



CITY OF WALHALLA, SOUTH CAROLINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2021

CITY OF WALHALLA, SOUTH CAROLINA

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Independent Auditor's Report

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

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, 2021 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, 2021, 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 3, 2021, 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 3, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

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, 2021 ("FY 2021" or "2021") compared to the fiscal year ended June 30, 2020 ("FY 2020" or "2020"). 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 \$16,332,702. Unrestricted net position has a balance of \$1,630,019 at June 30, 2021.
- The City's total net position increased by \$355,631 compared to the prior year net position, as revenues of \$9,053,459 exceeded expenses of \$8,697,828.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$1,164,035, a decrease of \$519,671.
- At the end of the current year, unassigned fund balance for the General Fund was \$13,950 (1%) of total General Fund expenditures for 2021.
- The City's capital assets increased by \$4,374,200. The increase in capital assets was primarily due to water plant construction.
- The City's total debt decreased by \$76,439 during 2021 due repayment of principal.
- The City's net pension liability increased by \$804,855 to \$5,416,202 at June 30, 2021.

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.

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, 2021

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

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

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

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, 2021 and 2020:

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and Other Assets	\$ 1,355,629	\$ 1,862,199	\$ 7,276,731	\$ 14,082,836	\$ 8,632,360	\$ 15,945,035
Capital Assets	5,549,859	5,627,370	28,440,547	23,988,836	33,990,406	29,616,206
Total Assets	<u>6,905,488</u>	<u>7,489,569</u>	<u>35,717,278</u>	<u>38,071,672</u>	<u>42,622,766</u>	<u>45,561,241</u>
Deferred Outflows of Resources	812,558	423,663	301,193	180,221	1,113,751	603,884
Current Liabilities	428,122	413,970	846,149	4,158,480	1,274,271	4,572,450
Long-Term Liabilities	793,215	873,612	19,821,870	19,919,150	20,615,085	20,792,762
Net Pension Liability	4,041,170	3,390,308	1,375,032	1,221,039	5,416,202	4,611,347
Total Liabilities	<u>5,262,507</u>	<u>4,677,890</u>	<u>22,043,051</u>	<u>25,298,669</u>	<u>27,305,558</u>	<u>29,976,559</u>
Deferred Inflows of Resources	86,343	168,991	11,914	42,504	98,257	211,495
Net Investment in Capital Assets	4,531,555	4,553,447	9,181,703	10,579,084	13,713,258	15,132,531
Restricted	504,301	444,355	485,124	108,881	989,425	553,236
Unrestricted	<u>(2,666,660)</u>	<u>(1,931,451)</u>	<u>4,296,679</u>	<u>2,222,755</u>	<u>1,630,019</u>	<u>291,304</u>
Total Net Position	<u>\$ 2,369,196</u>	<u>\$ 3,066,351</u>	<u>\$ 13,963,506</u>	<u>\$ 12,910,720</u>	<u>\$ 16,332,702</u>	<u>\$ 15,977,071</u>

The City's total assets decreased \$2,938,475 from the prior year. Current and other assets decreased \$7,312,675 primarily due to a decrease in unspent proceeds related to the revenue bond issuance. Capital assets increased \$4,374,200 from the prior year due to water plant construction. Total liabilities decreased \$2,671,001 from the prior year primarily due to the reduction in accounts payable. 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 \$355,631 during the current fiscal year primarily due to general revenues exceeding expenses in 2021. Please see the discussion following the next table regarding this increase.

The City's assets and deferred outflows exceeded liabilities and deferred inflows by \$16,332,702 as of June 30, 2021. \$13,713,258 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.

\$989,425 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 capital projects.

The remaining portion of the City's net position is an unrestricted balance of \$1,630,019.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the City's net position for June 30, 2021 and 2020:

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,607,313	\$ 1,349,030	\$ 4,522,100	\$ 4,419,079	\$ 6,129,413	\$ 5,768,109
Operating Grants and Contributions	300,000	315,000	-	1,019,895	300,000	1,334,895
Capital Grants and Contributions	91,277	431,554	941,195	-	1,032,472	431,554
General Revenues:						
Taxes	1,236,389	1,217,013	-	-	1,236,389	1,217,013
Other	194,431	337,601	160,754	31,840	355,185	369,441
Total Revenues	<u>3,429,410</u>	<u>3,650,198</u>	<u>5,624,049</u>	<u>5,470,814</u>	<u>9,053,459</u>	<u>9,121,012</u>
Expenses:						
Administrative and General	295,491	343,493	-	-	295,491	343,493
Judicial Services	167,979	53,295	-	-	167,979	53,295
Public Safety	1,983,128	1,850,342	-	-	1,983,128	1,850,342
Public Works	1,146,973	1,626,562	-	-	1,146,973	1,626,562
Recreation and Tourism	499,694	610,951	-	-	499,694	610,951
Interest on Long-Term Debt	33,400	20,039	-	-	33,400	20,039
Utility	-	-	4,571,163	4,371,796	4,571,163	4,371,796
Total Expenses	<u>4,126,665</u>	<u>4,504,682</u>	<u>4,571,163</u>	<u>4,371,796</u>	<u>8,697,828</u>	<u>8,876,478</u>
Change in Net Position Before Transfers	(697,255)	(854,484)	1,052,886	1,099,018	355,631	244,534
Transfers	100	-	(100)	-	-	-
Change in Net Position	<u>(697,155)</u>	<u>(854,484)</u>	<u>1,052,786</u>	<u>1,099,018</u>	<u>355,631</u>	<u>244,534</u>
Net Position - Beginning of Year	3,066,351	3,920,835	12,910,720	11,811,702	15,977,071	15,732,537
Net Position - End of Year	<u>\$ 2,369,196</u>	<u>\$ 3,066,351</u>	<u>\$ 13,963,506</u>	<u>\$ 12,910,720</u>	<u>\$ 16,332,702</u>	<u>\$ 15,977,071</u>

Governmental Activities: Governmental activities had a decrease in net position of \$697,155. Governmental activities revenues decreased by \$220,788 from the prior year.

Expenses related to total governmental activities decreased by \$378,017 from the prior year.

Business-Type Activities: Net position related to business-type activities (i.e., water and sewer operations) increased by \$1,052,786. This increase was primarily due to revenues of \$5,624,049 exceeding expenses of \$4,571,163. Revenues increased by \$153,235 primarily due to increased interest income. Expenses increased by \$199,367.

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 \$1,164,035 a decrease of \$519,671, or 45% lower than the prior year fund balance.

\$13,950 of the total fund balance of the governmental funds constitutes 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 public safety (\$41,602), (2) for tourism (\$462,699), (3) for capital projects (\$624,690), and (4) for cemetery operations (\$21,094). Total unassigned fund balance of the governmental funds represents (1%) of total governmental funds expenditures.

CITY OF WALHALLA, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Highlights for the General Fund were as follows:

- Total General Fund revenues decreased by \$104,318 from the prior year, primarily due to lower grant income.
- Total General Fund expenditures decreased by \$1,066,796 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 2021 was \$13,963,506. 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, 2021 amounted to \$33,990,406. 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, 2021 and 2020 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 835,149	\$ 835,149	\$ 160,226	\$ 160,226	\$ 995,375	\$ 995,375
Construction in Progress	-	-	586,169	19,783,038	586,169	19,783,038
Buildings and Improvements	3,205,703	3,310,967	914,673	495,481	4,120,376	3,806,448
Vehicles and Equipment	1,490,575	1,462,271	950,367	301,283	2,440,942	1,763,554
Infrastructure	18,432	18,983	25,829,112	3,248,807	25,847,544	3,267,790
Total	\$ 5,549,859	\$ 5,627,370	\$ 28,440,547	\$ 23,988,835	\$ 33,990,406	\$ 29,616,205

The total increase in the City's capital assets for 2021 was \$4,374,201. Major capital asset events during 2021 included the following:

- Capital asset additions consisted primarily of:
 - Water Treatment Plant – Approximately \$3,400,000
 - Westminster Water Line – Approximately \$607,000
 - Cane Creek Rehabilitation – Approximately \$573,000
 - Equipment and Vehicles – Approximately \$460,000
- Depreciation expense of \$347,000 for governmental activities and \$721,000 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, 2021

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt

As of June 30, 2021, the City had total outstanding debt of \$21,159,370. The City's total debt as of June 30, 2021 and 2020 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Capital Leases	\$ 999,585	\$ 1,054,111	\$ 351,367	\$ -	\$ 1,350,952	\$ 1,054,111
Bonds Payable	-	-	19,808,418	20,181,698	19,808,418	20,181,698
Total	<u>\$ 999,585</u>	<u>\$ 1,054,111</u>	<u>\$ 20,159,785</u>	<u>\$ 20,181,698</u>	<u>\$ 21,159,370</u>	<u>\$ 21,235,809</u>

The total decrease in the City's debt for 2021 was \$76,439. Major events during 2021 included the following:

- Issuance of ~\$582,000 of capital lease debt.
- Scheduled principal payments of ~\$659,000.

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 2022 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, 2021

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Other Cash Deposits	\$ 5,584,072	\$ 55,001	\$ 5,639,073
Restricted Cash and Other Cash Deposits	611,636	625,427	1,237,063
Accounts Receivable	291,463	1,304,516	1,595,979
Interfund Balances	(5,147,532)	5,147,532	-
Taxes Receivable	15,990	-	15,990
Inventories	-	144,255	144,255
CAPITAL ASSETS:			
Non Depreciable	835,149	746,395	1,581,544
Depreciable	9,947,228	35,381,858	45,329,086
Less Accumulated Depreciation	(5,232,518)	(7,687,706)	(12,920,224)
TOTAL ASSETS	6,905,488	35,717,278	42,622,766
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	812,558	301,193	1,113,751
TOTAL DEFERRED OUTFLOWS OF RESOURCES	812,558	301,193	1,113,751
LIABILITIES			
Accounts Payable	45,214	235,209	280,423
Accrued Salaries	55,496	30,736	86,232
Employee Benefits Withheld and Accrued	48,369	25,198	73,567
Accrued Interest Payable	18,719	68,690	87,409
NON-CURRENT LIABILITIES:			
DUE WITHIN ONE YEAR:			
Compensated Absences	26,977	17,183	44,160
Capital Leases Payable	233,347	75,853	309,200
Bonds Payable	-	393,280	393,280
DUE IN MORE THAN ONE YEAR:			
Compensated Absences	26,977	17,182	44,159
Refundable Connection Fees	-	114,036	114,036
Capital Leases Payable	766,238	275,514	1,041,752
Bonds Payable	-	19,415,138	19,415,138
Net Pension Obligation	4,041,170	1,375,032	5,416,202
TOTAL LIABILITIES	5,262,507	22,043,051	27,305,558
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	42,515	-	42,515
Deferred Pension Credits	43,828	11,914	55,742
TOTAL DEFERRED INFLOWS OF RESOURCES	86,343	11,914	98,257
NET POSITION			
Net Investment in Capital Assets	4,531,555	9,181,703	13,713,258
RESTRICTED FOR:			
Public Safety	41,602	-	41,602
Tourism	462,699	-	462,699
Debt Service	-	84,441	84,441
Westminster Line Project	-	400,683	400,683
Unrestricted	(2,666,660)	4,296,679	1,630,019
TOTAL NET POSITION	\$ 2,369,196	\$ 13,963,506	\$ 16,332,702

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

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

FUNCTION/PROGRAM ACTIVITIES	PROGRAM REVENUES				NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
PRIMARY GOVERNMENT:							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 295,491	\$ 561,911	\$ -	\$ -	\$ 266,420	\$ -	\$ 266,420
Judicial Services	167,979	62,951	-	-	(105,028)	-	(105,028)
Public Safety	1,983,128	83,590	300,000	87,529	(1,512,009)	-	(1,512,009)
Public Works	1,146,973	724,975	-	3,748	(418,250)	-	(418,250)
Recreation and Tourism	499,694	173,886	-	-	(325,808)	-	(325,808)
Interest on Long-Term Debt	33,400	-	-	-	(33,400)	-	(33,400)
TOTAL GOVERNMENTAL ACTIVITIES	4,126,665	1,607,313	300,000	91,277	(2,128,075)	-	(2,128,075)
BUSINESS-TYPE ACTIVITIES							
Water System	3,657,987	3,793,369	-	552,831	-	688,213	688,213
Sewer System	913,176	728,731	-	388,364	-	203,919	203,919
TOTAL BUSINESS-TYPE ACTIVITIES	4,571,163	4,522,100	-	941,195	-	892,132	892,132
TOTAL PRIMARY GOVERNMENT	\$ 8,697,828	\$ 6,129,413	\$ 300,000	\$ 1,032,472	(2,128,075)	892,132	(1,235,943)
GENERAL REVENUES:							
TAXES:							
Property Taxes, Levied for General Purposes					766,111	-	766,111
State Accommodation Taxes					10,553	-	10,553
Hospitality Taxes					270,850	-	270,850
Payments in Lieu of Taxes and Franchise Fees					188,875	-	188,875
Grants and Contributions not Restricted to Specific Programs					103,011	-	103,011
Interest Income					3,733	160,754	164,487
Miscellaneous					87,687	-	87,687
Interfund Transfers					100	(100)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS AND TRANSFERS					1,430,920	160,654	1,591,574
CHANGE IN NET POSITION					(697,155)	1,052,786	355,631
NET POSITION, BEGINNING					3,066,351	12,910,720	15,977,071
NET POSITION - ENDING					\$ 2,369,196	\$ 13,963,506	\$ 16,332,702

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, 2021

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Other Cash Deposits	\$ 5,584,072	\$ -	\$ 5,584,072
Restricted Assets - Cash and Cash Equivalents	86,223	525,413	611,636
Property Taxes Receivable	15,991	-	15,991
Accounts Receivable	291,463	-	291,463
Interfund Balance	2,426,743	-	2,426,743
TOTAL ASSETS	\$ 8,404,492	\$ 525,413	\$ 8,929,905
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts Payable	45,215	-	45,215
Accrued Salaries	55,496	-	55,496
Employee Benefits Withheld and Accrued	48,369	-	48,369
Interfund Balance	7,574,257	18	7,574,275
TOTAL LIABILITIES	7,723,337	18	7,723,355
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	42,515	-	42,515
TOTAL DEFERRED INFLOWS OF RESOURCES	42,515	-	42,515
FUND BALANCES:			
RESTRICTED FOR:			
Public Safety	-	41,602	41,602
Tourism	-	462,699	462,699
COMMITTED TO:			
Greenway Project	624,690	-	624,690
ASSIGNED TO:			
Cemetery	-	21,094	21,094
UNASSIGNED	13,950	-	13,950
TOTAL FUND BALANCES	638,640	525,395	1,164,035
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,404,492	\$ 525,413	\$ 8,929,905

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, 2021

Fund balances - total governmental funds \$ 1,164,035

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 \$10,782,377 and the accumulated depreciation was \$5,232,518. 5,549,859

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. (3,272,440)

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. (18,719)

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	(999,585)	
Compensated absences	<u>(53,954)</u>	<u>(1,053,539)</u>

Net position of governmental activities \$ 2,369,196

CITY OF WALHALLA, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2021

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property Taxes	\$ 766,111	\$ -	\$ 766,111
Intergovernmental Revenues	534,841	13,542	548,383
Licenses, Permits and Fees	1,530,770	-	1,530,770
Fines and Forfeitures	53,709	9,242	62,951
Miscellaneous and Other	23,299	-	23,299
Payments in Lieu of Taxes and Franchise Fees	188,875	-	188,875
Hospitality Tax	-	270,850	270,850
Interest Income	3,733	-	3,733
TOTAL REVENUES	3,101,338	293,634	3,394,972
EXPENDITURES			
CURRENT OPERATING:			
General Government	287,546	-	287,546
Judicial Services	64,219	103,760	167,979
Public Safety	1,701,125	15,415	1,716,540
Public Works	950,697	-	950,697
Recreation and Tourism	353,014	114,513	467,527
Capital Expenditures	269,873	-	269,873
DEBT SERVICE:			
Principal Retirement	267,361	-	267,361
Interest and Fiscal Charges	34,493	-	34,493
TOTAL EXPENDITURES	3,928,328	233,688	4,162,016
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(826,990)	59,946	(767,044)
OTHER FINANCING SOURCES AND (USES)			
Capital Contributions	34,311	-	34,311
Insurance Recovery	127	-	127
Capital Lease Proceeds	212,835	-	212,835
Interfund Transfers (Net) - See Note 3	100	-	100
TOTAL OTHER FINANCING SOURCES AND (USES)	247,373	-	247,373
NET CHANGE IN FUND BALANCES	(579,617)	59,946	(519,671)
FUND BALANCES, BEGINNING	1,218,257	465,449	1,683,706
FUND BALANCES - ENDING	\$ 638,640	\$ 525,395	\$ 1,164,035

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, 2021

Net change in fund balances - total governmental funds \$ (519,671)

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 \$269,873 were exceeded by depreciation expenses of \$347,384, in the current period. (77,511)

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. 267,361

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 1,093

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. 28,226

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. (212,835)

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. (183,818)

Change in net position of governmental activities \$ (697,155)

CITY OF WALHALLA, SOUTH CAROLINA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2021

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
ASSETS			
CURRENT ASSETS:			
Cash	\$ 41,745	\$ 13,256	\$ 55,001
Restricted Assets - Cash and Other Cash Deposits	625,427	-	625,427
Accounts Receivable	918,771	385,745	1,304,516
Interfund Balances	4,926,648	1,997,247	6,923,895
Inventory	136,661	7,594	144,255
TOTAL CURRENT ASSETS	6,649,252	2,403,842	9,053,094
NON-CURRENT ASSETS:			
CAPITAL ASSETS:			
Land and Other Non-Depreciable Assets	160,225	586,170	746,395
Buildings and Improvements	1,743,088	282,454	2,025,542
Equipment and Vehicles	1,862,371	543,623	2,405,994
Infrastructure	29,526,411	1,423,911	30,950,322
Less Accumulated Depreciation	(5,840,866)	(1,846,840)	(7,687,706)
TOTAL NON-CURRENT ASSETS	27,451,229	989,318	28,440,547
TOTAL ASSETS	34,100,481	3,393,160	37,493,641
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	288,594	12,599	301,193
TOTAL DEFERRED OUTFLOWS OF RESOURCES	288,594	12,599	301,193
LIABILITIES			
CURRENT LIABILITIES:			
Accounts Payable	34,444	200,765	235,209
Accrued Salaries	29,350	1,386	30,736
Employee Benefits Withheld and Accrued	24,059	1,139	25,198
Interest Payable	68,690	-	68,690
Interfund Balances	1,452,516	323,847	1,776,363
Compensated Absences	16,713	470	17,183
Capital Leases Payable	75,853	-	75,853
Bonds Payable	393,280	-	393,280
TOTAL CURRENT LIABILITIES	2,094,905	527,607	2,622,512
NON-CURRENT LIABILITIES:			
Compensated Absences	16,713	469	17,182
Refundable Connection Fees	112,120	1,916	114,036
Capital Leases Payable	275,514	-	275,514
Bonds Payable	19,415,138	-	19,415,138
Net Pension Obligation	1,317,516	57,516	1,375,032
TOTAL NON-CURRENT LIABILITIES	21,137,001	59,901	21,196,902
TOTAL LIABILITIES	23,231,906	587,508	23,819,414
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	11,416	498	11,914
TOTAL DEFERRED INFLOWS OF RESOURCES	11,416	498	11,914
NET POSITION			
Net Investment in Capital Assets	8,192,385	989,318	9,181,703
Restricted for Debt Service	84,441	-	84,441
Restricted for Westminster Water Line	400,683	-	400,683
Unrestricted	2,468,244	1,828,435	4,296,679
TOTAL NET POSITION	\$ 11,145,753	\$ 2,817,753	\$ 13,963,506

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, 2021

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
OPERATING REVENUES			
Charges for Services	\$ 3,793,369	\$ 728,731	\$ 4,522,100
TOTAL OPERATING REVENUES	3,793,369	728,731	4,522,100
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	1,209,790	79,197	1,288,987
Contractual Services, Materials, Supplies and Other Expenses	945,651	809,532	1,755,183
Depreciation and Amortization Expense	696,551	24,447	720,998
TOTAL OPERATING EXPENSES	2,851,992	913,176	3,765,168
OPERATING INCOME (LOSS)	941,377	(184,445)	756,932
NON-OPERATING REVENUES AND (EXPENSES)			
Interest Income	160,754	-	160,754
Interest Expense	(805,995)	-	(805,995)
TOTAL NON-OPERATING REVENUES AND (EXPENSES)	(645,241)	-	(645,241)
INCOME (LOSS) BEFORE TRANSFERS	296,136	(184,445)	111,691
OTHER FINANCING SOURCES AND (USES)			
Grant Proceeds	552,831	388,364	941,195
Interfund Transfers (Net) - See Note 3	30,060	(30,160)	(100)
TOTAL OTHER FINANCING SOURCES AND (USES)	582,891	358,204	941,095
CHANGE IN NET POSITION	879,027	173,759	1,052,786
NET POSITION, BEGINNING	10,266,726	2,643,994	12,910,720
NET POSITION, ENDING	\$ 11,145,753	\$ 2,817,753	\$ 13,963,506

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, 2021

	WATER FUND	SEWER FUND	TOTAL ENTERPRISE FUNDS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:			
CASH FLOWS FROM OPERATIONS:			
Receipts from Customers	\$ 3,744,252	\$ 346,627	\$ 4,090,879
Payments to Employees and Related Benefits	(1,204,343)	(78,454)	(1,282,797)
Payments to Suppliers	(4,084,314)	(82,773)	(4,167,087)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(1,544,405)</u>	<u>185,400</u>	<u>(1,359,005)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Interfund Transfers In	30,060	-	30,060
Interfund Transfers (Out)	-	(30,160)	(30,160)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>30,060</u>	<u>(30,160)</u>	<u>(100)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of Capital Assets	(4,586,541)	(586,169)	(5,172,710)
Grant Proceeds	552,831	388,364	941,195
Issuance of Capital Leases	369,407	-	369,407
Principal Paid on Revenue Bonds	(373,280)	-	(373,280)
Principal Paid on Capital Leases	(18,040)	-	(18,040)
Interest Paid	(737,305)	-	(737,305)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,792,928)</u>	<u>(197,805)</u>	<u>(4,990,733)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Income from Investments	160,754	-	160,754
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>160,754</u>	<u>-</u>	<u>160,754</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,146,519)	(42,565)	(6,189,084)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,804,776</u>	<u>42,565</u>	<u>6,847,341</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 658,257</u>	<u>\$ -</u>	<u>\$ 658,257</u>
CLASSIFIED AS:			
Current Assets	\$ 32,830	\$ -	\$ 32,830
Restricted Assets	625,427	-	625,427
TOTALS	<u>\$ 658,257</u>	<u>\$ -</u>	<u>\$ 658,257</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, 2021

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL ENTERPRISE FUNDS</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
OPERATING INCOME (LOSS)	\$ 941,377	\$ (184,445)	\$ 756,932
ADJUSTMENTS NOT AFFECTING CASH:			
Depreciation	696,551	24,447	720,998
CHANGE IN ASSETS AND LIABILITIES:			
Accounts Receivable	(49,117)	(382,104)	(431,221)
Due from Other Funds	475,110	562,638	1,037,748
Inventory	(55,214)	(2,395)	(57,609)
Accounts Payable	(3,553,596)	140,253	(3,413,343)
Customer Deposits	16,955	1,914	18,869
Compensated Absences	2,763	470	3,233
Accrued Liabilities	2,684	273	2,957
Net Pension Obligation	120,221	33,772	153,993
CHANGE IN DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:			
Deferred Pension Charges	(111,878)	(9,094)	(120,972)
Deferred Pension Credits	(30,261)	(329)	(30,590)
TOTAL ADJUSTMENTS	<u>(2,485,782)</u>	<u>369,845</u>	<u>(2,115,937)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (1,544,405)</u>	<u>\$ 185,400</u>	<u>\$ (1,359,005)</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, 2021

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

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

Major Operations

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

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

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

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

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, 2021

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, 2021

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, 2021

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

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

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

D. Receivables and Payables

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

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

E. Inventories and Prepaid Items

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

F. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>	<u>Capitalization Level</u>
Buildings and Improvements	10-50	\$ 15,000
Equipment and Vehicles	5-50	\$ 5,000
Infrastructure	50	\$ 25,000

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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, 2021, approximately \$40,500 of the City's bank balances of approximately \$5,574,000 (with a carrying value of approximately \$5,325,000) were exposed to custodial credit risk.

Investments

As of June 30, 2021, 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	\$ 1,551,538	\$ 1,551,538	-	-	-

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, 2021 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	\$ 667,172	\$ 13,256
Less Certificates of Deposit that are not a Cash Equivalent	(8,915)	(13,256)
Cash and Cash Equivalents per Statement of Cash Flows	\$ 658,257	\$ -

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Interfund balances at June 30, 2021, 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	\$ 2,426,743	\$ 7,574,257
Water System	4,926,648	1,452,516
Sewer System	1,997,247	323,847
Other Non-Major Funds:		
Cemetery Fund	-	18
Total	<u>\$ 9,350,638</u>	<u>\$ 9,350,638</u>

Interfund transfers for the year ended June 30, 2021, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Fund:		
General	\$ 100	\$ -
Water System	30,060	-
Sewer System	-	30,160
Total	<u>\$ 30,160</u>	<u>\$ 30,160</u>

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

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the City’s governmental activities for the year ended June 30, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 835,149	\$ -	\$ -	\$ 835,149
Construction in Progress	-	-	-	-
Total Capital Assets not being Depreciated	<u>835,149</u>	<u>-</u>	<u>-</u>	<u>835,149</u>
Capital Assets being Depreciated:				
Buildings and Improvements	5,650,910	-	-	5,650,910
Equipment and Vehicles	3,998,865	269,873	-	4,268,738
Infrastructure	27,580	-	-	27,580
Total Capital Assets being Depreciated	<u>9,677,355</u>	<u>269,873</u>	<u>-</u>	<u>9,947,228</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(2,339,943)	(105,264)	-	(2,445,207)
Equipment and Vehicles	(2,536,594)	(241,569)	-	(2,778,163)
Infrastructure	(8,597)	(551)	-	(9,148)
Total Accumulated Depreciation	<u>(4,885,134)</u>	<u>(347,384)</u>	<u>-</u>	<u>(5,232,518)</u>
Total Capital Assets being Depreciated, Net	<u>4,792,221</u>	<u>(77,511)</u>	<u>-</u>	<u>4,714,710</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,627,370</u>	<u>\$ (77,511)</u>	<u>\$ -</u>	<u>\$ 5,549,859</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 9,902
Public Safety	111,917
Public Works	194,717
Recreation and Tourism	30,848
Total Depreciation Expense	<u>\$ 347,384</u>

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

NOTE 4 – CAPITAL ASSETS (CONTINUED):

Capital asset activity for the City’s business-type activities for the year ended June 30, 2021, 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	19,783,038	586,169	(19,783,038)	586,169
Total Capital Assets not being Depreciated	<u>19,943,264</u>	<u>586,169</u>	<u>(19,783,038)</u>	<u>746,395</u>
Capital Assets being Depreciated:				
Buildings and Improvements	1,553,260	472,282	-	2,025,542
Equipment and Vehicles	1,625,638	780,356	-	2,405,994
Infrastructure	7,833,381	23,116,941	-	30,950,322
Total Capital Assets being Depreciated	<u>11,012,279</u>	<u>24,369,579</u>	<u>-</u>	<u>35,381,858</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,057,779)	(53,090)	-	(1,110,869)
Equipment and Vehicles	(1,324,355)	(131,272)	-	(1,455,627)
Infrastructure	(4,584,574)	(536,636)	-	(5,121,210)
Total Accumulated Depreciation	<u>(6,966,708)</u>	<u>(720,998)</u>	<u>-</u>	<u>(7,687,706)</u>
Total Capital Assets being Depreciated, Net	<u>4,045,571</u>	<u>23,648,581</u>	<u>-</u>	<u>27,694,152</u>
Business-Type Activities Capital Assets, Net	<u>\$ 23,988,835</u>	<u>\$ 24,234,750</u>	<u>\$ (19,783,038)</u>	<u>\$ 28,440,547</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	\$ 696,551
Sewer System	24,447
Total Depreciation Expense	<u>\$ 720,998</u>

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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, 2021 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.	\$ 19,125,000
Premium on Series 2018 Bonds	<u>683,418</u>
Net Debt	19,808,418
Less Current Portion	<u>(375,000)</u>
Long-Term Portion	<u><u>\$ 19,433,418</u></u>

Interest expense on revenue bonds totaled \$805,995 for the year ended June 30, 2021. Amortization of the 2018 bond premium totaled \$18,280 for the year ended June 30, 2021.

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, 2021 are as follows:

<u>Fiscal Year</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	455,000	714,401	1,169,401
2027-2031	2,720,000	3,114,574	5,834,574
2032-2036	3,270,000	2,566,951	5,836,951
2037-2041	4,060,000	1,751,344	5,811,344
2042-2046	4,855,000	974,156	5,829,156
2047-2051	2,150,000	145,500	2,295,500
Total	<u><u>\$19,125,000</u></u>	<u><u>\$12,336,401</u></u>	<u><u>\$31,461,401</u></u>

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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, 2021:

Capital Leases Payable

Serviced by the General Fund:

\$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. \$ 321,000

\$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. 465,750

\$212,835 Capital Lease initiated in January 2021, due in annual installments of approximately \$50,000 beginning in January 2022 through January 2025, then reducing to approximately \$13,000 in January 2026 through 2029, plus interest of 2.5%. The City purchased a Leaf Blower Truck and vehicle with the proceeds. 212,835

Serviced by the Water Fund:

\$119,242 Capital Lease initiated in July 2020, due in monthly installments of approximately \$2,000 beginning in October 2020 through August 2025. The City purchased a backhoe loader with the proceeds. 101,202

\$250,165 Capital Lease initiated in January 2021, due in annual installments of approximately \$57,000 beginning in January 2022 through January 2025, then reducing to approximately \$14,000 in January 2026 through 2029, plus interest of 2.5%. The City purchased vehicles and equipment with the proceeds. 250,165

Total Capital Leases Payable **\$ 1,350,952**

Less Current Portion (309,200)

Long-Term Portion \$ 1,041,752

Interest expense on other long-term debt totaled \$33,400 for the year ended June 30, 2021.

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED):

Future amounts required to pay principal and interest on other long-term debt outstanding (direct borrowings) at June 30, 2021 are as follows:

Fiscal Year	Governmental Activities			Business-Type Activities			Total
	Principal	Interest	Total	Principal	Interest	Total	Primary Government
2022	\$ 233,347	\$ 24,725	\$ 258,072	\$ 75,853	\$ 6,164	\$ 82,017	\$ 340,089
2023	233,347	18,621	251,968	75,852	4,909	80,761	332,729
2024	233,347	12,517	245,864	75,853	3,655	79,508	325,372
2025	153,097	6,412	159,509	75,852	2,400	78,252	237,761
2026	67,149	3,742	70,891	37,438	1,146	38,584	109,475
2027-2031	79,298	2,311	81,609	10,519	1,036	11,555	93,164
Total	\$ 999,585	\$ 68,328	\$ 1,067,913	\$ 351,367	\$ 19,310	\$ 370,677	\$ 1,438,590

Presented below is a summary of changes in long-term obligations for the City’s governmental activities for the year ended June 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Capital Leases Payable:					
Capital Lease - 9/14	\$ 43,587	\$ -	\$ (43,587)	\$ -	\$ -
Capital Lease - 7/18	34,524	-	(34,524)	-	-
Capital Lease - 7/19	410,000	-	(89,000)	321,000	89,000
Capital Lease - 5/20	566,000	-	(100,250)	465,750	100,250
Capital Lease - 1/21	-	212,835	-	212,835	44,097
Total Debt	1,054,111	212,835	(267,361)	999,585	233,347
Other Liabilities:					
Compensated Absences	82,180	-	(28,226)	53,954	26,977
Net Pension Liability	3,390,308	650,862	-	4,041,170	-
Total Other Liabilities	3,472,488	650,862	(28,226)	4,095,124	26,977
Governmental Activities Long-term Liabilities	\$ 4,526,599	\$ 863,697	\$ (295,587)	\$ 5,094,709	\$ 260,324

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED):

Presented below is a summary of changes in long-term obligations for the City’s business-type activities for the year ended June 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Business - Type Activities:					
Revenue Bond - 12/18	\$ 19,480,000	\$ -	\$ (355,000)	\$ 19,125,000	\$ 375,000
Net Premium on Revenue Bonds - 12/18	701,698	-	(18,280)	683,418	18,280
Capital Lease - 7/20	-	119,242	(18,040)	101,202	24,021
Capital Lease - 1/21	-	250,165	-	250,165	51,832
Total Debt	20,181,698	369,407	(391,320)	20,159,785	469,133
Other Liabilities:					
Compensated Absences	31,131	3,233	-	34,364	17,182
Refundable Connection Fees	95,168	16,954	-	112,122	-
Net Pension Liability	1,221,039	153,993	-	1,375,032	-
Total Other Liabilities	1,347,338	174,180	-	1,521,518	17,182
Business-Type Activities Long- term Liabilities	\$ 21,529,036	\$ 543,587	\$ (391,320)	\$ 21,681,303	\$ 486,315

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, 202 Arbor Lake Drive, Columbia, SC 29223. 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.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE 6 – PENSION PLAN (CONTINUED):

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.
- 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.

NOTE 6 – PENSION PLAN (CONTINUED):

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

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

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

Plan Contributions

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 and PORS 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 and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. 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 and PORS 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 and PORS 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 1, 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 1, 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.

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 6 – PENSION PLAN (CONTINUED):

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

	Fiscal Year 2021	Fiscal Year 2020
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 2021	Fiscal Year 2020
SCRS		
Employer Class Two	15.41%	15.41%
Employer Class Three	15.41%	15.41%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	17.84%	17.84%
Employer Class Three	17.84%	17.84%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

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

Actuarial Assumptions and Methods

Actuarial valuations of the plan 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 regarding the net pension liability 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 for the period ending June 30, 2019 for first use in the July 1, 2021 actuarial valuation.

The June 30, 2019, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2019. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2020, 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, 2020.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE 6 – PENSION PLAN (CONTINUED):

	<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, 2020, 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, 2020 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	\$51,844,187,763	\$26,292,418,682	\$25,551,769,081	50.7%
PORS	\$8,046,386,629	\$4,730,174,642	\$3,316,211,987	58.8%

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

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE 6 – PENSION PLAN (CONTINUED):

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 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 2020 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.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
Global Equity	51.0%		
Global Public Equity	35.0%	7.81%	2.73%
Private Equity	9.0%	8.91%	0.80%
Equity Options Strategies	7.0%	5.09%	0.36%
Real Assets	12.0%		
Real Estate (Private)	8.0%	5.55%	0.44%
Real Estate (REITs)	1.0%	7.78%	0.08%
Infrastructure (Private)	2.0%	4.88%	0.10%
Infrastructure (Public)	1.0%	7.05%	0.07%
Opportunistic	8.0%		
Global Tactical Asset Allocation	7.0%	3.56%	0.25%
Other Opportunistic Strategies	1.0%	4.41%	0.04%
Credit	15.0%		
High Yield Bonds/Bank Loans	4.0%	4.21%	0.17%
Emerging Markets Debt	4.0%	3.44%	0.14%
Private Debt	7.0%	5.79%	0.40%
Rate Sensitive	14.0%		
Core Fixed Income	13.0%	1.60%	0.21%
Cash and Short Duration (Net)	1.0%	0.56%	0.01%
Total Expected Real Return	100.0%		5.80%
Inflations for Actuarial Purposes			2.25%
Total Expected Nominal Return			8.05%

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, 2021

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	\$5,178,272	\$4,178,124	\$3,342,988
PORS	1,639,007	1,238,078	916,158

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

At June 30, 2021, the City reported a liability of \$4,041,170 for the governmental activities and \$1,375,032 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, 2019, 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, 2020, the City’s proportion for SCRS was 0.016352% (0.015696% at June 30, 2019). The City’s proportion for PORS at June 30, 2020 was 0.037334% (0.035843% at June 30, 2019).

For the year ended June 30, 2021, the City recognized pension expense of approximately \$610,000 (approximately \$440,000 for the SCRS and approximately \$170,000 for the PORS).

At June 30, 2021, 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	\$ 48,210	\$ 15,799
Changes of assumptions	5,119	-
Net difference between projected and actual investment earnings	307,336	-
Change in allocated proportion	131,966	20,405
Contributions after the measurement date	276,978	-
Total	<u>\$ 769,609</u>	<u>\$ 36,204</u>

CITY OF WALHALLA, SOUTH CAROLINA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

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	\$ 26,312	\$ 5,450
Changes of assumptions	15,109	-
Net difference between projected and actual investment earnings	126,776	-
Change in allocated proportion	30,361	14,089
Contributions after the measurement date	145,583	-
Total	<u>\$ 344,141</u>	<u>\$ 19,539</u>

The amount of \$276,978 and \$145,583 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, 2021. 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>
2022	\$ 90,892	\$ 46,915	\$ 137,807
2023	143,760	47,299	191,059
2024	143,349	50,377	193,726
2025	78,426	34,428	112,854
Total	<u>\$ 456,427</u>	<u>\$ 179,019</u>	<u>\$ 635,446</u>

Payable to Plans

The City reported a payable of approximately \$53,000 to the PEBA as of June 30, 2021, representing required employer and employee contributions for the month of June 2021 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, 2021.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

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 – SUBSEQUENT EVENTS:

In November 2021, the City received an American Rescue Plan grant of approximately \$1,100,000.

Management has evaluated subsequent events through December 3, 2021. This is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION
OTHER THAN MD&A

CITY OF WALHALLA, SOUTH CAROLINA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2021

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property Taxes	\$ 718,000	\$ 718,000	\$ 766,111	\$ 48,111
Intergovernmental Revenues	406,000	406,000	534,841	128,841
Licenses, Permits and Fees	1,281,700	1,281,700	1,530,770	249,070
Fines and Forfeitures	86,000	86,000	53,709	(32,291)
Miscellaneous and Other	209,359	209,359	23,299	(186,060)
Payments in Lieu of Taxes and Franchise Fees	214,777	214,777	188,875	(25,902)
Interest Income	41,000	41,000	3,733	(37,267)
TOTAL REVENUES	2,956,836	2,956,836	3,101,338	144,502
EXPENDITURES				
CURRENT OPERATING:				
GENERAL GOVERNMENT:				
Administration	263,901	263,901	278,291	(14,390)
Swimming Pool	20,000	20,000	13,770	6,230
Depot Park	12,000	12,000	9,255	2,745
Tunnel	25,000	25,000	27,843	(2,843)
JUDICIAL SERVICES:				
Court	57,862	57,862	64,219	(6,357)
PUBLIC SAFETY:				
Police	1,000,987	1,000,987	1,051,203	(50,216)
Fire	607,379	607,379	649,922	(42,543)
PUBLIC WORKS:				
Streets	1,037,487	1,037,487	950,697	86,790
RECREATION AND TOURISM:				
Recreation	333,735	333,735	311,401	22,334
Capital Expenditures	51,000	51,000	269,873	(218,873)
DEBT SERVICE:				
Principal Retirement	112,485	112,485	267,361	(154,876)
Interest and Fiscal Charges	25,000	25,000	34,493	(9,493)
TOTAL EXPENDITURES	3,546,836	3,546,836	3,928,328	(381,492)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(590,000)	(590,000)	(826,990)	(236,990)
OTHER FINANCING SOURCES AND (USES)				
Capital Contributions	-	-	34,311	34,311
Insurance Recovery	-	-	127	127
Capital Lease Proceeds	-	-	212,835	212,835
Interfund Transfers In	590,000	590,000	100	(589,900)
TOTAL OTHER FINANCING SOURCES AND (USES)	590,000	590,000	247,373	(342,627)
NET CHANGE IN FUND BALANCES	-	-	(579,617)	(579,617)
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, ENDING	\$ -	\$ -	\$ (579,617)	\$ (579,617)

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.

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

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, 2021

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

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

	SCRS						
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportion of the net pension liability (asset)	0.016352%	0.015696%	0.015485%	0.015775%	0.017120%	0.016682%	0.016933%
City's proportion share of the net pension liability (asset)	\$ 4,178,124	\$ 3,584,118	\$ 3,327,875	\$ 3,551,206	\$ 3,656,807	\$ 3,163,822	\$ 2,915,301
City's covered payroll	\$ 1,824,242	\$ 1,658,626	\$ 1,615,177	\$ 1,591,652	\$ 1,564,110	\$ 1,551,777	\$ 1,551,777
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	229.03%	216.09%	206.04%	223.11%	233.79%	203.88%	187.87%
Plan fiduciary net position as a percentage of the total pension liability	50.70%	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						
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportion of the net pension liability (asset)	0.037334%	0.035843%	0.035859%	0.03976%	0.04140%	0.04140%	0.04140%
City's proportion share of the net pension liability (asset)	\$ 1,238,078	\$ 1,027,229	\$ 1,157,892	\$ 1,017,528	\$ 983,924	\$ 866,611	\$ 792,611
City's covered payroll	\$ 563,986	\$ 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	219.52%	197.54%	199.51%	175.24%	160.61%	160.61%	160.61%
Plan fiduciary net position as a percentage of the total pension liability	58.80%	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, 2021

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, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	\$ 276,978	\$ 283,852	\$ 241,496	\$ 219,018	\$ 183,995	\$ 183,397	\$ 170,488
Contributions in relation to the contractually required contribution							
Contributions from the City	(260,068)	(266,942)	(224,586)	(202,108)	(183,995)	(183,397)	(170,488)
Contributions from the State	(16,910)	(16,910)	(16,910)	(16,910)	-	-	-
Contribution deficiency (excess)	-	-	-	-	-	-	-
City's covered payroll	\$ 1,780,064	\$ 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%	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 City's contributions to the PORS cost sharing pension plan was as follows:

	PORS						
	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	\$ 145,583	\$ 102,871	\$ 89,651	\$ 78,057	\$ 70,226	\$ 67,949	\$ 66,178
Contributions in relation to the contractually required contribution							
Contributions from the City	(140,499)	(97,787)	(84,567)	(72,973)	(70,226)	(67,949)	(66,178)
Contributions from the State	(5,084)	(5,084)	(5,084)	(5,084)	-	-	-
Contribution deficiency (excess)	-	-	-	-	-	-	-
City's covered payroll	\$ 798,152	\$ 563,986	\$ 520,017	\$ 480,647	\$ 493,160	\$ 494,534	\$ 493,497
Contributions as a percentage of covered payroll	18.24%	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.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the government will present information for those years for which information is available.

SUPPLEMENTAL INFORMATION

CITY OF WALHALLA, SOUTH CAROLINA

COMBINING AND INDIVIDUAL BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2021

	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	\$ -	\$ 462,699	\$ 34,444	\$ 7,158	\$ 525,413
Interfund Balances	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 21,112</u>	<u>\$ -</u>	<u>\$ 462,699</u>	<u>\$ 34,444</u>	<u>\$ 7,158</u>	<u>\$ 525,413</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts Payable	-	-	-	-	-	-
Interfund Balance	18	-	-	-	-	18
TOTAL LIABILITIES	<u>18</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18</u>
FUND BALANCES:						
RESTRICTED FOR:						
Judicial Services	-	-	-	-	-	-
Public Safety	-	-	-	34,444	7,158	41,602
Recreation and Tourism	-	-	462,699	-	-	462,699
ASSIGNED TO:						
Recreation and Tourism	21,094	-	-	-	-	21,094
TOTAL FUND BALANCES	<u>21,094</u>	<u>-</u>	<u>462,699</u>	<u>34,444</u>	<u>7,158</u>	<u>525,395</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 21,112</u>	<u>\$ -</u>	<u>\$ 462,699</u>	<u>\$ 34,444</u>	<u>\$ 7,158</u>	<u>\$ 525,413</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, 2021

	CEMETERY FUND	VICTIM'S ASSISTANCE FUND	HOSPITALITY TAX FUND	FIRE PREMIUM FUND	POLICE ACTIVITY FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
REVENUES						
Intergovernmental Revenues	\$ -	\$ -	\$ -	\$ 13,542	\$ -	\$ 13,542
Fines and Forfeitures	-	9,242	-	-	-	9,242
Hospitality Tax	-	-	270,850	-	-	270,850
TOTAL REVENUES	<u>-</u>	<u>9,242</u>	<u>270,850</u>	<u>13,542</u>	<u>-</u>	<u>293,634</u>
EXPENDITURES						
CURRENT OPERATING:						
Judicial Services	-	103,760	-	-	-	103,760
Public Safety	-	-	-	15,415	-	15,415
Recreation and Tourism	-	-	114,513	-	-	114,513
Capital Expenditures	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>103,760</u>	<u>114,513</u>	<u>15,415</u>	<u>-</u>	<u>233,688</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(94,518)	156,337	(1,873)	-	59,946
OTHER FINANCING SOURCES AND (USES)						
Interfund Transfers (Net) - See Note 3	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>(94,518)</u>	<u>156,337</u>	<u>(1,873)</u>	<u>-</u>	<u>59,946</u>
FUND BALANCES, BEGINNING	<u>21,094</u>	<u>94,518</u>	<u>306,362</u>	<u>36,317</u>	<u>7,158</u>	<u>465,449</u>
FUND BALANCES, ENDING	<u>\$ 21,094</u>	<u>\$ -</u>	<u>\$ 462,699</u>	<u>\$ 34,444</u>	<u>\$ 7,158</u>	<u>\$ 525,395</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			\$ 132,691	\$ 132,691
Court fines and assessments remitted to State Treasurer			(77,066)	(77,066)
Total Court Fines and Assessments retained			55,625	55,625
Surcharges and Assessments retained for victim services:				
Surcharges collected and retained			2,612	2,612
Assessments retained			6,619	6,619
Total Surcharges and Assessments retained for victim services			\$ 9,231	\$ 9,231

FOR THE DEPARTMENT OF CRIME VICTIM COMPENSATION (DCVC)

VICTIM SERVICE FUNDS COLLECTED	Municipal	County	Total
Carryforward from Previous Year – Beginning Balance	\$ 94,518		\$ 94,518
Victim Service Revenue:			
Victim Service Fines Retained by City/County Treasurer			
Victim Service Assessments Retained by City/County Treasurer	6,619		6,619
Victim Service Surcharges Retained by City/County Treasurer	2,612		2,612
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)	103,749		103,749
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 State and Oconee County	103,749		103,749
Total Expenditures from Victim Service Fund/Program (B)	103,749		103,749
Total Victim Service Funds Retained by Municipal/County Treasurer (A-B)	-		
Less: Prior Year Fund Deficit Repayment			
Carryforward Funds – End of Year	\$ -		\$ -

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, 2021, 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 3, 2021.

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 (2021 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

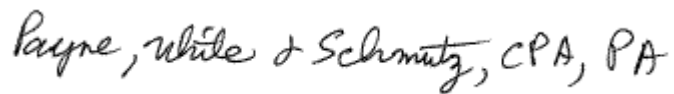
matters that are required to be reported under Government Auditing Standards, and which is described in the accompanying schedule of findings and responses (2021 B.1).

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 cursive script that reads "Payne, White & Schmutz, CPA, PA".

Payne, White & Schmutz, CPA, PA

December 3, 2021

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2021

A. FINDINGS - FINANCIAL STATEMENT AUDIT

2021 A.1 – Weaknesses in Internal Control and Financial Closeout

Condition: For the year ended June 30, 2021, 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, 2021 until several months after year end.
2. The City did not appropriately record its revenue bond cash account balances or revenue bond transactions.
3. 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. Significant adjustments were required to properly report the City's financial statements as of June 30, 2021.

Cause: The City had weak internal controls and utilized an inadequate financial and accounting software system. 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. Training should be provided to financial staff as necessary.
3. 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.
4. 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.
5. 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, 2021

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

1. For fiscal year 2021/22, duties are being reviewed to allow for improved segregation of duties.
2. Finance personnel will continue to be trained by an outside accounting professional and their software provider.
3. 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.
4. All balance sheet accounts will be reconciled and reviewed monthly.
5. 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.
6. All regulatory filings will be monitored by the City Clerk or Administrator.
7. We will provide monthly financial information to City Council in accordance with generally accepted accounting principles, where appropriate.
8. We will record the process of receipt, approval, and payment/deposit as well as retain records for this process.

B. FINDINGS – COMPLIANCE

2021 B.1 – Regulatory and Legal Compliance

Noncompliance

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

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

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

Effect: Because the weaknesses noted in above in 2021 A.1, the City did not adhere to their bond ordinance for the year ended June 30, 2021.

Cause: It appears the City was unable to adhere to the bond ordinance due to the weaknesses noted in 2021 A.1.

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

Auditee’s Response: The budget for the current year will be amended to adhere to the bond ordinances.