

**TOWN OF BLACKSBURG  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED MARCH 31, 2017**

TOWN OF BLACKSBURG  
TABLE OF CONTENTS  
MARCH 31, 2017

<b>INDEPENDENT AUDITORS' REPORT</b>	<u>Page</u> 1-2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3-9
<b>BASIC FINANCIAL STATEMENTS</b>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS:</u>	
Statement Of Net Position	10
Statement Of Activities	11
<u>FUND FINANCIAL STATEMENTS:</u>	
Balance Sheet - Governmental Funds	12
Statement Of Revenues, Expenditures, And Changes In Fund Balances – Governmental Funds	13
Reconciliation Of The Statement Of Revenues, Expenditures, And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities	14
Statement Of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	15
Statement Of Net Position - Proprietary Funds	16
Statement Of Revenues, Expenses, And Changes In Net Position - Proprietary Funds	17
Statement Of Cash Flows - Proprietary Funds	18
<u>NOTES TO THE FINANCIAL STATEMENTS</u>	19-49
<b>REQUIRED SUPPLEMENTAL INFORMATION</b>	
Schedule of the Town's Proportionate Share of Net Pension Liability	50-51
Schedule of Town's Contributions to the Pension Plan	52-54
Schedule of Other Postretirement Benefit Plan Contributions and Funding Status	55
<b>COMBINING AND INDIVIDUAL FUND INFORMATION AND OTHER SUPPLEMENTAL INFORMATION:</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	56
Combining Schedule Of Revenues, Expenditures And Changes In Fund Balances – Nonmajor Governmental Funds	57
Statement Of Assets And Liabilities – Agency Fund	58
Schedule Of Fines And Assessments	59
Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	60-62

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**INDEPENDENT AUDITOR'S REPORT**

To the Town Council  
Town of Blacksburg, SC

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Blacksburg, SC, as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the Town'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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Blacksburg, SC, as of March 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

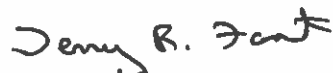
### *Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Blacksburg, SC's basic financial statements. The combining and individual nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of fines and assessments is presented for the purpose of additional analysis as required by the State Treasurer's Office of SC and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of fines and assessments are the responsibility of management and are derived from and relate 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 my opinion, the combining and individual nonmajor fund financial statements and schedule of fines and assessments 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*, I have also issued my report dated July 6, 2017, on my consideration of the Town of Blacksburg, SC's internal control over financial reporting and on my 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 my 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 Town of Blacksburg, SC's internal control over financial reporting and compliance.



Terry R. Fant, CPA, PA

July 6, 2017

**TOWN OF BLACKSBURG  
MANAGEMENTS DISCUSSION AND ANALYSIS  
MARCH 31, 2017**

This discussion and analysis of the Town of Blacksburg's financial performance provides an overview of the Town's financial activities for the year ended March 31, 2017. Please read it in conjunction with the Town's financial statements, which begin on page 10.

**FINANCIAL HIGHLIGHTS:**

- The Town of Blacksburg's assets exceeded liabilities by \$9,537,115 at the close of the most recent fiscal year.
- Governmental activities decreased the Town of Blacksburg's net position by \$(94,231) to a year-end balance of \$979,985.
- Business-type activities increased the Town of Blacksburg's net position by \$47,194 to a year-end balance of \$8,557,130.
- As of the end of the current fiscal year, the Town's general fund reported an ending fund balance of \$808,983, a decrease of \$(102,719).

**OVERVIEW OF THE FINANCIAL STATEMENTS:**

This annual report contains a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 10-11) provide information about the activities of the Town as a whole and present an overall, long-term view of the Town's finances. Fund financial statements start on page 12. These statements show how governmental activities were financed in the short-term, as well as what remains for future spending. Fund financial statements also provide detailed information about the Town's governmental activities. Notes to the financial statements are included to provide further information about certain sections of the statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS - The Statement of Net Position and the Statement of Activities:**

These statements are designed to provide readers with an overall view of the Town's financial condition in a manner similar to a private-sector business. These statements are presented on the accrual basis, which means all of the year's revenues and expenses are taken into account regardless of when cash is paid or received. The Statement of Net position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Town's financial health is improving or deteriorating. The Statement of Activities presents the change in net position over the last fiscal year. These statements divide the Town into two kinds of activities.

Governmental activities: These activities include most of the Town's fundamental services, such as police, fire, public works, street and park maintenance, and general administration. Most of these activities are financed with property taxes, license and franchise fees, and state and federal grants.

**Business-type activities:** These are activities that are operated similar to a private enterprise. Customers are charged fees to cover most or all of the activity's operating costs. The Town's water and sewer systems are reported here.

The government wide statements can be found on pages 10-11.

## **FUND FINANCIAL STATEMENTS**

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 Town of Blacksburg, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

These statements provide information on the individual funds of the Town. The Town has four fund types; a General fund, a Proprietary fund, several Special Revenue funds and a Fiduciary fund.

The governmental fund statements provide a detailed short-term view of the Town's financial resources and its basic services. The relationships and differences between governmental activities (reported in the government wide statements) and governmental funds are explained in reconciliations following the governmental statements. The governmental fund statements can be found on pages 12-18.

The General fund is where the basic services of the Town are accounted for. This fund is a governmental fund, and uses the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted into cash.

The Special Revenue funds are governmental funds used to account for proceeds and expenditures of specific revenue sources according to legal restrictions.

Fiduciary funds include agency funds that hold resources for outside parties.

The Water and Sewer fund is a proprietary fund, and uses the accrual basis of accounting, the same method used in the government-wide statements. However, the proprietary fund statements provide a greater level of detail and more information than the government-wide statements. In addition, supplemental comparative statements are included following the notes to the financial statements. The proprietary fund statements can be found on pages 16-18.

## **NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-49.

## **REQUIRED SUPPLEMENTAL INFORMATION**

In addition to the financial statements and accompanying notes, this report includes certain required supplemental information. The Town presents required supplemental information related to its participation in the cost-sharing multiple-employer State pension plan.

## SUPPLEMENTAL INFORMATION

Supplemental information is presented immediately following the required supplemental information which includes individual statement, combining statements, schedules and reports as listed in the table of comments.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS:

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Blacksburg, assets exceeded liabilities by \$9,537,115 at the close of the most recent fiscal year. By far the largest portion of the Town's net position (101.34 percent) reflects its investment in capital assets (e.g. land, building, machinery, and equipment less any related debt used to acquire those assets that are still outstanding). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net position decreased by \$(156,930) in the governmental-type activities.

Unrestricted net position increased by \$1,767 in the business-type activities.

The following table presents a summary of the Town's net position.

	<b>Governmental- Type Activities</b>		<b>Business-type Activities</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Current and other assets	\$1,028,736	\$1,199,807	\$1,250,991	\$1,437,441
Capital assets	<u>1,582,231</u>	<u>1,458,326</u>	<u>8,337,627</u>	<u>8,302,516</u>
Total Assets	<u>2,610,967</u>	<u>2,658,133</u>	<u>9,588,618</u>	<u>9,739,957</u>
Deferred outflows of resources	<u>243,157</u>	<u>105,549</u>	<u>119,224</u>	<u>56,475</u>
Long-term debt outstanding	1,741,136	1,518,384	932,038	809,762
Other liabilities	<u>102,006</u>	<u>62,966</u>	<u>184,120</u>	<u>419,020</u>
Total Liabilities	<u>1,843,142</u>	<u>1,581,350</u>	<u>1,116,158</u>	<u>1,228,782</u>
Deferred inflows of resources	<u>30,997</u>	<u>108,116</u>	<u>34,554</u>	<u>57,714</u>
<b>Net position:</b>				
Net investment in capital assets	1,340,452	1,170,998	8,324,790	8,279,363
Restricted	43,200	149,955	0	0
Unrestricted	<u>(403,667)</u>	<u>(246,737)</u>	<u>232,340</u>	<u>230,573</u>
Total Net Position	<u>\$ 979,985</u>	<u>\$1,074,216</u>	<u>\$8,557,130</u>	<u>\$8,509,936</u>

**Governmental activities.** Governmental activities decreased the Town of Blacksburg's net position by \$(94,231). Key elements of this increase are as follows:

- Tax revenue decreased due to a decrease in assessed value and millage rate.
- Disposal fees decreased 51% due to a rate decrease.

- Police fines increased 31% in the general fund. Remittance to the State Treasurer for law enforcement fees increased accordingly.
- Cemetery lots sales reported in miscellaneous revenues decreased \$16,100.

**Business-type activities.** Business-type activities increased the Town of Blacksburg's net position by \$47,194. Key elements of this increase are as follows:

- The Town received \$389,200 from grants for capital improvements.
- Utility sales remained constant while water purchases decreased 12% due mainly to a decrease in water loss from broken lines.
- Repair costs decreased 17% due mainly to a long range maintenance plan.

Overall, the Town saw a decrease in net position in the amount of \$(47,037).

### Changes In Net Position

	<u>Governmental- Type Activities</u>		<u>Business-type Activities</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Revenues:</b>				
Program Revenues:				
Charges for services	\$ 157,471	\$ 136,826	\$ 1,565,063	\$1,533,810
Operating grants	92,478	82,098		
Capital grants/donations	24,674		389,200	345,700
General Revenues:				
Taxes	1,368,661	1,319,609		
Other general revenues	77,387	90,024	1,608	2,549
Total Revenues	<u>1,720,671</u>	<u>1,628,557</u>	<u>1,955,871</u>	<u>1,882,059</u>
Program Expenses:				
General Government	(346,525)	(455,817)		
Police Department	(1,014,971)	(841,190)		
Fire Department	(61,650)	(55,000)		
Streets Department	(366,329)	(316,221)		
Cemetery Department	(19,680)	(13,959)		
Interest on long term debt	(5,747)	(6,236)		
Water and Sewer			(1,908,677)	(1,916,999)
Total Expenses	<u>( 1,814,902)</u>	<u>(1,688,423)</u>	<u>(1,908,677)</u>	<u>(1,916,999)</u>
Excess (deficiency) before Transfers	(94,231)	(59,866)	47,194	(34,940)
Special item	<u>0</u>	<u>(52,651)</u>	<u>0</u>	<u>0</u>
Increase (Decrease) In Net Position	(94,231)	(112,517)	47,194	(34,940)
Beginning Net Position	<u>1,074,216</u>	<u>1,186,733</u>	<u>8,509,936</u>	<u>8,544,876</u>
Ending Net Position	<u>\$ 979,985</u>	<u>\$1,074,216</u>	<u>\$ 8,557,130</u>	<u>\$8,509,936</u>

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS:

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



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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance of \$852,183, a decrease of \$(209,474) in comparison with the prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balance to total fund expenditures.

The fund balance of the Town's general fund decreased by \$(102,719) during the current fiscal year. Key factors in this decrease follows:

- Tax revenue decreased due to a decrease in assessed value and millage rate.
- Disposal fees decreased 51% due to a rate decrease.
- Police fines increased 31% in the general fund. Remittance to the State Treasurer for law enforcement fees increased accordingly.
- Cemetery lots sales reported in miscellaneous revenues decreased \$16,100.
- The Town spent \$38,233 from the general fund and \$95,000 from the hospitality fund for land to be used for a park.
- The police department purchased a Zuercher data base system for \$12,198.

**Proprietary funds.** The Town of Blacksburg's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the combined utility at the end of the year amounted to \$232,340. The total increase in unrestricted net position from operations was \$1,767. Other factors concerning the finances of these funds have already been addressed above in the discussion of the Town's business-type activities.

## **BUDGETARY HIGHLIGHTS:**

There were no differences in the original and final budgets.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION:**

The Town continued to extend and upgrade its water and sewer systems. Most of this activity was financed by contributions and grants. Upgrades and extensions are planned for the next fiscal year.

### Capital assets

The Town's investment in capital assets for its governmental and business-type activities as of March 31, 2017, amounted to \$9,919,858 (net of accumulated depreciation). This investment in capital assets includes land, two police cars, improvements to parks, sewer system improvements and equipment. The total increase in the Town's capital assets for the current fiscal year was \$718,373 before depreciation.

A summary of changes in governmental type activities capital assets follows:

	<u>Balance</u> <u>04-01-16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>03-31-17</u>
Governmental type activities:	\$ 3,545,547	\$ 235,915	\$	\$3,781,462
Less: Accumulated Depreciation	<u>(2,087,221)</u>	<u>(112,010)</u>		<u>(2,199,231)</u>
Net Governmental Activities	<u>\$ 1,458,326</u>			<u>\$1,582,231</u>

A summary of business type activities capital assets follows:

	<u>Balance</u> <u>04-01-16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>03-31-17</u>
Business type activities:	\$16,270,271	\$ 482,458	\$	\$16,752,729
Less: Accumulated Depreciation	<u>(7,967,754)</u>	<u>(447,348)</u>		<u>(8,415,102)</u>
Net Business Activities	<u>\$ 8,302,517</u>			<u>\$ 8,337,627</u>

Additional information on the Town's capital assets can be found in note IV.C. of the notes to the financial statements.

#### Long-term debt

State statutes limit the amount of general obligation debt a governmental entity may issue, without a referendum, to 8 percent of its total assessed valuation.

The following is a summary of changes in long-term debt for notes, bonds and leases payable for the year ended March 31, 2017:

	<u>Balance</u> <u>04-01-16</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>03-31-17</u>
Total Governmental Activities	\$ 287,328	\$	\$ 45,549	\$ 241,779
Total Business Type Activities	<u>23,153</u>		<u>10,316</u>	<u>12,837</u>
Totals	<u>\$ 310,481</u>	<u>\$</u>	<u>\$ 55,865</u>	<u>\$ 254,616</u>

Additional information on the Town's long-term debt can be found in note IV.D. of the notes to the financial statements.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES:**

The unemployment rate for the Cherokee County was 4.6% at year-end compared to 6.1% a year ago. In comparison, the state's unemployment rate was 4.4, and the national rate was 4.5%. Inflationary trends in the region compare favorably to national indices.

Tax millage for the 2016 tax book was decreased from 179 mills to 175 mills. The millage rate for the 2017 tax book will be set in September 2017.

Debris disposal fees will remain at the \$4 per residence rate for the 2017-18 fiscal year. Water and sewer rates were not increased for the 2017-18 fiscal year.

These factors, and others, were considered in the preparation of the Town's budget for the 2017-18 fiscal year.

#### **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT:**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional information, contact management at 105 South Shelby Street, Blacksburg, S.C.

**Town of Blacksburg, South Carolina**  
**Statement of Net Position**  
**March 31, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 753,049	\$ 983,984	\$ 1,737,033
Receivables (net of allowance for uncollectibles)	200,718	222,070	422,788
Restricted assets:			
Cash and cash equivalents	74,969	44,937	119,906
Capital assets not being depreciated			
Land and easements	244,355	59,062	303,417
Capital assets being depreciated - net of accumulated depreciation	1,337,876	8,278,565	9,616,441
 Total assets	 2,610,967	 9,588,618	 12,199,585
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related deferred outflows	243,157	119,224	362,381
 <b>LIABILITIES</b>			
Accounts payable and other current liabilities	42,888	60,675	103,563
Customer deposits	-	44,937	44,937
Other accrued expenses	122,699	14,927	137,626
Due to/from other funds	(63,581)	63,581	-
Non-current accrued compensated absences and OPEB	210,623	122,400	333,023
Non-current net pension liability	1,288,734	796,801	2,085,535
Other noncurrent liabilities:			
Bonds and capital leases due within one year	46,460	10,947	57,407
Bonds and capital leases due in more than one year	195,319	1,890	197,209
 Total liabilities	 1,843,142	 1,116,158	 2,959,300
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension related deferred inflows	30,997	34,554	65,551
 <b>NET POSITION</b>			
Net invested in capital assets	1,340,452	8,324,790	9,665,242
Restricted for:			
Victims assistance	10,703	-	10,703
Law enforcement	25,025	-	25,025
Tourism	5,551	-	5,551
Museum maintenance	1,921	-	1,921
Unrestricted	(403,667)	232,340	(171,327)
 Total net Position	 \$ 979,985	 \$ 8,557,130	 \$ 9,537,115

The notes to the financial statements are an integral part of this statement.

**Town of Blacksburg, South Carolina**  
**Statement of Activities**  
**For the Year Ended March 31, 2017**

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
General government	\$ 346,525	\$ 2,887	\$ 325	\$ -	\$ (343,963)	\$ -	\$ (343,963)
Police department	1,014,971	125,772	92,153	-	(797,046)	-	(797,046)
Fire department	61,650	-	-	-	(61,650)	-	(61,650)
Street department	366,329	28,812	-	24,674	(312,843)	-	(312,843)
Cemetery department	19,680	-	-	-	(19,680)	-	(19,680)
Interest on long term debt	5,747	-	-	-	(5,747)	-	(5,747)
Total governmental activities	1,814,902	157,471	92,478	24,674	(1,540,279)	-	(1,540,279)
<b>Business-type activities:</b>							
Water and sewer utility	1,908,677	1,565,063	-	389,200	-	45,586	45,586
Total business-type activities	1,908,677	1,565,063	-	389,200	-	45,586	45,586
Total primary government	\$ 3,723,579	\$ 1,722,534	\$ 92,478	\$ 413,874	(1,540,279)	45,586	(1,494,693)
<b>General revenues:</b>							
Taxes					784,968	-	784,968
Property taxes					3,413	-	3,413
Payment in lieu of taxes					144,441	-	144,441
Hospitality tax					73,534	-	73,534
Local option sales tax					362,305	-	362,305
Occupational licenses and franchise fees					4,800	-	4,800
Rental income					14,075	-	14,075
Miscellaneous					573	1,608	2,181
Unrestricted investment earnings					57,939	-	57,939
State shared revenues					1,446,048	1,608	1,447,656
Total general revenues					(94,231)	47,194	(47,037)
Change in net position					1,074,216	8,509,936	9,584,152
Net position - beginning					\$ 979,985	\$ 8,557,130	\$ 9,537,115
Net position - ending							

The notes to the financial statements are an integral part of this statement.

**Town of Blacksburg, South Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**March 31, 2017**

	General Fund	Hospitality Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 598,645	\$ 94,601	\$ 59,803	\$ 753,049
Receivables - taxes (net of allow. for uncollectibles)	74,547	-	-	74,547
Receivables - disposal fees (net of allowances)	4,544	-	-	4,544
Receivables - other (net of allow. for uncollectibles)	121,627	-	-	121,627
Restricted assets:				
Cash and cash equivalents	74,969	-	-	74,969
Total assets	<u>\$ 874,332</u>	<u>\$ 94,601</u>	<u>\$ 59,803</u>	<u>\$ 1,028,736</u>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	\$ 20,734	-	\$ 22,154	\$ 42,888
Other accrued expense	122,699	-	-	122,699
Due to/(from) other funds	(152,631)	89,050	-	(63,581)
Total liabilities	<u>(9,198)</u>	<u>89,050</u>	<u>22,154</u>	<u>102,006</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable property taxes	<u>74,547</u>	<u>-</u>	<u>-</u>	<u>74,547</u>
<b>FUND BALANCES</b>				
Restricted - for victims assistance expenditures	-	-	10,703	10,703
- for drug enforcement	-	-	25,025	25,025
- for tourism	-	5,551	-	5,551
Assigned for museum maintenance	-	-	1,921	1,921
Unassigned	808,983	-	-	808,983
Total fund balances	<u>808,983</u>	<u>5,551</u>	<u>37,649</u>	<u>852,183</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 874,332</u>	 <u>\$ 94,601</u>	 <u>\$ 59,803</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,582,231
Other long-term assets are not available to pay for current period expenditures and are therefore deferred in the funds.	74,547
Deferred inflows and outflows of resources related to pensions area applicable to future periods and, therefore, are not reported in the funds. (net)	212,160
Long-term liabilities are not due and payable in the current year and therefore are not reported in the funds.	(1,741,136)
Total net position of governmental activities	<u>\$ 979,985</u>

The notes to the financial statements are an integral part of this statement.

**Town of Blacksburg, South Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended March 31, 2017**

	General Fund	Hospitality Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes and penalties	\$ 785,605	\$ -	\$ -	\$ 785,605
Hospitality tax	-	144,441	-	144,441
Local option sales tax	73,534	-	-	73,534
Payment in lieu of taxes	3,413	-	-	3,413
Licenses, permits and fees	362,305	-	-	362,305
Collection fees	2,887	-	-	2,887
Fines, forfeitures and penalties	85,969	-	32,620	118,589
Victims assistance	-	-	7,183	7,183
Disposal fees and penalties	28,812	-	-	28,812
Intergovernmental revenues:				
School district and other reimbursements	116,827	-	-	116,827
State shared revenues	57,939	-	-	57,939
Investment earnings	573	-	-	573
Rental income	4,800	-	-	4,800
Miscellaneous revenues	14,075	-	325	14,400
Total Revenues	<u>1,536,739</u>	<u>144,441</u>	<u>40,128</u>	<u>1,721,308</u>
<b>EXPENDITURES</b>				
Current				
General government	289,436	27,164	146	316,746
Police department	845,267	-	64,711	909,978
Fire department	61,650	-	-	61,650
Street department	310,843	-	-	310,843
Cemetery department	19,680	-	-	19,680
Capital outlay:				
General government	38,233	116,031	-	154,264
Police department	44,905	-	31,976	76,881
Street department	29,444	-	-	29,444
Debt service:				
Principal retirement	-	45,549	-	45,549
Interest charges	-	5,747	-	5,747
Total Expenditures	<u>1,639,458</u>	<u>194,491</u>	<u>96,833</u>	<u>1,930,782</u>
Excess Revenue Over (Under) Expenditures Before Other Financing Sources & (Uses)	(102,719)	(50,050)	(56,705)	(209,474)
<b>OTHER FINANCING SOURCES &amp; (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(102,719)	(50,050)	(56,705)	(209,474)
Fund balances - beginning of year	<u>911,702</u>	<u>55,601</u>	<u>94,354</u>	<u>1,061,657</u>
Fund balances - end of year	<u>\$ 808,983</u>	<u>\$ 5,551</u>	<u>\$ 37,649</u>	<u>\$ 852,183</u>

The notes to the financial statements are an integral part of this statement.

**Town of Blacksburg, South Carolina**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds To the Statement of Activities**  
**For the Year Ended March 31, 2017**

Amounts reported for governmental activities in the statement of activities (previous page) are different because:

Net change in fund balances - total governmental funds (previous page)	\$ (209,474)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	123,905
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(637)
Expenses in the statement of activities that do not consume current financial resources are not reported as expenditures in the funds.	(28,938)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt.	45,549
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of contributions is reported as pension expense.	<u>(24,636)</u>
Change in net position of governmental activities - per the Statement of Activities	<u><u>\$ (94,231)</u></u>



**Town of Blacksburg, South Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended March 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Property taxes and penalties	\$ 845,838	\$ 845,838	\$ 785,605	\$ (60,233)
Local option sales tax	62,791	62,791	73,534	10,743
Payment in lieu of taxes	-	-	3,413	3,413
Licenses, permits and fees	369,750	369,750	362,305	(7,445)
Collection fees	3,300	3,300	2,887	(413)
Fines, forfeitures and penalties	102,922	102,922	85,969	(16,953)
Disposal fee	30,000	30,000	28,812	(1,188)
Intergovernmental revenues:				
School district and other reimbursements	90,479	90,479	92,153	1,674
State shared revenues	55,189	55,189	57,939	2,750
C-Funds	35,000	35,000	24,674	(10,326)
Interest earnings	3,824	3,824	573	(3,251)
Rental income	3,600	3,600	4,800	1,200
Cemetery lot sales	7,000	7,000	-	(7,000)
Miscellaneous revenues	7,225	7,225	14,075	6,850
<b>Total Revenues</b>	<b>1,616,918</b>	<b>1,616,918</b>	<b>1,536,739</b>	<b>(80,179)</b>
<b>EXPENDITURES</b>				
Current:				
General government	294,462	294,462	289,436	5,026
Police department	826,392	826,392	845,267	(18,875)
Fire department	61,650	61,650	61,650	-
Street department	332,468	332,468	310,843	21,625
Cemetery department	19,000	19,000	19,680	(680)
Capital outlay:				
Capital expenditures	35,737	35,737	112,582	(76,845)
<b>Total expenditures</b>	<b>1,569,709</b>	<b>1,569,709</b>	<b>1,639,458</b>	<b>(69,749)</b>
Excess (deficiency) of revenue over expenditures before other sources & (uses)	47,209	47,209	(102,719)	(149,928)
<b>OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balances	47,209	47,209	(102,719)	(149,928)
Fund balances - beginning of year	911,702	911,702	911,702	-
Fund balances - end of year	<u>\$ 958,911</u>	<u>\$ 958,911</u>	<u>\$ 808,983</u>	<u>\$ (149,928)</u>

The notes to the financial statements are an integral part of this statement.

**Town of Blacksburg, South Carolina**  
**Statement of Net Position**  
**Proprietary Funds**  
**March 31, 2017**

	<u>Water and Sewer System</u>	<u>Total Proprietary Funds</u>
<b>ASSETS</b>		
Currents assets:		
Cash and cash equivalents	\$ 983,984	\$ 983,984
Trade receivables (net of allowance for uncollectibles)	155,632	155,632
Unbilled accounts receivable	66,438	66,438
Total current assets	<u>1,206,054</u>	<u>1,206,054</u>
Noncurrent assets:		
Restricted assets		
Cash and cash equivalents - customer deposits & construction	<u>44,937</u>	<u>44,937</u>
	<u>44,937</u>	<u>44,937</u>
Capital assets:		
Land	59,062	59,062
Buildings	61,214	61,214
Distribution system	15,697,894	15,697,894
Machinery and equipment	934,559	934,559
Less accumulated depreciation	<u>(8,415,102)</u>	<u>(8,415,102)</u>
Total capital assets (net of accumulated depreciation)	<u>8,337,627</u>	<u>8,337,627</u>
Total noncurrent assets	<u>8,382,564</u>	<u>8,382,564</u>
<b>Total assets</b>	<u>9,588,618</u>	<u>9,588,618</u>
<b>DEFERRED OUTFLOWS OF RESOURCES - Pension related</b>	<u>119,224</u>	<u>119,224</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	60,675	60,675
Other accrued expenses	14,927	14,927
Current portion of long-term debt - current lease payable	1,890	1,890
Due to/from other funds	63,581	63,581
Total current liabilities	<u>141,073</u>	<u>141,073</u>
Current liabilities payable from restricted assets		
Customer deposits payable	<u>44,937</u>	<u>44,937</u>
Total current liabilities payable from restricted assets	<u>44,937</u>	<u>44,937</u>
Noncurrent liabilities:		
Noncurrent portion of long term debt	796,801	796,801
Noncurrent net pension liability	122,400	122,400
Noncurrent accrued compensated absences and OPEB	10,947	10,947
Noncurrent leases payable	<u>930,148</u>	<u>930,148</u>
Total noncurrent liabilities	<u>1,116,158</u>	<u>1,116,158</u>
<b>Total liabilities</b>	<u>1,116,158</u>	<u>1,116,158</u>
<b>DEFERRED INFLOWS OF RESOURCES - Pension related</b>	<u>34,554</u>	<u>34,554</u>
<b>NET POSITION</b>		
Net investment in capital assets	8,324,790	8,324,790
Unrestricted	<u>232,340</u>	<u>232,340</u>
<b>Total net position</b>	<u>\$ 8,557,130</u>	<u>\$ 8,557,130</u>

The notes to the financial statements are an integral part of this statement.

**Town of Blacksburg South Carolina**  
**Statement of Revenues, Expenses and**  
**Changes in Fund Net Position - Proprietary Fund**  
**For the Year Ended March 31, 2017**

	<u>Water System</u>	<u>Sewer System</u>	<u>Total Proprietary Fund</u>
Operating revenues:			
Metered water sales - net of bad debts	\$ 1,101,863	\$ -	\$ 1,101,863
Sewer service charges - net of bad debts	-	389,419	389,419
Customer service charges	58,334	15,177	73,511
Other revenues	200	70	270
Total operating revenues	<u>1,160,397</u>	<u>404,666</u>	<u>1,565,063</u>
Operating expenses:			
Water purchased	337,938	-	337,938
Salaries, wages and benefits	456,390	179,054	635,444
Repairs, maintenance and supplies	150,070	95,418	245,488
Utilities	27,958	70,893	98,851
System laboratory tests	19,763	9,324	29,087
Professional fees	22,073	14,696	36,769
DHEC fees	75	1,680	1,755
Insurance expense	18,700	13,700	32,400
Administration	25,116	16,430	41,546
Depreciation	306,262	141,086	447,348
Total operating expenses	<u>1,364,345</u>	<u>542,281</u>	<u>1,906,626</u>
Operating income	<u>(203,948)</u>	<u>(137,615)</u>	<u>(341,563)</u>
Nonoperating revenues (expenses):			
Investment earnings	1,190	418	1,608
Interest expense	(2,051)	-	(2,051)
Total nonoperating revenue (expenses)	<u>(861)</u>	<u>418</u>	<u>(443)</u>
Net income before contributions	(204,809)	(137,197)	(342,006)
Capital contributions	<u>-</u>	<u>389,200</u>	<u>389,200</u>
Change in net position	(204,809)	252,003	47,194
Net position - beginning	<u>6,040,624</u>	<u>2,469,312</u>	<u>8,509,936</u>
Net position - ending	<u>\$ 5,835,815</u>	<u>\$ 2,721,315</u>	<u>\$ 8,557,130</u>

The notes to the financial statements are an integral part of this statement.

**Town of Blacksburg, South Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended March 31, 2017**

	<b>Total Proprietary Funds</b>
<b>Cash flows from operating activities</b>	
Receipts from customers and users	\$ 1,532,322
Payments to suppliers	(337,938)
Payments to employees	(619,851)
Payments to/from others	(489,106)
Net cash provided (used) by operating activities	<u>85,427</u>
<b>Cash flows from capital and related financing activities</b>	
Capital Contributions	389,200
Construction and purchase of fixed assets	(482,459)
Principal paid on capital debt	(10,316)
Interest paid on capital debt	(2,051)
Net cash provided (used) by capital and related financing activities	<u>(105,626)</u>
<b>Cash flows from investing activities</b>	
Interest income received	1,608
Net cash provided (used) by investing activities	<u>1,608</u>
Net increase (decrease) in cash and cash equivalents	(18,591)
Cash and cash equivalents - beginning of year - restricted and unrestricted	1,047,512
Cash and cash equivalents - end of year - restricted and unrestricted	<u>\$ 1,028,921</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>	
Operating income (loss)	<u>\$ (341,563)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	447,348
Noncash pension expense	24,851
(Increase) decrease in receivables	160,939
(Increase) decrease in prepaid insurance	6,920
(Increase) decrease in deferred outflows - pensions	(62,749)
(Increase) decrease in due to/from other funds	2,017
Increase (decrease) in accounts payable	(244,053)
Increase (decrease) in customer deposits payable	2,242
Increase (decrease) in deferred inflows - pensions	(23,160)
Increase (decrease) in net pension liability	112,242
Increase (decrease) in other accrued expenses	393
Total adjustments	<u>426,990</u>
Net cash provided (used) by operating activities	<u>\$ 85,427</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF BLACKSBURG  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2017

**I. DESCRIPTION OF THE REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:**

**A. INTRODUCTION:**

The financial statements of the Town of Blacksburg are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

**B. REPORTING ENTITY:**

The Town of Blacksburg operates as a municipal corporation under a charter granted by the State of South Carolina on February 4, 1899. The Town operates under a council form of government and provides the following services as authorized by its charter: public safety (fire and police), highways and streets, sanitation, health and social services, public improvements, planning and zoning, water and sewer utilities, and general administrative services.

The accompanying general purpose financial statements include all Town funds, and governmental functions. The primary criterion for determining inclusion or exclusion of a legally separate entity is financial accountability, which is presumed to exist if the Town both appoints a voting majority of the entity's governing body, and either 1) the Town 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 Town. 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 Town. In order to be considered fiscally independent, an entity must have the authority to do all three of the following:

- A) Determine its budget without the Town having the authority to approve or modify that budget.
- B) Levy taxes or set rates or charges without approval by the Town.
- C) Issue bonded debt without approval by the Town.

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the Town's financial statements to be misleading or incomplete.

Discretely presented component units:

At year end, the Town had no component units.

**C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities report information about the reporting government as a whole). For the most part, the effect of interfund activity has been removed from these 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. Fiduciary funds are not included in the government-wide financial statements.

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.

#### Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Statement 34 is very specific in its definition and provides specifics to allow for determination of "major funds." In brief, major funds are funds whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always a major fund. The water and sewer fund is also presented as a major fund. The Statement allows presentation of other funds that are of particular importance to also be reported as major funds.

The underlying accounting system of the Town is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental and proprietary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. In the accompanying general purpose financial statements, the various funds of the Town are grouped into two broad fund categories as follows:

#### Governmental funds

Governmental funds are used to account for all or most of a government's general activities.

General fund - The General fund is the Town's general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund. Principal sources of revenue are property taxes, licenses and permits, and intergovernmental revenues. Primary expenditures are for general government, public safety, public works, and building zoning.

Special Revenue funds - Special revenue funds are used to account for the proceeds from specific revenue sources (other than funding for major capital projects) that are legally obli-

gated to expenditures for specified purposes. The Town uses a special revenue funds to account for a narcotics fund whose use is restricted by State law for drug enforcement, a victim assistance fund whose use is restricted by State Law for aid to victims of crime, a hospitality tax fund whose use is restricted by State law for tourism, and a museum fund whose use is assigned by Mayor and Council for maintenance of the Blacksburg Museum

Fiduciary funds - The fiduciary fund accounts for financial resources held for benefit of parties outside of the government because the resources of that fund are not available to support the Town's own programs. The Town uses agency funds to account for seized funds that are being held for the court system until the cases are adjudicated.

#### Proprietary fund - Enterprise fund

Proprietary funds account for activities similar to those found in the private sector. Proprietary funds are used to account for activities where the determination of net income or loss is necessary or useful to sound financial administration. An enterprise fund is used to account for operations which provide goods or services and recover costs through user charges in a manner similar to private business enterprises. The Town maintains one Enterprise fund to account for water and sewer utilities services provided to customers within the Town and the surrounding areas. Services are supplied to customers under a rate structure designed to produce revenues sufficient to recover operating expenses, including principal and interest on Enterprise fund debt.

### D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION:

#### Measurement Focus and Basis of Accounting

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The Town's recognition standards as discussed below are in compliance with Statement No. 33 of the Governmental Accounting Standards Board, Accounting, and Financial Reporting for Nonexchange Transactions. Implementation of GASB Statement No. 33 did not have a material effect on the Town's financial statements, except that capital contributions from external sources received by the proprietary fund are now reflected as revenues in the financial statements of the proprietary fund.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the combined balance sheet. The reported fund balance (net current assets) is considered to be a measure of "available spending resources." Operating statements of these funds present increases and decreases in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spending resources" during a period. All proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities

ities associated with the operation of these funds are included in the combined balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases and decreases in total net position.

Governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. A 45 day period is used to determine availability. Exchange transactions are recognized as revenues in the period in which they are earned (i.e. the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met. The revenues susceptible to accrual include property taxes, franchise fees, licenses, interest revenues, and charges for services. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recognized when the fund liability is incurred, except principal and interest on General Long-Term Obligations which are recognized when due or when funds have been made available for payment.

The accrual basis of accounting is utilized by the Proprietary fund. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the government's proprietary fund and various other functions of the government. Elimination of these charges would distort the direct cost and program revenue reported for the various functions concerned.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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. Likewise, internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of as-



sets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Periodically management evaluates its allowance for uncollectibles based on historical experience as well as current credit conditions.

Certain reclassifications are made to prior year amounts in the accompanying financial statements to conform to current year presentation.

Management evaluates subsequent events through the report issuance date

### Financial Statement Presentation

The Town reports the following governmental funds:

**General Fund** - This fund is established to account for resources devoted to financing the general services that the Town performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the Town are included in this Fund. The Fund is charged with all costs of operating the government for which a separate fund has not been established.

**Special Revenue Funds** – These funds are established to account for resources from specific revenue sources that are legally restricted to expenditures for specific purposes. The primary revenue sources for the different special revenue funds include hospitality tax collections, narcotics seizures allocated to the Town by the court system, museum donations and victims advocate assessments.

**Fiduciary Fund** – This fund is used to account for resources held for the benefit of parties outside the government because the resources of that fund are not available to support the Town's own programs. The Town uses an agency type fiduciary fund to account for seized assets that are being held for the court system until the cases are adjudicated. The agency fund consists of a cash account and a corresponding liability account. The agency fund reports no income or expenditures.

The Town reports the following enterprise funds:

The Water and Sewer System Enterprise Fund is used to account for the operations of the Water and Sewer System. Enterprise Funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

### E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The Town has no investments that require fair value measurement. Investments are composed of savings accounts and money market funds where cost approximates fair value.

For purposes of the statement of cash flows, the Town considers all short-term investments with original maturities of three months or less, when acquired, to be cash equivalents.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles based on management's overall estimate of collectability using historical collection experience and subsequent collection information. The Town reports utility accounts receivable and property taxes receivable that are unsecured.

The Town Code provides for the tax levy on all real property located within the Town's corporate limits on the first day of October. Vehicle taxes are levied monthly and are billed and collected by Cherokee County and remitted to the Town monthly during the year. Real property taxes are delinquent after February 28 of the following year. The lien date is one year from the date of levy. The property tax rate approved by ordinance for fiscal year 2017 was 175 mills.

Utility sales revenues are recognized at the time the services are provided. Substantially all customer balances over 90 days past due are considered uncollectible.

Receivables for reimbursements under grants are recognized when the related reimbursable expenditure is incurred.

3. Inventories and prepaid items

The Towns no material amounts of inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain cash accounts, investment accounts, and receivables are classified as restricted assets in the combined balance sheet because their use is limited by applicable debt covenants, grant agreements, user agreements, etc.

5. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 for non-real estate items and \$50,000 for real estate (amount not rounded) and an estimated useful life in excess of five

years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed but not in governmental-type activities.

Property, plant, and equipment (including capital leased assets) are depreciated using the straight line method over the following estimated useful lives: (Land is not depreciated)

Buildings	40 years
Infrastructure	10 to 40 years
Water system in service	33 years
Sewer system in service	33 years
Vehicles and equipment	5 to 10 years

6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund balance/net position classifications

Equity accounts represent the difference between the assets and the liabilities of a government or a given fund. Resources often come with limitations on how they may be used by the recipient. These purpose restrictions should be reflected in the equity section of the statement of position. In governmental funds, a classification of fund balance would be appropriate for this purpose. In government-wide and proprietary fund financial statements, such amounts would be reflected as part of restricted net position.

Assignments are used to reflect a government's intended use of current available financial resources. The focus on current financial resources is unique to governmental funds. Accordingly, designations should be reported only on the governmental fund balance sheet. There is no equivalent equity assignment that may be used for government-wide financial reporting or for proprietary fund and fiduciary fund financial reporting to reflect the intended use of resources.

Non-spendable fund balances represents the portion of fund balance that is associated with such

items as inventories, prepaids, long-term loans and notes receivable, and property available for resale (unless the proceeds of the sale are restricted, committed or assigned) and is not available for appropriation or expenditure at the balance sheet date.

Restricted fund balances have constraints placed on the use of resources from either external creditors or imposed by law through constitutional provision or enabling legislation.

Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. 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 fund balances are constrained by the government's intent to be used for specific purpose but are neither restricted nor committed.

Unassigned fund balances have not been assigned to other funds and have not been restricted, committed, or assigned to specific purposes within the general fund.

Restricted for tourism – represents funds collected from hospitality tax and required to be used specifically for tourism expenditures.

Restricted for drug enforcement – represents funds collected and seized from police fines and forfeitures and required to be expended specifically for drug enforcement activities.

Restricted for victims assistance – represents funds collected from police fines and forfeitures and required to be used specifically for victims' assistance expenditures.

Assigned for museum maintenance – represents funds donated to the Town that are required by the donors to be used specifically for the museum.

Unassigned - represents resources available for appropriation in following years for any lawful purpose.

When committed, assigned, and unassigned fund balances are available for use for the purpose of an expenditure, it is the government's policy to use committed amounts first, and then assigned amounts and finally unassigned amounts as they are needed when any of those unrestricted fund balances could be used.

When both restricted and unrestricted fund balances/net position are available and could be used for use for the purpose of an expenditure, it is the government's policy to spend restricted amounts first, then unrestricted resources as they are needed when either could be used.

For committed fund balances, the government's highest level of decision making is Town Council. The formal action that is required to establish (and modify or rescind) a fund balance commitment is a Town Ordinance.

For assigned fund balances, the Mayor is authorized to assign amounts to a specific purpose. Appointment by Town Council is the policy established pursuant to which authorization is given.

Government-wide and fund financial statements must be presented using an all-inclusive format. That is, the results of the current period's activities are to be reported as an addition to (or a deduction from) equity at the beginning of the period to arrive at the closing equity balance. Thus changes in net position on the government-wide statement of activities is added to (or deducted from) net position – beginning of the fiscal year to arrive at net position – end of the fiscal year.

Net positions are defined as the difference between assets and liabilities in the government-wide statement of net position.

The government-wide statement of net position reports all government assets, therefore, a significant portion of the net position reported there typically reflects a government's investment in capital assets. To draw financial statement users' attention to this important information, GAAP require the amount of net position invested in capital assets to be reported as a separate category of net position. Net position invested in capital assets, net of related debt includes all capital assets less accumulated depreciation and outstanding principal of related debt.

Restrictions may be imposed on a portion of a government's net position by parties outside the government (such as creditors, grantors, contributors). In some cases, such restricted assets are directly associated with particular liabilities (for instance, restricted assets associated with revenue bonds). An amount equal to these restricted assets, less any related liabilities, is reported as restricted net position.

GAAP direct that the difference between total net position and the two categories discussed above (net invested in capital assets and restricted net position) be reported as unrestricted net position. This amount may be a deficit to the extent that a government has elected to fund certain long-term liabilities (vacation leave, for instance) as they come due rather than when they are incurred.

8. Comparative data/reclassifications

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in the financial position and operations of the funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

9. Expenses/Expenditures

Consistent with the current financial resources measurement focus, the governmental fund statement of activities reports expenditures rather than expenses. Expenditures in the fund financial statements are presented by character for the governmental funds. The character of an expenditure is based upon the periods it is presumed to benefit. Expenditures that primarily benefit the present period (current expenditures) are distinguished from those presumed to benefit both the present and future periods (debt service expenditures and capital outlay expenditures). GAAP also provide for a fourth character classification, intergovernmental expenditures, for situations where one governmental entity provides resources to another.

Government-wide expenses are reported by function. The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. As a result, there are important differences between the expenditures reported on the governmental fund financial statements and those expenses reported on the government-wide financial statements. For example, the governmental funds report capital outlay expenditures, while the government-wide financial statements report depreciation.

The focus in proprietary funds is on expenses rather than expenditures. GAAP require that the statement of activities for proprietary funds distinguish operating from nonoperating expenses. GAAP do not provide an authoritative definition of operating and nonoperating expenses for this purpose, although GAAP indicate that financial statement preparers may wish to consider the authoritative guidance on identifying cash flows from operating activities in arriving at their own definitions.

10. Compensated Absences

A total of 60 days of sick leave may be accumulated by each employee; however, employees are not paid for the accumulated sick leave upon retirement or other termination. A maximum of 4 weeks (160 hrs.) of annual leave can be accumulated. Upon retirement or termination of employment, annual leave will be paid up to the accrual date of employment.

The Town accrues a liability for compensated absences that meets the following criteria:

- (1) The Town's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- (2) The obligation relates to rights that vest or accumulate.
- (3) Payment of the compensation is probable.
- (4) The amount can be reasonably estimated.

In accordance with the above criteria, the Town has accrued a liability for vacation pay which has been earned but not taken by Town employees. For entity-wide report presentation, the liability for compensated absences expected to be taken during the next fiscal year is included in the current liabilities of the related fund.

11. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element 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.

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 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 then. The government reports deferred inflows under the modified accrual approach from property taxes and hospitality taxes.

## II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

### A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation states "governmental funds report capital outlay as expenditures. In the statement of net position, the cost of these assets is recorded and that cost is allocated over their estimated useful lives." Explanation of this difference totaling \$1,582,231 is as follows:

Total capital assets	\$ 3,781,462
Accumulated depreciation	<u>(2,199,231)</u>
Net adjustment to increase fund balance – total governmental	
Funds to arrive at net position – governmental activities	<u>1,582,231</u>

Another element of that reconciliation states "certain assets are not available to pay for current period expenditures and, therefore, are deferred or restricted in the funds." Explanation of this difference totaling \$74,547 is as follows:

Deferred inflows – unavailable property taxes	\$ <u>74,547</u>
Net adjustment to increase fund balance – total governmental	
funds to arrive at net position – governmental activities	<u>74,547</u>

Another element of that reconciliation explains that "deferred inflows and outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. Explanation of this difference totaling \$212,160 is as follows:

Deferred outflows of resources	\$ 243,157
Deferred inflows of resources	<u>(30,997)</u>
Net adjustment to increase fund balance – total governmental	
funds to arrive at net position – governmental activities	<u>212,160</u>

Another element of that reconciliation explains that "long-term liabilities including bonds payable are not due and payable in the current period and therefore are not reported in the funds." Explanation of this difference totaling \$(1,741,136) is as follows:

Accrued compensated absences	\$ (13,853)
OPEB liability	(196,770)
Net pension obligations	(1,288,734)
Bonds payable	<u>(241,779)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>(1,741,136)</u>

Total net adjustments to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 127,802</u>
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B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

The details of this \$123,905 difference are as follows:

Capital outlay	\$ 235,915
Depreciation expense	<u>(112,010)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>123,905</u>

Another element of that reconciliations states that "revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The details of this \$(637) are as follows:

Deferred revenue decrease for unavailable taxes	<u>\$ (637)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>(637)</u>

Another element of that reconciliations states that "expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the funds. The details of this \$(28,938) are as follows:



OPEB increase	\$ (19,978)
Deferred compensated absences increase	<u>(8,960)</u>

Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>(28,938)</u>
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Another element of that reconciliation states that “the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities” The details of this \$45,549 are as follows:

Financing proceeds	\$ 0
Principal payments	<u>45,549</u>

Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>45,549</u>
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Another element of that reconciliations states that “governmental funds report pension contributions as expenditures, however, in the statement of activities, the cost of pension benefits earned net of contributions is reported as a pension expense. The details of this \$(24,636) are as follows:

Pension Contributions	\$ 85,300
Cost of benefits earned net of contributions	<u>(109,936)</u>

Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>(24,636)</u>
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Total net adjustments to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 115,243</u>
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#### C. Reclassifications and eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Any allocations must reduce the expense of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

### III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

#### A. BUDGETARY INFORMATION:

In accordance with the State of South Carolina General Statutes, the Town prepares an annual balanced budget ordinance. The Town adopts annual budgets for the General fund using the modified accrual basis which is consistent with accounting principles generally accepted in the United States of America and for the Enterprise funds using the full accrual basis. An annual budget for a Special Revenue fund is not adopted because sufficient budgetary control is achieved through restrictions that are included in the various grant agreements. An annual operating budget for the Capital Projects fund is not adopted as its revenues and expenditures are adopted on a project basis. Appropriations for the General and Enterprise funds lapse at the end of the budget year.

In February, the budget process begins with comprehensive work sessions in which the Town Administrator meets with all department heads to discuss current and future trends, needs, and goals of the Town. All department heads submit comprehensive lists of programs, projects, and initiatives to be considered in the upcoming budget and meet with Town Administrator individually. The Council holds public hearings and a final budget must be prepared and adopted no later than March 31.

Budgets are prepared at the fund, function, and department level. Budgets are adopted at the fund level and are amended as necessary during the fiscal year subject to Town Council approval. During the year, no supplemental appropriations were adopted by the Town Council. The total budgeted revenues and total budgeted expenditures remained unchanged.

#### B. EXCESS OF EXPENDITURES OVER REVENUES AND BUDGET

For the year ended March 31, 2017, expenditures exceeded revenues in the following funds:

General Fund	\$ 102,719
Water and Sewer Enterprise Fund	342,006
Hospitality Tax Fund	50,050
Victims Assistance	57,366

The General Fund's expenditures exceeded budget by \$69,749.

#### C. DEFICIT FUND EQUITY:

No funds reported a deficit fund balances as of March 31, 2017.

### IV. DETAILED NOTES ON ALL FUNDS:

#### A. DEPOSITS AND INVESTMENTS:

The Town maintains its cash accounts at several commercial banks. The cash balances are insured by FDIC up to \$100,000. Cash balances at risk and cash balances shown on the Balance Sheet may differ because of outstanding checks and deposits. The Town's deposits are catego-

rized to give an indication of the level of risk assumed by the Town. During the year and at year end all deposits of the Town were insured or collateralized with securities held by the Town or by its agent in the Town's name.

Deposits at year end, including savings accounts and money market accounts, are carried at cost (fair value) of \$1,856,939 with weighted maturities of less than one year.

Interest rate risk – In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment activity to less than twelve months.

Credit risk – The government does not invest in commercial paper or corporate bonds in order to limit its exposure to credit risk.

Concentration of credit risk and custodial risk – The government's investment policy does not allow for an investment in any one issuer that is in excess of amounts pledged by collateralized securities

The State of South Carolina General Statutes permit the Town to invest in the following types of instruments:

1. Obligations of the United States, its agencies and instrumentalities.
2. Obligations of the State of South Carolina or any of its political subdivisions.
3. Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
4. Certificates of deposit and repurchase agreements provided the collateral is of the types described in 1 and 2 above and has a market value in excess of the certificate of deposit or repurchase agreement plus accrued interest, and is held by a third party as escrow agent or custodian.
5. Repurchase agreements when collateralized by securities of the type described in 1 and 2 above and held by a third party as escrow agent or custodian, of a market value not less than the amount of the repurchase agreement so collateralized, including interest.
6. 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 the Town 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 1, 2 and 5 above and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, values its assets by the amortized cost method.

Restricted investments, as reported in the government-wide statements, reflects securities held in restricted accounts for specified purposes. The amount included under Net position - restricted for the proprietary fund reflects amounts required by bond ordinance to be set aside as debt service and debt reserve funds, unexpended construction project funds, and customer deposit funds. The amounts included under Net po-

sition – restricted in the governmental funds include cash related to a revolving loan account, victims' assistance funds, and other ongoing projects.

## B. RECEIVABLES:

Receivables at March 31, 2017, net of applicable allowances for uncollectible accounts are as follows:

### Accounts Receivable

Governmental funds	
Taxes receivable from Cherokee County	\$ 13,771
Disposal fees	4,544
Local option sales tax/property tax credit funds	20,854
MASC license collections	13,391
SRO reimbursement – school district	20,452
Revenues from the magistrate	24,581
Taxes	74,547
Other	404
Franchise fees	<u>28,174</u>
Total	<u>\$ 200,718</u>

### Interfund Receivables

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Any allocations must reduce the expense of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

### Notes Receivable

In prior years, the Town received a Department of Agriculture Rural Development Grant as a revolving loan fund to provide financial assistance to small businesses locating in the Town. The fund balance has been restricted for all principal payments not available as current resources funds on hand.

## C. CAPITAL ASSETS:

A summary of changes in governmental type activities capital assets follows:

	<u>Balance</u> <u>04-01-16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>03-31-17</u>
Governmental type activities:				
Land	\$ 111,122	\$133,233	\$	\$ 244,355
Buildings	1,608,288			1,608,288
Infrastructure	324,972			324,972
Equipment	<u>1,501,165</u>	<u>102,682</u>	<u>          </u>	<u>1,603,847</u>
Total	3,545,547	235,915		3,781,462
Less: Accumulated Depreciation	<u>(2,087,221)</u>	<u>(112,010)</u>		<u>(2,199,231)</u>
Net Governmental Activities	<u>\$ 1,458,326</u>			<u>\$ 1,582,231</u>

A summary of business type activities capital assets follows:

	<u>Balance 04-01-16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 03-31-17</u>
Business type activities:				
Land and easements	\$ 59,062	\$	\$	\$ 59,062
Buildings	61,214			61,214
Distribution System	15,234,914	462,980		15,697,894
Equipment	<u>915,081</u>	<u>19,478</u>	<u>        </u>	<u>934,559</u>
Total	16,270,271	482,458		16,752,729
Less: Accumulated Depreciation	<u>(7,967,754)</u>	(447,348)		<u>(8,415,102)</u>
Net Business Activities	<u>\$ 8,302,517</u>			<u>\$ 8,337,627</u>

Depreciation expense was charged to programs of the primary government as follows:

<u>Governmental Activities:</u>	\$ 37,511
General Government	44,048
Police Department	<u>30,451</u>
Street Department	<u>\$112,010</u>
Total Depreciation Expense - Governmental Activities	
 <u>Business-Type Activities:</u>	 \$306,262
Water Fund	<u>141,086</u>
Sewer Fund	
Total Depreciation Expense - Business-Type Activities	<u>\$447,348</u>

Construction commitments:

During the year the Town was a party to construction contracts related to grant-funded water improvements. Projects were capitalized as different phases were completed. New projects are planned for FY2018.

#### D. LONG-TERM DEBT:

##### NOTES AND BONDS PAYABLE:

In 2014, the town issued a \$333,000 Series 2014A general obligation improvement bond to build a history museum. The asset and related obligation are accounted for in the general fund in the government-wide financial statements. The Series 2014A bond is being repaid in 7 annual installments of \$51,296 including interest at 2% per annum beginning July 1, 2015.

The following is a summary of changes in long-term debt for notes payable for the year ended March 31, 2017:

	<u>Balance 04-01-16</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 03-31-17</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Museum building	\$287,328	\$	\$45,549	\$241,779	\$ 46,460
Total Governmental Activities	<u>287,328</u>		<u>45,549</u>	<u>241,779</u>	<u>46,460</u>
 <u>Business Type Activities:</u>					
	<u>0</u>		<u>0</u>	<u>0</u>	<u>0</u>
Total Business Type Activities	<u>0</u>		<u>0</u>	<u>0</u>	<u>0</u>

The annual debt service requirements to maturity for the notes payable portion of long-term debt, excluding capital leases reported separately, as of March 31, 2017, are as follows:

#### GOVERNMENTAL ACTIVITIES

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 46,460	\$ 4,835
2019	47,389	3,906
2020	48,337	2,959
2021	49,303	1,992
2022	<u>50,290</u>	<u>1,006</u>
Totals	<u>\$241,779</u>	<u>\$ 14,698</u>

#### BUSINESS-TYPE ACTIVITIES

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 0	\$ 0
Total	<u>\$ 0</u>	<u>\$ 0</u>

#### CAPITAL LEASES (LEASE PURCHASE OBLIGATIONS):

The Town has entered into a proprietary type lease/purchase agreement accounted for as a capital lease. The leased assets are accounted for in the Water and Sewer Fund. The assets under capital leases totaled \$49,511 with accumulated depreciation of \$24,756 at March 31, 2017. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of March 31, 2017.

	<u>Principal</u>	<u>Interest</u>
Year ending March 31, 2018	\$ 10,947	\$ 468
2019	<u>1,890</u>	<u>13</u>
Total Minimum Lease Payments	<u>\$ 12,837</u>	<u>\$ 481</u>

The following is a summary of changes in lease obligations for the year ended March 31, 2017:

	<u>Balance 04-01-16</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 03-31-17</u>	<u>Due Within One Year</u>
<u>General Long-Term Debt:</u>					
Lease obligations	\$ 0	\$	\$ 0	\$ 0	\$ 0
<u>Proprietary Fund:</u>					
Lease obligations	23,153	0	10,316	12,837	10,947

#### OTHER LONG-TERM LIABILITIES:

The following is a summary of accrued compensated absences and OPEB liability at March 31, 2017:

	<u>Accrued absences</u>	<u>OPEB Liability</u>	<u>Net Pension Obligation</u>	<u>Total</u>
General Fund	\$ 13,853	\$196,770	\$1,288,734	\$1,499,357
Proprietary Fund	14,536	107,864	796,801	919,201
Totals	<u>\$ 28,389</u>	<u>\$ 304,634</u>	<u>\$ 2,085,535</u>	<u>\$2,418,558</u>

In prior years, the general fund has been used to liquidate other long-term liabilities for governmental-type obligations.

#### V. OTHER INFORMATION:

##### A. RISK MANAGEMENT:

The Town's risk management combines elements of both self-insurance and purchased insurance policies divided into coverage for comprehensive general liability, automobile liability, automobile physical damage, workers' compensation, property, crime insurance, employee health care insurance, and "all risk" insurance including theft, flood and earthquake. The costs of these policies are accounted for in the General fund.

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries insurance pools sponsored by the SC Municipal Insurance and Risk Financing Fund. Workers' compensation is carried by the State Accident Fund. Employee health care is carried by the BlueCross BlueShield of SC. The remaining policies are carried by the State of South Carolina Insurance Reserve Fund.

The workers' compensation policy provides coverage as required by statute. The policies essentially cover the amount of the loss. In the event a claim is settled for an amount exceeding the limits of these policies, the Town would have to pay the excess. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

#### **B. RELATED PARTY TRANSACTIONS:**

The Town is not involved in any material related party transactions.

#### **C. SUBSEQUENT EVENTS:**

Management has evaluated subsequent events through the report issuance date.

#### **D. CONTINGENT LIABILITIES:**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The Town is party to various civil lawsuits and other legal actions. In the opinion of the Town's attorney and management, the ultimate outcome of these suits is not expected to have a significant impact upon the Town's financial position.

The Town participates in a number of federally assisted grant programs and state funded grant programs. These programs are subject to financial compliance audits by the Town's auditors and by auditors of the federal or state grantor agencies. Upon audit, should it be determined that the Town has failed to comply with applicable requirements of the grants, then some or all of the grant expenditures may be disallowed and a portion of the grant expenditure may become reimbursable to the grantor. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for any refunds.

When the Town is a party to construction contracts related to grant-funded improvement contracts that are not completed at year end, the projects are reported as construction in progress in the financial statements.

The Town is involved in various lawsuits in the normal course of business. Management or Town Counsel cannot predict the outcome of the lawsuits or estimate the amount of loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements.

#### **E. EMPLOYEE RETIREMENT SYSTEMS AND OTHER POST-EMPLOYMENT BENEFITS:**

##### **Pension Plan:**

All employees of the Town participate in one of two defined benefit pension plans, administered by the State of South Carolina. The South Carolina Retirement System (SCRS) and the Police Officer's Retirement System (PORS), both of which are cost sharing multiple-employer public employee retirement plans. The total payroll for active employees covered by the SCRS for the year ended March 31, 2017 was \$578,297. The total payroll for active employees covered by the PORS for the year ended March 31, 2017 was \$290,168. The payroll for retired members for the year ended March 31, 2017 was \$27,298 for retirees covered by the SCRS and \$134,456 for retirees covered by the PORS.



The SCRS and PORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. The plans' provisions are established under Title 9 of the SC Code of Laws.

Both employees and the Town are required to contribute to the SCRS and PORS at rates established under the authority of Title 9 of the Code of Laws. The Town's contributions are actuarially determined, but are communicated to and paid by the Town as a percentage of the employees' annual earnings. For year ended March 31, 2017, and the years ended March 31, 2016 and 2015, the Town contributed 100% of the required contributions. At year end, contributions by the Town for employees covered by the SCRS and PORS were based on 11.41% and 13.84% of the employees' earnings and amounted to \$68,356 for the year ended March 31, 2017 (SCRS) and \$58,265 (PORS), \$61,486 (SCRS) and \$56,177 (PORS) for the year ended March 31, 2016 and \$59,444 (SCRS) and \$52,322 (PORS) for the year ended March 31, 2015. Employee contributions for the SCRS and PORS were based on 8.66% and 9.24% of the employees' earnings and amounted to \$51,640 for the year ended March 31, 2017 (SCRS) and \$38,697 (PORS), \$45,913 (SCRS) and \$36,663 (PORS) for the year ended March 31, 2016, and \$43,796 (SCRS) and \$33,929 (PORS) for the year ended March 31, 2015.

A comprehensive annual financial report containing financial statements and required supplementary information for the SCRS and PORS is issued and publicly available by writing to South Carolina Retirement Systems, P.O. Box 11960, Columbia, SC, 29211-1960.

At March 31, 2017 the Town reported a liability of \$1,256,387 for its proportionate share of the collective net pension liability of the South Carolina Retirement System and a liability of \$829,148 for its proportionate share of the collective net pension liability of the South Carolina Police Officers Retirement System. The collective net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The System's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating South Carolina employers. At March 31, 2017 the System's proportion was 0.005882% for the South Carolina Retirement System and 0.03269% for the South Carolina Police Officers Retirement System. Employer contributions from the Town of Blacksburg used to calculate the proportionate share of liability for the year ended March 31, 2017 were \$62,997 for the South Carolina Retirement System and \$57,261 for the South Carolina Police Officers Retirement System.

For the year ended March 31, 2017, the Town's annual actuarially allocated pension cost was \$87,581 for the South Carolina Retirement System and \$89,446 for the South Carolina Police Officers Retirement System. At March 31, 2017, the Town reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>SCRS</u>	\$ 13,024	\$ 1,364
Difference Between Expended and Actual Experience	105,703	
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Changes in Proportionate Share and Differences Between Employer Contributions	0	53,120
and Proportionate Share of Total Employer Contributions	<u>69,264</u>	
The Town's Contributions Subsequent to Measurement Date		
	<u>187,991</u>	<u>54,484</u>
Total SCRS		

<b>PORS</b>		
Difference Between Expended and Actual Experience	12,303	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	94,018	
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Employer Contributions	8,106	11,067
The Town's Contributions Subsequent to Measurement Date	<u>59,963</u>	
Total PORS	<u>174,390</u>	<u>11,067</u>
Total SCRS and PORS	<u>\$ 362,381</u>	<u>\$ 65,551</u>

Approximately \$69,000 and \$60,000 that were reported as deferred outflows of resources related to the Town's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liabilities in the year March 31, 2018. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS and PORS will increase (decrease) pension expense as follows:

Year Ended March 31,	SCRS	PORS	Total
2017	\$ 4,856	\$ 23,818	\$ 28,674
2018	-1,952	23,194	21,242
2019	37,640	36,904	74,544
2020	<u>23,699</u>	<u>19,441</u>	<u>43,140</u>
Total	\$ <u>64,243</u>	\$ <u>103,357</u>	\$ <u>167,600</u>

## **GENERAL INFORMATION ABOUT THE PENSION PLAN**

### **Description of the Entity**

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

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

**Description of Available Plans:** (Note – The Town only participates in the SCRS and PORS)

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

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

**Membership**

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

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

**Benefits**

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

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

five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

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

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

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

### **Contributions**

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

Required employee contribution rates<sup>1</sup> are as follows:

	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2017</u>
<b>SCRS</b>		
Employee Class Two	8.16%	8.66%
Employee Class Three	8.16%	8.66%
 <b>PORS</b>		
Employee Class Two	8.74%	9.24%
Employee Class Three	8.74%	9.24%

Required employer contribution rates<sup>1</sup> are as follows:

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

\* Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

\* Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

### **Actuarial Assumptions and Methods**

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

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

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

ules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2015, valuations for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return <sup>1</sup>	7.5%	7.5%
Projected salary increases	3.5% to 12.5% (varies by service) <sup>1</sup>	4.0% to 10.0% (varies by service) <sup>1</sup>
Benefit adjustments	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually
<sup>1</sup> Includes inflation at 2.75%		

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2015, valuations for SCRS and PORS are as follows.

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

### **Net Pension Liability**

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2016, for SCRS and PORS are presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 45,356,214,752	\$ 23,996,362,354	\$ 21,359,852,398	52.9%
PORS	6,412,510,458	3,876,035,732	2,536,474,726	60.4%

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

### Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based consensus expectations and market based inputs. Market returns are net of investment fees. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
<b>Global Equity</b>	<b>43.0%</b>		
Global Public Equity	34.0%	6.25%	2.22%
Private Equity	9.0%	9.30%	0.84%
<b>Real Assets</b>	<b>8.0%</b>		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
<b>Opportunistic</b>	<b>20.0%</b>		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
<b>Diversified Credit</b>	<b>17.0%</b>		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Market Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
<b>Conservative Fixed Income</b>	<b>12.0%</b>		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100.0%		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			7.85%

### **Discount Rate**

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

### **Sensitivity Analysis**

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

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

<b>System</b>	<b>1.00% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1.00% Increase (8.50%)</b>
SCRS	\$ 26,645,830,988	\$ 21,359,852,398	\$ 16,959,474,388
PORS	3,324,267,374	2,536,474,726	1,828,495,252

### **Differences Between Expected and Actual Experience**

At March 31, 2017, the Town reported liabilities of approximately \$1,256,387 and \$829,148 for its proportionate share of the net pension liability for the SCRS and PORS ("Plans") respectively. The net pension liabilities were measured as of June 30, 2016

### **Additional Financial and Actuarial Information**

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2016 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation.

### **Payable to the Pension Plan**

At March 31, 2017, the Town reported a payable of \$21,534 for the regular monthly outstanding amount of contributions to the pension plan required for the year ended March 31, 2017.

### **Other post-employment benefits plan:**

#### **1 Plan description:**

Beginning in fiscal year 2010, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 45 prospectively for other post-employment benefits (OPEB) offered to retirees. This standard addresses how local governments should account for and report their costs related to post-employment healthcare. The funding methodology mirrors the funding approach used for pension benefits.

The Town provides post-retirement health benefits, as per the requirement of a local ordinance, for certain retirees and their dependents. The Town of Blacksburg OPEB Plan (plan) is approved each year by Town



Council. The plan is a single member defined benefit OPEB plan administered internally by the Town. Information about the plan is included in the Town's entity-wide financial statements. Participants must be eligible to retire under the South Carolina Retirement System (SCRS or PORS) to receive the benefits upon retirement. In addition, the retiree must meet one of the following criteria:

1. Age 59½ - 65
2. 28 years' service with the Town

The Town provides the following option to its retirees:

Retirees can elect to stay on the Town's group insurance plan and pay all costs. This allows retirees to cover a spouse. The cost of coverage for pre-65 retirees is implicitly subsidized by the Town.

The plan does not include a disability benefit.

The plan does not include a special pre-retirement death benefit.

The plan does not include a special withdrawal benefit.

Service is determined from date of hire.

Retirees pay 100 percent of the health insurance premiums. The Town's regular health insurance providers underwrite the retiree's policies.

## 2. Funding policy:

As of March 31, 2017, there were 31 participants in the plan eligible to receive future benefits, of which there were 30 members in active service. The Town currently finances the plan on a pay-as-you-go basis. For the year ended March 31, 2017, Town recognized pay-as-you-go expenses of \$0 for healthcare net of retiree contributions in the current and all prior years.

The Town's annual other postretirement benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding required that, if paid on an annual basis, is projected to cover the normal cost for each year plus the amount necessary to amortize any unfunded liability over a period not to exceed 30 years. The current ARC is based on a level percent of payroll growth increasing annually at 4%.

## 3. Annual OPEB cost and funded status and funding progress:

For the year ended March 31, 2017, the annual OPEB cost (expense) of \$30,293 is equal to the adjusted ARC. The ARC for the year ended March 31, 2017 is computed as follows:

Annual OPEB cost -	
Normal costs for current year	\$ 30,454
Amortization of the unamortized accrued liability	5,297
Adjustment to Annual Required Contributions	(5,458)
Total annual required contribution	30,293
Age adjusted contributions made	0
Increase in net OPEB obligation	30,293
Net OPEB obligation – beginning of year	274,341
Net OPEB obligation – end of year (ARC)	<u>\$ 304,634</u>

Funding status –

Actuarial Valuation date	3/31/2016
Actuarial value of assets	\$ 0
Actuarial accrued liability (AAL)	<u>196,942</u>
Unfunded AAL (UAAL)	<u>\$ 196,942</u>
Funded ratio	0.0%
Covered payroll	\$ 989,155
UAAL as a percentage of covered payroll	20%

For the year ended March 31, 2017, the Town's management elected to not accumulate or dedicate funding for the net OPEB obligation. Accordingly, the net OPEB obligation recorded at March 31, 2017 was \$30,293. The net OPEB obligation for 2016 and 2015 were \$30,293 and \$53,485 respectively. The plan's unfunded actuarial liability is being amortized as a level percentage of payroll over a period of 30 years. The remaining amortization period at the March 31, 2017 was 22 years.

#### 4. Actuarial methods and assumptions:

The Town meets the requirements to use alternative measurement method and has elected to do so. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about future events and costs. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

The Town used the entry age normal actuarial cost method for the March 31, 2016 valuation. The actuarial assumption includes a .35% investment rate of return. For all retirees the initial healthcare cost trend was 8.0%. The trend rate will decrease in annual steps until it reaches 4.7% in year 10 and then remain level. Payroll growth is estimated to be 4.0% per year. The asset valuation method used is market value.

#### F. LONG-TERM WATER CONTRACT:

On August 24, 2011, the Town of Blacksburg negotiated a twenty (20) year contract with the Board of Public Works of Gaffney, South Carolina, to purchase water. The total water purchases for the fiscal year 2017 were \$337,938.

#### G. INTERFUND TRANSACTIONS:

During the course of normal operations, the Town has various transactions between funds, including expenditures and transfers of resources to provide services.

#### H. CONTRIBUTED CAPITAL AND GRANTS:

During the fiscal year the Town had several projects designed to upgrade, relocate and extend water and sewer lines. These projects are generally funded by Federal grants, State grants, and community contributions. Amounts contributed to the Town during the year include the following:

Community Development Block Grant - Sewer Improvements \$138,550

SC Rural Infrastructure Authority Grant - Sewer Improvements \$200,650  
Reimbursement from County for prior year grant activity \$50,000  
Cherokee County School District SRO Officer, Vehicle Reimbursement, & Crossing Guard \$92,153  
Museum of History donations \$325  
C-Funds Sidewalk Grant \$24,674

The Town participates in the State of South Carolina Local Option Sales Tax program in which it receives a portion of the sales tax funds collected by the state. Funds received from the State are allocated between a general revenue account and a property tax credit fund account. Funds deposited in the property tax credit fund account in excess of the amount provided for property tax relief in the current year are recorded as a liability and must be applied as a credit against property tax bills in the following year. When calculating the next fiscal year's tax credit factor, the Town must consider any surplus funds in the property tax credit fund account when projecting future collections.

I. TAX ABATEMENTS:

The Town was subject to no tax abatements that affected their revenues for fiscal year 2017.

Town of Blacksburg  
Schedule of the Town Proportionate Share of the Net Pension Liability  
As of March 31, 2017  
For the Last 10 Years\*

<u>SCRS</u>	<u>2016</u>	<u>2017</u>
Proportion of the net pension liability	.006437%	.005882%
Proportionate share of the net pension liability	\$1,108,238	\$1,256,387
Covered-employee payroll	\$565,561	\$605,595
Proportionate Share of the net pension liability as a percentage of covered-employee payroll	195.9538%	207.4632%
Plan's fiduciary net position	\$25,738,521,026	\$23,996,362,354
Plan's total pension liability	\$42,955,205,796	\$45,356,214,752
Plan fiduciary net position as a percentage of the total pension liability	59.9%	52.9%

Notes to the schedule:

Benefit changes – none

Changes in assumptions - none

\*Fiscal year 2017 was the 2nd year of implementation, therefore only two years are shown.

The notes to the financial statements are an integral part of this statement.

Town of Blacksburg  
Schedule of the Town Proportionate Share of the Net Pension Liability  
As of March 31, 2017  
For the Last 10 Years\*

<u>PORS</u>	<u>2016</u>	<u>2017</u>
Proportion of the net pension liability	.03268%	.03269%
Proportionate share of the net pension liability	\$625,692	\$829,148
Covered-employee payroll	\$423,594	\$424,624
Proportionate Share of the net pension liability as a percentage of covered-employee payroll	147.7103%	195.2664%
Plan's fiduciary net position	\$3,985,101,996	\$3,876,035,732
Plan's total pension liability	\$5,899,529,434	\$6,412,510,458
Plan fiduciary net position as a percentage of the total pension liability	67.5%	60.4%

Notes to the schedule:

Benefit changes – none

Changes in assumptions - none

\*Fiscal year 2017 was the 2nd year of implementation, therefore only two years are shown.

The notes to the financial statements are an integral part of this statement.

Town of Blacksburg  
Schedule of the Town's Contributions to the Pension Plan  
As of March 31, 2017  
For the Last 10 Years\*

<u>SCRS</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution (actuarially determined)	\$77,675	\$87,581
Contributions in relation to the actuarially determined contributions	<u>60,024</u>	<u>69,264</u>
Contributions deficiency (excess)	<u>\$ 17,651</u>	<u>\$ 18,317</u>
Covered-employee payroll	\$565,561	\$605,595
Contractually required contributions as a percentage of covered-employee payroll	13.73%	14.46%

Notes to schedule:

The amounts presented for each fiscal year were determined as of March 31<sup>st</sup> of the preceding year.

\*Fiscal year 2017 was the 2nd year of implementation, therefore only two years are shown.

The notes to the financial statements are an integral part of this statement.

Town of Blacksburg  
Schedule of the Town's Contributions to the Pension Plan  
As of March 31, 2017  
For the Last 10 Years\*

<u>PORS</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution (actuarially determined)	\$ 54,740	\$89,446
Contributions in relation to the actuarially determined contributions	<u>53,900</u>	<u>59,963</u>
Contributions deficiency (excess)	<u>\$ 840</u>	<u>\$29,483</u>
Covered-employee payroll	\$423,594	\$424,624
Contractually required contributions as a percentage of covered-employee payroll	12.92%	21.06%

Notes to schedule:

The amounts presented for each fiscal year were determined as of March 31<sup>st</sup> of the preceding year.

\*Fiscal year 2017 was the 2nd year of implementation, therefore only two years are shown.

The notes to the financial statements are an integral part of this statement.

Town of Blacksburg  
Schedule of the Town's Contributions to the Pension Plan  
As of March 31, 2017

Methods and assumptions used to determine contribution rates:

SCRS

Single and Agent Employers Example	Entry age normal
Amortization method	Level percentage of payroll, closed
Asset valuation method	30 year capital market outlook
Inflation	2.75%
Salary increases	Levels off at 3.5% to 12.5% (varies by service)
Benefit adjustments	Lesser of 1% or \$500
Investment rate of return	7.5%
Retirement age	55 years old with 25 years of service
Mortality	RP-2000 Male & Female Tables x 100%/90% respectively

PORS

Single and Agent Employers Example	Entry age normal
Amortization method	Level percentage of payroll
Asset valuation method	30 year capital market outlook
Inflation	2.75%
Salary increases	4% to 10% (varies by service)
Benefit adjustments	Lesser of 1% or \$500 annually
Investment rate of return	7.5%
Retirement age	55 years old with 27 years of service
Mortality	RP-2000 Male & Female Tables with blue Collar adjustment) x115%

The notes to the financial statements are an integral part of this statement.



Town of Blacksburg, South Carolina  
**SCHEDULE OTHER POSTEMPLOYMENT BENEFIT PLAN CONTRIBUTIONS AND  
 FUNDING STATUS**  
 For the Fiscal Year Ended March 31, 2017

The following is a schedule of annual OPEB costs, employer contributions, and funding status for Other Postemployment Benefits:

	Annual OPEB Cost	Costs Contributed	Funded Percentage
March 31, 2017	\$ 30,293	\$ 0	0 %
March 31, 2016	\$ 30,293	\$ 0	0 %
March 31, 2015	\$ 53,485	\$ 0	0 %
March 31, 2014	\$ 53,485	\$ 0	0 %
March 31, 2013	\$ 53,485	\$ 0	0 %
March 31, 2012	\$ 27,865	\$ 0	0 %
March 31, 2011	\$ 27,864	\$ 0	0 %
March 31, 2010	\$ 27,864	\$ 0	0 %

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



TOWN OF BLACKSBURG  
SCHEDULE OF FINES AND ASSESSMENTS  
FOR THE YEAR ENDED MARCH 31, 2017

**Court Fines:**

Court fines collected	\$ 31,221
Court fines retained by the Town	<u>(31,221)</u>

Court Fines Remitted to the State Treasurer	<u>\$ -0-</u>
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**Court Assessments & Surcharges**

Court assessments & surcharges collected	\$ 61,790
Court assessments & surcharges retained by the Town	<u>(8,731) *</u>

Court Assessments & Surcharges Remitted to the State Treasurer	<u>\$ 53,059</u>
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**Victim Assistance Fund Activity (Cash Basis)**

Carryforward of Victim Assistance Fund balance from prior year	\$ 68,069
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**Revenues:**

Transfers from General Fund during the year based of funds received from the Magistrate's Office (cash basis)	7,183 *
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**Expenditures:**

Victim assistant services expenditures – operating expenditures	<u>(64,549)</u>
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Funds Available for Carryforward	<u>\$ 10,703</u>
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\* Note: The Court Assessments & Surcharges amount shown above is based on a summary of the monthly reports sent to the State Treasurer (accrual basis); however, the amount shown above for revenue transfers from the General Fund to the Victims Assistance Fund is reported on the cash flow basis resulting in a one month timing difference.

The notes to the financial statements are an integral part of this statement.

**TERRY R. FANT. PA**  
**CERTIFIED PUBLIC ACCOUNTANT**  
309 WEST MAIN STREET  
UNION, SOUTH CAROLINA 29379

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council  
Town of Blacksburg, SC

I 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, each major fund, and the aggregate remaining fund information of the Town of Blacksburg, SC, as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the Town of Blacksburg, SC's basic financial statements and have issued my report thereon dated July 6, 2017.

**Internal Control over Financial Reporting**

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies (See 2017.1).

**Compliance and Other Matters**

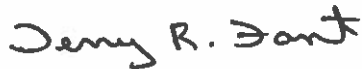
As part of obtaining reasonable assurance about whether the Town of Blacksburg, SC's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

### **The Town of Blacksburg, SC's Response to Findings**

The Town of Blacksburg, SC's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The Town of Blacksburg, SC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

### **Purpose of this Report**

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



Terry R. Fant, CPA, PA

July 6, 2017

TOWN OF BLACKSBURG  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED MARCH 31, 2017

**Significant Control Deficiencies:**

**Finding 2017-1 Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.**

The auditor drafted the financial statements, including footnote disclosure, due to the fact that the Town of Blacksburg does not have the ability to independently prepare or review financial statements and related footnote disclosures. As such, there were no controls in place to detect misstatements in this area.

Recommendation – Just as most other small governments, the Town of Blacksburg considers it to be cost prohibitive to hire a full-time finance director with the training and experience necessary to be able to prepare and understand financial statements. To strengthen control, the Town should appoint someone on staff to begin developing the skills needed to provide oversight in this area.

Corrective Action - Management has appointed the Town Administrator to perform a detailed review of the draft financial statements with the auditor in an effort to begin developing a level of understanding necessary to assume responsibility for financial statement preparation and to prevent and detect misstatements.

Conclusion - Response accepted

The notes to the financial statements are an integral part of this statement.