



CITY OF WALHALLA, SOUTH CAROLINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2017

CITY OF WALHALLA, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2017

	<u>Page</u>
Financial Section	
Independent Auditor's Report	1-3
Basic Financial Statements:	
Government - Wide Financial Statements	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet - Governmental Funds	6
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	9
Proprietary Fund Financial Statements	
Statement of Net Position - Proprietary Funds	10
Statement of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds	11
Statements of Cash Flows - Proprietary Funds	12-13
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Position - Fiduciary Funds	14
Notes to Financial Statements	15-37
Required Supplemental Information Other than Management's Discussion and Analysis	
Budgetary Comparison Schedule - General Fund	38
Schedule of the City's Proportionate Share of the Net Pension Liability and Schedule of the City Contributions to the Cost Sharing Plan	39
Notes to Required Supplemental Information	40
Supplemental Information	
Combining and Individual Balance Sheet - Nonmajor Special Revenue Funds	41
Combining and Individual Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds	42
Schedule of Municipal Court Fines, Assessments, and Surcharges	43

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	44-45
Schedule of Findings and Responses	46-47



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

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

MARK A. PAYNE, CPA
JASON S. WHITE, CPA/PFS, CFP®, CFE
CHRISTIAN J. SCHMUTZ, CPA, MBA

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, and the aggregate remaining fund information of the City of Walhalla, South Carolina (the "City"), as of and for the year ended June 30, 2017, 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.

Basis for Qualified Opinion

Management was unable to record the liability related to accounting and financial reporting by employers for postemployment benefits other than pensions in accordance with Governmental Accounting Standards Board Statement No. 45. The amount by which the aforementioned information would affect the liabilities, expenses, fund balance, and net position of the governmental and business-type activities of the City has not been determined.

Qualified Opinion

In our opinion, except for the effects, if any, of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Walhalla, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

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 January 19, 2018 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

January 19, 2018

GOVERNMENT - WIDE FINANCIAL STATEMENTS

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2017

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Other Cash Deposits	\$ 5,616,944	\$ 102,473	\$ 5,719,417
Restricted Cash and Other Cash Deposits	239,485	-	239,485
Investments	1,462,839	-	1,462,839
Accounts Receivable	115,759	559,717	675,476
Taxes Receivable	11,036	-	11,036
Interfund Balances	(4,528,334)	4,528,334	-
Inventories	-	94,410	94,410
CAPITAL ASSETS:			
Non Depreciable	554,144	1,310,673	1,864,817
Depreciable	8,413,914	10,791,719	19,205,633
Less Accumulated Depreciation	(4,177,950)	(6,278,238)	(10,456,188)
TOTAL ASSETS	7,707,837	11,109,088	18,816,925
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	580,338	203,454	783,792
TOTAL DEFERRED OUTFLOWS OF RESOURCES	580,338	203,454	783,792
LIABILITIES			
Accounts Payable	49,546	11,601	61,147
Accrued Salaries	33,285	15,051	48,336
Employee Benefits Withheld and Accrued	35,206	20,706	55,912
Accrued Interest Payable	3,090	-	3,090
NON-CURRENT LIABILITIES:			
DUE WITHIN ONE YEAR:			
Compensated Absences	3,992	2,125	6,117
Capital Leases Payable	67,108	19,510	86,618
DUE IN MORE THAN ONE YEAR:			
Compensated Absences	35,929	19,125	55,054
Capital Leases Payable	84,992	39,017	124,009
Refundable Connection Fees	-	76,536	76,536
Net Pension Obligation	3,545,696	1,095,035	4,640,731
TOTAL LIABILITIES	3,858,844	1,298,706	5,157,550
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	39,437	-	39,437
Deferred Pension Credits	55,565	8,303	63,868
TOTAL DEFERRED INFLOWS OF RESOURCES	95,002	8,303	103,305
NET POSITION			
Net Investment in Capital Assets	4,634,918	5,824,154	10,459,072
RESTRICTED FOR:			
Judicial Services	76,601	-	76,601
Tourism	117,646	-	117,646
Unrestricted	(494,836)	4,181,379	3,686,543
TOTAL NET POSITION	\$ 4,334,329	\$ 10,005,533	\$ 14,339,862

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

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

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	\$ 70,483	\$ 448,055	\$ -	\$ -	\$ 377,572	\$ -	\$ 377,572
Judicial Services	66,901	89,995	-	-	23,094	-	23,094
Public Safety	1,611,586	63,380	-	48,603	(1,499,603)	-	(1,499,603)
Public Works	885,415	611,987	(438)	24,755	(249,111)	-	(249,111)
Recreation and Tourism	453,182	28,672	-	-	(424,510)	-	(424,510)
Interest on Long-Term Debt	8,584	-	-	-	(8,584)	-	(8,584)
TOTAL GOVERNMENTAL ACTIVITIES	3,096,151	1,242,089	(438)	73,358	(1,781,142)	-	(1,781,142)
BUSINESS-TYPE ACTIVITIES							
Water System	2,042,778	3,227,818	-	191,996	-	1,377,036	1,377,036
Sewer System	685,011	690,888	-	-	-	5,877	5,877
TOTAL BUSINESS-TYPE ACTIVITIES	2,727,789	3,918,706	-	191,996	-	1,382,913	1,382,913
TOTAL PRIMARY GOVERNMENT	\$ 5,823,940	\$ 5,160,795	\$ (438)	\$ 265,354	(1,781,142)	1,382,913	(398,229)
GENERAL REVENUES:							
TAXES:							
Property Taxes, Levied for General Purposes					711,086	-	711,086
State Accommodation Taxes					6,662	-	6,662
Hospitality Taxes					198,780	-	198,780
Payments in Lieu of Taxes and Franchise Fees					199,321	-	199,321
Grants and Contributions not Restricted to Specific Programs					408,253	-	408,253
Interest Income					17,503	41	17,544
Miscellaneous					57,653	(1,865)	55,788
Interfund Transfers					175,000	(175,000)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS AND TRANSFERS					1,774,258	(176,824)	1,597,434
CHANGE IN NET POSITION					(6,884)	1,206,089	1,199,205
NET POSITION - BEGINNING (AS ORIGINALLY REPORTED)					4,398,200	8,799,444	13,197,644
Prior Period Adjustment					(56,987)	-	(56,987)
NET POSITION - BEGINNING (AS ADJUSTED)					4,341,213	8,799,444	13,140,657
NET POSITION - ENDING					\$ 4,334,329	\$ 10,005,533	\$ 14,339,862

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, 2017

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Other Cash Deposits	\$ 5,616,944	\$ -	\$ 5,616,944
Restricted Assets - Cash and Other Cash Deposits	76,601	162,883	239,484
Investments	1,462,839	-	1,462,839
Property Taxes Receivable	11,037	-	11,037
Accounts Receivable	115,759	-	115,759
Interfund Balances	69,909	76,601	146,510
TOTAL ASSETS	<u>\$ 7,353,089</u>	<u>\$ 239,484</u>	<u>\$ 7,592,573</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts Payable	25,421	24,125	49,546
Accrued Salaries	33,285	-	33,285
Employee Benefits Withheld and Accrued	35,206	-	35,206
Interfund Balances	4,674,826	18	4,674,844
TOTAL LIABILITIES	<u>4,768,738</u>	<u>24,143</u>	<u>4,792,881</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	39,437	-	39,437
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>39,437</u>	<u>-</u>	<u>39,437</u>
FUND BALANCES:			
RESTRICTED FOR:			
Judicial Services	-	76,601	76,601
Tourism	-	117,646	117,646
COMMITTED TO:			
Water Plant	1,462,839	-	1,462,839
ASSIGNED TO:			
Cemetery	-	21,094	21,094
UNASSIGNED:	<u>1,082,075</u>	<u>-</u>	<u>1,082,075</u>
TOTAL FUND BALANCES	<u>2,544,914</u>	<u>215,341</u>	<u>2,760,255</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 7,353,089</u>	<u>\$ 239,484</u>	<u>\$ 7,592,573</u>

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, 2017

Fund balances - total governmental funds	\$	2,760,255
--	----	-----------

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 \$8,968,058 and the accumulated depreciation was \$4,177,950.	4,790,108
---	-----------

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.	(3,020,923)
--	-------------

Accrued interest on long-term obligations in governmental accounting is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.	(3,090)
---	---------

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	(152,100)	
Compensated absences	<u>(39,921)</u>	<u>(192,021)</u>

Net position of governmental activities	\$	<u><u>4,334,329</u></u>
---	----	-------------------------

CITY OF WALHALLA, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2017

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property Taxes	\$ 711,086	\$ -	\$ 711,086
Intergovernmental Revenues	477,648	-	477,648
Licenses, Permits and Fees	1,120,116	-	1,120,116
Fines and Forfeitures	77,567	12,429	89,996
Miscellaneous and Other	95,687	-	95,687
Payments in Lieu of Taxes and Franchise Fees	199,321	-	199,321
Hospitality Tax	-	198,780	198,780
Interest Income	17,503	-	17,503
TOTAL REVENUES	2,698,928	211,209	2,910,137
EXPENDITURES			
CURRENT OPERATING:			
General Government	71,787	-	71,787
Judicial Services	66,588	-	66,588
Public Safety	1,424,088	-	1,424,088
Public Works	751,946	-	751,946
Recreation and Tourism	337,012	103,509	440,521
Capital Expenditures	93,512	60,436	153,948
DEBT SERVICE:			
Principal Retirement	115,668	-	115,668
Interest and Fiscal Charges	6,663	-	6,663
TOTAL EXPENDITURES	2,867,264	163,945	3,031,209
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(168,336)	47,264	(121,072)
OTHER FINANCING SOURCES AND (USES)			
Insurance Recovery	288	-	288
Interfund Transfers In	175,000	-	175,000
TOTAL OTHER FINANCING SOURCES AND (USES)	175,288	-	175,288
NET CHANGE IN FUND BALANCES	6,952	47,264	54,216
FUND BALANCES - BEGINNING (AS PREVIOUSLY REPORTED)	2,576,780	186,246	2,763,026
Prior Period Adjustments	(38,818)	(18,169)	(56,987)
FUND BALANCES - BEGINNING (AS ADJUSTED)	2,537,962	168,077	2,706,039
FUND BALANCES - ENDING	\$ 2,544,914	\$ 215,341	\$ 2,760,255

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, 2017

Net change in fund balances - total governmental funds	\$	54,216
--	----	--------

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 depreciation expense of \$203,350 exceeded capital asset additions of \$153,948, in the current period.	(49,402)
---	----------

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.	115,668
--	---------

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.	1,921
---	-------

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.	2,097
---	-------

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	<u>(131,384)</u>
--	------------------

Change in net position of governmental activities	<u>\$</u>	<u>(6,884)</u>
---	-----------	----------------

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2017

	ENTERPRISE		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash	\$ 89,217	\$ 13,256	\$ 102,473
Accounts Receivable	556,913	2,804	559,717
Interfund Balances	3,866,375	1,113,144	4,979,519
Inventory	88,644	5,766	94,410
TOTAL CURRENT ASSETS	4,601,149	1,134,970	5,736,119
NON-CURRENT ASSETS:			
CAPITAL ASSETS:			
Land and Other Non-Depreciable Assets	1,310,673	-	1,310,673
Buildings and Improvements	1,228,727	282,454	1,511,181
Equipment and Vehicles	1,005,926	481,623	1,487,549
Infrastructure	6,369,078	1,423,911	7,792,989
Less Accumulated Depreciation	(4,513,809)	(1,764,429)	(6,278,238)
TOTAL NON-CURRENT ASSETS	5,400,595	423,559	5,824,154
TOTAL ASSETS	10,001,744	1,558,529	11,560,273
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	195,447	8,007	203,454
TOTAL DEFERRED OUTFLOWS OF RESOURCES	195,447	8,007	203,454
LIABILITIES			
CURRENT LIABILITIES:			
Accounts Payable	10,431	1,170	11,601
Accrued Salaries	14,383	668	15,051
Employee Benefits Withheld and Accrued	19,988	718	20,706
Compensated Absences	2,038	87	2,125
Capital Leases Payable	19,510	-	19,510
Interfund Balances	447,535	3,650	451,185
TOTAL CURRENT LIABILITIES	513,885	6,293	520,178
NON-CURRENT LIABILITIES:			
Compensated Absences	18,338	787	19,125
Refundable Connection Fees	76,536	-	76,536
Capital Leases Payable	39,017	-	39,017
Net Pension Obligation	1,051,323	43,712	1,095,035
TOTAL NON-CURRENT LIABILITIES	1,185,214	44,499	1,229,713
TOTAL LIABILITIES	1,699,099	50,792	1,749,891
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	7,972	331	8,303
TOTAL DEFERRED INFLOWS OF RESOURCES	7,972	331	8,303
NET POSITION			
Net Investment in Capital Assets	5,400,595	423,559	5,824,154
Unrestricted	3,089,525	1,091,854	4,181,379
TOTAL NET POSITION	\$ 8,490,120	\$ 1,515,413	\$ 10,005,533

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, 2017

	ENTERPRISE		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
OPERATING REVENUES			
Utility Service	\$ 3,142,568	\$ 690,888	\$ 3,833,456
Taps	85,250	-	85,250
Miscellaneous Income	(544)	(1,321)	(1,865)
TOTAL OPERATING REVENUES	3,227,274	689,567	3,916,841
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	1,018,231	43,969	1,062,200
Contractual Services, Materials, Supplies and Other Expenses	826,281	608,226	1,434,507
Depreciation Expense	194,603	32,816	227,419
TOTAL OPERATING EXPENSES	2,039,115	685,011	2,724,126
OPERATING INCOME (LOSS)	1,188,159	4,556	1,192,715
NON-OPERATING REVENUES AND (EXPENSES)			
Interest Income	41	-	41
Interest Expense	(3,663)	-	(3,663)
Capital Contribution	191,996	-	191,996
TOTAL NON-OPERATING REVENUES AND (EXPENSES)	188,374	-	188,374
INCOME (LOSS) BEFORE TRANSFERS	1,376,533	4,556	1,381,089
Interfund Transfers (Out)	(175,000)	-	(175,000)
CHANGE IN NET POSITION	1,201,533	4,556	1,206,089
NET POSITION, BEGINNING	7,288,587	1,510,857	8,799,444
NET POSITION, ENDING	\$ 8,490,120	\$ 1,515,413	\$ 10,005,533

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, 2017

	ENTERPRISE		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:			
CASH FLOWS FROM OPERATIONS:			
Receipts from Customers	\$ 3,230,690	\$ 696,235	\$ 3,926,925
Payments to Employees and Related Benefits	(1,018,443)	(43,776)	(1,062,219)
Payments to Suppliers	(1,678,061)	(652,459)	(2,330,520)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	534,186	-	534,186
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Interfund Transfers (Out)	(175,000)	-	(175,000)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	(175,000)	-	(175,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Paid on Capital Lease	(19,510)	-	(19,510)
Interest Paid on Interfund Loan	(3,821)	-	(3,821)
Capital Grant	191,996	-	191,996
Acquisition of Capital Assets	(527,892)	-	(527,892)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(359,227)	-	(359,227)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Income from Investments	41	-	41
NET CASH FLOWS FROM INVESTING ACTIVITIES	41	-	41
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33,030	-	33,030
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 33,030	\$ -	\$ 33,030
CLASSIFIED AS:			
Current Assets	\$ 33,030	\$ -	\$ 33,030

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

(continued)

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2017

	ENTERPRISE		TOTAL
	WATER SYSTEM	SEWER SYSTEM	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
OPERATING INCOME (LOSS)	\$ 1,188,159	\$ 4,556	\$ 1,192,715
ADJUSTMENTS NOT AFFECTING CASH:			
Depreciation	194,603	32,816	227,419
CHANGE IN ASSETS AND LIABILITIES:			
Accounts Receivable	3,416	6,668	10,084
Due From Other Funds	(767,455)	2,122	(765,333)
Inventory	20,465	1,335	21,800
Accounts Payable	(136,726)	(49,375)	(186,101)
Customer Deposits	(13,190)	-	(13,190)
Compensated Absences	(3,016)	(72)	(3,088)
Accrued Liabilities	2,804	265	3,069
Net Pension Obligation	141,732	5,889	147,621
CHANGE IN DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:			
Deferred Pension Charges	(92,965)	(4,048)	(97,013)
Deferred Pension Credits	(3,641)	(156)	(3,797)
TOTAL ADJUSTMENTS	(653,973)	(4,556)	(658,529)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 534,186	\$ -	\$ 534,186

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

CITY OF WALHALLA, SOUTH CAROLINA

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

JUNE 30, 2017

	<u>FIREMAN'S 1% AGENCY FUND</u>	<u>POLICE ACTIVITY AGENCY FUND</u>	<u>TOTAL AGENCY FUNDS</u>
ASSETS			
Cash and Other Cash Deposits	<u>\$ 24,075</u>	<u>\$ 5,659</u>	<u>\$ 29,734</u>
TOTAL ASSETS	<u><u>\$ 24,075</u></u>	<u><u>\$ 5,659</u></u>	<u><u>\$ 29,734</u></u>
LIABILITIES			
Amounts Held in Custody for Others	<u>\$ 24,075</u>	<u>\$ 5,659</u>	<u>\$ 29,734</u>
TOTAL LIABILITIES	<u><u>\$ 24,075</u></u>	<u><u>\$ 5,659</u></u>	<u><u>\$ 29,734</u></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, 2017

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

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

Major Operations

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

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

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

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

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

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

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

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

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

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

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

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

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

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

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

Cemetery Fund

Victim's Assistance Fund

Hospitality Tax Fund

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

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

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

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

The City reports the following other fund type:

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

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. The City currently or in the past year has primarily used the following investments in its operating activities:

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

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 non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

H. Accrued Liabilities and Long-Term Obligations

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

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

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

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The 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, 2017

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.

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, 2017

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, 2017

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

S. Adoption of Accounting Principle

The City implemented GASB Statement No. 77 "Tax Abatement Disclosures" ("GASB #77") for the year ended June 30, 2017. The primary objective of GASB #77 was to provide tax abatement information to financial statement users so that they could more readily evaluate a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individual and entities that is beneficial to the government or its citizens. Although many governments offer tax abatements, the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future, is lacking. GASB #77 requires disclosures of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The adoption of GASB #77 had no impact on the City's financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS:

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. The City does not have a formal deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. At June 30, 2017, none of the carrying amount of the City's bank balance of \$6,096,829 were exposed to custodial credit risk.

Investments

As of June 30, 2017, 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	\$ 1,462,839	\$ 1,462,839	-	-	-

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, 2017 were (a) those imposed by the revenue source (i.e. hospitality fees, grants, etc.).

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED):

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

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

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:***Interfund Receivables and Payables***

Interfund balances at June 30, 2017, consisted of the following individual fund receivables and payables (all of which are expected to be repaid within one year):

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Primary Government:		
By Major Fund:		
General	\$ 69,909	\$ 4,674,826
Sewer System	1,113,144	3,650
Water System	3,866,375	447,535
Other Governmental:		
Cemetery Special Revenue Fund	-	18
Victim Assistance Special Revenue Fund	<u>76,601</u>	<u>-</u>
Total Primary Government	<u>\$ 5,126,029</u>	<u>\$ 5,126,029</u>

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

From the water fund to the general fund to provide needed resources.	<u>\$ 175,000</u>
--	--------------------------

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the City's governmental activities for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 524,014	\$ -	\$ -	\$ 524,014
Construction in Progress	147,368	4,630	(121,868)	30,130
Total Capital Assets not being Depreciated	<u>671,382</u>	<u>4,630</u>	<u>(121,868)</u>	<u>554,144</u>
Capital Assets being Depreciated:				
Buildings and Improvements	5,324,039	223,874	-	5,547,913
Equipment and Vehicles	2,863,814	47,312	(72,705)	2,838,421
Infrastructure	27,580	-	-	27,580
Total Capital Assets being Depreciated	<u>8,215,433</u>	<u>271,186</u>	<u>(72,705)</u>	<u>8,413,914</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,926,853)	(102,501)	-	(2,029,354)
Equipment and Vehicles	(2,114,061)	(100,297)	72,705	(2,141,653)
Infrastructure	(6,391)	(552)	-	(6,943)
Total Accumulated Depreciation	<u>(4,047,305)</u>	<u>(203,350)</u>	<u>72,705</u>	<u>(4,177,950)</u>
Total Capital Assets being Depreciated, Net	<u>4,168,128</u>	<u>67,836</u>	<u>-</u>	<u>4,235,964</u>
Governmental Activities Capital Assets, Net	<u>\$4,839,510</u>	<u>\$ 72,466</u>	<u>\$ (121,868)</u>	<u>\$ 4,790,108</u>

Depreciation expense was charged to governmental functions as follows:

<u>Function/Program</u>	<u>Expense</u>
General Government	\$ 4,593
Public Safety	53,237
Public Works	133,406
Recreation and Tourism	12,114
Total Depreciation Expense	<u>\$ 203,350</u>

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 4 – CAPITAL ASSETS (CONTINUED):

Capital asset activity for the City's business-type activities for the year ended June 30, 2017, 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	895,928	254,519	-	1,150,447
Total Capital Assets not being Depreciated	<u>1,056,154</u>	<u>254,519</u>	<u>-</u>	<u>1,310,673</u>
Capital Assets being Depreciated:				
Buildings and Improvements	1,511,181	-	-	1,511,181
Equipment and Vehicles	1,418,755	78,877	(10,083)	1,487,549
Infrastructure	7,598,493	194,496	-	7,792,989
Total Capital Assets being Depreciated	<u>10,528,429</u>	<u>273,373</u>	<u>(10,083)</u>	<u>10,791,719</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(923,862)	(33,262)	-	(957,124)
Equipment and Vehicles	(980,981)	(87,285)	10,083	(1,058,183)
Infrastructure	(4,156,059)	(106,872)	-	(4,262,931)
Total Accumulated Depreciation	<u>(6,060,902)</u>	<u>(227,419)</u>	<u>10,083</u>	<u>(6,278,238)</u>
Total Capital Assets being Depreciated, Net	<u>4,467,527</u>	<u>45,954</u>	<u>-</u>	<u>4,513,481</u>
Business-Type Activities Capital Assets, Net	<u>\$5,523,681</u>	<u>\$ 300,473</u>	<u>\$ -</u>	<u>\$ 5,824,154</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	\$ 194,603
Sewer System	32,816
Total Depreciation Expense	<u>\$ 227,419</u>

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 5 – LONG-TERM OBLIGATIONS:

Revenue bonds and other long-term liabilities directly related to and intended to be paid from proprietary funds of the primary government are included in the accounts of such funds. All other long-term indebtedness of the primary government is accounted for in the governmental column of the government-wide Statement of Net Position.

Summarized below are the City's individual bond issues which are outstanding at June 30, 2017:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate	Maximum Annual Debt Service
Governmental Activities:					
Capital Lease Payable	Acquire Garbage Truck	\$ 309,000	\$ 47,048	2.990%	48,454
Capital Lease Payable	Acquire Pumper Truck	143,524	105,052	2.120%	22,279
Business-Type Activities:					
Capital Lease Payable	Acquire Backhoe	97,846	58,527	1.500%	19,809
Total All Activities		<u>\$ 550,370</u>	<u>\$ 210,627</u>		

Presented below is a summary of changes in long-term obligations for the City's governmental activities for the year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Capital Leases Payable:					
Capital Leases Payable	\$ 267,768	\$ -	\$ (115,668)	\$ 152,100	\$ 67,108
Total Capital Leases Payable	<u>267,768</u>	<u>-</u>	<u>(115,668)</u>	<u>152,100</u>	<u>67,108</u>
Other Liabilities - Compensated Absences	42,018	-	(2,097)	39,921	3,992
Governmental Activities Long-term Liabilities	<u>\$ 309,786</u>	<u>\$ -</u>	<u>\$ (117,765)</u>	<u>\$ 192,021</u>	<u>\$ 71,100</u>

Presented below is a summary of changes in long-term obligations for the City's business-type activities for the year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Business - Type Activities:					
Capital Leases Payable	\$ 78,037	\$ -	\$ (19,510)	\$ 58,527	\$ 19,510
Total Capital Leases Payable	<u>78,037</u>	<u>-</u>	<u>(19,510)</u>	<u>58,527</u>	<u>19,510</u>
Other Liabilities:					
Compensated Absences	24,337	-	(3,088)	21,249	2,125
Refundable Connection Fees	89,726	-	(13,190)	76,536	-
Total Other Liabilities	<u>114,063</u>	<u>-</u>	<u>(16,278)</u>	<u>97,785</u>	<u>2,125</u>
Business-Type Activities Long-term Liabilities	<u>\$ 192,100</u>	<u>\$ -</u>	<u>\$ (35,788)</u>	<u>\$ 156,312</u>	<u>\$ 21,635</u>

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED):

Presented below is a summary of debt service requirements to maturity by year for the City's governmental and business-type activities as of June 30, 2017:

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government
	Principal	Interest	Total	Principal	Interest	Total	
2018	\$ 67,108	\$ 3,625	\$ 70,733	\$ 19,510	\$ -	\$ 19,510	\$ 90,243
2019	20,485	1,793	22,278	19,509	-	19,509	41,787
2020	20,920	1,359	22,279	19,508	-	19,508	41,787
2021	21,363	915	22,278	-	-	-	22,278
2022	22,224	463	22,687	-	-	-	22,687
Total	\$ 152,100	\$ 8,155	\$ 160,255	\$ 58,527	\$ -	\$ 58,527	\$ 218,782

NOTE 6 – PENSION PLAN:

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

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

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

NOTE 6 – PENSION PLAN (CONTINUED):

Membership

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

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

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 SCRS and PORS is presented below.

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

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

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 6 – PENSION PLAN (CONTINUED):

Plan Benefits (continued):

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

Plan Contributions

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

As noted above, both employees and the City are required to contribute to the Plans at rates established and as amended by the PEBA. The City's contributions are actuarially determined, but are communicated to and paid by the City as a percentage of the employees' annual eligible compensation as follows for the past two years:

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

	Fiscal Year 2017	Fiscal Year 2016
SCRS		
Employee Class Two	8.66%	8.16
Employee Class Three	8.66%	8.16%
PORS		
Employee Class Two	9.24%	8.74%
Employee Class Three	9.24%	8.74%

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

	Fiscal Year 2017	Fiscal Year 2016
SCRS		
Employer Class Two	11.41%	10.91%
Employer Class Three	11.41%	10.91%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	13.84%	13.34%
Employer Class Three	13.84%	13.34%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 6 – PENSION PLAN (CONTINUED):

Plan Contributions (continued):

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

<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
\$ 254,221	\$ 251,346	\$ 236,666

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future.

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015. As a result of the experience study, the actuary recommended adjustments to the actuarial assumptions, which included salary increase, payroll growth, mortality, retirement, terminations, refunds, disability, inflation, and asset valuation method. The experience study also recommended reducing the long-term investment rate of return assumption, which is a prescribed assumption that is set in state statute by the General Assembly, from 7.50 to 7.25 percent. With the exception of the rate of return, all recommended assumption and method changes were adopted by both the PEBA Board and SFAA, as co-fiduciaries. The General Assembly did not change the assumed annual rate of return during the 2016 legislative session so that assumption currently remains at 7.50 percent. The newly adopted assumptions and methods will be first used to perform the July 1, 2016 actuarial valuation, the results of which will be used in determining the total pension liability as of the June 30, 2017 measurement date.

The June 30, 2016 total pension liability, net pension liability, and sensitivity information were determined by the PEBA's consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2015 actuarial valuations as adopted by the PEBA Board and SFAA which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2016, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following table provides a summary of the actuarial cost method and assumptions used in the July 1, 2015, valuations for SCRS and PORS:

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

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

NOTE 6 – PENSION PLAN (CONTINUED):**Actuarial Assumptions and Methods (continued):**

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

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

Long-term expected rate of return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015 actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2015. The long-term expected rate of returns 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 beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	43.0%		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	8.0%		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	20.0%		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	17.0%		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100.0%		5.10%
Inflations for Actuarial Purposes			2.75%
Total Expected Nominal Return			7.85%

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 6 – PENSION PLAN (CONTINUED):

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

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2016 (to be used for June 30, 2017 reports), 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	\$45,356,214,752	\$23,996,362,354	\$21,359,852,398	52.9%
PORS	\$6,412,510,458	\$3,876,035,732	\$2,536,474,726	60.4%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB No. 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.

At June 30, 2017, the City reported a liability of \$3,545,696 for the governmental activities and \$1,095,035 for the business-type activities on the government wide financial statements for its proportionate share of the net pension liability. The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2015. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company. At June 30, 2016, the City's proportion for SCRS was 0.017120%. The City's proportion for PORS was 0.03879% at June 30, 2016.

For the year ended June 30, 2017, the City recognized pension expense of approximately \$429,000.

At June 30, 2017, the City's governmental activities 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	\$ 37,907	\$ 3,971
Changes of assumptions	-	-
Net difference between projected and actual investment earnings	431,903	124,248
Change in allocated proportion	61,244	23,757
Contributions after the measurement date	183,995	-
Total	\$ 715,049	\$ 151,976

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 6 – PENSION PLAN (CONTINUED):

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

PORS	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 14,600	\$ -
Changes of assumptions	-	-
Net difference between projected and actual investment earnings	154,532	42,964
Change in allocated proportion	-	36,140
Contributions after the measurement date	70,226	-
Total	\$ 239,358	\$ 79,104

The amount of \$183,995 and \$70,226 reported as deferred outflows of resources related to pensions resulting from City governmental activities contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	SCRS	PORS	
Fiscal Year	Amount	Amount	Total
2018	\$ 93,476	\$ 16,849	\$ 110,325
2019	73,661	16,109	89,770
2020	140,478	34,540	175,018
2021	71,463	22,530	93,993
2022	-	-	-
Thereafter	-	-	-
Total	\$ 379,078	\$ 90,028	\$ 469,106

Discount Rate

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

Sensitivity Analysis

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$4,561,766	\$3,656,807	\$2,903,462
PORS	1,289,517	983,924	709,292

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

NOTE 6 – PENSION PLAN (CONTINUED):

South Carolina Pension Plan Fiduciary Net Position

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

Plan Developments

House Bill 3726 was signed by the Governor of the State on April 25, 2017 and is effective immediately. This new law increases the employer SCRS and PORS contribution rates to 13.56% and 16.24%, respectively, beginning July 1, 2017. Employer rates will continue to increase annually by 1% through July 1, 2022, which would result in the SCRS and PORS employer rate totaling 18.56% and 21.24%, respectively, for fiscal year 2023 and thereafter. The legislation (a) would also increase and cap the employee SCRS and PORS contribution rates to 9.00% and 9.75%, respectively, after June 30, 2027, (b) provide for a decrease in employer and employee contribution rates in equal amounts if the ratio between the actuarial value of assets and the actuarial value of liabilities is equal to or greater than 85%, (c) lower the assumed annual rate of return on pension investments from 7.50% to 7.25%, and (d) for some years reduce the funding period of unfunded liabilities from 30 years to 20 years.

NOTE 7 – RISK MANAGEMENT:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Commercial insurance is carried for all these risks. Settled claims resulting from these risks have not exceeded the insurance coverage limits in any of the past three fiscal years.

NOTE 8 – POST EMPLOYMENT HEALTH BENEFITS:

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

Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. This plan is funded on a pay-as-you-go basis. As of June 30, 2017, there were no retirees who were covered under the City's group insurance plan.

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

NOTE 9 – PRIOR PERIOD ADJUSTMENTS:

During 2017, the City identified an adjustment necessary to deferred revenue for business licenses related to prior period. The adjustment resulted in a decrease to net position and fund balance of \$38,818 in the prior period.

In addition, the City determined a reclassification of the Fireman's 1% and Police Activity from special revenue funds to agency funds was necessary. The adjustment resulted in a decrease to net position and fund balance of \$18,169 in the prior period.

CITY OF WALHALLA, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

NOTE 10 – 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, 2017.

NOTE 11 – CAPITAL CONTRIBUTION:

The City received approximately \$192,000 from Oconee County for a utility project.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 19, 2018, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION
OTHER THAN MD&A

CITY OF WALHALLA, SOUTH CAROLINA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property Taxes	\$ 683,700	\$ 683,700	\$ 711,086	\$ 27,386
Intergovernmental Revenues	899,300	899,300	477,648	(421,652)
Licenses, Permits and Fees	1,057,927	1,057,927	1,120,116	62,189
Fines and Forfeitures	58,000	58,000	77,567	19,567
Miscellaneous and Other	46,800	46,800	95,687	48,887
Payments in Lieu of Taxes and Franchise Fees	193,750	193,750	199,321	5,571
Interest Income	-	-	17,503	17,503
TOTAL REVENUES	<u>2,939,477</u>	<u>2,939,477</u>	<u>2,698,928</u>	<u>(240,549)</u>
EXPENDITURES				
CURRENT OPERATING:				
GENERAL GOVERNMENT:				
Administration	97,297	97,297	54,746	42,551
Swimming Pool	16,100	16,100	25,739	(9,639)
Depot Park	8,800	8,800	15,632	(6,832)
Tunnel	11,357	11,357	7,608	3,749
JUDICIAL SERVICES:				
Court	66,443	66,443	66,588	(145)
PUBLIC SAFETY:				
Police	896,242	896,242	901,429	(5,187)
Fire	522,248	522,248	522,659	(411)
PUBLIC WORKS:				
Streets	888,657	888,657	751,946	136,711
RECREATION AND TOURISM:				
Recreation	250,187	250,187	305,074	(54,887)
Capital Expenditures	588,927	588,927	93,512	495,415
DEBT SERVICE:				
Principal Retirement	118,710	118,710	115,668	3,042
Interest and Fiscal Charges	3,610	3,610	6,663	(3,053)
TOTAL EXPENDITURES	<u>3,468,578</u>	<u>3,468,578</u>	<u>2,867,264</u>	<u>601,314</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(529,101)	(529,101)	(168,336)	360,765
OTHER FINANCING SOURCES AND (USES)				
Insurance Recovery	-	-	288	288
Interfund Transfers In	529,101	529,101	175,000	(354,101)
NET CHANGE IN FUND BALANCES	-	-	6,952	6,952
FUND BALANCES, BEGINNING (AS ADJUSTED)	<u>2,537,962</u>	<u>2,537,962</u>	<u>2,537,962</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 2,537,962</u>	<u>\$ 2,537,962</u>	<u>\$ 2,544,914</u>	<u>\$ 6,952</u>

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

CITY OF WALHALLA

REQUIRED SUPPLEMENTAL INFORMATION

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

JUNE 30, 2017

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

	SCRS		
	June 30, 2017	June 30, 2016	June 30, 2015
City's proportion of the net pension liability (asset)	0.017120%	0.016682%	0.016933%
City's proportion share of the net pension liability (asset)	\$ 3,656,807	\$ 3,163,822	\$ 2,915,301
City's covered payroll	\$ 1,591,652	\$ 1,658,201	\$ 1,564,110
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	229.75%	190.80%	186.39%
Plan fiduciary net position as a percentage of the total pension liability	52.91%	57.00%	59.90%

	PORS		
	June 30, 2017	June 30, 2016	June 30, 2015
City's proportion of the net pension liability (asset)	0.038790%	0.03976%	0.04140%
City's proportion share of the net pension liability (asset)	\$ 983,924	\$ 866,611	\$ 792,611
City's covered payroll	\$ 493,160	\$ 494,534	\$ 493,497
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	199.51%	175.24%	160.61%
Plan fiduciary net position as a percentage of the total pension liability	60.44%	64.60%	67.50%

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

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

	PORS		
	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	\$ 70,226	\$ 67,949	\$ 66,178
Contributions in relation to the contractually required contribution	(70,226)	(67,949)	(66,178)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered payroll	\$ 493,160	\$ 494,534	\$ 493,497
Contributions as a percentage of covered payroll	14.24%	13.74%	13.41%

CITY OF WALHALLA, SOUTH CAROLINA
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2017

NOTE 1 – BASIS OF ACCOUNTING AND BUDGETARY PROCESS:

The City uses the modified accrual basis of accounting for its general and special revenue funds which is in accordance with generally accepted accounting principles for these funds. The City follows the following budgetary process:

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

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

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

Budget revisions are authorized by council.

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

The budgetary level of control is at the department level.

SUPPLEMENTAL INFORMATION

CITY OF WALHALLA, SOUTH CAROLINA

COMBINING AND INDIVIDUAL BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2017

	CEMETERY FUND	VICTIM'S ASSISTANCE FUND	HOSPITALITY TAX FUND	TOTAL NONMAJOR SPECIAL REVENUE FUND
ASSETS				
Restricted Cash and Other Cash Deposits	\$ 21,112	\$ -	\$ 141,771	\$ 162,883
Interfund Balance	-	76,601	-	76,601
TOTAL ASSETS	<u>\$ 21,112</u>	<u>\$ 76,601</u>	<u>\$ 141,771</u>	<u>\$ 239,484</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts Payable	-	-	24,125	24,125
Interfund Balance	18	-	-	18
TOTAL LIABILITIES	<u>18</u>	<u>-</u>	<u>24,125</u>	<u>24,143</u>
FUND BALANCES:				
RESTRICTED FOR:				
Judicial Services	-	76,601	-	76,601
Public Safety	-	-	-	-
Recreation and Tourism	-	-	117,646	117,646
ASSIGNED TO:				
Recreation and Tourism	21,094	-	-	21,094
TOTAL FUND BALANCES	<u>21,094</u>	<u>76,601</u>	<u>117,646</u>	<u>215,341</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 21,112</u>	<u>\$ 76,601</u>	<u>\$ 141,771</u>	<u>\$ 239,484</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, 2017

	CEMETERY FUND	VICTIM'S ASSISTANCE FUND	HOSPITALITY TAX FUND	TOTAL NONMAJOR SPECIAL REVENUE FUND
REVENUES				
Intergovernmental Revenues	\$ -	\$ -	\$ -	\$ -
Fines and Forfeitures	-	12,429	-	12,429
Hospitality Tax	-	-	198,780	198,780
TOTAL REVENUES	<u>-</u>	<u>12,429</u>	<u>198,780</u>	<u>211,209</u>
EXPENDITURES				
CURRENT OPERATING:				
Recreation and Tourism	-	-	103,509	103,509
Capital Expenditures	-	-	60,436	60,436
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>163,945</u>	<u>163,945</u>
NET CHANGE IN FUND BALANCES	-	12,429	34,835	47,264
FUND BALANCES, BEGINNING	<u>21,094</u>	<u>64,172</u>	<u>82,811</u>	<u>168,077</u>
FUND BALANCES, ENDING	<u>\$ 21,094</u>	<u>\$ 76,601</u>	<u>\$ 117,646</u>	<u>\$ 215,341</u>

See independent auditor's report.

CITY OF WALHALLA, SOUTH CAROLINA

SCHEDULE OF MUNICIPAL COURT FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED JUNE 30, 2017

Court Fines and Assessments

Court Fines and Assessments Collected	\$ 144,730
Court Fines and Assessments Retained by the Town	(69,525)
Total Court Fines and Assessments Remitted to the State Treasurer	<u>\$ 75,205</u>

Court Surcharges

Court Surcharges Collected	\$ 20,320
Total Court Surcharges Remitted to State Treasurer	<u>\$ 20,320</u>

Victims Fund

Funds Available for Carryforward, Beginning of Year	\$ 64,172
Court Assessments Allocated to Victim Assistance Fund - Current Year	12,429
Victim Assistance Fund Expenditures	-
Funds Available for Carryforward, End of Year	<u>\$ 76,601</u>

See independent auditor's report.

COMPLIANCE SECTION



**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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 19, 2018.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2017 A.1, 2017 A.2).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies (2017 A.3).

Compliance and Other Matters

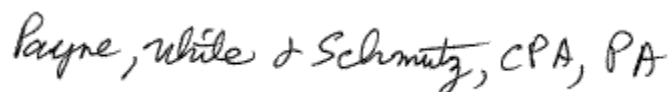
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

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

Purpose of this Report

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

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

Payne, White & Schmutz, CPA, PA

January 19, 2018

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

A. FINDINGS - FINANCIAL STATEMENT AUDIT

2017 A.1 - Preparation of financial statements in accordance with generally accepted accounting principles.

Material Weakness

Condition and criteria: Internal controls over financial reporting should be in place to provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles.

Effect: Management does not prepare financial statements in accordance with prescribed requirements. A material misstatement to the City's financial statements could occur and not be prevented or detected and corrected by the City's internal controls over financial reporting.

Cause: Currently, management responsible for the accounting and reporting function does not prepare the City's financial statements in accordance with generally accepted accounting principles.

Auditor's recommendation: Consideration should be given to requiring management to prepare financial statements in accordance with generally accepted accounting principles.

Auditee's response: The City's management considers the risk tolerable when compared to the cost of implementing a mitigating control.

2017 A.2 – Recording of OPEB liability in accordance with GASB Statement No. 45

Material Weakness

Condition and criteria: The City should have an actuary perform a study that provides the OPEB liability in accordance with GASB Statements No. 45.

Effect: Since the liability to the City has not been determined, a material misstatement to the City's financial statements could occur.

Cause: The OPEB liability and corresponding notes required to be reported by GASB Statement No.45 is not possible without an actuarial study.

Auditor's recommendation: The City should have the actuarial study performed to allow the financial statements to report the OPEB liability and provide adequate note disclosures.

Auditee's response: City Council and Management does not believe the cost of the actuarial study required the record the liability is cost effective.

CITY OF WALHALLA, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

2017 A.3 - Segregation of duties over accounting duties.

Significant deficiency

Condition and Criteria: Internal controls over disbursements and collections should be in place to ensure that adequate documentation is being maintained for each disbursement made and to provide proper segregation of duties over the authorization, purchasing, check signing functions, collections, deposits, and bank reconciliations.

Effect: Because there is no proper segregation of duties related to disbursements and collections, there could be instances of misappropriations of assets.

Cause: The City Finance Director has the power to record transactions as well as maintain custody of the assets. This involves recording transactions in the general ledger, reconciling bank statements, approving wire transfers and various other activities. This represents a significant deficiency in an Entity's internal control.

Auditors Recommendation: Controls over cash disbursements and collections would be improved if the individual responsible for recording transactions and writing checks did not have authority over the bank reconciliation process.

Auditee's Response: The City has a limited staff. However, they will attempt to segregate accounting duties when possible.