

**CITY OF PICKENS,
SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

CITY OF PICKENS, SOUTH CAROLINA

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CITY OF PICKENS, SOUTH CAROLINA
LISTING OF PRINCIPAL OFFICIALS
YEAR ENDED APRIL 30, 2016

Established

1868

MAYOR

David Owens

CITY COUNCIL MEMBERS

Donald McKinney

Carlton Holley

Patrick Lark

Fletcher Perry

Patti Welborn

Lois Porter

CITY ADMINISTRATOR

Bruce Evilsizor

CITY ATTORNEY

Sean J. Hinton



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of City Council
City of Pickens
Pickens, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Pickens, South Carolina (the "City"), as of and for the year ended April 30, 2016, 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note I.B to the financial statements, in 2016 the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68 “*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*” and Governmental Accounting Standards Board Statement No. 71 “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*”. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2016 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.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
August 9, 2016

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2016

The management of the City of Pickens ("City") offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2016 ("FY 2016" or "2016") compared to the fiscal year ended April 30, 2015 ("FY 2015" or "2015"). The intent of this management's discussion and analysis ("MD&A") is to look at the City's financial performance as a whole. Readers are encouraged to not only consider the information presented here, but also the information provided in the financial statements, the notes to the financial statements, the required supplementary information, and the supplementary information to enhance their understanding of the City's overall financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2016 are as follows:

- In the Statement of Net Position, the City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources of the at the close of the most recent year by approximately \$17,186,000. Unrestricted net position was a deficit of approximately \$946,000 primarily due to implementing Governmental Accounting Standard Boards ("GASB") Statement No. 68 "*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*" ("GASB #68") and GASB Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*" ("GASB #71" and collectively "Statements") in 2016. See further discussion below.
- The City's total net position decreased by approximately \$401,000 compared to the prior year restated net position, as revenues of approximately \$6,007,000 were exceeded by expenses of approximately \$6,408,000.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of approximately \$1,711,000, a decrease of approximately \$472,000.
- At the end of the current year, unassigned fund balance for the General Fund was approximately \$1,221,000, 45% of total General Fund expenditures for the FY 2016.
- The City's capital assets increased by approximately \$1,089,000 (4%). The increase in capital assets was primarily due to capital asset additions of approximately \$2,347,000, partially offset by depreciation expense of approximately \$1,217,000 and net disposals of approximately \$41,000.
- The City's total debt decreased by approximately \$1,201,000 (9%) during 2016 due in part to the refunding of the City's Series 2010 and Series 2011 revenue bonds with the Series 2016 refunding revenue bonds, as well as normally scheduled principal payments of approximately \$827,000.
- The City implemented GASB #68 and GASB #71 in 2016. These Statements require the City to recognize a net pension liability, deferred outflows of resources (including pension contributions made after the measurement date) and deferred inflows of resources for its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System ("Plans"), cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e. the Statement of Net Position) and presents more extensive note disclosures.

The adoption of these Statements had no impact on the City's governmental fund financial statements, which continue to report expenditures in the amount of the contractually required contributions, as required by the South Carolina Public Employee Benefit Authority who administers the Plans. However, the adoption has resulted in the restatement of the City's net position as of May 1, 2015 for its government-wide and proprietary fund financial statements to reflect the reporting of net pension liabilities, deferred outflows of resources, and deferred inflows of resources for each of its qualified Plans in accordance with the provisions of these Statements. Net position of the City's government-wide financial statements as of May 1, 2015 was decreased by approximately \$3,081,000, which consisted of approximately \$1,971,000 for its governmental activities and \$1,110,000 for its business-type activities (proprietary fund), to reflect the cumulative change in accounting principle related to the adoption of these Statements. See Note IV.B in the notes to the financial statements for more information regarding the City's retirement plans.

OVERVIEW OF FINANCIAL STATEMENTS

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

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements

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

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

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

The government-wide financial statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include administrative and general, police, fire, municipal court, victims' assistance, recreation and parks, streets and sanitation, and grounds maintenance. The business-type activities are the City's water, sewer, and stormwater operations. The government-wide financial statements can be found as listed in the table of contents.

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

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

The City maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenue, expenditures and changes in fund balances for the General Fund, Hospitality Tax Fund, and Grants Fund since they are major funds. The governmental funds financial statements can be found as listed in the table of contents.

Proprietary Funds – The City maintains one type of proprietary fund. *Enterprise Funds* are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City uses an enterprise fund to account for its water, sewer, and stormwater operations. The proprietary fund financial statements can be found as listed in the table of contents.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

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

Other Information – In addition to the financial statements and accompanying notes, this report includes certain required supplementary information. A budgetary comparison schedule has been provided for the General Fund and the Hospitality Tax Fund to demonstrate compliance with their budgets. Required supplementary information can be found as listed in the table of contents.

The supplementary information is presented immediately following the required supplementary information. These schedules can be found as listed in the table of contents.

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

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the City's net position for April 30, 2016 and 2015:

	Governmental Activities		Business-Type Activities		Total	
	2016 *	2015	2016 *	2015	2016 *	2015
Assets:						
Current and Other Assets	\$ 1,939,376	2,682,365	1,499,074	3,602,873	3,438,450	\$ 6,285,238
Capital Assets, Net	6,384,777	6,497,800	23,526,046	22,324,036	29,910,823	28,821,836
Total Assets	8,324,153	9,180,165	25,025,120	25,926,909	33,349,273	35,107,074
Deferred Outflows of Resources	164,368	-	91,519	-	255,887	-
Liabilities:						
Long-Term Obligations	2,997,828	3,303,199	9,424,036	10,318,819	12,421,864	13,622,018
Net Pension Liability	1,988,391	-	1,210,194	-	3,198,585	-
Other	218,842	467,718	389,482	305,145	608,324	772,863
Total Liabilities	5,205,061	3,770,917	11,023,712	10,623,964	16,228,773	14,394,881
Deferred Inflows of Resources	188,449	44,009	2,164	-	190,613	44,009
Net Position:						
Net Investment in Capital Assets	3,450,029	3,773,954	14,155,171	13,867,121	17,605,200	17,641,075
Restricted	489,965	290,079	36,177	518,949	526,142	809,028
Unrestricted	(844,983)	1,301,206	(100,585)	916,875	(945,568)	2,218,081
Total Net Position	\$ 3,095,011	5,365,239	14,090,763	15,302,945	17,185,774	\$ 20,668,184

* The City implemented GASB #68/71 in FY 2016. See Financial Highlights section for more details.

The City's total assets decreased approximately \$1,758,000 from the prior year. Current and other assets decreased \$2,847,000 primarily due to a decrease in cash and cash equivalents as the City spent its bond proceeds to finish up several large capital projects during 2016. Capital assets increased approximately \$1,089,000 from the prior year primarily due to capital asset additions exceeding depreciation expense. Total liabilities increased approximately \$1,834,000 from the prior year primarily due to the new net pension liabilities related to the City's implementation of GASB #68/71 in 2016 (as discussed earlier in the Financial Highlights section). The increase in deferred outflows of resources and deferred inflows of resources was also due to the City's implementation of GASB #68/71 in 2015 (as discussed earlier in the Financial Highlights section).

The City's net position decreased by approximately \$3,482,000 during the current fiscal year primarily due to the implementation of GASB #68/71 (approximately \$3,081,000) and expenses exceeding revenues in 2016 by approximately \$401,000. Please see the discussion following the next table regarding this decrease.

The City's assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$17,186,000 as of April 30, 2016. Approximately \$17,605,000 of total net position reflects the City's net investment in capital assets (i.e., land, buildings, water and sewer utility system, equipment, vehicles, infrastructure, etc.) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately \$526,000 of net position represents resources that are subject to external restrictions on how they may be used. This net position is restricted primarily for tourism related expenditures (hospitality taxes) and debt service.

The remaining portion of the City's net position is an unrestricted net deficit of approximately \$946,000, which is primarily due to implementing GASB #68/71 in the current year (as discussed earlier in the Financial Highlights section).

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the City's net position for 2016 and 2015:

	Governmental Activities		Business-Type Activities		Totals	
	2016 *	2015	2016 *	2015	2016 *	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 549,672	589,741	3,171,014	3,167,515	3,720,686	\$ 3,757,256
Operating Grants and Contributions	72,000	72,000	-	-	72,000	72,000
Capital Grants and Contributions	-	621,377	-	89,011	-	710,388
General Revenues:						
Taxes	1,233,844	1,131,208	-	-	1,233,844	1,131,208
Other	980,059	1,029,117	-	-	980,059	1,029,117
Total Revenues	2,835,575	3,443,443	3,171,014	3,256,526	6,006,589	6,699,969
Expenses:						
Administrative and General	484,829	409,880	-	-	484,829	409,880
Police	793,985	844,934	-	-	793,985	844,934
Fire	377,070	389,687	-	-	377,070	389,687
Municipal Court	56,012	53,037	-	-	56,012	53,037
Victims' Assistance	15,805	2,285	-	-	15,805	2,285
Recreation and Parks	645,572	466,436	-	-	645,572	466,436
Streets and Sanitation	590,313	520,234	-	-	590,313	520,234
Grounds Maintenance	222,772	169,259	-	-	222,772	169,259
Interest on Long-Term Obligations	92,849	115,453	-	-	92,849	115,453
Water	-	-	2,463,428	2,402,549	2,463,428	2,402,549
Sewer	-	-	645,070	616,670	645,070	616,670
Stormwater	-	-	19,860	100,238	19,860	100,238
Total Expenses	3,279,207	2,971,205	3,128,358	3,119,457	6,407,565	6,090,662
Change in Net Position Before Transfers	(443,632)	472,238	42,656	137,069	(400,976)	609,307
Transfers	145,000	50,131	(145,000)	(50,131)	-	-
Change in Net Position	(298,632)	522,369	(102,344)	86,938	(400,976)	609,307
Net Position - Beginning of Year, as Previously Reported	5,365,239	4,842,870	15,302,945	15,216,007	20,668,184	20,058,877
Implementation of GASB #68/71 *	(1,971,596)	-	(1,109,838)	-	(3,081,434)	-
Net Position - Beginning of Year, Restated	3,393,643	4,842,870	14,193,107	15,216,007	17,586,750	20,058,877
Net Position - End of Year	\$ 3,095,011	5,365,239	14,090,763	15,302,945	17,185,774	\$20,668,184

* The City implemented GASB #68/71 in FY 2016. See Financial Highlights section for more details.

Governmental Activities: Governmental activities had a decrease in net position of approximately \$299,000. Governmental activities revenues decreased by approximately \$608,000 (18%) from the prior year. Key changes in revenue compared to the prior year were primarily due to the following:

- Capital grants and contributions decreased approximately \$621,000, as the City received no grants in 2016 but had several grant-funded projects in 2015, including the Town Creek Park renovations.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

- General tax revenues were higher in the current year by approximately \$103,000 primarily due to higher property tax revenues (millage increase) of approximately \$56,000, and higher hospitality tax revenues of approximately \$40,000.
- Other general revenues were fairly consistent for both years.

Expenses related to total governmental activities increased by approximately \$308,000, or 10%, from the prior year. This increase was primarily due to higher expenses in the Administrative and General and Recreation and Parks functions, and higher depreciation expense.

Business-Type Activities: Net position related to business-type activities (i.e., water, sewer, and stormwater operations) decreased by approximately \$102,000. This decrease was primarily due to expenses of approximately \$3,128,000 and transfers out of \$145,000, exceeding revenues of approximately \$3,171,000. Revenues decreased by approximately \$89,000 primarily due to lower capital grants and contributions. Expenses were relatively flat compared with the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At the end of the current fiscal year, the City's governmental funds reported ending fund balance of approximately \$1,711,000, a decrease of approximately \$472,000, or 22% over the prior year fund balance. This change is primarily attributable to ongoing capital activity related to the completion of the Doodle Trail being financed with unspent bond proceeds received in prior years.

Approximately 71% of the total fund balance of the governmental funds \$1,221,000 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending: (1) for tourism-related expenditures (\$393,000), (2) for victims' assistance (\$30,000), (3) for grants (\$6,000), and (4) for other purposes (\$61,000). Total unassigned fund balance of the governmental funds (General Fund) represents approximately 35% of total governmental funds expenditures.

Highlights for the General Fund were as follows:

- Total General Fund revenues decreased by approximately \$36,000 from the prior year, primarily due to lower franchise fee collections for the City during 2016.
- Total General Fund expenditures decreased by approximately \$151,000 from the prior year, primarily due to a reduction in capital outlay as the City purchased a large leaf truck and several police cars in 2015 but had fewer purchases in 2016.

The major event for the Hospitality Tax Fund was the completion of the Doodle Trail. The Grants Fund did not have significant activity during the year.

Proprietary Fund. The City's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Net position of the Utility Fund at the end of 2016 was approximately \$14,091,000. Please see "Business-Type Activities" discussion in the previous section for details.

General Fund Budgetary Highlights: If budget amendments are made, they generally fall into one of three categories: amendments made to adjust the estimates used to prepare the original budget ordinance once exact information is available; amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and increases in appropriations that become necessary to maintain services. The City made one budget amendment during 2016 which was primarily due to a reduction in franchise fees that the City collected in 2016.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City’s capital assets as of April 30, 2016 amounted to approximately \$29,911,000. The City’s capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, vehicles, infrastructure, and the water and sewer utility system. The City’s capital assets (net of depreciation) as of April 30, 2016 and 2015 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 997,740	997,740	199,331	199,331	1,197,071	\$ 1,197,071
Construction in Progress	-	704,192	-	1,311,833	-	2,016,025
Buildings and Improvements	3,380,285	3,524,455	969,450	999,265	4,349,735	4,523,720
Machinery and Equipment	168,735	191,793	112,093	108,444	280,828	300,237
Vehicles	317,970	372,281	62,005	18,630	379,975	390,911
Infrastructure	1,520,047	707,339	-	-	1,520,047	707,339
Water Utility System	-	-	12,223,932	10,728,589	12,223,932	10,728,589
Sewer Utility System	-	-	9,959,235	8,957,944	9,959,235	8,957,944
Total	\$ 6,384,777	6,497,800	23,526,046	22,324,036	29,910,823	\$ 28,821,836

The total increase in the City’s capital assets for 2016 was approximately \$1,089,000 or 4%. Major capital asset events during 2016 included the following:

- Capital asset additions of approximately \$2,347,000 consisted primarily of:
 - Completion of Doodle Trail Head - \$296,000.
 - Completion of the Water and Wastewater Treatment Plants and SCADA System Upgrades through the Energy Systems Group - \$1,801,000.
 - Upgrades to Sewer Utility System - \$115,000.
 - Purchase of vehicles, equipment, and other capital assets - \$135,000.
- Depreciation expense of approximately \$459,000 for governmental activities and \$758,000 for business-type activities.
- Disposals of old meters of approximately \$41,000.

Additional information on the City’s capital assets can be found in Notes I and III in the notes to the financial statements.

Debt

As of April 30, 2016, the City had total outstanding debt of approximately \$12,306,000. Of this total, approximately \$500,000 was general obligation debt backed by the full faith and credit of the City. The City’s total debt as of April 30, 2016 and 2015 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 500,000	610,000	-	-	500,000	\$ 610,000
Special Obligation Bonds	2,434,748	2,631,458	-	-	2,434,748	2,631,458
Revenue Bonds	-	-	9,370,875	10,265,274	9,370,875	10,265,274
Total	\$ 2,934,748	3,241,458	9,370,875	10,265,274	12,305,623	\$ 13,506,732

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt (Continued)

The total decrease in the City's debt for 2016 was approximately \$1,201,000 or 9%. Major events during 2016 included the following:

Governmental Activities:

- Scheduled principal payments on debt of approximately \$307,000.

Business-Type Activities:

- Issuance of Series 2016 Refunding Revenue Bonds for \$4,630,000.
- Scheduled principal payments on revenue bonds of approximately \$520,000.

The State of South Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The City's statutory debt limit at April 30, 2016 was approximately \$943,000. The City had \$500,000 of bonded debt subject to the 8% limit and thus as of April 30, 2016 had an unused legal debt margin of approximately \$443,000.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials and staff considered many factors when setting the fiscal year 2017 ("2017") budget. The state of the economy, anticipated construction activity, future capital needs, and the best interests of the City's residents were all taken into account.

- **Millage:** The City's 2017 budget has an operating millage rate of 55.1 mills (previously 54.6 mills), a debt service millage rate of 11.9 mills (previously 11.8 mills), and an unfunded state requirement for the State Public Defenders Service of 0.3 mills (new for FY 17), for a total millage of 67.3 mills (previously 66.4 mills).
- **Fund Balance Allocation** – For 2017, the City appropriated \$100,000 from the fund balance which includes \$85,000 to assist in the funding of the new Pickens Amphitheater roof and \$15,000 as a local share of the Department of Transportation Pedestrian Crosswalk at SR 8/Railroad St/East Cedar Rock St. For the Pickens Amphitheater roof, the Hospitality Tax Fund will reimburse the General Fund \$50,000 over a five year period, which will provide a final cost allocation from the General Fund for the roof project of \$35,000.
- **Salaries and Wages:** The 2017 budget provided for no wage increase for all employees. The City will continue to review our revenues, especially in our General Fund, to find ways to provide enough revenue for annual wage increases so the City can provide stable employment opportunities for our valuable employees.
- **Transfers into the General Fund:** The City continues to offset the loss in potential property tax and franchise fee revenues (that would be collected if a private utility provided water and sewer services) by transfers in from the Utility Fund at 5% (similar to a franchise fee). By the City's Ordinance, this \$150,000 transfer is allowed as long as it does not exceed 5% which is the current rate charged as a City Franchise Fee to other utilities such as Duke and AT&T.

REQUESTS FOR CITY INFORMATION

This financial report is designed to provide a general overview of the City of Pickens' finances for all those with an interest in the government's financing. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, Post Office Box 217, Pickens, South Carolina 29671. General information about the City can be obtained from our website at www.cityofpickens.com.

Basic Financial Statements

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF NET POSITION

APRIL 30, 2016

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 2,090,152	500	\$ 2,090,652
Restricted Cash and Cash Equivalents	563,342	177,273	740,615
Receivables, Net			
Property Taxes	53,947	-	53,947
Accounts	134,308	284,464	418,772
Intergovernmental	45,334	-	45,334
Other	17,252	4,003	21,255
Internal Balances	(964,959)	964,959	-
Inventory	-	67,875	67,875
Capital Assets:			
Non-Depreciable	997,740	199,331	1,197,071
Depreciable, Net	5,387,037	23,326,715	28,713,752
TOTAL ASSETS	8,324,153	25,025,120	33,349,273
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	164,368	91,519	255,887
LIABILITIES			
Accounts Payable	102,617	158,024	260,641
Accrued Salaries and Fringe Benefits	57,927	27,190	85,117
Accrued Interest Payable	58,298	7,192	65,490
Customer Deposits	-	197,076	197,076
Non-Current Liabilities:			
Net Pension Liability	1,988,391	1,210,194	3,198,585
Long-Term Obligations - Due Within One Year	331,855	609,055	940,910
Long-Term Obligations - Due in More Than One Year	2,665,973	8,814,981	11,480,954
TOTAL LIABILITIES	5,205,061	11,023,712	16,228,773
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	50,423	-	50,423
Deferred Pension Credits	138,026	2,164	140,190
TOTAL DEFERRED INFLOWS OF RESOURCES	188,449	2,164	190,613
NET POSITION			
Net Investment in Capital Assets	3,450,029	14,155,171	17,605,200
Restricted For:			
Debt Service	-	36,177	36,177
Tourism Related Expenditures (Hospitality Taxes)	393,397	-	393,397
Victims Assistance	29,652	-	29,652
Grants	5,668	-	5,668
Other	61,248	-	61,248
Unrestricted	(844,983)	(100,585)	(945,568)
TOTAL NET POSITION	\$ 3,095,011	14,090,763	\$ 17,185,774

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2016

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGE 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:							
Administrative and General	\$ 484,829	11,389	-	-	(473,440)	-	\$ (473,440)
Police	793,985	87,749	72,000	-	(634,236)	-	(634,236)
Fire	377,070	108,070	-	-	(269,000)	-	(269,000)
Municipal Court	56,012	-	-	-	(56,012)	-	(56,012)
Victims' Assistance	15,805	-	-	-	(15,805)	-	(15,805)
Recreation and Parks	645,572	99,310	-	-	(546,262)	-	(546,262)
Streets and Sanitation	590,313	243,154	-	-	(347,159)	-	(347,159)
Grounds Maintenance	222,772	-	-	-	(222,772)	-	(222,772)
Interest and Other Charges	92,849	-	-	-	(92,849)	-	(92,849)
Total Governmental Activities	3,279,207	549,672	72,000	-	(2,657,535)	-	(2,657,535)
Business-Type Activities:							
Water	2,463,428	2,420,211	-	-	-	(43,217)	(43,217)
Sewer	645,070	640,651	-	-	-	(4,419)	(4,419)
Stormwater	19,860	110,152	-	-	-	90,292	90,292
Total Business-Type Activities	3,128,358	3,171,014	-	-	-	42,656	42,656
TOTAL - PRIMARY GOVERNMENT	\$ 6,407,565	3,720,686	72,000	-	(2,657,535)	42,656	(2,614,879)
General Revenues:							
Taxes:							
Property Taxes					359,111	-	359,111
Hospitality Taxes					405,979	-	405,979
Local Option Sales Tax					452,230	-	452,230
Other Taxes					16,524	-	16,524
Business Licenses and Permits					530,874	-	530,874
Franchise Fees					321,296	-	321,296
Intergovernmental Revenue					67,436	-	67,436
Miscellaneous Revenue					60,446	-	60,446
Investment Earnings					7	-	7
Transfers					145,000	(145,000)	-
Total General Revenues and Transfers					2,358,903	(145,000)	2,213,903
CHANGE IN NET POSITION					(298,632)	(102,344)	(400,976)
NET POSITION, Beginning of Year, as Previously Reported					5,365,239	15,302,945	20,668,184
Cumulative Change in Accounting Principle - GASB #68/71					(1,971,596)	(1,109,838)	(3,081,434)
NET POSITION, Beginning of Year, Restated					3,393,643	14,193,107	17,586,750
NET POSITION, End of Year					\$ 3,095,011	14,090,763	\$ 17,185,774

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF PICKENS, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

APRIL 30, 2016

	GENERAL FUND	HOSPITALITY TAX FUND	GRANTS FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 2,090,152	-	-	\$ 2,090,152
Restricted Cash and Cash Equivalents	42,256	521,086	-	563,342
Receivables, Net				
Property Taxes	53,947	-	-	53,947
Intergovernmental	45,334	-	-	45,334
Accounts	97,516	36,792	-	134,308
Other	17,252	-	-	17,252
Due from Other Funds	-	-	5,668	5,668
TOTAL ASSETS	\$ 2,346,457	557,878	5,668	\$ 2,910,003
LIABILITIES				
Accounts Payable	\$ 102,617	-	-	\$ 102,617
Accrued Salaries and Fringe Benefits	57,927	-	-	57,927
Due to Other Funds	854,790	115,837	-	970,627
TOTAL LIABILITIES	1,015,334	115,837	-	1,131,171
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	17,056	-	-	17,056
Deferred Revenue - Business Licenses	50,423	-	-	50,423
TOTAL DEFERRED INFLOWS OF RESOURCES	67,479	-	-	67,479
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,082,813	115,837	-	1,198,650
FUND BALANCES				
Restricted for:				
Tourism Related Expenditures (Hospitality Taxes)	-	393,397	-	393,397
Victims Assistance	29,652	-	-	29,652
Grants	-	-	5,668	5,668
Other	12,604	48,644	-	61,248
Unassigned	1,221,388	-	-	1,221,388
TOTAL FUND BALANCES	1,263,644	442,041	5,668	1,711,353
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,346,457	557,878	5,668	\$ 2,910,003

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF PICKENS, SOUTH CAROLINA

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

APRIL 30, 2016

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 1,711,353**

Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:

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 \$11,306,425 and the accumulated depreciation was \$4,921,648. 6,384,777

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore have been deferred in the governmental funds. 17,056

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. (1,962,049)

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. (58,298)

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:

Long-Term Obligations (Debt)	(2,934,748)	
Compensated Absences (General Leave)	(63,080)	(2,997,828)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 3,095,011**

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF PICKENS, SOUTH CAROLINA

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

YEAR ENDED APRIL 30, 2016

	GENERAL FUND	HOSPITALITY TAX FUND	GRANTS FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 376,384	405,979	-	\$ 782,363
Fees, Charges, and Rentals	483,588	1,000	-	484,588
Fines and Forfeitures	87,749	-	-	87,749
Licenses, Permits, and Franchise Fees	852,170	-	-	852,170
Intergovernmental Revenues	535,571	-	-	535,571
External Service Reimbursements	72,000	20,529	-	92,529
Interest Earnings	-	7	-	7
TOTAL REVENUES	2,407,462	427,515	-	2,834,977
EXPENDITURES				
Current:				
Administrative and General	344,709	85,953	-	430,662
Police	744,655	-	-	744,655
Fire	339,348	-	-	339,348
Municipal Court	55,301	-	-	55,301
Victims' Assistance	15,805	-	-	15,805
Recreation and Parks	256,427	45,401	-	301,828
Streets and Sanitation	428,453	1,408	-	429,861
Grounds Maintenance	209,727	-	-	209,727
Capital Outlay	224,317	329,439	600	554,356
Debt Service:				
Principal	110,000	196,710	-	306,710
Interest	13,146	67,724	-	80,870
TOTAL EXPENDITURES	2,741,888	726,635	600	3,469,123
EXCESS OF REVENUES OVER EXPENDITURES	(334,426)	(299,120)	(600)	(634,146)
OTHER FINANCING SOURCES (USES)				
Insurance Proceeds	17,252	-	-	17,252
Transfers In	145,000	-	-	145,000
TOTAL OTHER FINANCING SOURCES (USES)	162,252	-	-	162,252
NET CHANGES IN FUND BALANCES	(172,174)	(299,120)	(600)	(471,894)
FUND BALANCES, Beginning of Year	1,435,818	741,161	6,268	2,183,247
FUND BALANCES, End of Year	\$ 1,263,644	442,041	5,668	\$ 1,711,353

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF PICKENS, SOUTH CAROLINA

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

YEAR ENDED APRIL 30, 2016

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (471,894)**

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

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. They are considered revenues in the Statement of Activities. (16,654)

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. 306,710

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. (11,979)

Changes in the City's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources for the current year related to its participation in the State retirement plans are not reported in the governmental funds but are reported in the Statement of Activities. 9,547

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. (1,339)

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 \$459,168 exceeded capital asset additions of \$346,145 in the current period. (113,023)

TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (298,632)**

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUND

APRIL 30, 2016

	<u>UTILITY FUND</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 500
Restricted Cash and Cash Equivalents	177,273
Receivables, Net of Allowance for Doubtful Accounts	
Utility Services	284,464
Other	4,003
Due From Other Funds	964,959
Inventory	67,875
Total Current Assets	<u>1,499,074</u>
Noncurrent Assets	
Non-Depreciable	199,331
Depreciable Capital Assets, Net	23,326,715
Total Noncurrent Assets	<u>23,526,046</u>
TOTAL ASSETS	<u>25,025,120</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Pension Charges	<u>91,519</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	158,024
Accrued Salaries and Fringe Benefits	27,190
Accrued Interest Payable	7,192
Customer Deposits	197,076
Current Portion - Compensated Absences	8,860
Current Portion - Debt	600,195
Total Current Liabilities	<u>998,537</u>
Noncurrent Liabilities	
Compensated Absences, Less Current Portion	44,301
Debt, Less Current Portion	8,770,680
Net Pension Liability	1,210,194
Total Non-Current Liabilities	<u>10,025,175</u>
TOTAL LIABILITIES	<u>11,023,712</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Pension Credits	<u>2,164</u>
NET POSITION	
Net Investment in Capital Assets	14,155,171
Restricted for Debt Service	36,177
Unrestricted	(100,585)
TOTAL NET POSITION	<u>\$ 14,090,763</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION - PROPRIETARY FUND

YEAR ENDED APRIL 30, 2016

	<u>UTILITY FUND</u>
OPERATING REVENUES	
Charges for Service	
Water Fees	\$ 2,364,720
Sewer Fees	620,841
Wastewater Disposal Fees	19,810
Stormwater Fees	110,152
Tap Fees	43,110
TOTAL OPERATING REVENUES	<u><u>3,158,633</u></u>
OPERATING EXPENSES	
Personnel Services	866,030
Contractual Services	249,376
Materials and Supplies	282,300
Other	475,028
Depreciation	757,483
TOTAL OPERATING EXPENSES	<u><u>2,630,217</u></u>
OPERATING INCOME (LOSS)	<u><u>528,416</u></u>
NONOPERATING REVENUES (EXPENSES)	
Other Revenues	12,381
Interest Expense	(372,453)
Bond Issuance Costs	(84,475)
Loss on Disposal of Capital Assets	(41,213)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>(485,760)</u></u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u><u>42,656</u></u>
Transfers Out	<u><u>(145,000)</u></u>
CHANGE IN NET POSITION	<u><u>(102,344)</u></u>
NET POSITION, Beginning of Year, As Previously Reported	15,302,945
Cumulative Change in Accounting Principle - GASB #68/71	<u><u>(1,109,838)</u></u>
NET POSITION, Beginning of Year, Restated	<u><u>14,193,107</u></u>
NET POSITION, End of Year	<u><u>\$ 14,090,763</u></u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

YEAR ENDED APRIL 30, 2016

	<u>UTILITY FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 3,161,575
Cash Payments for Goods and Services	(923,540)
Cash Payments to Employees	(844,976)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,393,059</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Advances and Transfers (to) from Other Funds	(331,976)
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	<u>(331,976)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(2,000,706)
Proceeds from Revenue Bonds	4,630,000
Principal Paid on Revenue Bonds	(5,524,399)
Interest Payments on Revenue Bonds	(372,453)
Bond Issuance Cost Payments	(84,475)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,352,033)</u>
NET DECREASE IN RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS	(2,290,950)
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,468,723</u>
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 177,773</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 528,416
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	757,483
Other Non-Operating Income	12,381
Change in:	
Receivables	(18,338)
Prepays	18,163
Deferred Pension Charges	(12,023)
Accounts Payable	65,001
Accrued Salaries and Fringe Benefits	10,437
Compensated Absences	(384)
Customer Deposits	8,899
Net Pension Liability	113,334
Deferred Pension Credits	(90,310)
Net Cash Provided by Operating Activities	<u>\$ 1,393,059</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

The City of Pickens (“City”) was incorporated in 1868. 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 for a term of four years. 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.

I. 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. Based on the criteria above, the City does not have any component units.

Major Operations

The City’s major governmental operations include: administrative and general, police, fire, municipal court, victims’ assistance, recreation and parks, streets and sanitation, and ground and maintenance. In addition, the City provides water, sewer, and stormwater operations through its utility fund.

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

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

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

I. 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 fund types and major funds are used by the City.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

I. 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 balance sheet items (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 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.

The *Hospitality Tax Fund, a major special revenue fund* and a budgeted fund, is used to account for and report the financial resources received and disbursed related to the City's 2% fee imposed on prepared food and beverage sales within the City. These funds are restricted and thus can only be spent for tourism related expenditures.

The *Grants Fund, a major special revenue fund* and unbudgeted fund, is generally used to account for funds received from the federal, state, and local governments (including its agencies) that are restricted for a specified purpose. The City from time to time may also transfer in other monies in order to meet grant match requirements or to assist with the payment of other non-reimbursable costs.

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 *Utility Fund, a major fund*, is used to account for the City's water, sewer, and stormwater operations. This is a budgeted fund.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Change in Accounting Principle

The City implemented GASB Statement No. 68 “*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*” (“GASB #68”) and GASB Statement No. 71 “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*” (“GASB #71” and collectively “Statements”) in the year ended April 30, 2016. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. In addition, state and local governments who participate in a cost-sharing multiple employer plan are now required to recognize a liability for its proportionate share of the net pension liability of that plan. It is GASB’s intention that these Statements will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the City’s financial obligations to current and former employees for past services rendered. In particular, these Statements require the City to recognize a net pension liability, deferred outflows of resources, and deferred inflows of resources for its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System (“Plans”), cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

The adoption of these Statements had no impact on the City’s governmental fund financial statements, which continue to report expenditures in the amount of the contractually required contributions, as required by the South Carolina Public Employee Benefit Authority (“PEBA”) who administers the Plans. However, the adoption has resulted in the restatement of the City’s net position as of May 1, 2015 for its government-wide and proprietary fund financial statements to reflect the reporting of net pension liabilities, deferred outflows of resources, and deferred inflows of resources for each of its qualified Plans in accordance with the provisions of these Statements. Net position of the City’s government-wide financial statements as of May 1, 2015 was decreased in total by approximately \$3,081,000, consisting of approximately \$1,971,000 for its governmental activities and approximately \$1,110,000 for its business-type activities (proprietary fund), to reflect the cumulative change in accounting principle related to the adoption of these Statements. See Note IV.B for more information regarding the City’s retirement plans.

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity

1. 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.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

1. Cash, Cash Equivalents, and Investments (Continued)

- (c) (i) 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:

- Certificates of Deposit ("CD") are bond-type investments issued by a bank when a person or company deposits a certain amount of money for a determined amount of time. The maturity can be up to five years, and interest is paid to the holder of the CD at an agreed upon rate. Money removed before maturity is subject to a penalty.
- U.S. securities are generally treasury notes, treasury bonds, treasury bills, and related securities which are debt obligations of the U.S. government (lending money to the federal government for a specified period of time). These debt obligations are backed by the "full faith and credit" of the U.S. government, and thus by its ability to raise tax revenues and print currency, U.S. securities are considered the safest of all investments.

2. 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.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

2. *Receivables and Payables (Continued)*

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.

3. *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).

4. *Capital Assets*

General capital assets are those assets not specifically related to activities reported in the Utility Fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Government-Wide Statement of Net Position, but are not reported in the fund financial statements. Capital assets utilized by the Utility Fund are reported both in the business-type activities column of the Government-Wide Statement of Net Position and in the respective proprietary fund financial statements.

The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) or groupings of similar items with individual costs is less than \$5,000, but when purchased together the total is greater than \$25,000 and an estimated useful life in excess of one year. Renovations/improvements to buildings over \$25,000 and improvements to infrastructure over \$100,000 are also defined as capital assets.

Such assets are recorded at historical cost or estimated historical cost if not purchased or constructed. Donated capital assets are recorded at estimated fair market value (as estimated by the City) at the date of donation.

Interest costs related to Utility Fund construction is capitalized as part of the capitalized value of the asset constructed (if material). Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds.

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

Buildings and Improvements	10 - 50 years
Water and Sewer Utility Systems	10 - 50 years
Machinery and Equipment	3 - 10 years
Vehicles	3 - 10 years
Infrastructure	10 - 30 years

5. *Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused general leave benefits. Unused general leave is accumulated in varying amounts based on years of service to a maximum amount of 81 days (or 648 hours). Unused general leave will be paid for at termination at a rate of 50% only if the employee is terminated for non-disciplinary reasons or if the employee gives and properly works a two-week notice of resignation. The City Administrator may authorize payment without a two-week notice.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

5. *Compensated Absences (Continued)*

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16 “*Accounting for Compensated Absences.*” The entire compensated absence liability and expense is reported on the government-wide financial statements. The portion applicable to the proprietary fund is also recorded in the Utility Fund. The governmental funds will also recognize a liability for compensated absences if they have matured, for example, as a result of employee resignation or retirement prior to fiscal year end (if material).

6. *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 and discounts 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.

7. *Deferred Outflows/Inflows of Resources*

In addition to assets, the Statement of Net Position and the Balance Sheet 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 currently has one type of deferred outflows of resources. The City reports *deferred pension charges* in its Statements of Net Position in connection with its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System. 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 Net Position and the Balance Sheet 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 currently has three types of deferred inflows of resources: (1) The City reports *unavailable revenue – property taxes* only in the governmental funds balance sheet; it is deferred and recognized as an inflow of resources (property tax revenues) in the period the amounts become available. (2) The City reports *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. (3) The City also reports *deferred pension credits* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System. 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 PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

8. *Fund Balance*

In accordance with GAAP, 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 that 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.

The City's Council has formally adopted a minimum fund balance policy that requires the City's General Fund to maintain unassigned fund balance of at least three to four months (24% - 32%) of total General Fund operating expenditures based on historical data to bridge the cash flow needs of the City.

9. *Net Position*

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources 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.

The City's Council has formally adopted for its Utility Fund a minimum unrestricted net position balance goal equal to two months (16%) of its total Utility Fund operating expenses based on historical data to bridge the cash flow needs of its utility operations.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

10. Pensions

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

11. 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.

12. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of these balances as of the balance sheet date. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

13. 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City follows the following procedures in establishing its annual budget:

1. On or before January 15 of each year, all departments/agencies of the government submit requests for appropriation to the City Administrator so that a budget may be prepared. The budget is prepared by fund, function and department, and includes information on the past year, the current year budget and requested appropriations for the next fiscal year.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

2. In February of each year, the proposed budget is presented to the City Council for review. The City adopts the budget ordinance before April 30 of each year. Amounts transferred between departments or within line items of a department do not need approval by City Council. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is the total fund level. Budgeted expenditure appropriations lapse at year-end.
3. Legally adopted budgets are employed as a management control device during the year for the General Fund, Victims Assistance Fund (which is a subfund of the General Fund), and Hospitality Tax Fund. The City also adopts a budget for its Utility Fund (water and sewer activities) and the Stormwater Fund (which is a subfund of the Utility Fund). All annual appropriations lapse at fiscal year-end. Expenditures/expenses may not legally exceed appropriations on the fund level.
4. The budgets for the budgeted funds are legally adopted on a basis consistent with GAAP. The budgets at the end of the year for these funds represent the budgets adopted and amended (revised) by the City Council.
5. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at year lapse and are generally included in the succeeding year's budget.

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. 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. As of April 30, 2016, approximately \$49,000 of the City's bank balances of approximately \$2,961,000 (with a carrying value of approximately \$2,795,000) were exposed to custodial credit risk.

Investments

As of April 30, 2016, the City had the following investments and maturities:

Investment Type	Credit Rating	Fair Value	Investment Maturities in Years			
			< 1 yr	1-3 yrs	3-5yrs	> 5 yrs
US Securities	*	\$ 36,177	\$ 36,177	-	-	-

* U.S. government securities are not considered to have credit risk. Credit ratings for these investments have not been disclosed.

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.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

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 cash, cash equivalents, and investments of the City are legally restricted for specified purposes. The major types of restrictions at April 30, 2016 were those imposed by the revenue or other financing source (i.e. hospitality taxes, seized police funds, etc.) and debt service reserve funds.

Reconciliation to the Financial Statements

A reconciliation of cash, cash equivalents, and investments as shown in the statement of net position for all activities is as follows:

Description	Amount
Carrying Amount of Deposits	\$ 2,795,090
Fair Value of Investments	36,177
Total Deposits and Investments	<u>\$ 2,831,267</u>
Statement of Net Position:	
Cash and Cash Equivalents	\$ 2,090,652
Restricted Cash and Cash Equivalents	740,615
Total Cash, Cash Equivalents, and Investments	<u>\$ 2,831,267</u>

B. Receivables and Unavailable/Unearned Revenues

Property Taxes and Deferred Inflows of Resources

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.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

B. Receivables and Unavailable/Unearned Revenues (Continued)

Property Taxes and Deferred Inflows of Resources (Continued)

Property taxes are assessed and collected by Pickens 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 16 th	3%
February 2 nd	an additional 7%
March 17 th	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.

The City’s fiscal year 2016 real and business personal property taxes (which was for tax year 2015) were levied in October 2015 based on a millage rate of 66.4 mills (64.9 mills in the prior year) and were due beginning on that date. The City’s assessed value of real and personal property was approximately \$11.8 million for tax year 2015. Amounts received by the County but not yet remitted to the City at year end (immaterial amounts) are included in “Property Taxes Receivable” in the balance sheet and statement of net position.

The City has recorded uncollected property taxes at April 30, 2016 of approximately \$54,000. The City recognized outstanding delinquent property taxes as revenue in the current year because the amount was collected within 60 days after year end. The remaining delinquent property tax receivable of approximately \$17,000 has been recorded as unavailable revenue (component of deferred inflows of resources) on the governmental fund financial statements.

The City recognized approximately \$529,000 in business license revenue for fiscal year 2016. The City also received approximately \$50,000 at the end of fiscal year ended April 30, 2016 for business licenses that are due in May 2016 and applicable for fiscal year 2017; this amount is reflected as deferred revenue – business licenses (component of deferred inflows of resources) on the City’s financial statements at April 30, 2016.

Other Receivables

The City has receivables (a) for grant projects where expenditures have been incurred by the City but have not been reimbursed by the grantor by the end of the year, (b) accounts receivable related to sanitation, hospitality, franchise fees, utility services, etc., (c) intergovernmental revenues due from the state for local option sales tax and local government aid, and (d) other miscellaneous receivables.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

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

Fund	Receivables	Payables
<u>Major Governmental Funds:</u>		
General Fund	\$ -	\$ 854,790
Hospitality Fund	-	115,837
Grants Fund	5,668	-
<u>Major Enterprise Fund:</u>		
Utility Fund	964,959	-
Totals	<u>\$ 970,627</u>	<u>\$ 970,627</u>

The interfund receivable and payable are primarily the result of the General Fund handling the cash activities of the Utility Fund, Hospitality Tax Fund, and the Grants Fund. The General Fund (a) finances the salaries and other operating expenses for the Utility Fund, (b) processes vendor payments and payroll transactions for the Utility Fund, Hospitality Tax Fund, and the Grants Fund, and (c) collects customer payments for the Utility Fund. As these cash activities occur, the General Fund records this activity in the interfund account with the actual income or expenditure/expense being recorded in the appropriate fund (i.e. Utility Fund, Hospitality Tax Fund, and Grants Fund). Amounts to be paid between the funds are accounted for in the interfund receivable/payable accounts.

Interfund Transfers

Interfund transfers for the year ended April 30, 2016, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Major Governmental Fund:</u>		
General Fund	\$ 145,000	\$ -
<u>Major Enterprise Fund:</u>		
Utility Fund	-	145,000
Totals	<u>\$ 145,000</u>	<u>\$ 145,000</u>

Funds are transferred to the General Fund from the Utility Fund in lieu of property taxes and franchise fees. Council approves the amounts transferred annually during the budget process.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 997,740	-	-	-	\$ 997,740
Construction In Progress	704,192	295,808	-	(1,000,000)	-
Total Capital Assets, Non-Depreciable	<u>1,701,932</u>	<u>295,808</u>	<u>-</u>	<u>(1,000,000)</u>	<u>997,740</u>
Capital Assets, Depreciable:					
Buildings and Improvements	5,058,138	-	-	-	5,058,138
Machinery and Equipment	662,751	14,430	-	-	677,181
Vehicles	2,011,602	35,907	58,899	-	1,988,610
Infrastructure	1,584,756	-	-	1,000,000	2,584,756
Total Capital Assets, Depreciable	<u>9,317,247</u>	<u>50,337</u>	<u>58,899</u>	<u>1,000,000</u>	<u>10,308,685</u>
Less: Accumulated Depreciation for:					
Buildings and Improvements	1,533,683	144,170	-	-	1,677,853
Machinery and Equipment	470,958	37,488	-	-	508,446
Vehicles	1,639,321	90,218	58,899	-	1,670,640
Infrastructure	877,417	187,292	-	-	1,064,709
Total Accumulated Depreciation	<u>4,521,379</u>	<u>459,168</u>	<u>58,899</u>	<u>-</u>	<u>4,921,648</u>
Total Capital Assets, Depreciable, Net	<u>4,795,868</u>	<u>(408,831)</u>	<u>-</u>	<u>1,000,000</u>	<u>5,387,037</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,497,800</u>	<u>(113,023)</u>	<u>-</u>	<u>-</u>	<u>\$ 6,384,777</u>

Transfers out of Construction in Progress to Infrastructure for the year ended April 30, 2016 are due to the completion of the City’s portion of the Doodle Trail, a 7.5 mile rail to trail conversion project that will eventually link the downtown Pickens area with the City of Easley.

Capital asset additions and depreciation expense for governmental activities were charged to functions/programs as follows:

Functions/Programs	Capital Asset Additions	Depreciation Expense
Administrative and General	\$ -	\$ 14,322
Police	35,907	39,489
Fire	-	42,672
Recreation and Parks	310,238	201,143
Streets and Sanitation	-	149,723
Grounds Maintenance	-	11,819
Total - Governmental Activities	<u>\$ 346,145</u>	<u>\$ 459,168</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Capital Assets (Continued)

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities					
Capital Assets, Non-Depreciable:					
Land	\$ 199,331	-	-	-	\$ 199,331
Construction In Progress	1,311,833	1,800,770	-	(3,112,603)	-
Total Capital Assets, Non-Depreciable	<u>1,511,164</u>	<u>1,800,770</u>	<u>-</u>	<u>(3,112,603)</u>	<u>199,331</u>
Capital Assets, Depreciable:					
Buildings and Improvements	1,262,251	-	-	-	1,262,251
Water Utility System	15,773,682	-	477,780	1,966,414	17,262,316
Sewer Utility System	12,579,157	115,000	-	1,146,189	13,840,346
Machinery and Equipment	754,645	25,485	53,763	-	726,367
Vehicles	288,985	59,451	-	-	348,436
Total Capital Assets, Depreciable	<u>30,658,720</u>	<u>199,936</u>	<u>531,543</u>	<u>3,112,603</u>	<u>33,439,716</u>
Less: Accumulated Depreciation for:					
Buildings and Improvements	262,986	29,815	-	-	292,801
Water Utility System	5,045,093	429,858	436,567	-	5,038,384
Sewer Utility System	3,621,213	259,898	-	-	3,881,111
Machinery and Equipment	646,201	21,836	53,763	-	614,274
Vehicles	270,355	16,076	-	-	286,431
Total Accumulated Depreciation	<u>9,845,848</u>	<u>757,483</u>	<u>490,330</u>	<u>-</u>	<u>10,113,001</u>
Total Capital Assets, Depreciable, Net	<u>20,812,872</u>	<u>(557,547)</u>	<u>41,213</u>	<u>3,112,603</u>	<u>23,326,715</u>
Business-Type Activities Capital Assets, Net	<u>\$ 22,324,036</u>	<u>1,243,223</u>	<u>41,213</u>	<u>-</u>	<u>\$ 23,526,046</u>

Transfers out of Construction in Progress to Water/Sewer Utility System for the year ended April 30, 2016 represent the completion of the City’s Energy Savings Grant projects to upgrade the water and sewer systems.

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

Functions/Programs	Capital Asset Additions	Depreciation Expense
Water	\$ 1,258,094	\$ 497,449
Sewer	742,612	260,034
Total - Business-Type Activities	<u>\$ 2,000,706</u>	<u>\$ 757,483</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Capital Assets (Continued)

Construction Commitments

The City has a construction commitment related to the Pickens Amphitheater Roof as of April 30, 2016. The City has entered into a commitment with a contractor for the construction of the roof for approximately \$155,000.

The City has also entered into an agreement with the Senior Citizens of Pickens, Inc (“SCP”) to pass through an Appalachian Regional Commission grant in the amount of \$165,000 that SCP will use to supplement the Hagood Community Center renovations.

E. Long-Term Obligations

The City issues bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds (“GOB”) are direct obligations and pledge the full faith and credit of the City and are subject to the 8% debt limit requirement if not issued under a bond referendum. Revenue Bonds (“RB”) and Special Obligation Bonds (“SOB”) are obligations of the City that are secured by revenue from a specific source. The full faith, credit, and taxing powers of the City are not pledged for the payment of RB or SOB obligations nor the interest thereon. Details on the City’s outstanding debt issues as of April 30, 2016 are as follows:

	Balance at April 30, 2016
<i>General Obligation Bonds</i>	
\$500,000 general obligation bonds issued in April 2011 (“GOB – 04/11”), due in annual installments of \$25,000 to \$125,000 beginning on April 1, 2012 through April 1, 2017, plus interest at 2.56% due annually. The proceeds from this issue were used to current refund several prior lease purchase obligations and acquire various equipment including a sanitation collection truck, a commercial lawn mower, and certain fire-fighting equipment. The current refundings resulted in immaterial deferred losses and thus no deferred losses were recorded.	\$ 125,000
\$385,000 general obligation bonds issued in July 2014 (“GOB – 07/14”), due in annual installments of \$5,000 to \$125,000 beginning on April 1, 2015 through April 1, 2020, plus interest at 1.89% due annually. The proceeds from this issue were used primarily to (a) acquire certain property located in the City as a gateway to a recreational trail linking the City to the City of Easley; (b) acquire a leaf truck, two police cars, and fire extrication equipment; (c) acquire land and improvements in connection with the City’s public works department; and (d) provide funds to pay issuance costs.	375,000
<i>Special Obligation Bonds</i>	
\$2,000,000 special obligation bond (hospitality fee pledge) issued in May 2012 (“SOB – 05/12”), due in annual installments of approximately \$107,000 to \$160,000 beginning on August 1, 2012 through August 1, 2026, plus interest at 3.16% due annually. The proceeds from this issue were used to currently refund the recreation center facility lease purchase obligation (LP – 08/03), defray the cost associated with other capital projects, and to pay the cost of issuance. The current refunding resulted in an immaterial deferred loss and thus no deferred loss was capitalized	\$ 1,517,543

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

Special Obligation Bonds (Continued)

Balance at
April 30, 2016

\$1,000,000 special obligation bond (hospitality fee pledge) issued in January 2015 (“SOB – 01/15”), due in annual installments of approximately \$72,000 to \$96,000 beginning on August 1, 2015 through August 1, 2026, plus interest at 2.97% due annually. The proceeds from this issue were used to fund the acquisition and construction of certain former railway tracks for use as recreational facilities or as roads or trails providing access to tourist destinations located in the City, pay the costs of issuance, and satisfy the 2015 reserve fund requirement.

\$ 917,205

Revenue Bonds

\$5,000,000 waterworks and sewer system revenue bonds issued in October 2014 (“RB – 10/14”), due in annual principal installments of \$259,125 to \$419,445 beginning April 15, 2016 through April 15, 2030, plus interest at 3.500%, due semiannually. The proceeds from this issue were used to finance the installation of a new water metering system, improvements to the water and wastewater treatment plants, and to pay the costs of issuance.

4,740,875

\$4,630,000 waterworks and sewer system refunding revenue bonds issued in April 2016 (“RB – 04/16”), due in annual installments of approximately \$131,000 to \$397,000 beginning April 15, 2017 through April 15, 2031, plus interest at 2.44% due semiannually. The proceeds from this issue were used to current refund the 2010 and 2011 revenue bonds. The original bonds were used to finance the City’s water and sewer system upgrades. The current refunding resulted in an immaterial deferred loss and thus no deferred loss was recorded.

\$ 4,630,000

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

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Debt:					
GOB – 04/11	\$ 230,000	-	105,000	125,000	\$ 125,000
GOB – 07/14	380,000	-	5,000	375,000	5,000
SOB – 05/12	1,631,458	-	113,915	1,517,543	117,515
SOB – 01/15	1,000,000	-	82,795	917,205	71,724
Total Debt	<u>3,241,458</u>	<u>-</u>	<u>306,710</u>	<u>2,934,748</u>	<u>319,239</u>
Compensated Absences	61,741	58,994	57,655	63,080	12,616
Total Governmental Activities	<u>\$ 3,303,199</u>	<u>58,994</u>	<u>364,365</u>	<u>2,997,828</u>	<u>\$ 331,855</u>

Resources from the General Fund and Hospitality Tax Fund have been used to liquidate all of the governmental activities long-term obligations.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

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

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Debt:					
RB – 09/10	\$ 1,502,521	-	1,502,521	-	\$ -
RB – 11/11	3,762,753	-	3,762,753	-	-
RB – 10/14	5,000,000	-	259,125	4,740,875	268,195
RB – 04/16	-	4,630,000	-	4,630,000	332,000
Total Debt	<u>10,265,274</u>	<u>4,630,000</u>	<u>5,524,399</u>	<u>9,370,875</u>	<u>600,195</u>
Compensated Absences	53,545	50,292	50,676	53,161	8,860
Total Business-Type Activities	<u>\$ 10,318,819</u>	<u>4,680,292</u>	<u>5,575,075</u>	<u>9,424,036</u>	<u>\$ 609,055</u>

Resources from the Utility Fund have been used to liquidate all of the business-type activities long-term obligations.

The order of priority for pledges and security on the capital assets of the City’s water/sewer activities is the revenue bonds. The revenue bond requires the City to maintain user rates sufficient to generate net revenues, as defined by the agreements, ranging from 100% to 120% of the annual principal and interest payments on the revenue bonds and junior bonds (as defined). The revenue bonds contain significant requirements for annual debt service, various restrictive covenants which requires the City to maintain various restricted cash and investment accounts and to meet various other general requirements. The City is in compliance with all of the significant financial covenants at April 30, 2016.

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

Year Ended April 30,	Debt		Total
	Principal	Interest	
Governmental Activities:			
2017	\$ 319,239	85,483	\$ 404,722
2018	315,082	76,345	391,427
2019	326,106	68,052	394,158
2020	332,317	59,480	391,797
2021	213,719	50,714	264,433
2022 - 2026	1,171,776	150,391	1,322,167
2027	256,509	7,923	264,432
Totals	<u>\$ 2,934,748</u>	<u>498,388</u>	<u>\$ 3,433,136</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

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

Year Ended April 30,	Debt		Total
	Principal	Interest	
<u>Business-Type Activities</u>			
2017	\$ 600,195	274,509	\$ 874,704
2018	613,581	261,415	874,996
2019	631,297	243,501	874,798
2020	649,352	225,052	874,404
2021	668,760	206,056	874,816
2022-2026	3,373,113	724,448	4,097,561
2027-2031	2,834,577	234,158	3,068,735
Totals	<u>\$ 9,370,875</u>	<u>2,169,139</u>	<u>\$ 11,540,014</u>

Interest paid on the debt issued by the City is generally exempt from federal income tax. The City sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The City does not have any arbitrage liability at April 30, 2016.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or Town shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or Town voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of April 30, 2016, the City had approximately \$500,000 of bonded debt subject to the 8% limit of approximately \$943,000 resulting in an unused legal debt margin of approximately \$443,000.

2010 and 2011 Revenue Bond Refunding

In April 2016, the City issued the Waterworks and Sewer System Refunding Revenue Bond, Series 2016 for \$4,630,000 (“RB – 04/16”) and used these proceeds to current refund the Series 2010 and Series 2011 revenue bonds (“RB – 09/10” and “RB – 11/11”) and to pay the cost of issuance. The current refunding resulted in an immaterial deferred loss and thus no deferred loss was recorded. The current refunding decreased total future debt service payments by approximately \$541,000 (primarily due to the City using debt service reserve funds and a lower interest rate) and resulted in an economic gain of approximately \$520,000.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The City has joined together with other municipalities in the state to form the South Carolina Municipal Insurance and Risk Financing Fund (“SCMIRF”) and the South Carolina Municipal Insurance Trust (“SCMIT”), which are public entity risk pools currently operating as a common risk management and insurance program for general risk insurance and workers compensation, respectively.

The City pays an annual premium to SCMIRF for its general risk insurance. For the year ended April 30, 2016, the City made premium payments totaling approximately \$117,000. SCMIRF is self-sustaining through member premiums and reinsures through commercial companies. SCMIRF’s net position from its most recently issued audited financial statements at December 31, 2015, totaled approximately \$14,390,000. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

The City pays an annual premium to SCMIT for its workers compensation insurance. For the year ended April 30, 2016, the City made premium payments totaling approximately \$32,000. The Trust uses reinsurance agreements to reduce its exposure to large workers’ compensation losses. SCMIT’s net position from its most recently issued audited financial statements at December 31, 2015, totaled approximately \$54,388,000. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

B. Retirement Plans

The City participates in the State of South Carolina’s retirement plans, which are administered by the South Carolina Public Employee Benefit Authority (“PEBA”), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors (“PEBA Board”), 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 (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (“Systems”) and serves as a co-trustee of the Systems in conducting that review.

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

Plan Description

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

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Membership

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

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

Plan Benefits

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

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's 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.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Benefits (Continued)

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

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

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the Budget and Control Board for approval an increase in the SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for the SCRS and 5 percent for the PORS. An increase in the contribution rates adopted by the PEBA 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 PEBA Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the PEBA 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 three years:

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Contributions (Continued)

	SCRS Rates					
	2014		2015		2016	
	5/1 - 6/30	7/1 - 4/30	5/1 - 6/30	7/1 - 4/30	5/1 - 6/30	7/1 - 4/30
Employer Rate:						
Retirement	10.45%	10.45%	10.45%	10.75%	10.75%	10.91%
Incidental Death Benefit	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	<u>10.60%</u>	<u>10.60%</u>	<u>10.60%</u>	<u>10.90%</u>	<u>10.90%</u>	<u>11.06%</u>
Employee Rate	<u>7.00%</u>	<u>7.50%</u>	<u>7.50%</u>	<u>8.00%</u>	<u>8.00%</u>	<u>8.16%</u>
	PORS Rates					
	2014		2015		2016	
	5/1 - 6/30	7/1 - 4/30	5/1 - 6/30	7/1 - 4/30	5/1 - 6/30	7/1 - 4/30
Employer Rate:						
Retirement	11.90%	12.44%	12.44%	13.01%	13.01%	13.34%
Incidental Death Benefit	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
	<u>12.30%</u>	<u>12.84%</u>	<u>12.84%</u>	<u>13.41%</u>	<u>13.41%</u>	<u>13.74%</u>
Employee Rate	<u>7.00%</u>	<u>7.84%</u>	<u>7.84%</u>	<u>8.41%</u>	<u>8.41%</u>	<u>8.74%</u>

The required contributions and percentages of amounts contributed by the City to the Plans for the past three years were as follows:

Year Ended April 30,	SCRS Contributions		PORS Contributions	
	Required	% Contributed	Required	% Contributed
2016	\$ 135,459	100%	\$ 78,671	100%
2015	111,316	100%	83,972	100%
2014	\$ 109,049	100%	\$ 90,045	100%

Eligible payrolls of the City covered under the Plans for the past three years were as follows:

Year Ended April 30,	SCRS Payroll	PORS Payroll	Total Payroll
2016	\$ 1,228,458	575,743	\$ 1,804,201
2015	1,027,792	632,355	1,660,147
2014	\$ 1,028,761	708,725	\$ 1,737,486

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. 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. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2015 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, 2014 actuarial valuations as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year ended June 30, 2015 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, 2014, valuations for SCRS and PORS:

	SCRS	PORS
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Investment Rate of Return*	7.50%	7.50%
Projected Salary Increases*	3.5% to 12.5% (varies by service)	4.0% to 10.0% (varies by service)
Benefit Adjustments	Lesser of 1% or \$500 annually	Lesser of 1% or \$500 annually

*Includes inflation at 2.75%

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. Assumptions used in the July 1, 2014, valuations for SCRS and PORS are as follows:

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%

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014 actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission (“RSIC”) in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

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

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	31.0%	7.10%	2.20%
Global Tactical Asset Allocation	10.0%	4.90%	0.49%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Pension Liabilities, 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, 2015 measurement date, for the SCRS and PORS are presented in the following table:

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

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 April 30, 2016, the City reported a total net pension liability of approximately \$3,199,000, which consisted of approximately \$2,152,000 and \$1,047,000 for its proportionate share of the net pension liabilities for the SCRS and PORS, respectively. The net pension liabilities were measured as of June 30, 2015, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report of July 1, 2014 that was projected forward to the measurement date. The City’s proportion of the net pension liabilities were based on a projection of the City’s long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At June 30, 2015, the City’s SCRS proportion was 0.011347 percent, which was an increase of 0.000018 from its proportion measured as of June 30, 2014. At June 30, 2015, the City’s PORS proportion was 0.04802 percent, which was a decrease of 0.00825 from its proportion measured as of June 30, 2014.

For the year ended April 30, 2016, the City recognized pension expense of approximately \$157,000 and \$57,000 for the SCRS and PORS, respectively. At April 30, 2016, the City reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS:		
Differences Between Expected and Actual Experience	\$ 38,234	\$ 3,848
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	14,404	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	2,445	-
City's Contributions Subsequent to the Measurement Date	107,660	-
Total SCRS	<u>162,743</u>	<u>3,848</u>
PORS:		
Differences Between Expected and Actual Experience	20,743	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	11,452	-
Changes in Proportion and Differences Between the Employer Contributions and Proportionate Share of Total Plan Employer Contributions	-	136,342
City's Contributions Subsequent to the Measurement Date	60,949	-
Total PORS	<u>93,144</u>	<u>136,342</u>
Total SCRS and PORS	<u>\$ 255,887</u>	<u>\$ 140,190</u>

Approximately \$108,000 and \$61,000 that was reported as deferred outflows of resources related to the City's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liability in the year ended April 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the SCRS and PORS will increase (decrease) pension expense as follows:

Year Ended April 30,	SCRS	PORS	Total
2017	\$ 9,986	(32,662)	\$ (22,676)
2018	9,986	(32,662)	(22,676)
2019	(3,147)	(33,578)	(36,725)
2020	34,410	(5,245)	29,165
Total	<u>\$ 51,235</u>	<u>(104,147)</u>	<u>\$ (52,912)</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Discount Rate (Continued)

The following table presents the sensitivity of the City’s proportionate share of the net pension liability of the Plans to changes in the discount rate, calculated using the discount rate of 7.50 percent, as well as what it would be if it were calculated using a discount rate that is 1.00% point lower (6.50 percent) or 1.00% point higher (8.50 percent) than the current rate:

System	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability of the SCRS	\$ 2,713,074	2,152,013	\$ 1,681,773
City's proportionate share of the net pension liability of the PORS	\$ 1,425,676	1,046,572	\$ 707,674

Plans Fiduciary Net Position

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

Payable to Plans

The City reported a payable of approximately \$30,000 to the PEBA as of April 30, 2016, representing required employer and employee contributions for the month of April 2016 for the SCRS and PORS, combined. These amounts are included in Accrued Salaries and Fringe Benefits on the financial statements and were paid in May 2016.

C. Other Postemployment Benefits

In 2004, GASB issued Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” (“Statement”). This Statement establishes standards for the measurement, recognition and display of Other Postemployment Benefits (“OPEB”) expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The City implemented Statement No. 45 in fiscal year 2010. This implementation had no impact as the City currently does not provide any OPEB benefits (i.e. retiree health benefits, etc.) to its retirees.

D. 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 April 30, 2016.

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board, but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedules
 - General Fund
 - Hospitality Tax Fund

- Pension Plan Schedules
 - Schedule of the City's Proportionate Share of the Net Pension Liability – South Carolina Retirement System
 - Schedule of the City's Contributions – South Carolina Retirement System
 - Schedule of the City's Proportionate Share of the Net Pension Liability – Police Officers Retirement System
 - Schedule of the City's Contributions – Police Officers Retirement System

CITY OF PICKENS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED APRIL 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	REVISED		WITH REVISED BUDGET
REVENUES				
Taxes	\$ 368,500	363,500	376,384	\$ 12,884
Fees, Charges, and Rentals	511,559	511,559	483,588	(27,971)
Fines and Forfeitures	133,900	133,900	87,749	(46,151)
Licenses, Permits, and Franchise Fees	884,200	834,200	852,170	17,970
Intergovernmental Revenues	447,500	447,500	535,571	88,071
External Service Reimbursements	71,000	71,000	72,000	1,000
Grants	2,000	2,000	-	(2,000)
TOTAL REVENUES	2,418,659	2,363,659	2,407,462	43,803
EXPENDITURES				
Current:				
Administrative and General	347,750	347,750	344,709	3,041
Police	802,033	802,033	744,655	57,378
Fire	316,167	316,167	339,348	(23,181)
Municipal Court	60,938	60,938	55,301	5,637
Victims' Assistance	23,900	23,900	15,805	8,095
Recreation and Parks	262,702	262,702	256,427	6,275
Streets and Sanitation	408,247	408,247	428,453	(20,206)
Grounds Maintenance	208,434	208,434	209,727	(1,293)
Capital Outlay	194,000	194,000	224,317	(30,317)
Debt Service				
Principal	110,000	110,000	110,000	-
Interest and Other Charges	13,488	13,488	13,146	342
TOTAL EXPENDITURES	2,747,659	2,747,659	2,741,888	5,771
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(329,000)	(384,000)	(334,426)	49,574
OTHER FINANCING SOURCES (USES)				
Insurance Proceeds	-	-	17,252	17,252
Transfers In	145,000	145,000	145,000	-
TOTAL OTHER FINANCING SOURCES (USES)	145,000	145,000	162,252	17,252
NET CHANGES IN FUND BALANCES	(184,000)	(239,000)	(172,174)	66,826
FUND BALANCES, Beginning of Year	1,435,818	1,435,818	1,435,818	-
FUND BALANCES, End of Year	\$ 1,251,818	1,196,818	1,263,644	\$ 66,826

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

Note: The City's original and revised budget reflected a use of fund balance of \$184,000 and \$239,000, respectively.

CITY OF PICKENS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - HOSPITALITY TAX FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED APRIL 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH REVISED BUDGET
	ORIGINAL	REVISED		
REVENUES				
Hospitality Taxes	\$ 351,000	351,000	405,979	\$ 54,979
Fees, Charges, and Rentals	300	300	1,000	700
External Service Reimbursements	-	-	20,529	20,529
Interest Earnings	-	-	7	7
TOTAL REVENUES	351,300	351,300	427,515	76,215
EXPENDITURES				
Current:				
Administrative and General	34,840	34,840	85,953	(51,113)
Recreation and Parks	47,000	47,000	45,401	1,599
Streets and Sanitation	5,000	5,000	1,408	3,592
Capital Outlay	-	-	329,439	(329,439)
Debt Service				
Principal	196,725	196,725	196,710	15
Interest and Other Charges	67,735	67,735	67,724	11
TOTAL EXPENDITURES	351,300	351,300	726,635	(375,335)
NET CHANGES IN FUND BALANCES	-	-	(299,120)	(299,120)
FUND BALANCES, Beginning of Year	741,161	741,161	741,161	-
FUND BALANCES, End of Year	\$ 741,161	741,161	442,041	\$ (299,120)

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

CITY OF PICKENS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN SCHEDULE

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SOUTH CAROLINA RETIREMENT SYSTEM**

LAST TWO FISCAL YEARS

	Year Ended April 30,	
	2016	2015
City's Proportion of the Net Pension Liability (Asset)	0.011347%	0.011329%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 2,152,013	\$ 1,950,478
City's Covered-Employee Payroll	\$ 1,044,902	\$ 1,028,511
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	205.95%	189.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.99%	59.92%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year. Only two years of data were available; thus, only two years were presented.

CITY OF PICKENS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN SCHEDULE

**SCHEDULE OF THE CITY'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM**

LAST TWO FISCAL YEARS

	Year Ended April 30,	
	2016	2015
Contractually Required Contribution	\$ 135,459	\$ 111,316
Contributions in Relation to the Contractually Required Contribution	135,459	111,316
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 1,228,458	\$ 1,027,792
Contributions as a Percentage of Covered-Employee Payroll	11.03%	10.83%

Notes to Schedule:

Only two years of data were available; thus, only two years were presented.

CITY OF PICKENS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN SCHEDULE

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
POLICE OFFICERS RETIREMENT SYSTEM**

LAST TWO FISCAL YEARS

	Year Ended April 30,	
	2016	2015
City's Proportion of the Net Pension Liability (Asset)	0.04802%	0.05627%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 1,046,572	\$ 1,077,325
City's Covered-Employee Payroll	\$ 619,485	\$ 676,837
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	168.94%	159.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.57%	67.55%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year. Only two years of data were available; thus, only two years were presented.

CITY OF PICKENS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN SCHEDULE

**SCHEDULE OF THE CITY'S CONTRIBUTIONS
POLICE OFFICERS RETIREMENT SYSTEM**

LAST TWO FISCAL YEARS

	Year Ended April 30,	
	2016	2015
Contractually Required Contribution	\$ 78,671	\$ 83,972
Contributions in Relation to the Contractually Required Contribution	78,671	83,972
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 575,743	\$ 632,355
Contributions as a Percentage of Covered-Employee Payroll	13.66%	13.28%

Notes to Schedule:

Only two years of data were available; thus, only two years were presented.

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Supplementary Information

CITY OF PICKENS, SOUTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 REVISED BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2016

	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Taxes:			
Property Taxes	\$ 363,000	375,765	\$ 12,765
Accommodations Taxes	500	619	119
Total Taxes	<u>363,500</u>	<u>376,384</u>	<u>12,884</u>
Fees, Charges, and Rentals:			
Fire Protection Fees	145,705	108,070	(37,635)
Recreation Fees	93,100	99,285	6,185
Sanitation Charges	228,704	243,154	14,450
Rentals	11,300	11,389	89
Miscellaneous	32,750	21,690	(11,060)
Total Fees, Charges, and Rentals	<u>511,559</u>	<u>483,588</u>	<u>(27,971)</u>
Fines and Forfeitures:			
Court Fines	133,900	87,749	(46,151)
Total Fines and Forfeitures	<u>133,900</u>	<u>87,749</u>	<u>(46,151)</u>
Licenses, Permits, and Franchise Fees:			
Business Licenses	520,000	529,309	9,309
Permits	2,200	1,565	(635)
Franchise Fees	312,000	321,296	9,296
Total Licenses, Permits, and Franchise Fees	<u>834,200</u>	<u>852,170</u>	<u>17,970</u>
Intergovernmental Revenues			
Local Option Sales Tax	375,500	452,230	76,730
Aid to Subdivisions	58,000	67,436	9,436
Merchants Inventory Tax	14,000	15,905	1,905
Total Intergovernmental Revenues	<u>447,500</u>	<u>535,571</u>	<u>88,071</u>
External Service Reimbursements:			
School Resource Officers	71,000	72,000	1,000
Total External Service Reimbursements	<u>71,000</u>	<u>72,000</u>	<u>1,000</u>
Grants:			
Grant	2,000	-	(2,000)
Total Grants	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>
TOTAL REVENUES	<u>\$ 2,363,659</u>	<u>2,407,462</u>	<u>\$ 43,803</u>

(Continued)

CITY OF PICKENS, SOUTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 REVISED BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2016

EXPENDITURES	REVISED BUDGET	ACTUAL	VARIANCE
Administrative and General:			
Personnel Services	\$ 165,695	163,063	\$ 2,632
Operating Expenditures	182,055	181,646	409
Capital Outlay	21,000	35,036	(14,036)
Total Administrative and General	<u>368,750</u>	<u>379,745</u>	<u>(10,995)</u>
Police:			
Personnel Services	642,181	588,763	53,418
Operating Expenditures	159,852	155,892	3,960
Capital Outlay	36,000	58,907	(22,907)
Total Police	<u>838,033</u>	<u>803,562</u>	<u>34,471</u>
Fire:			
Personnel Services	228,539	225,795	2,744
Operating Expenditures	87,628	113,553	(25,925)
Total Fire	<u>316,167</u>	<u>339,348</u>	<u>(23,181)</u>
Municipal Court:			
Personnel Services	51,898	47,367	4,531
Operating Expenditures	9,040	7,934	1,106
Total Municipal Court	<u>60,938</u>	<u>55,301</u>	<u>5,637</u>
Victim's Assistance:			
Personnel Services	21,400	15,223	6,177
Operating Expenditures	2,500	582	1,918
Total Victim's Assistance	<u>23,900</u>	<u>15,805</u>	<u>8,095</u>
Recreation and Parks:			
Personnel Services	102,194	99,007	3,187
Operating Expenditures	160,508	157,420	3,088
Capital Outlay	128,000	121,545	6,455
Total Recreation and Parks	<u>390,702</u>	<u>377,972</u>	<u>12,730</u>
Streets and Sanitation:			
Personnel Services	228,375	220,813	7,562
Operating Expenditures	179,872	207,640	(27,768)
Capital Outlay	9,000	8,829	171
Total Streets and Sanitation	<u>\$ 417,247</u>	<u>437,282</u>	<u>\$ (20,035)</u>

(Continued)

CITY OF PICKENS, SOUTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 REVISED BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2016

	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
EXPENDITURES (CONTINUED)			
Grounds Maintenance:			
Personnel Services	\$ 138,744	139,575	\$ (831)
Operating Expenditures	69,690	70,152	(462)
Total Grounds Maintenance	<u>208,434</u>	<u>209,727</u>	<u>(1,293)</u>
Debt Service:			
Principal	110,000	110,000	-
Interest and Other Charges	13,488	13,146	342
Total Debt Service	<u>123,488</u>	<u>123,146</u>	<u>342</u>
 TOTAL EXPENDITURES	 <u>2,747,659</u>	 <u>2,741,888</u>	 <u>5,771</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(384,000)</u>	<u>(334,426)</u>	<u>49,574</u>
OTHER FINANCING SOURCES (USES)			
Insurance Proceeds	-	17,252	17,252
Transfers In	145,000	145,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>145,000</u>	<u>162,252</u>	<u>17,252</u>
NET CHANGES IN FUND BALANCES	<u>(239,000)</u>	<u>(172,174)</u>	<u>66,826</u>
FUND BALANCES, Beginning of Year	<u>1,435,818</u>	<u>1,435,818</u>	<u>-</u>
FUND BALANCES, End of Year	<u>\$ 1,196,818</u>	<u>1,263,644</u>	<u>\$ 66,826</u>

CITY OF PICKENS, SOUTH CAROLINA

PROPRIETARY FUND

SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT - REVISED BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2016

	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING EXPENSES			
Water:			
Personnel Services	\$ 704,850	713,644	\$ (8,794)
Operating Expenses	748,450	729,337	19,113
Capital Outlay - Noncapitalizable	323,620	618,261	(294,641)
Total Water	<u>1,776,920</u>	<u>2,061,242</u>	<u>(284,322)</u>
Sewer:			
Personnel Services	138,923	137,116	1,807
Operating Expenses	136,708	381,642	(244,934)
Capital Outlay - Noncapitalizable	33,000	30,357	2,643
Total Sewer	<u>308,631</u>	<u>549,115</u>	<u>(240,484)</u>
Stormwater:			
Personnel Services	15,000	15,270	(270)
Operating Expenses	97,000	4,590	92,410
Total Stormwater	<u>112,000</u>	<u>19,860</u>	<u>92,140</u>
TOTAL EXPENSES	<u>\$ 2,197,551</u>	<u>2,630,217</u>	<u>\$ (432,666)</u>

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED APRIL 30, 2016

Court Fines

Court Fines Collected	\$	74,846
Court Fines Retained by the City		74,846
Total Court Fines Remitted to the State Treasurer	\$	<u><u>-</u></u>

Court Assessments

Court Assessments Collected	\$	126,189
Court Assessments Retained by the City		8,707
Total Court Assessments Remitted to the State Treasurer	\$	<u><u>117,482</u></u>

Court Surcharges

Court Surcharges Collected and Retained by the City	\$	<u><u>4,196</u></u>
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Victim's Advocate

Court Assessments Allocated to Victim's Advocate	\$	8,707
Court Surcharges Allocated to Victim's Advocate		4,196
Funds Allocated to Victim's Advocate		12,903
Victim's Advocate Expenditures		<u><u>(15,806)</u></u>
Funds Available to Carry Forward		(2,903)
Funds Carry Forward from Prior Year		<u><u>32,555</u></u>
Fund Balance for Victim's Advocate	\$	<u><u>29,652</u></u>



**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

The Honorable Mayor and Members of City Council
City of Pickens
Pickens, South Carolina

We have audited, in accordance with the 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 each major fund of the City of Pickens (the "City"), as of and for the year ended April 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 9, 2016.

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.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

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*.

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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
August 9, 2016