



CITY OF WALHALLA, SOUTH CAROLINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2020

CITY OF WALHALLA, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2020

	<u>Page</u>
Financial Section	
Independent Auditor's Report	1-2
Basic Financial Statements:	
Management's Discussion and Analysis	3-9
Government - Wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet - Governmental Funds	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	15
Proprietary Fund Financial Statements	
Statement of Net Position - Proprietary Funds	16
Statement of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds	17
Statements of Cash Flows - Proprietary Funds	18-19
Notes to Financial Statements	20-43
Required Supplemental Information Other than Management's Discussion and Analysis	
Budgetary Comparison Schedule - General Fund	44
Schedule of the City's Proportionate Share of the Net Pension Liability and Schedule of the City Contributions to the Cost Sharing Plan	45-46
Supplemental Information	
Combining and Individual Balance Sheet - Nonmajor Special Revenue Funds	47
Combining and Individual Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds	48
Uniform Schedule of Fines, Assessments, and Surcharges (Per ACT 96)	49
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	50-51
Schedule of Findings and Responses	52-54



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, 2020, 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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 December 15, 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

December 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

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, 2020 ("FY 2020" or "2020") compared to the fiscal year ended June 30, 2019 ("FY 2019" or "2019"). 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 \$15,977,071. Unrestricted net position has a balance of \$291,304 at June 30, 2020.
- The City's total net position increased by \$244,534 compared to the prior year net position, as revenues of \$9,121,012 exceeded expenses of \$8,876,478.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$7,889,817, a decrease of \$348,196.
- At the end of the current year, unassigned fund balance for the General Fund was (\$133,167), (2.5%) of total General Fund expenditures for 2020.
- The City's capital assets increased by \$13,215,912. The increase in capital assets was primarily due to water plant construction.
- The City's total debt increased by \$561,815 during 2020 due to the issuance of capital leases.
- The City's net pension liability increased by \$125,580 to \$4,611,347 at June 30, 2020.

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, 2020

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, 2020

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			
	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, 2020

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and Other Assets	\$ 8,068,310	\$ 8,646,464	\$ 7,876,725	\$ 20,239,816	\$ 15,945,035	\$ 28,886,280
Capital Assets	5,627,370	4,835,534	23,988,836	11,564,759	29,616,206	16,400,293
Total Assets	<u>13,695,680</u>	<u>13,481,998</u>	<u>31,865,561</u>	<u>31,804,575</u>	<u>45,561,241</u>	<u>45,286,573</u>
Deferred Outflows of Resources	<u>423,663</u>	<u>486,490</u>	<u>180,221</u>	<u>184,251</u>	<u>603,884</u>	<u>670,741</u>
Current Liabilities	413,970	424,013	4,158,480	4,622,728	4,572,450	5,046,741
Long-Term Liabilities	873,612	106,535	19,919,150	20,281,508	20,792,762	20,388,043
Net Pension Liability	<u>3,390,308</u>	<u>3,327,875</u>	<u>1,221,039</u>	<u>1,157,892</u>	<u>4,611,347</u>	<u>4,485,767</u>
Total Liabilities	<u>4,677,890</u>	<u>3,858,423</u>	<u>25,298,669</u>	<u>26,062,128</u>	<u>29,976,559</u>	<u>29,920,551</u>
Deferred Inflows of Resources	<u>168,991</u>	<u>237,537</u>	<u>42,504</u>	<u>66,689</u>	<u>211,495</u>	<u>304,226</u>
Net Investment in Capital Assets	4,553,447	4,722,748	10,579,084	10,255,340	15,132,531	14,978,088
Restricted	444,355	406,741	108,881	98,303	553,236	505,044
Unrestricted	<u>4,274,660</u>	<u>4,743,039</u>	<u>(3,983,356)</u>	<u>(4,493,634)</u>	<u>291,304</u>	<u>249,405</u>
Total Net Position	<u>\$ 9,272,462</u>	<u>\$ 9,872,528</u>	<u>\$ 6,704,609</u>	<u>\$ 5,860,009</u>	<u>\$ 15,977,071</u>	<u>\$ 15,732,537</u>

The City's total assets increased \$274,668 from the prior year. Current and other assets decreased \$12,941,245 primarily due to a decrease in unspent proceeds related to the revenue bond issuance. Capital assets increased \$13,215,913 from the prior year due to water plant construction. Total liabilities increased \$56,008 from the prior year primarily due to the issuance of capital leases. 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 \$244,534 during the current fiscal year primarily due to general revenues exceeding expenses in 2020. Please see the discussion following the next table regarding this increase.

The City's assets and deferred outflows exceeded liabilities and deferred inflows by \$15,977,071 as of June 30, 2020. \$15,132,531 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.

\$553,236 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 \$291,304.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the City's net position for June 30, 2020 and 2019:

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,349,030	\$ 1,378,693	\$ 4,419,079	\$ 4,549,153	\$ 5,768,109	\$ 5,927,846
Operating Grants and Contributions	315,000	300,000	1,019,895	-	1,334,895	300,000
Capital Grants and Contributions	431,554	74,275	-	-	431,554	74,275
General Revenues:						
Taxes	1,217,013	1,184,298	-	-	1,217,013	1,184,298
Other	337,601	184,764	31,840	218,737	369,441	403,501
Total Revenues	<u>3,650,198</u>	<u>3,122,030</u>	<u>5,470,814</u>	<u>4,767,890</u>	<u>9,121,012</u>	<u>7,889,920</u>
Expenses:						
Administrative and General	343,493	281,616	-	-	343,493	281,616
Judicial Services	53,295	52,560	-	-	53,295	52,560
Public Safety	1,850,342	1,840,127	-	-	1,850,342	1,840,127
Public Works	1,626,562	935,059	-	-	1,626,562	935,059
Recreation and Tourism	610,951	541,984	-	-	610,951	541,984
Interest on Long-Term Debt	20,039	3,579	-	-	20,039	3,579
Utility	-	-	4,371,796	3,733,788	4,371,796	3,733,788
Total Expenses	<u>4,504,682</u>	<u>3,654,925</u>	<u>4,371,796</u>	<u>3,733,788</u>	<u>8,876,478</u>	<u>7,388,713</u>
Change in Net Position Before Transfers	(854,484)	(532,895)	1,099,018	1,034,102	244,534	501,207
Transfers	254,418	155,102	(254,418)	(155,102)	-	-
Change in Net Position	<u>(600,066)</u>	<u>(377,793)</u>	<u>844,600</u>	<u>879,000</u>	<u>244,534</u>	<u>501,207</u>
Net Position - Beginning of Year	9,872,528	10,250,321	5,860,009	4,981,009	15,732,537	15,231,330
Net Position - End of Year	<u>\$ 9,272,462</u>	<u>\$ 9,872,528</u>	<u>\$ 6,704,609</u>	<u>\$ 5,860,009</u>	<u>\$ 15,977,071</u>	<u>\$ 15,732,537</u>

Governmental Activities: Governmental activities had a decrease in net position of \$600,066. Governmental activities revenues increased by \$528,168 from the prior year.

Expenses related to total governmental activities increased by \$849,757 from the prior year.

Business-Type Activities: Net position related to business-type activities (i.e., water and sewer operations) increased by \$844,600. This increase was primarily due to revenues of \$5,470,814 exceeding expenses of \$4,371,796. Revenues increased by \$702,924 primarily due to a capital contribution from Oconee Joint Regional Sewer Authority. Expenses increased by \$638,008.

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 \$7,889,817 a decrease of \$348,196, or 4% lower than the prior year fund balance.

\$133,167 of the total fund balance of the governmental funds constitutes a deficit 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 (\$94,518), (2) for tourism (\$306,362), (3) for public safety (\$43,475), (4) for water plant construction (\$1,548,408), (5) for cemetery operations (\$21,112), (6) for the water fund (\$4,314,483), and (7) for the Sewer Fund (\$1,694,626). Total unassigned fund balance of the governmental funds represents (2.5%) of total governmental funds expenditures.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Highlights for the General Fund were as follows:

- Total General Fund revenues increased by \$377,259 from the prior year, primarily due to higher licenses, permits, and fees.
- Total General Fund expenditures increased by \$1,662,178 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 2020 was \$6,704,609. 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, 2020 amounted to \$29,616,206. 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, 2020 and 2019 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 835,149	\$ 585,644	\$ 160,226	\$ 160,226	\$ 995,375	\$ 745,870
Construction in Progress	-	-	19,783,040	7,286,107	19,783,040	7,286,107
Buildings and Improvements	3,310,967	3,336,980	495,481	487,533	3,806,448	3,824,513
Vehicles and Equipment	1,462,272	893,377	301,282	315,921	1,763,554	1,209,298
Infrastructure	18,982	19,533	3,248,807	3,314,973	3,267,789	3,334,506
Total	<u>\$ 5,627,370</u>	<u>\$ 4,835,534</u>	<u>\$ 23,988,836</u>	<u>\$ 11,564,760</u>	<u>\$ 29,616,206</u>	<u>\$ 16,400,294</u>

The total increase in the City's capital assets for 2020 was \$13,215,912. Major capital asset events during 2020 included the following:

- Capital asset additions consisted primarily of:
 - Water Treatment Plant – Approximately \$12,500,000
 - Land – Approximately \$250,000
 - Equipment and Vehicles – Approximately \$1,250,000
- Depreciation expense of \$288,231 for governmental activities and \$228,417 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, 2020

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt

As of June 30, 2020, the City had total outstanding debt of \$21,235,809. The City's total debt as of June 30, 2020 and 2019 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Capital Leases	\$ 1,054,111	\$ 109,507	\$ -	\$ 19,509	\$ 1,054,111	\$ 129,016
Bonds Payable	-	-	20,181,698	20,544,978	20,181,698	20,544,978
Total	\$ 1,054,111	\$ 109,507	\$ 20,181,698	\$ 20,564,487	\$ 21,235,809	\$ 20,673,994

The total increase in the City's debt for 2020 was \$561,815. Major events during 2020 included the following:

- Issuance of ~\$976,000 of capital lease debt.
- Scheduled principal payments of ~\$410,000.

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, 2020

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Other Cash Deposits	\$ 7,381,704	\$ 144,838	\$ 7,526,542
Restricted Cash and Other Cash Deposits	551,691	6,771,946	7,323,637
Accounts Receivable	111,313	873,295	984,608
Taxes Receivable	23,602	-	23,602
Inventories	-	86,646	86,646
CAPITAL ASSETS:			
Non Depreciable	835,149	19,943,266	20,778,415
Depreciable	9,677,355	11,012,278	20,689,633
Less Accumulated Depreciation	(4,885,134)	(6,966,708)	(11,851,842)
TOTAL ASSETS	13,695,680	31,865,561	45,561,241
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	423,663	180,221	603,884
TOTAL DEFERRED OUTFLOWS OF RESOURCES	423,663	180,221	603,884
LIABILITIES			
Accounts Payable	34,015	3,647,967	3,681,982
Accrued Salaries	50,525	27,576	78,101
Employee Benefits Withheld and Accrued	46,939	25,401	72,340
Accrued Interest Payable	19,812	68,690	88,502
NON-CURRENT LIABILITIES:			
DUE WITHIN ONE YEAR:			
Compensated Absences	41,090	15,566	56,656
Capital Leases Payable	221,589	-	221,589
Bonds Payable	-	373,280	373,280
DUE IN MORE THAN ONE YEAR:			
Compensated Absences	41,090	15,565	56,655
Refundable Connection Fees	-	95,167	95,167
Capital Leases Payable	832,522	-	832,522
Bonds Payable	-	19,808,418	19,808,418
Net Pension Obligation	3,390,308	1,221,039	4,611,347
TOTAL LIABILITIES	4,677,890	25,298,669	29,976,559
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	47,014	-	47,014
Deferred Pension Credits	121,977	42,504	164,481
TOTAL DEFERRED INFLOWS OF RESOURCES	168,991	42,504	211,495
NET POSITION			
Net Investment in Capital Assets	4,553,447	10,579,084	15,132,531
RESTRICTED FOR:			
Public Safety	43,475	-	43,475
Judicial Services	94,518	-	94,518
Tourism	306,362	-	306,362
Debt Service	-	108,881	108,881
Unrestricted	4,274,660	(3,983,356)	291,304
TOTAL NET POSITION	\$ 9,272,462	\$ 6,704,609	\$ 15,977,071

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

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

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	\$ 343,493	\$ 469,233	\$ -	\$ -	\$ 125,740	\$ -	\$ 125,740
Judicial Services	53,295	56,693	-	-	3,398	-	3,398
Public Safety	1,850,342	80,422	300,000	31,961	(1,437,959)	-	(1,437,959)
Public Works	1,626,562	673,020	-	399,593	(553,949)	-	(553,949)
Recreation and Tourism	610,951	69,662	15,000	-	(526,289)	-	(526,289)
Interest on Long-Term Debt	20,039	-	-	-	(20,039)	-	(20,039)
TOTAL GOVERNMENTAL ACTIVITIES	4,504,682	1,349,030	315,000	431,554	(2,409,098)	-	(2,409,098)
BUSINESS-TYPE ACTIVITIES							
Water System	3,516,421	3,674,769	-	-	-	158,348	158,348
Sewer System	855,375	744,310	1,019,895	-	-	908,830	908,830
TOTAL BUSINESS-TYPE ACTIVITIES	4,371,796	4,419,079	1,019,895	-	-	1,067,178	1,067,178
TOTAL PRIMARY GOVERNMENT	\$ 8,876,478	\$ 5,768,109	\$ 1,334,895	\$ 431,554	(2,409,098)	1,067,178	(1,341,920)
GENERAL REVENUES:							
TAXES:							
Property Taxes, Levied for General Purposes					724,755	-	724,755
State Accommodation Taxes					13,600	-	13,600
Hospitality Taxes					276,828	-	276,828
Payments in Lieu of Taxes and Franchise Fees					201,830	-	201,830
Grants and Contributions not Restricted to Specific Programs					101,073	-	101,073
Interest Income					27,081	31,840	58,921
Miscellaneous					209,447	-	209,447
Interfund Transfers					254,418	(254,418)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS AND TRANSFERS					1,809,032	(222,578)	1,586,454
CHANGE IN NET POSITION					(600,066)	844,600	244,534
NET POSITION, BEGINNING OF YEAR - As Previously Reported					9,835,211	5,860,009	15,695,220
Prior Period Adjustment					37,317	-	37,317
NET POSITION, BEGINNING OF YEAR - Restated					9,872,528	5,860,009	15,732,537
NET POSITION - ENDING					\$ 9,272,462	\$ 6,704,609	\$ 15,977,071

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, 2020

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Other Cash Deposits	\$ 7,381,704	\$ -	\$ 7,381,704
Restricted Assets - Cash and Cash Equivalents	180,741	370,949	551,690
Property Taxes Receivable	23,603	-	23,603
Accounts Receivable	111,313	-	111,313
Interfund Balance	-	94,518	94,518
TOTAL ASSETS	\$ 7,697,361	\$ 465,467	\$ 8,162,828
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts Payable	34,015	-	34,015
Accrued Salaries	50,525	-	50,525
Employee Benefits Withheld and Accrued	46,939	-	46,939
Interfund Balance	94,518	-	94,518
TOTAL LIABILITIES	225,997	-	225,997
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	47,014	-	47,014
TOTAL DEFERRED INFLOWS OF RESOURCES	47,014	-	47,014
FUND BALANCES:			
RESTRICTED FOR:			
Judicial Services	-	94,518	94,518
Public Safety	-	43,475	43,475
Tourism	-	306,362	306,362
COMMITTED TO:			
Water Plant	1,548,408	-	1,548,408
ASSIGNED TO:			
Cemetery	-	21,112	21,112
Water Fund	4,314,483	-	4,314,483
Sewer Fund	1,694,626	-	1,694,626
UNASSIGNED	(133,167)	-	(133,167)
TOTAL FUND BALANCES	7,424,350	465,467	7,889,817
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 7,697,361	\$ 465,467	\$ 8,162,828

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, 2020

Fund balances - total governmental funds		\$ 7,889,817
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 \$10,512,504 and the accumulated depreciation was \$4,885,134.		5,627,370
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.		(3,088,622)
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.		(19,812)
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	(1,054,111)
	Compensated absences	(82,180)
		<u>(1,136,291)</u>
Net position of governmental activities		<u>\$ 9,272,462</u>

CITY OF WALHALLA, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2020

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property Taxes	\$ 722,005	\$ -	\$ 722,005
Intergovernmental Revenues	893,977	12,891	906,868
Licenses, Permits and Fees	1,279,296	-	1,279,296
Fines and Forfeitures	49,260	7,433	56,693
Miscellaneous and Other	28,689	-	28,689
Payments in Lieu of Taxes and Franchise Fees	201,830	-	201,830
Hospitality Tax	-	276,828	276,828
Interest Income	27,081	-	27,081
TOTAL REVENUES	3,202,138	297,152	3,499,290
EXPENDITURES			
CURRENT OPERATING:			
General Government	333,107	-	333,107
Judicial Services	53,295	-	53,295
Public Safety	1,682,598	6,733	1,689,331
Public Works	1,449,597	-	1,449,597
Recreation and Tourism	380,883	207,631	588,514
Capital Expenditures	1,034,893	45,173	1,080,066
DEBT SERVICE:			
Principal Retirement	31,396	-	31,396
Interest and Fiscal Charges	3,506	-	3,506
TOTAL EXPENDITURES	4,969,275	259,537	5,228,812
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,767,137)	37,615	(1,729,522)
OTHER FINANCING SOURCES AND (USES)			
Capital Contributions	90,948	-	90,948
Sale of Capital Assets	11,984	-	11,984
Insurance Recovery	47,976	-	47,976
Capital Lease Proceeds	976,000	-	976,000
Interfund Transfers (Net) - See Note 3	254,418	-	254,418
TOTAL OTHER FINANCING SOURCES AND (USES)	1,381,326	-	1,381,326
NET CHANGE IN FUND BALANCES	(385,811)	37,615	(348,196)
FUND BALANCE, BEGINNING OF YEAR - As Previously Reported	7,810,161	390,535	8,200,696
Prior Period Adjustment	-	37,317	37,317
FUND BALANCES, BEGINNING OF YEAR - As Restated	7,810,161	427,852	8,238,013
FUND BALANCES - ENDING	\$ 7,424,350	\$ 465,467	\$ 7,889,817

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, 2020

Net change in fund balances - total governmental funds \$ (348,196)

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 \$1,080,066 exceeded depreciation expenses of \$288,231, in the current period. 791,835

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. 31,396

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. (16,533)

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. (25,331)

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. (976,000)

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. (57,237)

Change in net position of governmental activities \$ (600,066)

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2020

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
ASSETS			
CURRENT ASSETS:			
Cash	\$ 89,017	\$ 55,821	\$ 144,838
Restricted Assets - Cash and Other Cash Deposits	6,771,946	-	6,771,946
Accounts Receivable	869,654	3,641	873,295
Inventory	81,447	5,199	86,646
TOTAL CURRENT ASSETS	7,812,064	64,661	7,876,725
NON-CURRENT ASSETS:			
CAPITAL ASSETS:			
Land and Other Non-Depreciable Assets	19,900,766	42,500	19,943,266
Buildings and Improvements	1,270,806	282,454	1,553,260
Equipment and Vehicles	1,082,014	543,623	1,625,637
Infrastructure	6,409,470	1,423,911	7,833,381
Less Accumulated Depreciation	(5,144,315)	(1,822,393)	(6,966,708)
TOTAL NON-CURRENT ASSETS	23,518,741	470,095	23,988,836
TOTAL ASSETS	31,330,805	534,756	31,865,561
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	176,716	3,505	180,221
TOTAL DEFERRED OUTFLOWS OF RESOURCES	176,716	3,505	180,221
LIABILITIES			
CURRENT LIABILITIES:			
Accounts Payable	3,587,454	60,513	3,647,967
Accrued Salaries	26,405	1,171	27,576
Employee Benefits Withheld and Accrued	24,320	1,081	25,401
Interest Payable	68,690	-	68,690
Compensated Absences	15,331	235	15,566
Bonds Payable	373,280	-	373,280
TOTAL CURRENT LIABILITIES	4,095,480	63,000	4,158,480
NON-CURRENT LIABILITIES:			
Compensated Absences	15,331	234	15,565
Refundable Connection Fees	95,167	-	95,167
Bonds Payable	19,808,418	-	19,808,418
Net Pension Obligation	1,197,295	23,744	1,221,039
TOTAL NON-CURRENT LIABILITIES	21,116,211	23,978	21,140,189
TOTAL LIABILITIES	25,211,691	86,978	25,298,669
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	41,677	827	42,504
TOTAL DEFERRED INFLOWS OF RESOURCES	41,677	827	42,504
NET POSITION			
Net Investment in Capital Assets	10,108,989	470,095	10,579,084
Restricted for Debt Service	108,881	-	108,881
Unrestricted	(3,963,717)	(19,639)	(3,983,356)
TOTAL NET POSITION	\$ 6,254,153	\$ 450,456	\$ 6,704,609

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, 2020

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
OPERATING REVENUES			
Utility Service	\$ 3,562,238	\$ 744,310	\$ 4,306,548
Taps	112,531	-	112,531
TOTAL OPERATING REVENUES	<u>3,674,769</u>	<u>744,310</u>	<u>4,419,079</u>
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	1,256,686	15,319	1,272,005
Contractual Services, Materials, Supplies and Other Expenses	1,240,235	815,656	2,055,891
Depreciation and Amortization Expense	204,017	24,400	228,417
TOTAL OPERATING EXPENSES	<u>2,700,938</u>	<u>855,375</u>	<u>3,556,313</u>
OPERATING INCOME (LOSS)	<u>973,831</u>	<u>(111,065)</u>	<u>862,766</u>
NON-OPERATING REVENUES AND (EXPENSES)			
Interest Income	31,840	-	31,840
Interest Expense	(815,483)	-	(815,483)
TOTAL NON-OPERATING REVENUES AND (EXPENSES)	<u>(783,643)</u>	<u>-</u>	<u>(783,643)</u>
INCOME (LOSS) BEFORE TRANSFERS	190,188	(111,065)	79,123
OTHER FINANCING SOURCES AND (USES)			
Capital Contributions	-	1,019,895	1,019,895
Interfund Transfers (Net) - See Note 3	536,431	(790,849)	(254,418)
TOTAL OTHER FINANCING SOURCES AND (USES)	<u>536,431</u>	<u>229,046</u>	<u>765,477</u>
CHANGE IN NET POSITION	726,619	117,981	844,600
NET POSITION, BEGINNING OF YEAR	<u>5,527,534</u>	<u>332,475</u>	<u>5,860,009</u>
NET POSITION, ENDING	<u><u>\$ 6,254,153</u></u>	<u><u>\$ 450,456</u></u>	<u><u>\$ 6,704,609</u></u>

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, 2020

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:			
CASH FLOWS FROM OPERATIONS:			
Receipts from Customers	\$ 3,596,469	\$ 744,749	\$ 4,341,218
Payments to Employees and Related Benefits	(1,310,375)	(12,598)	(1,322,973)
Payments to Suppliers	(1,659,524)	(814,134)	(2,473,658)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>626,570</u>	<u>(81,983)</u>	<u>544,587</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Interfund Transfers In	1,330,101	165,624	1,495,725
Interfund Transfers (Out)	(793,670)	(956,473)	(1,750,143)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>536,431</u>	<u>(790,849)</u>	<u>(254,418)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of Capital Assets	(12,547,995)	(104,498)	(12,652,493)
Capital Contributions	-	1,019,895	1,019,895
Principal Paid on Revenue Bonds	(363,280)	-	(363,280)
Principal Paid on Capital Leases	(19,509)	-	(19,509)
Interest Paid	(747,379)	-	(747,379)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(13,678,163)</u>	<u>915,397</u>	<u>(12,762,766)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Income from Investments	31,840	-	31,840
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>31,840</u>	<u>-</u>	<u>31,840</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,483,322)	42,565	(12,440,757)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>19,288,098</u>	<u>-</u>	<u>19,288,098</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,804,776</u>	<u>\$ 42,565</u>	<u>\$ 6,847,341</u>
CLASSIFIED AS:			
Current Assets	\$ 32,830	\$ 42,565	\$ 75,395
Restricted Assets	6,771,946	-	6,771,946
TOTALS	<u>\$ 6,804,776</u>	<u>\$ 42,565</u>	<u>\$ 6,847,341</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, 2020

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
OPERATING INCOME (LOSS)	\$ 973,831	\$ (111,065)	\$ 862,766
ADJUSTMENTS NOT AFFECTING CASH:			
Depreciation	204,017	24,400	228,417
CHANGE IN ASSETS AND LIABILITIES:			
Accounts Receivable	(78,300)	439	(77,861)
Inventory	184	11	195
Accounts Payable	(493,742)	11,196	(482,546)
Customer Deposits	22,322	(730)	21,592
Compensated Absences	1,570	469	2,039
Accrued Liabilities	(55,259)	2,252	(53,007)
Net Pension Obligation	72,817	(9,670)	63,147
CHANGE IN DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:			
Deferred Pension Charges	2,218	1,812	4,030
Deferred Pension Credits	(23,088)	(1,097)	(24,185)
TOTAL ADJUSTMENTS	<u>(347,261)</u>	<u>29,082</u>	<u>(318,179)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 626,570</u>	<u>\$ (81,983)</u>	<u>\$ 544,587</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, 2020

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.

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, 2020

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 Victim's Assistance Hospitality Tax Fund Fire Premium Police Activity

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.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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, 2020

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

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020, 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, 2020, 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	\$ 1,548,408	\$ 1,548,408	-	-	-

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, 2020 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	\$ 6,860,963	\$ 55,821
Less Certificates of Deposit that are not a Cash Equivalent	(56,187)	(13,256)
Cash and Cash Equivalents per Statement of Cash Flows	\$ 6,804,776	\$ 42,565

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2020

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Interfund balances at June 30, 2020, 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	\$ -	\$ 94,518
Other Non-Major Funds:		
Victims Fund	94,518	-
Total	<u>\$ 94,518</u>	<u>\$ 94,518</u>

Interfund transfers for the year ended June 30, 2020, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Fund:		
General	\$ 1,786,539	\$ 1,532,121
Water System	1,330,101	793,670
Sewer System	165,624	956,473
Total	<u>\$ 3,282,264</u>	<u>\$ 3,282,264</u>

Funds are 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 transferred 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. Council approves the amounts transferred annually during the budget process.

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2020

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the City’s governmental activities for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 585,644	\$ 249,505	\$ -	\$ 835,149
Construction in Progress	-	-	-	-
Total Capital Assets not being Depreciated	585,644	249,505	-	835,149
Capital Assets being Depreciated:				
Buildings and Improvements	5,575,077	75,833	-	5,650,910
Equipment and Vehicles	3,244,136	754,729	-	3,998,865
Infrastructure	27,580	-	-	27,580
Total Capital Assets being Depreciated	8,846,793	830,562	-	9,677,355
Less Accumulated Depreciation for:				
Buildings and Improvements	(2,238,097)	(101,846)	-	(2,339,943)
Equipment and Vehicles	(2,350,759)	(185,834)	-	(2,536,593)
Infrastructure	(8,047)	(551)	-	(8,598)
Total Accumulated Depreciation	(4,596,903)	(288,231)	-	(4,885,134)
Total Capital Assets being Depreciated, Net	4,249,890	542,331	-	4,792,221
Governmental Activities Capital Assets, Net	\$ 4,835,534	\$ 791,836	\$ -	\$ 5,627,370

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 9,876
Public Safety	84,177
Public Works	171,785
Recreation and Tourism	22,393
Total Depreciation Expense	\$ 288,231

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2020

NOTE 4 – CAPITAL ASSETS (CONTINUED):

Capital asset activity for the City’s business-type activities for the year ended June 30, 2020, 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	7,286,107	12,496,933	-	19,783,040
Total Capital Assets not being Depreciated	<u>7,446,333</u>	<u>12,496,933</u>	<u>-</u>	<u>19,943,266</u>
Capital Assets being Depreciated:				
Buildings and Improvements	1,511,181	42,079	-	1,553,260
Equipment and Vehicles	1,552,548	73,089	-	1,625,637
Infrastructure	7,792,989	40,392	-	7,833,381
Total Capital Assets being Depreciated	<u>10,856,718</u>	<u>155,560</u>	<u>-</u>	<u>11,012,278</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,023,648)	(34,131)	-	(1,057,779)
Equipment and Vehicles	(1,236,627)	(87,728)	-	(1,324,355)
Infrastructure	(4,478,016)	(106,558)	-	(4,584,574)
Total Accumulated Depreciation	<u>(6,738,291)</u>	<u>(228,417)</u>	<u>-</u>	<u>(6,966,708)</u>
Total Capital Assets being Depreciated, Net	<u>4,118,427</u>	<u>(72,857)</u>	<u>-</u>	<u>4,045,570</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,564,760</u>	<u>\$ 12,424,076</u>	<u>\$ -</u>	<u>\$ 23,988,836</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	\$ 204,017
Sewer System	24,400
Total Depreciation Expense	<u>\$ 228,417</u>

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

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, 2020 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.	\$ 19,480,000
Premium on Series 2018 Bonds	<u>701,698</u>
Net Debt	20,181,698
Less Current Portion	<u>(355,000)</u>
Long-Term Portion	<u>\$ 19,826,698</u>

Interest expense on revenue bonds totaled \$815,483 for the year ended June 30, 2020. Amortization of the 2018 bond premium totaled \$18,280 for the year ended June 30, 2020.

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, 2020 are as follows:

<u>Fiscal Year</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	435,000	736,650	1,171,650
2026-2030	2,505,000	3,337,600	5,842,600
2031-2035	3,090,000	2,741,450	5,831,450
2036-2040	3,890,000	1,925,719	5,815,719
2041-2045	4,735,000	1,073,906	5,808,906
2046-2050	3,290,000	188,250	3,478,250
Total	<u>\$19,480,000</u>	<u>\$13,151,800</u>	<u>\$32,631,800</u>

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

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, 2020:

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. \$ 43,587

\$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. 34,524

\$410,000 Capital Lease initiated in July 2019, due in annual installments of approximately \$105,000 to \$56,000 beginning in July 2020 through July 2024. The City purchased two police vehicles, one fire vehicle, one public works vehicle, and a garbage truck with the proceeds. 410,000

\$566,000 Capital Lease initiated in May 2020, due in annual installments of approximately \$115,000 to \$56,000 beginning in May 2021 through May 2027. The City purchased three vehicles, one fire engine, and sewer equipment with the proceeds. 566,000

Total Capital Leases Payable \$ 1,054,111

Less Current Portion (221,589)

Long-Term Portion \$ 832,522

Interest expense on other long-term debt totaled \$20,039 for the year ended June 30, 2020.

Future amounts required to pay principal and interest on other long-term debt outstanding (direct borrowings) at June 30, 2020 are as follows:

Fiscal Year	Governmental Activities			Business-Type Activities			Total
	Principal	Interest	Total	Principal	Interest	Total	Primary Government
2021	\$ 221,589	\$ 33,391	\$ 254,980	\$ -	\$ -	\$ -	\$ 254,980
2022	222,974	26,311	249,285	-	-	-	249,285
2023	201,298	19,196	220,494	-	-	-	220,494
2024	189,250	12,517	201,767	-	-	-	201,767
2025	109,000	6,412	115,412	-	-	-	115,412
2026-2030	110,000	4,290	114,290	-	-	-	114,290
Total	<u>\$ 1,054,111</u>	<u>\$ 102,116</u>	<u>\$ 1,156,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,156,227</u>

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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, 2020:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Capital Leases Payable:					
Capital Lease - 9/14	\$ 64,507	\$ -	\$ (20,920)	\$ 43,587	\$ 21,363
Capital Lease - 7/18	45,000	-	(10,476)	34,524	10,976
Capital Lease - 7/19	-	410,000	-	410,000	89,000
Capital Lease - 5/20	-	566,000	-	566,000	100,250
Total Debt	109,507	976,000	(31,396)	1,054,111	221,589
Other Liabilities:					
Compensated Absences	56,849	25,331	-	82,180	41,090
Net Pension Liability	3,327,875	62,433	-	3,390,308	-
Total Other Liabilities	3,384,724	87,764	-	3,472,488	41,090
Governmental Activities Long-term Liabilities	\$ 3,494,231	\$ 1,063,764	\$ (31,396)	\$ 4,526,599	\$ 262,679

Presented below is a summary of changes in long-term obligations for the City’s business-type activities for the year ended June 30, 2020:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Business - Type Activities:					
Revenue Bond - 12/18	\$ 19,825,000	\$ -	\$ (345,000)	\$ 19,480,000	\$ 355,000
Net Premium on Revenue Bonds - 12/18	719,978	-	(18,280)	701,698	18,280
Capital Lease - 10/15	19,509	-	(19,509)	-	-
Total Debt	20,564,487	-	(382,789)	20,181,698	373,280
Other Liabilities:					
Compensated Absences	29,092	2,039	-	31,131	15,566
Refundable Connection Fees	72,846	22,321	-	95,167	-
Net Pension Liability	1,157,892	63,147	-	1,221,039	-
Total Other Liabilities	1,259,830	87,507	-	1,347,337	15,566
Business-Type Activities Long-term Liabilities	\$ 21,824,317	\$ 87,507	\$ (382,789)	\$ 21,529,035	\$ 388,846

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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”). The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state’s employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems’ five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds’ assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

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 generally accepted accounting principles (GAAP). 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 fair 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 July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

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.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

NOTE 6 – PENSION PLAN (CONTINUED):

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

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.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 6 – PENSION PLAN (CONTINUED):

Plan Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS. The legislation also increased employer contribution rates beginning July 1, 2017 for SCRS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year through July 1, 2022. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

Additionally, the Board is prohibited from decreasing the SCRS contribution rates until the funded ratio is at least 85 percent. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85 percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 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 85 percent, then effective on the following July first, 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 85 percent.

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

	Fiscal Year 2020	Fiscal Year 2019
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 2020	Fiscal Year 2019
SCRS		
Employer Class Two	15.41%	14.41%
Employer Class Three	15.41%	14.41%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	17.84%	16.84%
Employer Class Three	17.84%	16.84%
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.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

NOTE 6 – PENSION PLAN (CONTINUED):

Actuarial Assumptions and Methods

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

The June 30, 2019, 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, 2018. The TPL was rolled-forward from the valuation date to the plans’ fiscal year end, June 30, 2019, using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used to calculate TPL as of June 30, 2019.

	<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, 2019, 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, 2019 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	\$50,073,060,256	\$27,238,916,138	\$22,834,144,118	54.4%
PORS	\$7,681,749,768	\$4,815,808,554	\$2,865,941,214	62.7%

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

NOTE 6 – PENSION PLAN (CONTINUED):

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.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-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 2019 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	51.0%		
Global Public Equity	35.0%	7.29%	2.55%
Private Equity	9.0%	7.67%	0.69%
Equity Options Strategies	7.0%	5.23%	0.37%
Real Assets	12.0%		
Real Estate (Private)	8.0%	5.59%	0.45%
Real Estate (REITs)	1.0%	8.16%	0.08%
Infrastructure (Private)	2.0%	5.03%	0.10%
Infrastructure (Public)	1.0%	6.12%	0.06%
Opportunistic	8.0%		
Global Tactical Asset Allocation	7.0%	3.09%	0.22%
Other Opportunistic Strategies	1.0%	3.82%	0.04%
Credit	15.0%		
High Yield Bonds/Bank Loans	4.0%	3.14%	0.13%
Emerging Markets Debt	4.0%	3.31%	0.13%
Private Debt	7.0%	5.49%	0.38%
Rate Sensitive	14.0%		
Core Fixed Income	13.0%	1.62%	0.21%
Cash and Short Duration (Net)	1.0%	0.31%	0.00%
Total Expected Real Return	100.0%		5.41%
Inflations for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.66%

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, 2020

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	\$4,515,238	\$3,584,118	\$2,807,044
PORS	1,392,139	1,027,229	728,276

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

At June 30, 2020, the City reported a liability of \$3,390,308 for the governmental activities and \$1,221,039 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, 2019, the City’s proportion for SCRS was 0.015696% (0.015485% at June 30, 2018). The City’s proportion for PORS at June 30, 2019 was 0.035843% (0.035859% at June 30, 2018).

For the year ended June 30, 2020, the City recognized pension expense of approximately \$487,000 (approximately \$360,000 for the SCRS and approximately \$127,000 for the PORS).

At June 30, 2020, 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	\$ 2,464	\$ 25,748
Changes of assumptions	72,225	-
Net difference between projected and actual investment earnings	31,732	-
Change in allocated proportion	35,857	99,013
Contributions after the measurement date	283,852	-
Total	<u>\$ 426,130</u>	<u>\$ 124,761</u>

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2020

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	\$ 21,122	\$ 7,592
Changes of assumptions	40,735	-
Net difference between projected and actual investment earnings	13,025	-
Change in allocated proportion	-	32,128
Contributions after the measurement date	102,871	-
Total	<u>\$ 177,753</u>	<u>\$ 39,720</u>

The amount of \$283,852 and \$102,871 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>
2021	\$ 31,650	\$ 29,343	\$ 60,993
2022	(39,038)	436	(38,602)
2023	12,437	1,163	13,600
2024	12,468	4,220	16,688
Total	<u>\$ 17,517</u>	<u>\$ 35,162</u>	<u>\$ 52,679</u>

Payable to Plans

The City reported a payable of approximately \$44,000 to the PEBA as of June 30, 2020, representing required employer and employee contributions for the month of June 2020 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, 2020.

Construction

The City has active construction projects as of June 30, 2020. The major active project is the construction of the water treatment plant. The City has a remaining commitment of approximately \$4,000,000 to complete the project.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

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 – PRIOR PERIOD ADJUSTMENTS:

During fiscal 2020, the City determined that funds reported as agency funds in prior years should be reported as special revenue funds.

The total change to the government funds and governmental activities statement of net position was an increase to fund balances of \$37,317 and a decrease to agency fund statement of net position of the same amount. There was an increase in total net position for the City's government-wide financial statements as a result of this change.

These items were corrected when they were discovered during the year ended June 30, 2020.

NOTE 10 – SUBSEQUENT EVENTS:

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

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the City's funding, demand for the City's services, and the U.S. economy. These conditions could adversely affect the City's business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the City's operations or other businesses of the City's suppliers and funding agencies, which could significantly disrupt the City's operations and the operations of the City's funding agencies. The extent of the adverse impact of the COVID-19 outbreak on the City cannot be predicted at this time.

REQUIRED SUPPLEMENTAL INFORMATION
OTHER THAN MD&A

CITY OF WALHALLA, SOUTH CAROLINA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2020

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property Taxes	\$ 704,000	\$ 704,000	\$ 722,005	\$ 18,005
Intergovernmental Revenues	641,800	641,800	893,977	252,177
Licenses, Permits and Fees	1,252,200	1,252,200	1,279,296	27,096
Fines and Forfeitures	86,000	86,000	49,260	(36,740)
Miscellaneous and Other	118,500	118,500	28,689	(89,811)
Payments in Lieu of Taxes and Franchise Fees	208,500	208,500	201,830	(6,670)
Interest Income	-	-	27,081	27,081
TOTAL REVENUES	3,011,000	3,011,000	3,202,138	191,138
EXPENDITURES				
CURRENT OPERATING:				
GENERAL GOVERNMENT:				
Administration	248,425	248,425	346,437	(98,012)
Swimming Pool	20,175	20,175	14,624	5,551
Depot Park	11,400	11,400	9,222	2,178
Tunnel	11,400	11,400	15,676	(4,276)
JUDICIAL SERVICES:				
Court	41,557	41,557	53,295	(11,738)
PUBLIC SAFETY:				
Police	1,000,178	1,000,178	1,143,958	(143,780)
Fire	613,788	613,788	538,640	75,148
PUBLIC WORKS:				
Streets	1,243,529	1,243,529	1,449,597	(206,068)
RECREATION AND TOURISM:				
Recreation	311,893	311,893	328,031	(16,138)
Capital Expenditures	204,000	204,000	1,034,893	(830,893)
DEBT SERVICE:				
Principal Retirement	235,119	235,119	31,396	203,723
Interest and Fiscal Charges	25,089	25,089	3,506	21,583
TOTAL EXPENDITURES	3,966,553	3,966,553	4,969,275	(1,002,722)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(955,553)	(955,553)	(1,767,137)	(811,584)
OTHER FINANCING SOURCES AND (USES)				
Capital Contributions	-	-	90,948	90,948
Sale of Capital Assets	-	-	11,984	11,984
Insurance Recovery	-	-	47,976	47,976
Capital Lease Proceeds	-	-	976,000	976,000
Interfund Transfers In	955,553	955,553	254,418	(701,135)
TOTAL OTHER FINANCING SOURCES AND (USES)	955,553	955,553	1,381,326	425,773
NET CHANGE IN FUND BALANCES	-	-	(385,811)	(385,811)
FUND BALANCES, BEGINNING OF YEAR	7,810,161	7,810,161	7,810,161	-
FUND BALANCES, ENDING	\$ 7,810,161	\$ 7,810,161	\$ 7,424,350	\$ (385,811)

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, 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

YEAR ENDED JUNE 30, 2020

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					
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
City's proportion of the net pension liability (asset)	0.015696%	0.015485%	0.015775%	0.017120%	0.016682%	0.016933%
City's proportion share of the net pension liability (asset)	\$ 3,584,118	\$ 3,327,875	\$ 3,551,206	\$ 3,656,807	\$ 3,163,822	\$ 2,915,301
City's covered payroll	\$ 1,658,626	\$ 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	216.09%	206.04%	223.11%	220.53%	202.28%	187.87%
Plan fiduciary net position as a percentage of the total pension liability	54.40%	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					
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
City's proportion of the net pension liability (asset)	0.035843%	0.035859%	0.03976%	0.04140%	0.04140%	0.04140%
City's proportion share of the net pension liability (asset)	\$ 1,027,229	\$ 1,157,892	\$ 983,924	\$ 866,611	\$ 792,611	\$ 792,611
City's covered payroll	\$ 520,017	\$ 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	197.54%	240.90%	199.51%	175.24%	160.61%	160.61%
Plan fiduciary net position as a percentage of the total pension liability	62.70%	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, 2020

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, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	\$ 283,852	\$ 241,496	\$ 219,018	\$ 183,995	\$ 183,397	\$ 170,488
Contributions in relation to the contractually required contribution	(283,852)	(241,496)	(219,018)	(183,995)	(183,397)	(170,488)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 1,824,242	\$ 1,658,626	\$ 1,615,177	\$ 1,591,652	\$ 1,658,201	\$ 1,564,110
Contributions as a percentage of covered payroll	15.56%	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 14.56% to 15.56% of eligible payroll effective July 1, 2019.

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

	PORS					
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	\$ 102,871	\$ 89,651	\$ 78,057	\$ 70,226	\$ 67,949	\$ 66,178
Contributions in relation to the contractually required contribution	(102,871)	(89,651)	(78,057)	(70,226)	(67,949)	(66,178)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 563,986	\$ 520,017	\$ 480,647	\$ 493,160	\$ 494,534	\$ 493,497
Contributions as a percentage of covered payroll	18.24%	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 17.24% to 18.24% of eligible payroll effective July 1, 2019.

SUPPLEMENTAL INFORMATION

CITY OF WALHALLA, SOUTH CAROLINA

COMBINING AND INDIVIDUAL BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2020

	CEMETERY FUND	VICTIM'S ASSISTANCE FUND	HOSPITALITY TAX FUND	FIRE PREMIUM FUND	POLICE ACTIVITY FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
ASSETS						
Restricted Cash and Other Cash Deposits	\$ 21,112	\$ -	\$ 306,362	\$ 36,317	\$ 7,158	\$ 370,949
Interfund Balances	-	94,518	-	-	-	94,518
TOTAL ASSETS	<u>\$ 21,112</u>	<u>\$ 94,518</u>	<u>\$ 306,362</u>	<u>\$ 36,317</u>	<u>\$ 7,158</u>	<u>\$ 465,467</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts Payable	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:						
RESTRICTED FOR:						
Judicial Services	-	94,518	-	-	-	94,518
Public Safety	-	-	-	36,317	7,158	43,475
Recreation and Tourism	-	-	306,362	-	-	306,362
ASSIGNED TO:						
Recreation and Tourism	21,112	-	-	-	-	21,112
TOTAL FUND BALANCES	<u>21,112</u>	<u>94,518</u>	<u>306,362</u>	<u>36,317</u>	<u>7,158</u>	<u>465,467</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 21,112</u>	<u>\$ 94,518</u>	<u>\$ 306,362</u>	<u>\$ 36,317</u>	<u>\$ 7,158</u>	<u>\$ 465,467</u>

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, 2020

	CEMETERY FUND	VICTIM'S ASSISTANCE FUND	HOSPITALITY TAX FUND	FIRE PREMIUM FUND	POLICE ACTIVITY FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
REVENUES						
Intergovernmental Revenues	\$ -	\$ -	\$ -	\$ 12,891	\$ -	\$ 12,891
Fines and Forfeitures	-	7,433	-	-	-	7,433
Hospitality Tax	-	-	276,828	-	-	276,828
TOTAL REVENUES	<u>-</u>	<u>7,433</u>	<u>276,828</u>	<u>12,891</u>	<u>-</u>	<u>297,152</u>
EXPENDITURES						
CURRENT OPERATING:						
Public Safety	-	-	-	6,517	216	6,733
Recreation and Tourism	-	-	207,631	-	-	207,631
Capital Expenditures	-	-	45,173	-	-	45,173
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>252,804</u>	<u>6,517</u>	<u>216</u>	<u>259,537</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	7,433	24,024	6,374	(216)	37,615
OTHER FINANCING SOURCES AND (USES)						
Interfund Transfers (Net) - See Note 3	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>7,433</u>	<u>24,024</u>	<u>6,374</u>	<u>(216)</u>	<u>37,615</u>
FUND BALANCE, BEGINNING OF YEAR - As Previously Reported	21,112	87,085	282,338	-	-	390,535
Prior Period Adjustment	-	-	-	29,943	7,374	37,317
FUND BALANCES, BEGINNING OF YEAR - As Restated	<u>21,112</u>	<u>87,085</u>	<u>282,338</u>	<u>29,943</u>	<u>7,374</u>	<u>427,852</u>
FUND BALANCES, ENDING	<u>\$ 21,112</u>	<u>\$ 94,518</u>	<u>\$ 306,362</u>	<u>\$ 36,317</u>	<u>\$ 7,158</u>	<u>\$ 465,467</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, 2020

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			\$ 114,957	\$ 114,957
Court fines and assessments remitted to State Treasurer			(59,431)	(59,431)
Total Court Fines and Assessments retained			55,526	55,526
Surcharges and Assessments retained for victim services:				
Surcharges collected and retained			4,982	4,982
Assessments retained			2,451	2,451
Total Surcharges and Assessments retained for victim services			\$ 7,433	\$ 7,433

FOR THE DEPARTMENT OF CRIME VICTIM COMPENSATION (DCVC)

VICTIM SERVICE FUNDS COLLECTED	Municipal	County	Total
Carryforward from Previous Year – Beginning Balance	\$ 87,085		\$ 87,085
Victim Service Revenue:			
Victim Service Fines Retained by City/County Treasurer			
Victim Service Assessments Retained by City/County Treasurer	2,451		2,451
Victim Service Surcharges Retained by City/County Treasurer	4,982		4,982
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)	94,518		94,518
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	\$ 94,518		\$ 94,518

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 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.

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 (2020 A.1).

Compliance and Other Matters

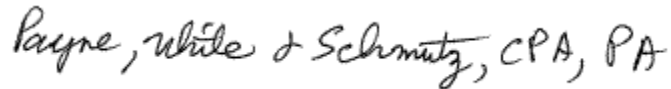
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses (2020 B.1).

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.

A handwritten signature in black ink that reads "Payne, White & Schmutz, CPA, PA". The signature is written in a cursive, flowing style.

Payne, White & Schmutz, CPA, PA

December 15, 2020

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020

A. FINDINGS - FINANCIAL STATEMENT AUDIT

2020 A.1 – Weaknesses in Internal Control and Financial Closeout

Condition: For the year ended June 30, 2020, 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. Bank reconciliations were not prepared for the City's accounts for the current year as of June 30, 2020 until several months after year end.
2. The City did not appropriately record its revenue bond cash account balances or revenue bond transactions.
3. No one reviewed journal entries prepared by the Administrator.
4. It appears management did not provide regular, detailed, accurate financial reports to the City Council.
5. 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.

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, 2020.

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. 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.
5. 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.
6. The City should establish a process for all regulatory filings to include a review of the filings by an employee independent of the process.

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020

7. 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.

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

1. For fiscal year 2020/21, adjustments are being 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.
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.

B. FINDINGS – COMPLIANCE

2020 B.1 – Regulatory and Legal Compliance

Noncompliance

Condition and Criteria: According 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 2020 A.1, the City did not adhere to their bond ordinance for the year ended June 30, 2020.

Cause: It appears the City was unable to adhere to the bond ordinance due to the weaknesses noted in 2020 A.1.

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020

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.