

**CITY OF PICKENS,
SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

CITY OF PICKENS, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED APRIL 30, 2015

	<u>Page Number</u>
Table of Contents	i
Listing of Principal Officials	iii

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT	1
Management's Discussion and Analysis	3

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position	14
Statement of Activities	15

Fund Financial Statements:

Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Statement of Net Position - Proprietary Fund	20
Statement of Revenues, Expense, and Change in Net Position - Proprietary Fund	21
Statement of Cash Flows - Proprietary Fund	22

<i>Notes to the Financial Statements</i>	23
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Required Supplementary Information:

Budgetary Comparison Schedules

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budgets and Actual - General Fund	46
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budgets and Actual - Hospitality Tax Fund	47

Supplementary Information:

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Revised Budget and Actual	50
--	----

Proprietary Fund

Schedule of Operating Expenses by Department - Revised Budget and Actual	53
--	----

Other Schedule

Schedule of Fines, Assessments, and Surcharges	54
--	----

(Continued)

CITY OF PICKENS, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED APRIL 30, 2015

COMPLIANCE SECTION

	<u>Page Number</u>
Schedule of Expenditures of Federal Awards	56
Notes to the Schedule of Expenditures of Federal Awards	57
Independent Auditor's Report - Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59
Independent Auditor's Report - Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by OMB Circular A-133.	61
Schedule of Findings and Questioned Costs	63
Summary of Prior Audit Findings	65

CITY OF PICKENS, SOUTH CAROLINA
LISTING OF PRINCIPAL OFFICIALS
YEAR ENDED APRIL 30, 2015

Established

1868

MAYOR

David Owens

CITY COUNCIL MEMBERS

Donald McKinney

Carlton Holley

Patrick Lark

Fletcher Perry

Isaiah Scipio

Patti Welborn

CITY ADMINISTRATOR

Bruce Evilsizor

CITY ATTORNEY

Ken Acker



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, 2015, 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, 2015, 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.

Pending Implementation of GASB Statements on Pensions

As discussed in Note IV.E to the financial statements, the Governmental Accounting Standards Board issued Statement No. 68, “*Accounting and Financial Reporting for Pensions*” (“GASB #68”). GASB #68, which will be adopted by the City for the fiscal year ended April 30, 2016, will require the City to report a net pension liability (and related deferred items) for its participation in the South Carolina Retirement System and the South Carolina Police Officers’ Retirement System on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (the Statement of Net Position for the government-wide statements and the proprietary fund). It is estimated that the City’s share of the net pension liability associated with the SCRS and SCPORS plans will decrease the City’s beginning net position by approximately \$3,028,000. 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 and the budgetary comparison 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 and the schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were 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 and the schedule of expenditures of federal awards are 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 18, 2015 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 18, 2015

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2015

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, 2015 ("FY 2015" or "2015") compared to the fiscal year ended April 30, 2014 ("FY 2014" or "2014"). 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 2015 are as follows:

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of FY 2015 by approximately \$20,668,000 (*net position*). Of this amount, approximately \$5,365,000 and \$15,303,000 were related to the City's governmental and business-type activities, respectively. In addition, the City's unrestricted net position (which may be used to meet the government's ongoing obligations to citizens and creditors) was approximately \$1,301,000 for its governmental activities and approximately \$917,000 for its business-type activities.
- The City's total revenues of approximately \$6,700,000 exceeded total expenses of approximately \$6,091,000 resulting in an increase of approximately \$609,000.
- At the close of FY 2015, the City's governmental funds reported ending fund balances of approximately \$2,183,000, an increase of approximately \$355,000 from the prior year fund balances. This increase in fund balance is primarily due to the City not spending all of the special obligation bond proceeds they received in 2015. Approximately 57% of the total fund balance, or approximately \$1,248,000, is available for spending at the City's discretion (*unassigned fund balance*). Unassigned fund balance for the General Fund was approximately 43% of total General Fund expenditures for FY 2015.
- The City has assigned \$128,000 of fund balance in the General Fund for expenditures related to the construction of the Doodle Trail Project.
- The City's total net capital assets increased by approximately \$4,027,000 (16%) during 2015 (from the prior year balance), primarily due to governmental activities capital asset additions of approximately \$1,690,000 being partially offset by depreciation expense of approximately \$396,000 and business-type activities capital asset additions of approximately \$3,650,000 being partially offset by depreciation expense of approximately \$638,000 and net disposals of capital assets of approximately \$279,000.
- The City's total debt increased by approximately \$5,850,000 (76%) during 2015 due to the issuance of the 2014 Series General Obligation Bond for \$385,000, the 2014 Series Waterworks and Sewer System Revenue Bonds for \$5,000,000, the 2015 Series Special Obligation Bond for \$1,000,000, partially offset by normally scheduled principal payments of approximately \$535,000.

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*.

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.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2015

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

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.

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.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2015

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

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 (if any) and liabilities and deferred inflows (if any), 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 (if any) that come due during the year or soon, thereafter; no capital assets or long-term obligations included.	All assets and deferred outflows (if any) and liabilities and deferred inflows (if any), 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, 2015

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, 2015 and 2014:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets:						
Current and Other Assets	\$ 2,682,365	2,236,307	3,602,873	1,513,379	6,285,238	\$ 3,749,686
Capital Assets, Net	6,497,800	5,203,356	22,324,036	19,591,949	28,821,836	24,795,305
Total Assets	9,180,165	7,439,663	25,926,909	21,105,328	35,107,074	28,544,991
Liabilities:						
Long-Term Obligations	3,303,199	2,170,035	10,318,819	5,612,512	13,622,018	7,782,547
Other	467,718	390,607	305,145	276,809	772,863	667,416
Total Liabilities	3,770,917	2,560,642	10,623,964	5,889,321	14,394,881	8,449,963
Deferred Inflows of Resources	44,009	36,151	-	-	44,009	36,151
Net Position:						
Net Investment in Capital Assets	3,773,954	3,382,698	13,867,121	14,027,257	17,641,075	17,409,955
Restricted	290,079	233,869	518,949	623,687	809,028	857,556
Unrestricted	1,301,206	1,226,303	916,875	565,063	2,218,081	1,791,366
Total Net Position	\$ 5,365,239	4,842,870	15,302,945	15,216,007	20,668,184	\$ 20,058,877

The City’s total assets of approximately \$35,107,000 increased approximately \$6,562,000 from the prior year. The increase was primarily an increase in capital assets (primarily related to recreational and utility improvements) of approximately \$4,027,000 and cash and cash equivalents of approximately \$2,525,000, as the City has not spent all of its Series 2014 Water and Wastewater Revenue Bonds at April 30, 2015. The City’s total liabilities of approximately \$14,395,000 increased by approximately \$5,945,000 from the prior year primarily due to the issuance of three bonds for \$6,385,000 (primarily related to recreational and utility improvements), partially offset by normally scheduled principal payments of approximately \$535,000.

The City’s net position increased by approximately \$609,000 during the current fiscal year due to current year revenues exceeding current year expenses. Please see the discussion following the next table regarding this increase.

The City’s assets exceeded liabilities and deferred inflows by approximately \$20,668,000 as of April 30, 2015. Approximately 85% of total net position (\$17,641,000) 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 4% of net position (\$809,000) 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 (\$2,218,000 or 11%) is unrestricted and may be used to meet the City’s ongoing obligations to citizens and creditors.

At the end of the current and prior fiscal year, the City is able to report positive balances (in total) in all three categories of net position.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the City’s net position for 2015 and 2014:

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for Services	\$ 589,741	999,781	3,167,515	2,957,482	3,757,256	\$ 3,957,263
Operating Grants and Contributions	72,000	125,142	-	-	72,000	125,142
Capital Grants and Contributions	621,377	469,558	89,011	-	710,388	469,558
General Revenues:					-	
Taxes	1,131,208	926,307	-	-	1,131,208	926,307
Other	1,029,117	986,194	-	200	1,029,117	986,394
Total Revenues	<u>3,443,443</u>	<u>3,506,982</u>	<u>3,256,526</u>	<u>2,957,682</u>	<u>6,699,969</u>	<u>6,464,664</u>
Expenses:						
Administrative and General	409,880	393,922	-	-	409,880	393,922
Police	844,934	834,002	-	-	844,934	834,002
Fire	389,687	596,638	-	-	389,687	596,638
Municipal Court	53,037	53,107	-	-	53,037	53,107
Victims' Assistance	2,285	17,940	-	-	2,285	17,940
Recreation and Parks	466,436	454,341	-	-	466,436	454,341
Streets and Sanitation	520,234	523,970	-	-	520,234	523,970
Grounds Maintenance	169,259	173,690	-	-	169,259	173,690
Interest on Long-Term Obligations	115,453	66,485	-	-	115,453	66,485
Water	-	-	2,402,549	2,154,133	2,402,549	2,154,133
Sewer	-	-	616,670	649,695	616,670	649,695
Stormwater	-	-	100,238	61,203	100,238	61,203
Total Expenses	<u>2,971,205</u>	<u>3,114,095</u>	<u>3,119,457</u>	<u>2,865,031</u>	<u>6,090,662</u>	<u>5,979,126</u>
Change in Net Position Before Transfers	472,238	392,887	137,069	92,651	609,307	485,538
Transfers	50,131	(126,905)	(50,131)	126,905	-	-
Change in Net Position	<u>522,369</u>	<u>265,982</u>	<u>86,938</u>	<u>219,556</u>	<u>609,307</u>	<u>485,538</u>
Net Position - Beginning of Year	<u>4,842,870</u>	<u>4,576,888</u>	<u>15,216,007</u>	<u>14,996,451</u>	<u>20,058,877</u>	<u>19,573,339</u>
Net Position - End of Year	<u>\$ 5,365,239</u>	<u>4,842,870</u>	<u>15,302,945</u>	<u>15,216,007</u>	<u>20,668,184</u>	<u>\$ 20,058,877</u>

Governmental Activities: Governmental activities had an increase in net position of approximately \$522,000. Governmental activities revenues decreased by approximately \$64,000 (2%) from the prior year. Key changes in revenue compared to the prior year were primarily due to the following:

- Charges for services decreased approximately \$410,000, primarily due to a decrease in fire protection fees of approximately \$366,000 related to the discontinued fire protection contracts with Shady Grove and Pickens Rural District.
- Capital grants and contributions increased approximately \$152,000, primarily due to the Town Creek Park federal grant through the Appalachian Regional Commission of approximately \$400,000 and other federal grants.
- General tax revenues were higher in the current year by approximately \$205,000 primarily due to higher local option sales taxes (“LOST”) revenues of approximately \$109,000, higher property tax revenues (millage increase) of approximately \$56,000, and higher hospitality tax revenues of approximately \$42,000.
- Other general revenues were pretty consistent for both years.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Expenses related to total governmental activities decreased by approximately \$143,000, or 5%, from the prior year. This decrease was primarily due to lower salary/benefits expense (primarily due to a reduction in fire department personnel), partially offset by higher depreciation expense.

Business-Type Activities: Net position related to business-type activities (i.e., water, sewer, and stormwater operations) increased by approximately \$87,000. This increase was primarily due to revenues of approximately \$3,257,000, exceeding expenses and transfers out of approximately \$3,120,000 and \$50,000, respectively. Revenues were higher by approximately \$299,000 primarily due to higher operating revenues of approximately \$163,000, which were related to higher water sales during the year. Expenses were higher than in the prior year by approximately \$254,000 primarily due to higher interest expense, bond issuance costs, and loss on disposal of capital assets.

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 \$2,183,000, an increase of approximately \$355,000, or 19% over the prior year fund balance. This change is primarily attributable to unspent special obligation bond proceeds in the Hospitality Tax Fund and revenues exceeding expenditures in the General Fund and Grants Fund.

Approximately 57% of the total fund balance of the governmental funds (\$1,248,000) constitutes unassigned fund balance, which is available for spending at the City's discretion. \$128,000 of the fund balance has been assigned for future Doodle Trail related improvements. The remainder of the fund balance is restricted to indicate that it is not available for new spending: (1) for unspent bond proceeds (\$518,000), (2) for tourism-related expenditures (\$185,000), (3) for victims' assistance (\$32,000), (4) for grants (\$6,000), and (5) for other purposes (\$66,000). Total unassigned fund balance of the governmental funds (General Fund) represents approximately 27% of total governmental funds expenditures.

Highlights for the General Fund were as follows:

- Total General Fund revenues decreased by approximately \$269,000 from the prior year primarily due to lower fire protection fees, as the City lost the Shady Grove and Pickens Rural District contracts for 2015, partially offset by an increase in property tax and local option sales tax revenues.
- Total General Fund expenditures were approximately \$56,000 lower than in the prior year. The decrease was primarily due to a reduction in fire department personnel, partially offset by higher capital outlay in streets and sanitation (\$155,000 leaf truck purchase).

The major events for the Hospitality Tax Fund were the issuance of a \$1,000,000 special obligation bond and the payments for construction on Town Creek Bike Park and the Doodle Trail Project. The major events for the Grants Fund were various grants from local, state, and federal sources to fund various projects (i.e. Rigdon Circle sewer improvements, Town Creek Bike Park, etc.).

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 2015 was approximately \$15,303,000. Please see "Business-Type Activities" discussion in the previous section for details.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2015

FINANCIAL ANALYSIS OF THE CITY’S FUNDS (CONTINUED)

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 two budget amendments during 2015 which were primarily due to higher costs for the Doodle Trail Line and a fire contract increase for rural fire protection.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City’s capital assets as of April 30, 2015 amounted to approximately \$28,822,000. 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, 2015 and 2014 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 997,740	922,740	199,331	199,331	1,197,071	\$ 1,122,071
Construction in Progress	704,192	419,332	1,311,833	362,373	2,016,025	781,705
Buildings and Improvements	3,524,455	2,687,775	999,265	1,029,849	4,523,720	3,717,624
Machinery and Equipment	191,793	204,715	108,444	113,228	300,237	317,943
Vehicles	372,281	255,114	18,630	31,068	390,911	286,182
Infrastructure	707,339	713,680	-	-	707,339	713,680
Water Utility System	-	-	10,728,589	9,200,940	10,728,589	9,200,940
Sewer Utility System	-	-	8,957,944	8,655,160	8,957,944	8,655,160
Total	\$ 6,497,800	5,203,356	22,324,036	19,591,949	28,821,836	\$ 24,795,305

The total increase in the City’s capital assets for 2015 was approximately \$4,027,000 or 16%. Major capital asset events during 2015 included the following:

- Capital asset additions of approximately \$5,340,000 consisted primarily of:
 - Completion of Town Creek Bike Park - \$671,000.
 - Construction in Progress of Doodle Trail Head - \$704,000.
 - Purchase of Doodle Trail Head Land - \$75,000.
 - Completion of the Water Meter Replacement - \$1,735,000.
 - Construction in Progress on the Water and Wastewater Treatment Plants and SCADA System Upgrades through the Energy Systems Group - \$1,312,000.
 - Upgrades to Sewer Utility System - \$191,000.
 - Upgrades to Water Utility System - \$393,000.
 - Purchase of vehicles, equipment, and other capital assets - \$259,000.
- Depreciation expense of approximately \$396,000 for governmental activities and \$638,000 for business-type activities.

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

Debt

As of April 30, 2015, the City had total outstanding debt of approximately \$13,507,000. Of this total, approximately \$610,000 was general obligation debt backed by the full faith and credit of the City. The City’s total debt as of April 30, 2015 and 2014 were as follows:

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt (Continued)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 610,000	325,000	-	-	610,000	\$ 325,000
Note Payable	-	25,000	-	25,000	-	50,000
Special Obligation Bonds	2,631,458	1,741,884	-	-	2,631,458	1,741,884
Revenue Bonds	-	-	10,265,274	5,539,692	10,265,274	5,539,692
Total	\$ 3,241,458	2,091,884	10,265,274	5,564,692	13,506,732	\$ 7,656,576

The total increase in the City’s debt for 2015 was approximately \$5,850,000 or 76%. Major events during 2015 included the following:

Governmental Activities:

- Issuance of Series 2014 General Obligation Bond for \$385,000.
- Issuance of Series 2015 Special Obligation Bond for \$1,000,000.
- Scheduled principal payments on debt of approximately \$235,000.

Business-Type Activities:

- Issuance of Series 2014 Waterworks and Sewer System Revenue Bonds for \$5,000,000.
- Scheduled principal payments on revenue bonds of approximately \$299,000.

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, 2015 was approximately \$886,000. The City had \$610,000 of bonded debt subject to the 8% limit and thus as of April 30, 2015 had an unused legal debt margin of approximately \$276,000.

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 2016 (“2016”) 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 2016 budget has an operating and debt service millage rate of 54.6 mills (previously 53.7 mills) and 11.8 mills (previously 11.2 mills), respectively, for a total millage of 66.4 mills (previously 64.9 mills).
- **Fund Balance Allocation** – For 2016, the City appropriated \$184,000 from the fund balance which included the \$128,000 balance of the Doodle Trail assignment in fiscal year 2015 (previously assigned \$200,000 for the Doodle Trail). The remaining fund balance appropriation provided revenue primarily for the City’s contribution to the startup of the Pickens Innovation Center and the purchase of a police cruiser.
- **Salaries and Wages:** The 2016 budget provided for a 3% wage increase for all employees to help remain competitive in the area workforce and to help create workforce stability (there was no across the board increase the previous fiscal year).
- **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 \$145,000 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.

CITY OF PICKENS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED APRIL 30, 2015

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.

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Basic Financial Statements

CITY OF PICKENS, SOUTH CAROLINA

STATEMENT OF NET POSITION

APRIL 30, 2015

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 2,220,398	500	\$ 2,220,898
Restricted Cash and Cash Equivalents	951,363	2,468,223	3,419,586
Receivables, Net			
Property Taxes	35,060	-	35,060
Accounts	147,464	269,436	416,900
Intergovernmental	84,709	-	84,709
Other	21,354	693	22,047
Internal Balances	(777,983)	777,983	-
Prepays	-	18,163	18,163
Inventory	-	67,875	67,875
Capital Assets:			
Non-Depreciable	1,701,932	1,511,164	3,213,096
Depreciable, Net	4,795,868	20,812,872	25,608,740
TOTAL ASSETS	9,180,165	25,926,909	35,107,074
LIABILITIES			
Accounts Payable	390,438	93,023	483,461
Accrued Salaries and Fringe Benefits	30,961	16,753	47,714
Accrued Interest Payable	46,319	7,192	53,511
Customer Deposits	-	188,177	188,177
Non-Current Liabilities:			
Due Within One Year	319,058	554,928	873,986
Due in More Than One Year	2,984,141	9,763,891	12,748,032
TOTAL LIABILITIES	3,770,917	10,623,964	14,394,881
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	44,009	-	44,009
TOTAL DEFERRED INFLOWS OF RESOURCES	44,009	-	44,009
NET POSITION			
Net Investment in Capital Assets	3,773,954	13,867,121	17,641,075
Restricted For:			
Debt Service	-	518,949	518,949
Tourism Related Expenditures (Hospitality Taxes)	185,587	-	185,587
Victims Assistance	32,555	-	32,555
Grants	6,268	-	6,268
Other	65,669	-	65,669
Unrestricted	1,301,206	916,875	2,218,081
TOTAL NET POSITION	\$ 5,365,239	15,302,945	\$ 20,668,184

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, 2015

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	\$ 409,880	2,750	-	-	(407,130)	-	\$ (407,130)
Police	844,934	91,154	72,000	29,508	(652,272)	-	(652,272)
Fire	389,687	192,470	-	2,000	(195,217)	-	(195,217)
Municipal Court	53,037	-	-	-	(53,037)	-	(53,037)
Victims' Assistance	2,285	-	-	-	(2,285)	-	(2,285)
Recreation and Parks	466,436	95,811	-	500,000	129,375	-	129,375
Streets and Sanitation	520,234	207,556	-	89,869	(222,809)	-	(222,809)
Grounds Maintenance	169,259	-	-	-	(169,259)	-	(169,259)
Interest and Other Charges	115,453	-	-	-	(115,453)	-	(115,453)
Total Governmental Activities	2,971,205	589,741	72,000	621,377	(1,688,087)	-	(1,688,087)
Business-Type Activities:							
Water	2,402,549	2,466,871	-	7,790	-	72,112	72,112
Sewer	616,670	588,725	-	81,221	-	53,276	53,276
Stormwater	100,238	111,919	-	-	-	11,681	11,681
Total Business-Type Activities	3,119,457	3,167,515	-	89,011	-	137,069	137,069
TOTAL - PRIMARY GOVERNMENT	\$ 6,090,662	3,757,256	72,000	710,388	(1,688,087)	137,069	(1,551,018)
General Revenues:							
Taxes:							
Property Taxes					302,956	-	302,956
Hospitality Taxes					366,449	-	366,449
Local Option Sales Tax					448,960	-	448,960
Other Taxes					12,843	-	12,843
Business Licenses and Permits					538,259	-	538,259
Franchise Fees					371,702	-	371,702
Intergovernmental Revenue					67,436	-	67,436
Miscellaneous Revenue					51,657	-	51,657
Investment Earnings					63	-	63
Transfers					50,131	(50,131)	-
Total General Revenues and Transfers					2,210,456	(50,131)	2,160,325
CHANGE IN NET POSITION					522,369	86,938	609,307
NET POSITION, Beginning of Year					4,842,870	15,216,007	20,058,877
NET POSITION, End of Year					5,365,239	15,302,945	\$ 20,668,184

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, 2015

	GENERAL FUND	HOSPITALITY TAX FUND	GRANTS FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 2,220,398	-	-	\$ 2,220,398
Restricted Cash and Cash Equivalents	60,262	891,098	3	951,363
Receivables, Net				
Property Taxes	35,060	-	-	35,060
Intergovernmental	84,709	-	-	84,709
Accounts	115,301	32,163	-	147,464
Other	21,354	-	-	21,354
Due from Other Funds	-	-	6,265	6,265
TOTAL ASSETS	\$ 2,537,084	923,261	6,268	\$ 3,466,613
LIABILITIES				
Accounts Payable	\$ 390,438	-	-	\$ 390,438
Accrued Salaries and Fringe Benefits	30,961	-	-	30,961
Due to Other Funds	602,148	182,100	-	784,248
TOTAL LIABILITIES	1,023,547	182,100	-	1,205,647
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	33,710	-	-	33,710
Deferred Revenue - Business Licenses	44,009	-	-	44,009
TOTAL DEFERRED INFLOWS OF RESOURCES	77,719	-	-	77,719
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,101,266	182,100	-	1,283,366
FUND BALANCES				
Restricted for:				
Capital Projects (Unspent Bond Proceeds)	11,348	506,264	-	517,612
Tourism Related Expenditures (Hospitality Taxes)	-	185,587	-	185,587
Victims Assistance	32,555	-	-	32,555
Grants	-	-	6,268	6,268
Other	16,359	49,310	-	65,669
Assigned for:				
Doodle Trail Related Construction	128,000	-	-	128,000
Unassigned	1,247,556	-	-	1,247,556
TOTAL FUND BALANCES	1,435,818	741,161	6,268	2,183,247
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,537,084	923,261	6,268	\$ 3,466,613

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, 2015

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 2,183,247
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 \$11,019,179 and the accumulated depreciation was \$4,521,379.	6,497,800
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.	33,710
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.	(46,319)
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)	(3,241,458)
Compensated Absences (General Leave)	(61,741)
	<u>(3,303,199)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 5,365,239</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, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED APRIL 30, 2015

	GENERAL FUND	HOSPITALITY TAX FUND	GRANTS FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 292,671	366,449	-	\$ 659,120
Fees, Charges, and Rentals	549,369	875	-	550,244
Fines and Forfeitures	91,154	-	-	91,154
Licenses, Permits, and Franchise Fees	909,961	-	-	909,961
Intergovernmental Revenues	528,657	-	-	528,657
External Service Reimbursements	72,000	-	-	72,000
Grants	-	-	621,377	621,377
Interest Earnings	-	63	-	63
TOTAL REVENUES	2,443,812	367,387	621,377	3,432,576
EXPENDITURES				
Current:				
Administrative and General	369,647	27,333	-	396,980
Police	779,665	-	-	779,665
Fire	321,850	-	-	321,850
Municipal Court	53,037	-	-	53,037
Victims' Assistance	2,285	-	-	2,285
Recreation and Parks	273,560	44,904	-	318,464
Streets and Sanitation	372,677	5,482	-	378,159
Grounds Maintenance	158,830	-	-	158,830
Capital Outlay	410,475	814,268	622,462	1,847,205
Debt Service:				
Principal	125,000	110,426	-	235,426
Interest	13,595	55,043	-	68,638
Bond Issuance Costs	12,500	30,000	-	42,500
TOTAL EXPENDITURES	2,893,121	1,087,456	622,462	4,603,039
EXCESS OF REVENUES OVER EXPENDITURES	(449,309)	(720,069)	(1,085)	(1,170,463)
OTHER FINANCING SOURCES (USES)				
Issuance of General Obligation Bonds	385,000	-	-	385,000
Issuance of Special Obligation Bonds	-	1,000,000	-	1,000,000
Transfers In	140,000	-	-	140,000
TOTAL OTHER FINANCING SOURCES (USES)	525,000	1,000,000	-	1,525,000
NET CHANGES IN FUND BALANCES	75,691	279,931	(1,085)	354,537
FUND BALANCES, Beginning of Year	1,360,127	461,230	7,353	1,828,710
FUND BALANCES, End of Year	\$ 1,435,818	741,161	6,268	\$ 2,183,247

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

YEAR ENDED APRIL 30, 2015

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 354,537
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.	10,867
Repayment of bonds and the note payable principal is recognized in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Position. This amount is the total reduction in outstanding principal in the current year.	235,426
Bond proceeds provide current financial resources to the governmental fund, but issuing debt or entering into notes payable increases long-term liabilities in the Statement of Net Position.	(1,385,000)
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.	(4,315)
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.	16,410
The governmental funds report capital asset additions as expenditures (\$1,690,483). However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense (\$396,039). This is the amount by which capital asset additions exceeded depreciation expense in the current period.	<u>1,294,444</u>
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 522,369</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 NET POSITION - PROPRIETARY FUND

APRIL 30, 2015

	<u>UTILITY FUND</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 500
Restricted Cash and Cash Equivalents	2,468,223
Receivables, Net of Allowance for Doubtful Accounts	
Utility Services	269,436
Other	693
Due From Other Funds	777,983
Prepays	18,163
Inventory	67,875
Total Current Assets	<u>3,602,873</u>
Noncurrent Assets	
Non-Depreciable	1,511,164
Depreciable Capital Assets, Net	20,812,872
Total Noncurrent Assets	<u>22,324,036</u>
TOTAL ASSETS	<u>25,926,909</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	93,023
Accrued Salaries and Fringe Benefits	16,753
Accrued Interest Payable	7,192
Customer Deposits	188,177
Current Portion - Compensated Absences	10,709
Current Portion - Debt	544,219
Total Current Liabilities	<u>860,073</u>
Noncurrent Liabilities	
Compensated Absences, Less Current Portion	42,836
Debt, Less Current Portion	9,721,055
Total Non-Current Liabilities	<u>9,763,891</u>
TOTAL LIABILITIES	<u>10,623,964</u>
NET POSITION	
Net Investment in Capital Assets	13,867,121
Restricted for Debt Service	518,949
Unrestricted	916,875
TOTAL NET POSITION	<u>\$ 15,302,945</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, 2015

	<u>UTILITY FUND</u>
OPERATING REVENUES	
Charges for Service	
Water Fees	\$ 2,350,684
Sewer Fees	575,635
Wastewater Disposal Fees	13,090
Stormwater Fees	111,919
Tap Fees	38,612
TOTAL OPERATING REVENUES	<u>3,089,940</u>
OPERATING EXPENSES	
Personnel Services	783,943
Contractual Services	239,734
Materials and Supplies	259,988
Other	560,700
Depreciation	637,519
TOTAL OPERATING EXPENSES	<u>2,481,884</u>
OPERATING INCOME (LOSS)	<u>608,056</u>
NONOPERATING REVENUES (EXPENSES)	
Grant Revenue	7,790
Other Revenues	77,575
Interest Expense	(298,933)
Bond Issuance Costs	(74,000)
Loss on Disposal of Capital Assets	(264,640)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(552,208)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	55,848
Contributed Capital	171,090
Transfers Out	(140,000)
CHANGE IN NET POSITION	86,938
NET POSITION, Beginning of Year	<u>15,216,007</u>
NET POSITION, End of Year	<u>\$ 15,302,945</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, 2015

	<u>UTILITY FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 3,126,589
Cash Payments for Goods and Services	(1,043,902)
Cash Payments to Employees	(775,258)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,307,429</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Advances and Transfers (to) from Other Funds	(342,368)
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	<u>(342,368)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants	7,790
Capital Contributions	171,090
Acquisition of Capital Assets	(3,649,593)
Proceeds from Sale of Capital Assets	15,347
Proceeds from Revenue Bonds	5,000,000
Principal Paid on Revenue Bonds and Note Payable	(299,418)
Interest Payments on Revenue Bonds	(291,741)
Bond Issuance Cost Payments	(74,000)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>879,475</u>
NET INCREASE IN RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS	1,844,536
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, Beginning of Year	<u>624,187</u>
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 2,468,723</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 608,056
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	637,519
Other Non-Operating Income	77,575
Change in:	
Receivables	(42,590)
Accounts Payable	16,520
Accrued Salaries and Fringe Benefits	2,960
Compensated Absences	5,725
Customer Deposits	1,664
Net Cash Provided by Operating Activities	<u>\$ 1,307,429</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, 2015

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, 2015

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 major funds and fund types are used by the City.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.
- (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.

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)

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.

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.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Capital Assets (Continued)

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.

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. *Deferred Outflows/Inflows of Resources*

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has two types of deferred inflows of resources. One of these items arises only under a modified accrual basis of accounting. Accordingly, the item, *unavailable revenue – property taxes*, is reported only in the governmental funds balance sheet. This item is deferred and recognized as an inflow of resources (revenues) in the period the amounts become available. The other item arises under both the modified and full accrual basis of accounting. Accordingly, the item, *deferred revenue – business licenses*, is reported 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.

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.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Fund Balance (Continued)

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 (if any) and liabilities and deferred inflows of resources (if any) in the Statement of Net Position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

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.

10. 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.

11. Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of balance sheet items and disclosure of contingent amounts at the date of the financial statements. 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.

12. Comparative Data

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

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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.
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, sewer and storm water activities). 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, 2015, approximately \$12,000 of the City's bank balances of approximately \$5,213,000 (with a carrying value of approximately \$5,122,000) were exposed to custodial credit risk.

Investments

As of April 30, 2015, 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	*	\$ 518,949	\$ 518,949	-	-	-

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

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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

A. Deposits and Investments (Continued)

Investments (Continued)

Interest Rate Risk: The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City does not have an investment policy for credit risk but follows the investment policy statutes of the State of South Carolina.

Concentration of Credit Risk for Investments: The City places no limit on the amount the City may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures.

Certain cash, cash equivalents, and investments of the City are legally restricted for specified purposes. The major types of restrictions at April 30, 2015 were those imposed by the revenue or other financing source (i.e. hospitality taxes, unspent bond proceeds, 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	\$ 5,121,535
Fair Value of Investments	518,949
Total Deposits and Investments	<u>\$ 5,640,484</u>
Statement of Net Position:	
Cash and Cash Equivalents	\$ 2,220,898
Restricted Cash and Cash Equivalents	3,419,586
Total Cash, Cash Equivalents, and Investments	<u>\$ 5,640,484</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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

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.

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 2015 real and business personal property taxes (which was for tax year 2014) were levied in October 2014 based on a millage rate of 64.9 mills (60.3 mills in the prior year) and were due beginning on that date. The City's assessed value of real and personal property was approximately \$11.1 million for tax year 2014. 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, 2015 of approximately \$35,000. 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 \$34,000 has been recorded as unavailable revenue (component of deferred inflows of resources) on the governmental fund financial statements.

The City recognized approximately \$536,000 in business license revenue for fiscal year 2015. The City also received approximately \$44,000 at the end of fiscal year ended April 30, 2015 for business licenses that are due in May 2015 and applicable for fiscal year 2016; this amount is reflected as deferred revenue – business licenses (component of deferred inflows of resources) on the City's financial statements at April 30, 2015.

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, 2015

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

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

Interfund balances at April 30, 2015, 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	\$ -	\$ 602,148
Hospitality Fund	-	182,100
Grants Fund	6,265	-
<u>Major Enterprise Fund:</u>		
Utility Fund	777,983	-
Totals	<u>\$ 784,248</u>	<u>\$ 784,248</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, 2015, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Major Governmental Fund:</u>		
General Fund	\$ 140,000	\$ -
<u>Major Enterprise Fund:</u>		
Utility Fund	-	140,000
Totals	<u>\$ 140,000</u>	<u>\$ 140,000</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, 2015

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, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 922,740	75,000	-	-	\$ 997,740
Construction In Progress	419,332	1,375,630	-	(1,090,770)	704,192
Total Capital Assets, Non-Depreciable	<u>1,342,072</u>	<u>1,450,630</u>	<u>-</u>	<u>(1,090,770)</u>	<u>1,701,932</u>
Capital Assets, Depreciable:					
Buildings and Improvements	4,081,035	-	-	977,103	5,058,138
Machinery and Equipment	649,017	25,774	12,040	-	662,751
Vehicles	1,848,583	214,079	51,060	-	2,011,602
Infrastructure	1,471,089	-	-	113,667	1,584,756
Total Capital Assets, Depreciable	<u>8,049,724</u>	<u>239,853</u>	<u>63,100</u>	<u>1,090,770</u>	<u>9,317,247</u>
Less: Accumulated Depreciation for:					
Buildings and Improvements	1,393,260	140,423	-	-	1,533,683
Machinery and Equipment	444,302	38,696	12,040	-	470,958
Vehicles	1,593,469	96,912	51,060	-	1,639,321
Infrastructure	757,409	120,008	-	-	877,417
Total Accumulated Depreciation	<u>4,188,440</u>	<u>396,039</u>	<u>63,100</u>	<u>-</u>	<u>4,521,379</u>
Total Capital Assets, Depreciable, Net	<u>3,861,284</u>	<u>(156,186)</u>	<u>-</u>	<u>1,090,770</u>	<u>4,795,868</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,203,356</u>	<u>1,294,444</u>	<u>-</u>	<u>-</u>	<u>\$ 6,497,800</u>

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	\$ 483,095	\$ 18,436
Police	59,097	32,802
Fire	17,679	57,169
Recreation and Parks	901,743	135,447
Streets and Sanitation	154,982	141,756
Grounds Maintenance	73,887	10,429
Total - Governmental Activities	<u>\$ 1,690,483</u>	<u>\$ 396,039</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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

D. Capital Assets (Continued)

Construction in progress in the City’s Governmental Activities represents costs related to construction on the Doodle Rail-Trail project. This project has been financed from the Special Obligation Bond Series 2015 and supplemented by the General Fund.

Capital asset activity for the City’s business-type activities for the year ended April 30, 2015, 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	362,373	1,401,702	-	(452,242)	1,311,833
Total Capital Assets, Non-Depreciable	<u>561,704</u>	<u>1,401,702</u>	<u>-</u>	<u>(452,242)</u>	<u>1,511,164</u>
Capital Assets, Depreciable:					
Buildings and Improvements	1,262,251	-	-	-	1,262,251
Water Utility System	14,297,334	2,127,917	651,569	-	15,773,682
Sewer Utility System	12,026,013	100,902	-	452,242	12,579,157
Machinery and Equipment	755,963	19,072	20,390	-	754,645
Vehicles	288,985	-	-	-	288,985
Total Capital Assets, Depreciable	<u>28,630,546</u>	<u>2,247,891</u>	<u>671,959</u>	<u>452,242</u>	<u>30,658,720</u>
Less: Accumulated Depreciation for:					
Buildings and Improvements	232,402	30,584	-	-	262,986
Water Utility System	5,096,394	320,281	371,582	-	5,045,093
Sewer Utility System	3,370,853	250,360	-	-	3,621,213
Machinery and Equipment	642,735	23,856	20,390	-	646,201
Vehicles	257,917	12,438	-	-	270,355
Total Accumulated Depreciation	<u>9,600,301</u>	<u>637,519</u>	<u>391,972</u>	<u>-</u>	<u>9,845,848</u>
Total Capital Assets, Depreciable, Net	<u>19,030,245</u>	<u>1,610,372</u>	<u>279,987</u>	<u>452,242</u>	<u>20,812,872</u>
Business-Type Activities Capital Assets, Net	<u>\$ 19,591,949</u>	<u>3,012,074</u>	<u>279,987</u>	<u>-</u>	<u>\$ 22,324,036</u>

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	\$ 2,614,147	\$ 378,936
Sewer	1,035,446	258,583
Total - Business-Type Activities	<u>\$ 3,649,593</u>	<u>\$ 637,519</u>

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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

D. Capital Assets (Continued)

The City's utility fund (business-type activities) received contributed capital (sewer system improvements) of approximately \$171,000 for the year ended April 30, 2015. Some of these sewer system improvements were paid for in the City's Grant Fund (CDBG funds) and were part of the City's Village Renaissance Revitalization Plan (\$90,000) and some were donated by a developer (\$81,000).

Construction in progress in the City's Utility Fund represents costs related to a new water meter system and improvements to the water and wastewater treatment plants. This project is being financed from the Waterworks and Sewer System Revenue Bonds Series 2014. During 2015, the City's Utility Fund (business-type activities) did not capitalize any interest expense as the amounts were deemed immaterial.

Construction Commitments

The City has construction commitments related to several construction projects as of April 30, 2015. The construction projects relate to the construction of the Doodle Rail-Trail project, SCADA System upgrades, and improvements to the water/wastewater treatment plants. Total remaining commitments on these contracts is approximately \$1,983,000 as of April 30, 2015.

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. Note Payables ("NP") and Lease Purchase ("LP") obligations of the City (when applicable) are generally collateralized by the property underlying the obligation and are payable from the general revenues of the City. The full faith, credit, and taxing powers of the City are not pledged for the payment of RB, SOB, NP, and LP obligations nor the interest thereon. Details on the City's outstanding debt issues and lease purchase obligations as of April 30, 2015 are as follows:

<i>General Obligation Bonds</i>	Balance at <u>April 30, 2015</u>
\$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.	\$ 230,000
\$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.	\$ 380,000

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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

E. Long-Term Obligations (Continued)

	Balance at <u>April 30, 2015</u>
<i>Special Obligation Bonds</i>	
<p>\$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.</p>	\$1,631,458
<p>\$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.</p>	1,000,000
<i>Revenue Bonds</i>	
<p>\$2,000,000 waterworks and sewer system refunding revenue bonds issued in September 2010 (“RB – 09/10”), due in monthly principal installments of \$8,308 to \$14,480 beginning October 30, 2010 through September 30, 2025, plus interest at 3.730%, due monthly. The proceeds from this issue were used to current refund the 1979, 1982, 1984, and 1998 revenue bonds and the 1998 State Revolving Fund loan and resulted in immaterial deferred losses (and thus no amounts were recorded). The original bonds were used to finance and construct the water and sewer systems of the City.</p>	1,502,521
<p>\$4,300,000 waterworks and sewer system revenue bonds issued in November 2011 (“RB – 11/11”), due in monthly principal installments of \$11,814 to \$25,637 beginning November 30, 2011 through November 18, 2031, plus interest at 3.890%, due monthly. The proceeds from this issue were used to pay off the waterworks and sewer system revenue bond anticipation note Series 2010 and to finance and construct the water and sewer systems of the City. Issuance costs were not significant and thus have not been recorded related to this issue.</p>	3,762,753
<p>\$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.</p>	\$5,000,000

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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 governmental activities for the year ended April 30, 2015:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Debt:					
GOB – 04/11	\$ 325,000	-	95,000	230,000	\$ 105,000
GOB – 07/14	-	385,000	5,000	380,000	5,000
SOB – 05/12	1,741,884	-	110,426	1,631,458	113,915
SOB – 01/15	-	1,000,000	-	1,000,000	82,795
NP – 09/11	25,000	-	25,000	-	-
Total Debt	<u>2,091,884</u>	<u>1,385,000</u>	<u>235,426</u>	<u>3,241,458</u>	<u>306,710</u>
Compensated Absences	78,151	52,799	69,209	61,741	12,348
Total Governmental Activities	<u>\$ 2,170,035</u>	<u>1,437,799</u>	<u>304,635</u>	<u>3,303,199</u>	<u>\$ 319,058</u>

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

Presented below is a summary of changes in long-term obligations for the City’s business-type activities for the year ended April 30, 2015:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Debt:					
RB – 09/10	\$ 1,618,417	-	115,896	1,502,521	\$ 120,294
RB – 11/11	3,921,275	-	158,522	3,762,753	164,800
RB – 10/14	-	5,000,000	-	5,000,000	259,125
NP – 09/11	25,000	-	25,000	-	-
Total Debt	<u>5,564,692</u>	<u>5,000,000</u>	<u>299,418</u>	<u>10,265,274</u>	<u>544,219</u>
Compensated Absences	47,820	45,790	40,065	53,545	10,709
Total Business-Type Activities	<u>\$ 5,612,512</u>	<u>5,045,790</u>	<u>339,483</u>	<u>10,318,819</u>	<u>\$ 554,928</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, 2015.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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 governmental activities as of April 30, 2015:

Year Ended April 30,	Debt		Total
	Principal	Interest	
Governmental Activities:			
2016	\$ 306,710	80,794	\$ 387,504
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 - 2025	1,136,670	185,496	1,322,166
2026 - 2027	505,334	23,532	528,866
Totals	\$ 3,241,458	579,182	\$ 3,820,640

Presented below is a summary of debt service requirements to maturity by year for the City’s business-type activities as of April 30, 2015:

Year Ended April 30,	Debt		Total
	Principal	Interest	
Business-Type Activities			
2016	\$ 544,219	372,454	\$ 916,673
2017	564,379	352,295	916,674
2018	585,288	331,385	916,673
2019	606,976	309,699	916,675
2020	629,467	287,207	916,674
2021-2025	3,515,092	1,068,276	4,583,368
2026-2030	3,347,224	437,294	3,784,518
2031-2032	472,629	15,442	488,071
Totals	\$ 10,265,274	3,174,052	\$ 13,439,326

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, 2015.

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, 2015, the City had approximately \$610,000 of bonded debt subject to the 8% limit of approximately \$886,000 resulting in an unused legal debt margin of approximately \$276,000.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

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, 2015, the City made premium payments totaling approximately \$113,000. 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, 2014, totaled approximately \$21,590,000. 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, 2015, the City made premium payments totaling approximately \$35,000. 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, 2014, totaled approximately \$52,879,000. 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

South Carolina Retirement and Police Officers’ Retirement System

South Carolina Retirement and Police Officers’ Retirement System: The City non-public safety employees participate in the South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan. The City’s sworn police officers and firefighting personnel (public safety) participate in the South Carolina Police Officers’ Retirement System (“SCPORS”), a cost-sharing multiple-employer defined benefit pension plan. Both the SCRS and the SCPORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits.

The SCRS and SCPORS (collectively the “Plans”) provisions are established under Title 9 of the South Carolina Code of Laws and were originally administered by the South Carolina Budget and Control Board. Effective July 1, 2012, the South Carolina General Assembly transferred administration of the Plans to the newly created South Carolina Public Employee Benefit Authority (“PEBA”). The PEBA has the authority to establish and amend benefits and funding policy. A comprehensive annual financial report containing financial statements and required supplementary information for the retirement benefits is issued and publicly available by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, SC 29211-1960.

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 earnings.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

IV. OTHER INFORMATION (CONTINUED)

B. Pension Disclosures (Continued)

South Carolina Retirement and Police Officers' Retirement System (Continued)

	SCRS Rates			SCPORS Rates		
	2013	2014	2015	2013	2014	2015
Employer Rate						
Retirement	10.450%	10.450%	10.750%	11.900%	12.440%	13.010%
Group Life Insurance Benefit	0.150%	0.150%	0.150%	0.200%	0.200%	0.200%
Accidental Death Benefit	N/A	N/A	N/A	0.200%	0.200%	0.200%
	<u>10.600%</u>	<u>10.600%</u>	<u>10.900%</u>	<u>12.300%</u>	<u>12.840%</u>	<u>13.410%</u>
Employee Rate	<u>7.000%</u>	<u>7.500%</u>	<u>8.000%</u>	<u>7.000%</u>	<u>7.840%</u>	<u>8.410%</u>

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

Year Ended April 30,	SCRS Contributions			SCPORS Contributions		
	Required	% Contributed	% of Covered Payroll	Required	% Contributed	% of Covered Payroll
2015	\$ 109,290	100%	10.900%	\$ 82,652	100%	13.410%
2014	108,877	100%	10.600%	88,105	100%	12.840%
2013	\$ 109,828	100%	10.600%	\$ 91,629	100%	12.300%

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, 2015.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2015

IV. OTHER INFORMATION (CONTINUED)

E. Pending Implementation of GASB Statement on Pensions

GASB Statement No. 68 “*Accounting and Financial Reporting for Pensions*” (“GASB #68”) was issued by GASB in June 2012 and is required to be implemented by the City for the year ended April 30, 2016. The primary objective of GASB #68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple employer plan will now be required to recognize a liability for its proportionate share of the net pension liability of that plan. It is GASB’s intention that GASB #68 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, the City will be required to report a net pension liability (and related deferred outflows and inflows of resources) for its participation in the SCRS and SCPORS on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position for the government-wide statements and the proprietary fund) and present more extensive note disclosures. In general, it will not have a significant impact on the City’s governmental funds.

The City has been in communications with the PEBA on the effect of implementing GASB #68 as it relates to the SCRS and the SCPORS. Based on recent information provided by PEBA, it is estimated that the City’s proportionate share of the net pension liability associated with the SCRS and the SCPORS will decrease the City’s beginning unrestricted net position for the year ended April 30, 2015 by approximately \$3,028,000.

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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

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	REVISED		WITH REVISED BUDGET
REVENUES				
Taxes	\$ 318,160	333,160	292,671	\$ (40,489)
Fees, Charges, and Rentals	426,500	473,500	549,369	75,869
Fines and Forfeitures	137,000	137,000	91,154	(45,846)
Licenses, Permits, and Franchise Fees	847,200	847,200	909,961	62,761
Intergovernmental Revenues	427,000	427,000	528,657	101,657
External Service Reimbursements	71,000	71,000	72,000	1,000
TOTAL REVENUES	2,226,860	2,288,860	2,443,812	154,952
EXPENDITURES				
Current:				
Administrative and General	310,541	318,041	369,647	(51,606)
Police	822,516	822,516	779,665	42,851
Fire	275,450	318,728	321,850	(3,122)
Municipal Court	54,098	54,098	53,037	1,061
Victims' Assistance	-	-	2,285	(2,285)
Recreation and Parks	257,354	264,354	273,560	(9,206)
Streets and Sanitation	377,590	377,590	372,677	4,913
Grounds Maintenance	87,591	159,591	158,830	761
Capital Outlay	427,625	434,347	410,475	23,872
Debt Service				
Principal	125,000	125,000	125,000	-
Interest and Other Charges	14,095	14,095	13,595	500
Bond Issuance Costs	-	-	12,500	(12,500)
TOTAL EXPENDITURES	2,751,860	2,888,360	2,893,121	(4,761)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(525,000)	(599,500)	(449,309)	150,191
OTHER FINANCING SOURCES (USES)				
Issuance of General Obligation Bonds	385,000	385,000	385,000	-
Transfers In	140,000	140,000	140,000	-
TOTAL OTHER FINANCING SOURCES (USES)	525,000	525,000	525,000	-
NET CHANGES IN FUND BALANCES	-	(74,500)	75,691	150,191
FUND BALANCES, Beginning of Year	1,360,127	1,360,127	1,360,127	-
FUND BALANCES, End of Year	\$ 1,360,127	1,285,627	1,435,818	\$ 150,191

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 revised budget reflected a use of fund balance of \$74,500.

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH REVISED BUDGET
	ORIGINAL	REVISED		
REVENUES				
Hospitality Taxes	\$ 286,469	317,969	366,449	\$ 48,480
Fees, Charges, and Rentals	-	-	875	875
Interest Earnings	-	-	63	63
TOTAL REVENUES	286,469	317,969	367,387	49,418
EXPENDITURES				
Current:				
Administrative and General	31,000	27,500	27,333	167
Recreation and Parks	50,000	50,000	44,904	5,096
Streets and Sanitation	-	5,000	5,482	(482)
Capital Outlay	40,000	70,000	814,268	(744,268)
Debt Service				
Principal	110,426	110,426	110,426	-
Interest and Other Charges	55,043	55,043	55,043	-
Bond Issuance Costs	-	-	30,000	(30,000)
TOTAL EXPENDITURES	286,469	317,969	1,087,456	(769,487)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(720,069)	(720,069)
OTHER FINANCING SOURCES (USES)				
Issuance of Special Obligation Bonds	-	-	1,000,000	1,000,000
TOTAL OTHER FINANCING SOURCES (USES)	-	-	1,000,000	1,000,000
NET CHANGES IN FUND BALANCES	-	-	279,931	279,931
FUND BALANCES, Beginning of Year	461,230	461,230	461,230	-
FUND BALANCES, End of Year	\$ 461,230	461,230	741,161	\$ 279,931

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.

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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, 2015

	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Taxes:			
Property Taxes	\$ 331,660	292,089	\$ (39,571)
Accommodations Taxes	1,500	582	(918)
Total Taxes	<u>333,160</u>	<u>292,671</u>	<u>(40,489)</u>
Fees, Charges, and Rentals:			
Fire Protection Fees	185,000	192,470	7,470
Recreation Fees	94,000	95,811	1,811
Sanitation Charges	191,500	207,556	16,056
Rentals	3,000	2,750	(250)
Miscellaneous	-	50,782	50,782
Total Fees, Charges, and Rentals	<u>473,500</u>	<u>549,369</u>	<u>75,869</u>
Fines and Forfeitures:			
Court Fines	137,000	91,154	(45,846)
Total Fines and Forfeitures	<u>137,000</u>	<u>91,154</u>	<u>(45,846)</u>
Licenses, Permits, and Franchise Fees:			
Business Licenses	520,000	536,179	16,179
Permits	2,200	2,080	(120)
Franchise Fees	325,000	371,702	46,702
Total Licenses, Permits, and Franchise Fees	<u>847,200</u>	<u>909,961</u>	<u>62,761</u>
Intergovernmental Revenues			
Local Option Sales Tax	355,000	448,960	93,960
Aid to Subdivisions	58,000	67,436	9,436
Merchants Inventory Tax	14,000	12,261	(1,739)
Total Intergovernmental Revenues	<u>427,000</u>	<u>528,657</u>	<u>101,657</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>
TOTAL REVENUES	<u>\$ 2,288,860</u>	<u>2,443,812</u>	<u>\$ 154,952</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, 2015

EXPENDITURES	REVISED BUDGET	ACTUAL	VARIANCE
Administrative and General:			
Personnel Services	\$ 145,285	172,955	\$ (27,670)
Operating Expenditures	172,756	196,692	(23,936)
Capital Outlay	103,000	93,969	9,031
Total Administrative and General	<u>421,041</u>	<u>463,616</u>	<u>(42,575)</u>
Police:			
Personnel Services	663,016	612,297	50,719
Operating Expenditures	159,500	167,368	(7,868)
Capital Outlay	73,000	60,972	12,028
Total Police	<u>895,516</u>	<u>840,637</u>	<u>54,879</u>
Fire:			
Personnel Services	226,848	217,461	9,387
Operating Expenditures	91,880	104,389	(12,509)
Capital Outlay	26,347	26,347	-
Total Fire	<u>345,075</u>	<u>348,197</u>	<u>(3,122)</u>
Municipal Court:			
Personnel Services	47,506	46,500	1,006
Operating Expenditures	6,592	6,537	55
Total Municipal Court	<u>54,098</u>	<u>53,037</u>	<u>1,061</u>
Victim's Assistance:			
Operating Expenditures	-	2,285	(2,285)
Total Victim's Assistance	<u>-</u>	<u>2,285</u>	<u>(2,285)</u>
Recreation and Parks:			
Personnel Services	96,954	89,251	7,703
Operating Expenditures	167,400	184,309	(16,909)
Total Recreation and Parks	<u>264,354</u>	<u>273,560</u>	<u>(9,206)</u>
Streets and Sanitation:			
Personnel Services	183,940	174,168	9,772
Operating Expenditures	193,650	198,509	(4,859)
Capital Outlay	160,000	155,299	4,701
Total Streets and Sanitation	<u>\$ 537,590</u>	<u>\$ 527,976</u>	<u>\$ 9,614</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, 2015

	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
EXPENDITURES (CONTINUED)			
Grounds Maintenance:			
Personnel Services	\$ 101,244	104,150	\$ (2,906)
Operating Expenditures	58,347	54,680	3,667
Capital Outlay	72,000	73,888	(1,888)
Total Grounds Maintenance	<u>231,591</u>	<u>232,718</u>	<u>(1,127)</u>
Debt Service:			
Principal	125,000	125,000	-
Interest and Other Charges	14,095	13,595	500
Bond Issuance Costs	-	12,500	(12,500)
Total Debt Service	<u>139,095</u>	<u>151,095</u>	<u>(12,000)</u>
 TOTAL EXPENDITURES	 <u>2,888,360</u>	 <u>2,893,121</u>	 <u>(4,761)</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 <u>(599,500)</u>	 <u>(449,309)</u>	 <u>150,191</u>
OTHER FINANCING SOURCES (USES)			
Issuance of General Obligation Bonds	385,000	385,000	-
Transfers In	140,000	140,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>525,000</u>	<u>525,000</u>	<u>-</u>
 NET CHANGES IN FUND BALANCES	 <u>(74,500)</u>	 <u>75,691</u>	 <u>150,191</u>
 FUND BALANCES, Beginning of Year	 <u>1,360,127</u>	 <u>1,360,127</u>	 <u>-</u>
 FUND BALANCES, End of Year	 <u>\$ 1,285,627</u>	 <u>1,435,818</u>	 <u>\$ 150,191</u>

CITY OF PICKENS, SOUTH CAROLINA

PROPRIETARY FUND

SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT - REVISED BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2015

OPERATING EXPENSES	REVISED BUDGET	ACTUAL	VARIANCE
Water:			
Personnel Services	\$ 726,552	654,223	\$ 72,329
Operating Expenses	698,166	676,678	21,488
Capital Outlay - Noncapitalizable	585,756	516,120	69,636
Total Water	<u>2,010,474</u>	<u>1,847,021</u>	<u>163,453</u>
Sewer:			
Personnel Services	106,012	110,648	(4,636)
Operating Expenses	145,630	412,536	(266,906)
Capital Outlay - Noncapitalizable	31,500	11,441	20,059
Total Sewer	<u>283,142</u>	<u>534,625</u>	<u>(251,483)</u>
Stormwater:			
Personnel Services	15,000	19,072	(4,072)
Operating Expenses	97,000	78,259	18,741
Capital Outlay - Noncapitalizable	-	2,907	(2,907)
Total Stormwater	<u>112,000</u>	<u>100,238</u>	<u>11,762</u>
TOTAL EXPENSES	<u>\$ 2,405,616</u>	<u>2,481,884</u>	<u>\$ (76,268)</u>

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED APRIL 30, 2015

Court Fines

Court Fines Collected	\$	41,111
Court Fines Retained by the City		41,111
Total Court Fines Remitted to the State Treasurer	\$	<u><u>-</u></u>

Court Assessments

Court Assessments Collected	\$	123,165
Court Assessments Retained by the City		8,765
Total Court Assessments Remitted to the State Treasurer	\$	<u><u>114,400</u></u>

Court Surcharges

Court Surcharges Collected and Retained by the City	\$	<u><u>3,900</u></u>
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Victim's Advocate

Court Assessments Allocated to Victim's Advocate	\$	8,765
Court Surcharges Allocated to Victim's Advocate		<u>3,900</u>
Funds Allocated to Victim's Advocate		12,665
Victim's Advocate Expenditures		<u>(2,285)</u>
Funds Available to Carry Forward		10,380
Funds Carry Forward from Prior Year		<u>22,175</u>
Fund Balance for Victim's Advocate	\$	<u><u>32,555</u></u>

COMPLIANCE SECTION

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED APRIL 30, 2015

Federal Grantor/ Pass-through Grantor/Program or Cluster Title:	Federal CFDA Number	Grant/Contract Number	Federal Expenditures
US DEPARTMENT OF HOUSING / URBAN DEVELOPMENT			
Pass-through from the State Department of Commerce: CDBG	14.228	4-V-11-013	\$ 89,869
TOTAL US DEPARTMENT OF HOUSING / URBAN DEVELOPMENT			89,869
US DEPARTMENT OF TRANSPORTATION			
Pass-through from the State Department of Parks, Recreation & Tourism: RTP Grant - Town Creek Park Phase II Trails	20.219	2012006	100,000
TOTAL US DEPARTMENT OF TRANSPORTATION			100,000
US DEPARTMENT OF JUSTICE			
Pass-through from the State Department of Public Safety: JAG Grant 2014 - Grant	16.738	1G13044	27,508
TOTAL US DEPARTMENT OF JUSTICE			27,508
APPALACHIAN REGIONAL COMMISSION			
Pass-through from the State Department of Commerce: Appalachian Regional Commission - Town Creek Park	23.002	4-G-12-002	400,000
TOTAL APPALACHIAN REGIONAL COMMISSION			400,000
GRAND TOTALS			\$ 617,377

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF PICKENS, SOUTH CAROLINA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED APRIL 30, 2015

A. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal award programs of the City of Pickens, South Carolina (the "City") for the year ended April 30, 2015. Expenditures for federal financial assistance awarded directly from the federal agencies, as well as those passed through other government agencies, are included on the Schedule.

B. BASIS OF ACCOUNTING

The accompanying Schedule is presented using the modified accrual basis of accounting, which is described in the notes to the City's financial statements.

C. RELATIONSHIP TO THE FINANCIAL STATEMENTS

Federal award expenditures are reported in the City's financial statements as expenditures in the Grants Fund.

D. MATCHING COSTS

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

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**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, 2015, 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 18, 2015.

Internal Control Over Financial Reporting

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

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

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 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. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as 2015-001 in the accompanying schedule of findings and questioned costs to be a material weakness.

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*.

City's Response to Finding

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

Purpose of this Report

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



Greene, Finney & Horton, LLP
Mauldin, South Carolina
August 18, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Pickens, South Carolina's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended April 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2015.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
August 18, 2015

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED APRIL 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
23.002	Appalachian Regional Commission - Town Creek Park

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

CITY OF PICKENS, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED APRIL 30, 2015

Section II – 2015 Financial Statement Findings

2015-001: MONITORING OF PROPERTY TAX REVENUE

- Condition/Context:** In reviewing property tax revenue for the year ended April 30, 2015 (“2015”), it was noted that Pickens County had inadvertently been sending the City its road fee revenues since January 2014. This resulted in a significant overstatement of property tax revenues and an audit adjustment.
- Criteria:** A monitoring process should be in place that provides reasonable assurance for the prevention or early detection of irregularities or fraud on a timely basis.
- Effect:** The City’s initial vehicle tax revenues were significantly overstated which resulted in an audit adjustment.
- Cause:** In January 2014, the County converted/upgraded to a new software which inadvertently allocated and paid the County’s road fees to the local municipalities.
- Recommendation:** We recommend that the City implement procedures and controls to monitor its property tax revenues and identify any irregularities on a timely basis. In order to help identify these types of problems in the future, we would encourage that the City consider recording and reviewing its property tax revenues by line item (i.e. real property, personal property, vehicles, etc.) in its general ledger.
- Response:** In September 2015, the City will add additional general ledger revenue line items to breakdown the current 10-4150-4060 Property Tax account into the various components that make up the property tax line item in the financial statements. This will help in monitoring the revenue during the monthly and quarterly reviews.

Section III – 2015 Federal Award Findings and Questioned Costs

No matters to report.

CITY OF PICKENS, SOUTH CAROLINA
SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED APRIL 30, 2015

There were no OMB Circular A-133 audit findings in the prior year.