 30, 2019

FOR THE STATE TREASURER'S OFFICE:

COUNTY / MUNICIPAL FUNDS COLLECTED BY CLERK OF COURT	General Sessions	Magistrate Court	Municipal Court	Total
Court Fines and Assessments:				
Court fines and assessments collected			\$ 67,472	\$ 67,472
Court fines and assessments remitted to State Treasurer			(38,821)	(38,821)
Total Court Fines and Assessments retained			28,651	28,651
Surcharges and Assessments retained for victim services:				
Surcharges collected and retained			3,101	3,101
Assessments retained			1,030	1,030
Total Surcharges and Assessments retained for victim services			\$ 4,131	\$ 4,131

FOR THE DEPARTMENT OF CRIME VICTIM COMPENSATION (DCVC)

VICTIM SERVICE FUNDS COLLECTED	Municipal	County	Total
Carryforward from Previous Year – Beginning Balance	\$ 82,954		\$ 82,954
Victim Service Revenue:			
Victim Service Fines Retained by City/County Treasurer			
Victim Service Assessments Retained by City/County Treasurer	1,030		1,030
Victim Service Surcharges Retained by City/County Treasurer	3,101		3,101
Interest Earned			
Grant Funds Received			
Grant from:			
General Funds Transferred to Victim Service Fund			
Contribution Received from Victim Service Contracts:			
(1) Town of			
(2) Town of			
(3) City of			
Total Funds Allocated to Victim Service Fund + Beginning Balance (A)	87,085		87,085
Expenditures for Victim Service Program:	Municipal	County	Total
Salaries and Benefits	-		-
Operating Expenditures	-		-
Victim Service Contract(s):			
(1) Entity's Name			
(2) Entity's Name			
Victim Service Donation(s):			
(1) Domestic Violence Shelter:			
(2) Rape Crisis Center:			
(3) Other local direct crime victims service agency:			
Transferred to General Fund			
Total Expenditures from Victim Service Fund/Program (B)	-		-
Total Victim Service Funds Retained by Municipal/County Treasurer (A-B)			
Less: Prior Year Fund Deficit Repayment			
Carryforward Funds – End of Year	\$ 87,085		\$ 87,085

COMPLIANCE SECTION



PAYNE, WHITE & SCHMUTZ
CERTIFIED PUBLIC ACCOUNTANTS, PA

114 West North First Street, Seneca, SC 29678 (864) 882-1937 (864) 882-0849

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Walhalla, South Carolina (the "City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 13, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (2019 A.1).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (2019 A.2).

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

Compliance and Other Matters

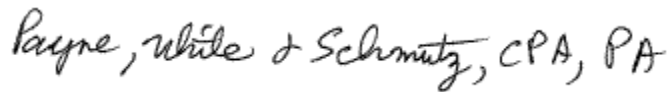
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses (2019 B.1 and 2019 B.2).

The City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Payne, White & Schmutz, CPA, PA

February 13, 2020

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

A. FINDINGS - FINANCIAL STATEMENT AUDIT

2019 A.1 – Weaknesses in Internal Control and Financial Closeout

Condition: For the year ended June 30, 2019, the City did not maintain adequate financial procedures and processes to ensure the financial statements were fairly stated and presented in accordance with generally accepted accounting principles. We noted the following specific areas for improvement:

1. There is a significant lack of segregation of duties throughout the financial processes. The City only had one person in its Finance Department, the City Administrator, who was responsible for all aspects of the City's accounting and reporting functions. The Administrator performs or had the ability to perform the following: prepare and review bank reconciliations, receive and deposit cash, process and authorize disbursements, process payroll, add new vendors, add new employees, modify pay rates, approve and execute wire transfers, initiate claims to grantors, and record journal entries.
2. Bank reconciliations were not prepared for the City's accounts for the current year as of June 30, 2019 until several months after year end.
3. Several balance sheet accounts and several revenue/expenditure accounts had not been reconciled or reviewed. The City did not appropriately monitor the general ledger and accounting activities for the year ended June 30, 2019. The City did not appropriately roll forward the beginning balances for the year ended June 30, 2019, as it did not close out its books and records for the year ended June 30, 2018.
4. The City did not appropriately record its revenue bond issuance, revenue bond cash account balances, and revenue bond debt service payments.
5. Several cash receipts during the year were not recorded or recorded to incorrect funds and/or revenues.
6. Certain expenditures were not originally recorded or recorded to the incorrect function during the fiscal year ended June 30, 2019.
7. The recording of revenue, such as business license payments, court fine payments, customer deposits, and customer utility payments required material audit adjustments.
8. The recording of disbursements, such as vendor payments and customer deposit refunds required material audit adjustments.
9. No one reviewed journal entries prepared by the Administrator.
10. The City did not timely remit payments to vendors.
11. It appears management did not provide regular, detailed, accurate financial reports to the City Council.
12. Management does not prepare financial statements in accordance with generally accepted accounting principles.

Criteria: In order to ensure that the City maintains accurate, complete, and timely financial information, the City should ensure processes and procedures are designed and operating effectively. The City should have internal controls in place to ensure all transactions are properly and timely recorded, all balance sheet accounts are reviewed and reconciled in a timely manner, and revenue and expenditure accounts are reviewed and monitored regularly.

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

Effect: Errors and irregularities occurred and were not detected in a timely manner. In addition, City Council did not have access to accurate, complete, and timely financial information in order to make the best decisions for the City. Significant adjustments, including numerous prior period corrections, were required to properly report the City's financial statements as of June 30, 2019.

Cause: The City had weak internal controls, due to limited staff and an inadequate financial and accounting software system, informal policies and procedures, and poor financial management. The City was unable to close out the trial balance without significant assistance from external sources.

Recommendation: We recommend the City implement the following as soon as possible:

1. The City should implement additional procedures to mitigate or eliminate the risks related to the lack of segregation of duties in the accounts payable, payroll, and cash receipts areas. The City should consider hiring additional personnel for the finance function.
2. The City should establish clearly-defined roles and job descriptions for all financial personnel to ensure that all transactions are recorded accurately and timely.
3. Training should be provided to financial staff as necessary.
4. The City Clerk should review the general ledger for all funds at least monthly and prepare reconciliations to ensure that transactions and balances are correctly recorded.
5. All balance sheet accounts should be reconciled and reviewed on a regular basis. At a minimum, all bank accounts should be reconciled and reviewed monthly.
6. Supporting documentation should be maintained for all journal entries, and all journal entries should be reviewed and approved by someone independent of the preparer prior to posting.
7. The City should establish a process for all regulatory filings to include a review of the filings by an employee independent of the process.
8. City Council should be provided monthly financial statements, including balance sheets and statements of revenues and expenditures for each fund, along with appropriate commentary regarding the financial status of the City.
9. All invoices paid and collections made should have a clear record of date received, date approved, date entered into the accounting system, and date paid or deposited for inspection at a later date.

Response: We agree with the above finding and are in the process of implementing the recommendations, as follows:

1. For fiscal year 2019/20, adjustments were made to allow for improved segregation of duties.
2. The City has formalized job descriptions to clearly define roles and responsibilities for finance personnel.
3. Finance personnel will continue to be trained by outside accounting professional and their software provider.
4. The City Clerk or Administrator will review the general ledger for all funds at least monthly and prepare reconciliations to ensure that transactions and balances are correctly recorded.
5. All balance sheet accounts will be reconciled and reviewed monthly.

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

6. Supporting documentation will be maintained for all journal entries, and all journal entries will be reviewed by someone independent of the preparer prior to being posted.
7. All regulatory filings will be monitored by the City Clerk or Administrator.
8. We will provide monthly financial information to City Council in accordance with generally accepted accounting principles, where appropriate.
9. We will record the process of receipt, approval, and payment/deposit as well as retain records for this process.

2019 A.2 – Deficiencies in the accounts payable process.

Significant deficiency

Condition and Criteria: During our audit of the City, we noted the following issues in which the City's internal controls surrounding the accounts payable ("A/P") and disbursements process should be improved:

- Prior to mailing, the A/P checks are not being consistently reviewed by an appropriate person (i.e., the City Administrator or Council, depending on the amount of the AP check) and compared to supporting documents such as the posting register, check proof run or related invoices.
- The City is not adhering to the policy that payments made above a certain amount require the City Administrator's signature (over \$500) or Council (over \$1,000). 9 out of 50 disbursements tested showed no evidence of the signature approval as required by the City's approval policy. In some instances, proper signature was obtained after payment.
- Personnel performing A/P functions are allowed to create the purchase order for the department head.
- Personnel performing A/P functions can also add or change vendors in the City's accounting system.
- In some instances, a department of the City was able to pay expenses from another department's budgeted expenses.

Effect: Because there is no proper segregation of duties related to disbursements and collections and City policy is not being followed, there could be instances of misappropriations of assets.

Cause: The personnel involved in performing A/P functions has the power to record transactions as well as maintain custody of the assets without proper approval or documentation. This represents a significant deficiency in an Entity's internal control.

Auditors Recommendation: We recommend that the City develop and implement appropriate internal controls to address the items noted above. Specifically, we recommend the following:

- All A/P checks should be reviewed and compared to supporting documents (posting register, check proof run, related invoices) by someone outside of the A/P process.
- Proper signatures should be clearly visible on each record of disbursement, with signature/approval occurring prior to payment.
- In addition to reviewing the A/P checks prior to their mailing, the reviewer should maintain a log of checks to ensure that all checks are subject to review.

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- Ideally, those involved in the A/P process should not be able to add or revise vendor information. The addition or revision of vendors should be performed by someone outside of the A/P process.

Auditee's Response: The City will make these corrections to the A/P process.

B. FINDINGS – COMPLIANCE

2019 B.1 – Regulatory and Legal Compliance

Noncompliance

Condition and Criteria: According to the City of Walhalla's general bond ordinance No. 2017-11, the City designated four funds to constitute an earmarking of certain revenues and assets of the utility system for specific purposes and to establish priorities and application of such revenues and assets. The four funds were as follows:

1. Revenue Fund
2. Operation and Maintenance Fund
3. Depreciation Fund
4. Contingent Fund

Adequate accounting records were not maintained to reflect and control the restricted allocation of the amounts held in such funds. Furthermore, the amounts restricted in the depreciation and contingent fund are derived from the City's budget. However, the City did not budget for these funds.

Effect: Because the weaknesses noted in above in 2019 A.1, the City did not adhere to their bond ordinance for the year ended June 30, 2019.

Cause: It appears the City was unable to adhere to the bond ordinance due to the weaknesses noted in 2019 A.1.

Auditors Recommendation: The City should be in compliance with the bond ordinance at all times. This should be monitored on a regular interval, such as monthly.

Auditee's Response: The bond ordinance should be complied with in future years.

2019 B.2 – Regulatory and Legal Compliance

Noncompliance

Condition and Criteria: At June 30, 2019, the City was under collateralized by approximately \$87,500. State law requires that all bank accounts with balances exceeding depository insurance limits be adequately collateralized. The City should have appropriate monitoring processes in place to ensure that the City is in compliance with the various regulations and laws to which it is subject.

Effect: Because compliance with this law is not monitored by the City, there can be assets at risk of being under collateralized.

Cause: It appears the City relied on its banking partners to supervise the compliance with this law.

Auditors Recommendation: The City should arrange agreements with their banks to provide sufficient collateral in order to remain in compliance with state law.

Auditee's Response: Establishing the proper bank collateral is in the process of being addressed.