

CITY OF INMAN

☐ **Independent Auditors' Report**

**Financial Statements and Schedules
For the Year Ended June 30, 2017**

CITY OF INMAN
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FINANCIAL SECTION

Independent Auditors' Report

The Honorable Mayor
and Members of City Council
City of Inman, SC

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Inman as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Inman as of June 30, 2017, and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Emphasis of Matter

As described in Note 13 to the financial statements, in fiscal year 2017, the City adopted new accounting guidance, Governmental Accounting Standard Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

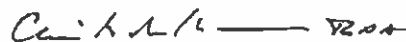
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Inman's basic financial statements. The supplementary information- Municipal Court Fines and Fees, Assessment and Surcharges is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017, on our consideration of the City of Inman's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CITY OF INMAN

Management's Discussion and Analysis

As management of the City of Inman (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2017 ("FY 2017"). Please read this section in conjunction with the financial statements that follow.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of FY 2017 by \$4,604,397 (*net position*). Of this amount, \$1,029,294 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$459,450, with a decrease of \$183,201 for governmental activities and a decrease of \$276,249 for business-type activities.
- As of the close of FY 2017, the City's governmental funds reported combined ending fund balances of \$1,465,271, an increase of \$283,352 compared to the prior fiscal year. Approximately 37% of this total amount, or \$597,595, is available for spending at the government's discretion (*unassigned fund balance*).
- Unassigned fund balance for the General Fund was \$597,595 at June 30, 2017, or approximately 40% of total General Fund expenditures and transfers out for FY 2017. In addition, the City's unassigned fund balance for the General Fund decreased by \$182,119 compared to the prior fiscal year.
- The City's total capital assets (net of depreciation and amortization) were valued at \$8,723,964 at the close of the fiscal year, a decrease of approximately 6.5%, or \$609,053, compared to the prior fiscal year.
- Total long-term debt for the Governmental Activities was \$697,975 at the end of FY 2017, an increase of \$307,378 compared to the prior fiscal year. Most of this increase is due to the issuance of the Hospitality Fee Revenue Bond Anticipation Note in the amount of \$304,000. For the Enterprise Fund, long-term debt was \$5,621,133 as of the end of FY 2017, a decrease of \$226,390 compared to the prior fiscal year.

Overview of the Financial Statements

This annual report consists of a series of financial statements: the government-wide statements, the fund financial statements, and the notes to the financial statements.

The first several statements are condensed and present a government-wide view of the City's finances. The Statement of Net Position and the Statement of Activities provide information about the City and show a long-term view of the City's finances. In these two reports, the operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as administration, streets, sanitation, parks, fire, police, and judicial. The sewer department is the business-type activity of the City.

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Activities focuses on gross and net costs of City programs. This statement summarizes the extent to which programs are self-supporting and use general revenues.

Fund financial statements provide detailed information about the most significant funds rather than the City as a whole. The reports focus separately on major governmental funds and proprietary funds.

Most of the City's basic services are reported in governmental funds. The governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The governmental funds are reported using the modified accrual basis of accounting, which measures cash and other assets that can be converted to cash. The governmental fund statements provide a short-term view of the City's general operations and the basic services it provides. A budgetary comparison is presented for the General Fund, which is the governmental fund that has a legally adopted budget.

The sewer department activities are reported in the proprietary fund reports. The sewer department is an enterprise that the city operates and charges customers for the services that they use. Proprietary fund statements are reported on the accrual basis of accounting. Statements for the City's proprietary funds include net position, revenue, expenses, change in net position and cash flow.

The City has implemented GASB Statement No. 68 "Accounting and Financial Reporting of Pensions." This statement requires cost-sharing employers to present actuarial information about pensions, including a net pension liability, pension expenses, and pension-related inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

The notes to the financial statements provide additional disclosures and provide information to assist in understanding the City's financial condition.

The City as a Whole

This discussion summarizes changes in financial position and differences in operations between FY 2017 and FY 2016.

	Net Position (in thousands)											
	Governmental Activities				Business-Type Activities				Total Government			
	[1]		[1]		[1]		[1]		[1]		[1]	
	2017	2017	2016	2016	2017	2017	2016	2016	2017	2017	2016	2016
Cash and Investment	1,338	1,338	1,079	1,079	1,506	1,506	1,490	1,490	2,844	2,844	2,569	2,569
Other Assets	221	221	185	185	543	543	545	545	764	764	730	730
Capital Assets	714	714	844	844	8,010	8,010	8,489	8,489	8,724	8,724	9,333	9,333
Total	2,273	2,273	2,108	2,108	10,059	10,059	10,524	10,524	12,332	12,332	12,632	12,632
Deferred Outflows	204		153		118	-	85	-	322	-	238	-
Other Liabilities	75	75	69	69	44	44	40	40	119	119	109	109
Net Pension Liability	1,020	-	877	-	590	-	491	-	1,610	0	1,368	-
Long-Term Liabilities	698	698	390	390	5,621	5,621	5,848	5,848	6,319	6,319	6,238	6,238
Total	1,793	773	1,336	459	6,255	5,665	6,379	5,888	8,048	6,438	7,715	6,347
Deferred Inflows	1	-	58	-	1	-	33	-	2	-	91	-
Net Position:												
Net Investment in												
Capital Assets	16	16	418	418	2,389	2,389	2,642	2,642	2,405	2,405	3,060	3,060
Restricted	868	868	318	318	303	303	454	454	1,171	1,171	772	772
Unrestricted	(201)	616	130	913	1,230	1,702	1,102	1,540	1,029	2,318	1,232	2,453
Total	683	1,500	866	1,649	3,922	4,394	4,198	4,636	4,605	5,894	5,064	6,285

[1]- Excludes impact of GASB 68.

As of June 30, 2017, the net position of the governmental activities decreased \$183,000, from \$866,000 to \$683,000. Also, unrestricted net position of the governmental activities decreased \$331,000. Unrestricted net position is the part of net position that can be used to finance day-to-day operations without constraints or requirements. Also, for the governmental activities, total cash and investments increased \$259,000 to approximately \$1.34 million.

For the City's business-type activities, as of June 20, 2017, net position decreased \$276,000, to \$3.92 million. Capital assets decreased \$479,000, primarily due to depreciation, while long-term liabilities decreased \$227,000.

The City implemented GASB Statement No. 68 in fiscal year 2015. Thus, for FY 2017, the City recorded a net pension liability of \$1.61 million. See Note 7 for more information related to the City's proportionate share of net pension liabilities of the South Carolina Retirement System and Police Officers' Retirement System.

	Change in Net Position (in thousands)											
	Governmental Activities				Business-Type Activities				Total Government			
	[1]		[1]		[1]		[1]		[1]		[1]	
	2017	2017	2016	2016	2017	2017	2016	2016	2017	2017	2016	2016
REVENUES												
Program Revenues:												
Charges for Services	86	86	141	141	1,628	1,628	1,400	1,400	1,714	1,714	1,541	1,541
Grants & Contributions	86	86	126	126	-	-	21	21	86	86	147	147
General Revenues:												
Property Taxes	429	429	417	417	-	-	-	-	429	429	417	417
Intergovernmental	150	150	130	130	-	-	-	-	150	150	130	130
Licenses & Fees	766	766	806	806	-	-	-	-	766	766	806	806
Donations	2	2	-	-	-	-	-	-	2	2	-	-
Gain on Disposal of Assets	5	5	3	3	-	-	-	-	5	5	3	3
Miscellaneous	9	9	18	18	26	26	26	26	35	35	44	44
Total	1,533	1,533	1,641	1,641	1,654	1,654	1,447	1,447	3,187	3,187	3,088	3,088
EXPENSES												
Depreciation	200	200	180	180	504	504	496	496	704	704	676	676
Administration	418	412	237	255	-	-	-	-	418	412	237	255
Streets, Sanitation, Park	288	286	393	405	-	-	-	-	288	286	393	405
Fire	200	195	135	159	-	-	-	-	200	195	135	159
Police & Judicial	598	577	488	589	-	-	-	-	598	577	488	589
Interest & Fiscal Charges	12	12	11	11	-	-	262	262	12	12	273	273
Sewer	-	0	-	-	1,426	1,393	1,025	852	1,426	1,392	1,025	852
Total	1,716	1,682	1,444	1,599	1,930	1,897	1,783	1,610	3,646	3,578	3,227	3,209
Increase (Decrease) in Net Position	(183)	(149)	197	42	(276)	(243)	(336)	(163)	(459)	(391)	(139)	(121)
Net Position- Beginning	866	1,649	669	1,607	4,198	4,799	4,534	4,799	5,064	6,285	5,203	6,406
Net Position- Beginning	866	1,649	669	1,607	4,198	4,636	4,534	4,799	5,064	6,285	5,203	6,406
Net Position- Ending	683	1,500	866	1,649	3,922	4,393	4,198	4,636	4,605	5,894	5,064	6,285

[1]- Excludes impact of GASB 68.

Now, moving on to an overview of City operations in FY 2017, governmental activity revenues were \$183,000 dollars less than expenses. Property tax revenues accounted for 28% of revenues in the governmental activities category, increasing by \$12,000 over FY 2016. Nonetheless, total revenues in the governmental activities category decreased by \$108,000. Major revenue sources in this category (aside from property taxes) include hospitality tax revenues, which decreased by \$44,000, and business license revenues, which increased by \$9,000. Finally, total expenses associated with governmental activities increased by \$272,000.

Revenues for the business-type activities (that is, for the sewer fund) increased \$207,000. Revenues from the business-type activities consist almost entirely of charges for service, or user fees, with a little less than 2% of all revenues coming from miscellaneous sources. Expenses exceeded revenues by \$276,000 for FY 2017. Most of this shortfall in revenues is attributable to \$504,000 of expenses associated with depreciation on equipment. Revenues exceeded expenses by \$228,000 if depreciation expenses are not included in the calculation. Finally, net position for business-type activities decreased 6.6% compared to FY 2016, again mostly due to recording depreciation expenses.

Budget Highlights

For FY 2017, General Fund revenues totaled \$1.18 million. This was \$80,000 more than had been budgeted. On the other hand, total expenditures were \$1,468,518, exceeding budgeted amounts by \$129,993. Property tax revenues were more than budget by \$32,000. Revenues from licenses, fees and permits were \$47,000 higher than budgeted.

For the General Fund, the following expenditures contributed to expenditures exceeding budgeted amounts:

- The police department's salaries and wages account was over budget by \$48,598.
- The administration department recorded a \$24,000 expenditure associated with consulting services that was not appropriated in the budget as adopted.
- Attorney's fees exceeded budgeted amounts by \$20,000, much of which was due to work involved in zoning matters.
- An expenditure associated with a one-time economic development incentive, totaling \$16,000, was not in the budget as adopted.
- The fire department needed unanticipated repairs to a fire truck, requiring an additional appropriation of \$15,681.

Also, here is a list of the top five highest unanticipated expenses for the Sewer Fund for FY 2017:

- The equipment repairs account was \$28,405 over budget. This was due to the plant's wash water pump breaking down. (The wash water pump recirculates clean water into sewer plant as part of its operating process.) Also, a recirculating pump in the aeration basin broke down, needing repairs.
- Billing charges were \$6,732 over budget. These charges are what the City pays the two water districts that handle customer billing for the City's for sewer service. The variance here is based on the City adding more customers than anticipated, as well as treating more gallons of wastewater than projected, thus increasing the amounts billed to customers and, in turn, charged to the City in the form on billing charges.
- The salaries and wages account was over budget by \$6,473. Part of this was from unanticipated overtime, as well as an employee's increase in pay due to receiving an advanced certification quicker than expected.
- Much of the \$2,962 for which the lines and pumps account was over budget was due to line repair and replacement on Hollywood Street.
- Finally, the department's worker's compensation premiums exceeded budgeted amounts by \$2,304.

For the fiscal year that will end June 30, 2018, the budgeted revenues (not including fund balances appropriated and interfund transfers) for the General Fund are expected to increase about \$119,006. Of this increase, 31%, or \$37,699, is from the levy of a temporary millage surcharge to recoup the prior year's deficiency.

Capital Assets

At June 30, 2017, the City had close to \$20 million invested in gross capital assets including land, buildings, improvements, sewer facilities, vehicles, machinery, equipment, and furniture. This was an increase of approximately \$200,000 from the prior year. For the governmental funds, major capital purchases included: a full-sized pick-up truck for the fire department, a patrol vehicle for the police department, and a full-sized SUV for the police department.

Capital Assets at Year-End (in thousands)

	Governmental		Business-Type		Total	
	Activities		Activities		Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 71	71	69	69	140	140
Construction in Progress	-	-	162	162	162	-
Buildings, Improvements	1,339	1,339	15,475	15,475	16,814	16,814
Vehicles	1,472	1,408	309	360	1,781	1,768
Machinery, Equipment, Furniture	328	328	472	447	800	775
Subtotal	3,210	3,146	16,487	16,513	19,697	19,497
Accumulated Depreciation	(2,496)	(2,302)	(8,477)	(8,024)	(10,973)	(10,326)
Capital Assets, Net	\$ 714	844	8,010	8,489	8,724	9,171

Debt Service

Finally, as the table below shows, total debt increased by a net of \$81,000. This change is due the issuance of the Bond Anticipation Note.

Debt Outstanding at Year-End (in thousands)

	Governmental		Business-Type		Total	
	Activities		Activities		Government	
	2017	2016	2017	2016	2017	2016
Capital Lease	\$ 366	\$ 349	-	-	366	349
Bond Anticipation Note	304	6	-	-	304	6
ConserFund Loan	28	35	-	-	28	35
Sewer System	-	-	5,621	5,848	5,621	5,848
Total	\$ 698	\$ 390	5,621	5,848	6,319	6,238

Contact for More Information

The City's financial statements offer readers a general overview of the City's use of public resources.

If you have questions about the report or need additional information, please contact the City Clerk at 20 South Main Street, Inman, SC 29349.

CITY OF INMAN
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,286,338	939,205	2,225,543
Investment	51,449	263,772	315,221
Receivables			
Property Taxes, Net	22,102	-	22,102
Intergovernmental	119,388	-	119,388
Other	70,069	117,061	187,130
Prepaid Expense	9,072	3,030	12,102
Restricted Cash	-	303,112	303,112
Note Receivable	-	423,125	423,125
Capital Assets Not Being Depreciated	70,597	230,940	301,537
Capital Assets Being Depreciated	3,139,725	16,256,223	19,395,948
Accumulated Depreciation and Amortization	(2,496,021)	(8,477,500)	(10,973,521)
Total Capital Assets Net of Depreciation and Amortization	<u>714,301</u>	<u>8,009,663</u>	<u>8,723,964</u>
Total Assets	<u>2,272,719</u>	<u>10,058,968</u>	<u>12,331,687</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Plan Items	<u>203,891</u>	<u>118,064</u>	<u>321,955</u>
LIABILITIES			
Accounts Payable	29,110	18,690	47,800
Accrued Liabilities	42,050	24,528	66,578
Accrued Interest Payable	3,759	-	3,759
Long-term Liabilities:			
Due Within One Year	376,209	135,758	511,967
Due in More than One Year	321,766	5,485,375	5,807,141
Net Pension Liability	<u>1,019,633</u>	<u>590,425</u>	<u>1,610,058</u>
Total Liabilities	<u>1,792,527</u>	<u>6,254,776</u>	<u>8,047,303</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Plan Items	<u>1,230</u>	<u>712</u>	<u>1,942</u>
NET POSITION			
Net Investment in Capital Assets	16,326	2,388,530	2,404,856
Restricted For:			
Public Safety	66,392	-	66,392
Streets	100,456	-	100,456
Parks and Recreation	700,287	-	700,287
Debt Service	-	303,112	303,112
Unrestricted	<u>(200,608)</u>	<u>1,229,902</u>	<u>1,029,294</u>
Total Net Position	<u>\$ 682,853</u>	<u>3,921,544</u>	<u>4,604,397</u>

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

CITY OF INMAN
Statement of Activities
For the Year Ended June 30, 2017

	Program Revenues				Net (Expense) Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS / PROGRAMS							
Governmental Activities:							
Administration	\$ 429,164	-	-	-	(429,164)	-	(429,164)
Street, Sanitation & Park	363,180	4,480	75,000	-	(283,700)	-	(283,700)
Fire	276,622	-	4,223	-	(272,399)	-	(272,399)
Police & Judicial	635,129	81,844	7,200	-	(546,085)	-	(546,085)
Interest and Fiscal Charges	11,798	-	-	-	(11,798)	-	(11,798)
Total Governmental Activities	1,715,893	86,324	86,423	-	(1,543,146)	-	(1,543,146)
Business-Type Activities:							
Sewer	1,930,338	1,654,089	-	-	-	(276,249)	(276,249)
Total Government	\$ 3,646,231	1,740,413	86,423	-	(1,543,146)	(276,249)	(1,819,395)
General Revenues							
Property Taxes				\$	428,751	-	428,751
Intergovernmental					149,496	-	149,496
Licenses					423,940	-	423,940
Hospitality Fees					225,776	-	225,776
Franchise Fees					116,592	-	116,592
Investment Income					90	-	90
Gain on Disposal of Assets					4,894	-	4,894
Donations					1,700	-	1,700
Miscellaneous					8,706	-	8,706
Total General Revenues					1,359,945	-	1,359,945
Change in Net Position					(183,201)	(276,249)	(459,450)
Net Position Beginning of Year					866,054	4,197,793	5,063,847
Net Position End of Year					\$ 682,853	3,921,544	4,604,397

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

CITY OF INMAN
 Balance Sheet - Governmental Funds
 June 30, 2017

	<u>Major Funds</u>		<u>Nonmajor Fund</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Hospitality Tax</u>	<u>Special Revenue</u>	
ASSETS				
Cash and Cash Equivalents	\$ 846,612	240,258	199,467	1,286,337
Investments	51,449	-	-	51,449
Receivables:				
Taxes	70,041	-	-	70,041
Intergovernmental	18,932	-	100,456	119,388
Other	46,325	23,745	-	70,070
Due from General Fund	-	-	-	-
Prepaid Expense	9,072	-	13,016	22,088
Total Assets	<u>1,042,431</u>	<u>264,003</u>	<u>312,939</u>	<u>1,619,373</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	29,110	-	-	29,110
Accrued Liabilities	42,050	-	-	42,050
Due to Police Fund	13,016	-	-	13,016
Total Liabilities	<u>84,176</u>	<u>-</u>	<u>-</u>	<u>84,176</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue- Property Taxes	69,926	-	-	69,926
Total Deferred Inflows of Resources	<u>69,926</u>	<u>-</u>	<u>-</u>	<u>69,926</u>
Total Liabilities and Deferred Inflows of Resources	<u>154,102</u>	<u>-</u>	<u>-</u>	<u>154,102</u>
Fund Balances:				
Restricted For:				
Public Safety	-	-	66,932	66,932
Streets	-	-	159,000	159,000
Parks and Recreation	290,734	264,003	87,007	641,744
Unassigned	597,595	-	-	597,595
Total Fund Balances	<u>888,329</u>	<u>264,003</u>	<u>312,939</u>	<u>1,465,271</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,042,431</u>	<u>264,003</u>	<u>312,939</u>	<u>1,619,373</u>

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

CITY OF INMAN
 Reconciliation of Total Governmental Fund
 Balances to Net Position of Governmental Activities
 June 30, 2017

Total fund balances - Governmental funds June 30, 2017	\$	1,465,271
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>		
Capital Assets not Being Depreciated		70,597
Capital Assets Being Depreciated		3,139,725
Accumulated depreciation		<u>(2,496,021)</u>
Total capital assets		<u>714,301</u>
<p>Some revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>		
Property taxes		<u>21,987</u>
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>		
Bond Anticipation Note		(304,000)
Capital leases		(365,575)
ConserFund Loan Payable		(28,400)
Accrued interest		(3,759)
Net Pension Liability		(1,019,633)
Deferred Outflows Related to Pensions		203,891
Deferred Inflows Related to Pensions		<u>(1,230)</u>
Total long-term liabilities		<u>(1,518,706)</u>
Total net position - Governmental activities, June 30, 2017	\$	<u><u>682,853</u></u>

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

CITY OF INMAN
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

	<u>Major Funds</u>		<u>Nonmajor Fund</u>	Total Governmental Funds
	<u>General</u>	<u>Hospitality Tax</u>	<u>Special Revenue</u>	
REVENUES:				
Licenses	\$ 423,940	-	-	423,940
Taxes	422,992	-	-	422,992
Intergovernmental	140,764	-	95,154	235,918
Fees and Permits	121,072	225,776	-	346,848
Fines	70,110	-	11,734	81,844
Miscellaneous	8,330	-	-	8,330
Investment Income	89	-	2	91
Total Revenues	<u>1,187,297</u>	<u>225,776</u>	<u>106,890</u>	<u>1,519,963</u>
EXPENDITURES:				
Current:				
Administration	388,553	-	29,451	418,004
Streets, Sanitation & Park	222,426	63,324	-	285,750
Fire	190,572	-	-	190,572
Police & Judicial	568,338	-	13,970	582,308
Capital Outlay	35,680	-	40,650	76,330
Debt Service:				
Principal	52,373	-	-	52,373
Interest and Fiscal Charges	10,576	-	-	10,576
Total Expenditures	<u>1,468,518</u>	<u>63,324</u>	<u>84,071</u>	<u>1,615,913</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(281,221)</u>	<u>162,452</u>	<u>22,819</u>	<u>(95,950)</u>
OTHER FINANCING SOURCES: (Uses)				
Proceeds From Issuance of Loans	35,680	-	26,750	62,430
Proceeds From Issuance of Bond Anticipation Note	304,000	-	-	304,000
Insurance Proceeds	2,328	-	10,544	12,872
Transfers In	56,000	-	8,172	64,172
Transfers Out	(8,172)	(56,000)	-	(64,172)
Total Other Financing	<u>389,836</u>	<u>(56,000)</u>	<u>45,466</u>	<u>379,302</u>
NET CHANGE IN FUND BALANCE	108,615	106,452	68,285	283,352
FUND BALANCES BEGINNING	<u>779,714</u>	<u>157,551</u>	<u>244,654</u>	<u>1,181,919</u>
FUND BALANCES ENDING	<u>\$ 888,329</u>	<u>264,003</u>	<u>312,939</u>	<u>1,465,271</u>

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

CITY OF INMAN
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2017

Total change in fund balances - total governmental funds	\$	283,352
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:</p>		
Capital outlay		76,330
Depreciation Expense		(200,033)
Book Value of Disposal of Assets		(5,650)
Excess of capital outlay over depreciation and other expense		<u>(129,353)</u>
<p>Because some revenue will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred property tax revenues increased by this amount this year.</p>		
		<u>5,759</u>
<p>The issuance of long-term debt (e.g., notes, leases) provides current financial resources to governmental funds, however, it has no effect on net assets.</p>		
Proceeds from Issuance of Loans		(62,750)
Proceeds from Issuance of Bond Anticipation Note		(304,000)
		<u>(366,750)</u>
<p>Governmental Funds report pension contributions as expenditures. However, they are reported as deferred outflows of resources in the Statement of Net Position. The change in the net pension liability, adjusted for deferred pension items, is reported as pension expense in the Statement of Activities.</p>		
		<u>(34,436)</u>
		(34,436)
<p>Repayment of long-term debt is reported as an expenditure in governmental funds. But the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consisted of:</p>		
Debt Principal Retirement		13,291
Capital Lease Payments - Principal		46,081
		<u>59,372</u>
<p>In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, interest is expensed when due.</p>		
		<u>(1,145)</u>
Change in net position - Governmental activities, June 30, 2017	\$	<u>(183,201)</u>

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

CITY OF INMAN
Statement of Net Position - Proprietary Fund
June 30, 2017

	Enterprise Sewer Fund
ASSETS	
Current Assets	
Cash	\$ 939,205
Investment	263,772
Accounts Receivable, Net	117,061
Current Portion of Note Receivable	5,039
Prepaid Expense	3,030
Restricted Cash	303,112
	1,631,219
Capital Assets	16,487,163
Less Accumulated Depreciation	(8,477,500)
	8,009,663
Other Assets	
Note Receivable	418,087
	10,058,969
	10,058,969
DEFERRED OUTFLOWS OF RESOURCES	
Pension Plan Items	118,064
	118,064
LIABILITIES	
Current Liabilities:	
Accounts Payable	18,690
Accrued Liabilities	24,528
Current Portion of Long-term Debt	135,758
	178,976
Total Current Liabilities	178,976
Long-term Debt	5,485,374
Net Pension Liability	590,425
	6,254,775
	6,254,775
DEFERRED INFLOWS OF RESOURCES	
Pension Plan Items	712
	712
NET POSITION	
Net Investment in Capital Assets	2,388,531
Restricted For:	
Bond Retirement	210,946
Depreciation Contingency	92,165
Unrestricted	1,229,902
	3,921,544
Total Net Position	\$ 3,921,544

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

CITY OF INMAN
Statement of Revenues, Expenses, and Changes in
Net Position - Proprietary Fund
June 30, 2017

	Enterprise Sewer Fund
OPERATING REVENUES	
Charges for Services	\$ 1,601,554
Connection Fees	26,250
	1,627,804
OPERATING EXPENSES	
Personnel	476,158
Sewer Operation & Maintenance	200,043
Administrative and General	493,425
Depreciation	504,243
	1,673,869
OPERATING INCOME (LOSS)	(46,065)
NON-OPERATING REVENUE (EXPENSE)	
Interest Income	25,454
Interest Expense	(256,469)
Other Income	831
	(230,184)
Change in Net Position	(276,249)
Net Position Beginning	4,197,793
Net Position Ending	\$ 3,921,544

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

CITY OF INMAN
Statement of Cash Flows - Proprietary Fund
June 30, 2017

	Enterprise Fund Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 1,628,699
Cash Payments to Suppliers	(693,114)
Cash Payment to Employees	(438,402)
	497,183
CASH FLOWS FROM CAPITAL AND RELATED FINANCING	
Principal Paid on Capital Debt	(226,391)
Interest Paid on Capital Debt	(256,469)
	(482,860)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Capital Assets	(24,543)
Interest Income Received	25,454
Additions to Investments	(1,580)
Proceeds from Redemption of Certificate of Deposit	207,089
Other Non-Operating Income Received	833
	207,253
Net Increase in Cash	221,576
Cash Beginning of the Year	1,020,741
Cash Ending of the Year	1,242,317
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	(46,065)
Adjustment to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	504,243
Pension Plan Items	34,422
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(4,146)
(Increase) Decrease in Note Receivable	5,039
(Increase) Decrease in Prepaid Expense	447
Increase (Decrease) in Accounts Payable	(92)
Increase (Decrease) in Accrued Liabilities	3,335
	3,335
Net Cash Provided by Operating Activities	\$ 497,183

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

CITY OF INMAN
Notes to Financial Statements
June 30, 2017

NOTE 1 – GENERAL STATEMENT

The City of Inman was incorporated on December 22, 1882, and is located in Spartanburg County, South Carolina, about halfway between Tryon, North Carolina and Spartanburg, South Carolina on Asheville Highway #176. The city population is approximately 2,000, but the service area includes at least 20,000 people. It is governed under the Mayor-council form of government with a municipal council composed of the Mayor and four council members who are elected from the city at large. The City provides administrative, streets, sanitation, parks, fire, police, judicial, community development and sewer services. Its operations are financed by property and ad valorem taxes, fees for licenses and permits, police and court fines, franchise fees, state revenue sharing funds, sewer charges, grants and other miscellaneous revenue sources.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Inman conform to accounting principles (GAAP) generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the applicable pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements, constitutes GAAP for governmental units.

In fiscal year 2004, the City implemented GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 requires supplementary information in the form of Management's Discussion and Analysis. Statement No. 34 also requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and business-type activities on a statement of net assets and statement of activities. The statement of net assets includes both noncurrent assets and noncurrent liabilities which were previously recorded in the General Fixed Assets Group and the General Long-Term Debt Account Group.

In addition to government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The city has also elected to present budgetary comparisons as a basic financial statement (rather than as required supplementary information). The accrual basis of accounting is utilized by proprietary funds. The following is a summary of the more significant policies.

Governmental Accounting Standards Board Statement No.63: The City has implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position in the financial statements for the fiscal year ended June 30, 2014. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

For the fiscal year ended June 30, 2015, City implemented GASB Statement No. 68, Accounting and Reporting of Pensions mandating how pension costs and obligations are measured and reported in audited external financial reports. Under this new standard, the GASB requires cost-sharing governments to report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all governmental agencies in the plan. Additional details of the implementation of GASB Statement No. 68 are found in Note 7.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Scope of the Reporting Entity, continued

Pursuant to governmental GAAP, in evaluating the City as a reporting entity, management must consider all potential component units. The decision to include any potential component unit in the City's reporting entity was based on the following criteria:

The City's financial accountability for the potential component unit was considered. The City is financially accountable if it appoints a voting majority of the Governing board of the potential unit and (1) it is able to impose its will on the potential component unit or (2) a financial benefit/burden relationship exists between the City and the potential component unit. The potential component unit's fiscal dependence on the city was considered.

The nature and significance of the relationship between the City and the potential component unit was considered to determine whether exclusion of the potential component unit would render the City's financial statements misleading or incomplete.

Based on the above criteria, management has determined that there are no potential component units eligible for inclusion in the City's financial statements. All organizations which are controlled by the City's elected officials are included in the City's reporting entity for these general purpose financial statements. Control in this case means budgetary authority over the organization.

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

The accounts of the City are organized on the basis of funds each of which is considered 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. Government 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.

The City's basic financial statements include both governments-wide (reporting the City as a whole) and fund financial statements (reporting the city's major funds). These statements include the financial activities of the primary government, except for fiduciary funds. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's administrative, streets, sanitation, parks, fire, police, judicial, and community development services are classified as governmental activities. The city's sewer services are classified as business-type activities.

• *Government-Wide Financial Statements*

In the government wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on an accrual economic resource basis, which recognizes all long-term assets as well as long-term debt. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The City's net position is reported in three parts: invested in capital assets, net of related debt; restricted net position; and unrestricted net position.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses by related program revenues and grants. Program revenues are associated with the function or a business-type activity. The Capital Grants column reflects capital-specific grants. The net costs are normally covered by General Revenue. The City does not allocate indirect costs. This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Measurement Focus, Basis of Accounting, and Basis of Presentation, continued

Government-Wide Financial Statements, continued

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

- *Governmental Fund Financial Statements*

Governmental fund financial statements include a Balance Sheet and a Statement of Revenue, Expenditures, and Changes in Fund Balances for all major governmental funds and aggregated non-major funds. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in the Government-wide financial statements. The City has presented all major funds that met the qualification of GASB Statement No. 34. All governmental funds are accounted for on a current financial resources measurement focus and the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized under the modified accrual basis of accounting when due. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to the rule is principal and interest on general long-term debt which is recognized when due.

- *Proprietary Fund Financial Statements*

The proprietary fund financial statements include a Statement of Net Position, a Statement of Revenue, Expenses and Changes in fund Net Position, and a Statement of Cash Flows. The proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The City's enterprise fund is used to account for the activities of the sewer department of the City. This fund account for operations in a manner similar to private business enterprises, where the intent is that costs of providing services to the public are recovered through user charges.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are primarily charges for services and fees. Operating expenses for enterprise fund include the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in other fund.

The *Hospitality Tax Fund* is used to account for the hospitality tax revenues that are restricted for expenditures for specific tourism generating purposes.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Proprietary Fund Financial Statements, continued

The City reports the following major proprietary fund:

The *Sewer Fund* accounts for the activities of the sewer department. The sewer department operates the sewage pumping and collection systems.

The Other Governmental Funds, nonmajor funds, are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. These funds include the following: The Victims Assistance Fund, Cops Grant Fund, Police Fund and the Fireman's Fund.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/ to other funds and advances to/from other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

When both restricted and unrestricted are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deposits and Investments

Cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition are considered to be cash and cash equivalents. Most short-term cash balances are maintained in a cash and investment pool allocated to each fund based on month-end deposit and investment balances. Investments with a readily determinable fair value are stated at fair value in accordance with GASB Statement 31. All other investments are at cost. The City's current policy does not utilize amortized cost for any applicable investments.

Statutes established by the State of South Carolina allow the City to invest in the following:

1. Obligations of the United States and agencies, the principal and interest of which is fully guaranteed by United States.
2. Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investments, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deposits and Investments, continued

3. General obligations of the State of South Carolina or any of its political units; or revenue obligations of the State of South Carolina or its political units, if at that time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two rating categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
4. Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.

Statutes established by the State of South Carolina allow the City to invest in the following:

5. Certificates of Deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
6. Repurchase agreements when collateralized by securities as set forth in this section;
7. 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 trustees or agent for a bond or other debt issue of the City, 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), (3) and (5) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share to that end, value its assets by the amortized cost method.

DEPOSITS:

State Law requires that a bank or savings and loan association receiving State funds must secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails.

It is the policy of the City of Inman to invest all available funds in accounts that will provide maximum return on investment with the least possible risk. Funds will only be deposited with financial institutions that are insured and guaranteed by FDIC, or other Federal or State Regulatory Agencies.

The deposits for the City of Inman primary government at June 30, 2017, were \$2,905,485, \$2,770,444 of which were collateralized with securities held by the pledging institution, in the City's name, or backed by Federal obligations not held in the City's name. The remaining amounts were not insured or collateralized.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

INVESTMENTS:

Custodial Credit Risk

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

Credit Risk

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have an investment policy for concentration of credit risk, but follows the investment policy statutes of the State of South Carolina.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. It occurs because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase, thereby affording potential purchasers more favorable rates on essentially equivalent securities. The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates, but they do follow the investment policy statutes of the State of South Carolina.

The City does not typically buy security investments and thus has not developed a policy for credit risk, custodial credit risk, or concentration of credit risk for these types of investments.

The following schedule reconciles cash and investments as reported on the Statement of Net Position to footnote disclosure provided for deposits and investments.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Statement of Net Position</u>			
Cash and Cash Equivalents	\$ 1,286,338	939,205	2,225,543
Restricted Cash		303,112	303,112
Investments	51,449	263,772	315,221
	<u>1,337,787</u>	<u>1,506,089</u>	<u>2,843,876</u>
<u>Disclosure, Deposits and Investments:</u>			
Carrying Value of Deposits:			
Held by Banks	1,286,138	1,242,317	2,528,455
Carrying Value of Investments:			
Certificates of Deposit	51,449	263,772	315,221
Stocks	-	-	-
Cash on Hand	200	-	200
	<u>\$ 1,337,787</u>	<u>1,506,089</u>	<u>2,843,876</u>

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Net Investment in Capital Assets* groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* reflects net position that is subject to constraints either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandated payment of resources and includes a *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. At June 30, 2017, restricted net position for the governmental activities was \$867,135 as reported on the government-wide statement of net position.
- *Unrestricted Net Position* represents net position of the City that is not restricted for any project or purpose.

Fund Balance

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2017, fund balances for government funds are made up of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- *Restricted Fund Balance* – includes amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority, the City's Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.
- *Assigned Fund Balance* – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. *Intent* is expressed by (1) the City's Council or (b) a body (for example: a budget or finance committee) or official to which the City's Council had delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned Fund Balance* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fund Balance, continued

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Fund balances for all major and nonmajor governmental funds as of June 30, 2017, were distributed as follows:

	<u>General Fund</u>	<u>Hospitality Tax</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Restricted For:				
Public Safety	-	-	66,932	66,932
Streets	-	-	159,000	159,000
Parks & Recreation	290,734	264,003	87,007	641,744
Subtotal	<u>290,734</u>	<u>264,003</u>	<u>312,939</u>	<u>867,676</u>
Unassigned	<u>597,595</u>	-	-	<u>597,595</u>
TOTAL	<u>\$ 888,329</u>	<u>264,003</u>	<u>312,939</u>	<u>1,465,271</u>

A. Property Taxes

Property taxes on real property and personal property, other than licensed motor vehicles, were billed in October 2016 based on property valuations as of December 31, 2015. The taxes were due on or before January 15, 2017. The first late payment penalty of 3% is applied to payments received after January 15. An additional penalty of 5% is charged for payments made after January 31. Uncollected property taxes as of March 15 are transferred to the Spartanburg County Delinquent Tax Collector at which time an additional 5% penalty is assessed. Property taxes on licensed motor vehicles are collected on a monthly basis in the month in which the individual motor vehicle license is renewed. An enforceable lien attaches to property on which taxes have not been collected.

Spartanburg County bills and collects property taxes and remits them on a monthly basis to the City. Taxes receivable at June 30, 2017, represent property taxes collected within 60 days after year-end. Tax revenues not available are reported as deferred inflows of resources.

B. Allowance for Uncollectible Accounts

Allowance for uncollectible sewer accounts receivable in the Enterprise Fund at June 30, 2017, is \$4,145.

C. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position (government-wide and proprietary funds) and the balance sheet (governmental funds) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense/expenditures) until then. The City currently has no deferred outflows of resources.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Deferred Inflows/Outflows of Resources, continued

In addition to liabilities, the statement of net position (government-wide) and the balance sheet (governmental funds) will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has one type of deferred inflows of resources, which arises only under the modified accrual basis of accounting. This item, unavailable revenue- property taxes, is reported only in the governmental funds balance sheet; it is deferred and recognized as an inflow of resources (revenues) in the period the amount become available.

D. Accumulated unpaid Vacation and Sick Pay

Vacation and sick pay accrue to City employees on a monthly basis based on years of service. Upon separation of employment, accrued vacation will be paid to the terminated employee. The City does not pay unused sick days when employment is terminated. Accrued vacation pay is included in accrued liabilities at year-end (General Fund \$29,780 and Sewer Fund \$17,131) and is not included in long-term debt.

E. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from prior year and settlements have not exceeded coverage in the past three years.

F. Budgetary Information

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Annual Budgets are also adopted for the proprietary fund.

The budget calendar is as follows:

First Reading	First Meeting in May
Second Reading	First Meeting in June
Public Hearing	First Meeting in June

Annual appropriations lapse at fiscal year end.

On or before March 1, heads of City departments and agencies submit requests for appropriation to the City Clerk who compiles the requests. After adjustments, the City Clerk submits a comprehensive budget request document to City Council. The City Council conducts workshops and public hearings on the proposed budget and adopts the budget not later than June 30.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Budgetary Information, continued

The appropriated budget is prepared by fund, function and activity. The Mayor and Council are authorized to transfer funds or any portion thereof from any department, activity or purpose to another department, activity or purpose, as may be needed to facilitate the spending plan of the City in the best interest of the City. The Mayor and Council are also authorized to amend the budget to reflect grants received during the year and to carry over remaining balances of grants or one-time state appropriations for special projects, provided that matching local funds as required have been appropriated. At any time in which the total appropriations will be exceeded, City Council must take a vote. Therefore, total appropriations are the legal level of control. There is a supplemental appropriation of \$100,565 for the fiscal year ended June 30, 2017.

The City has an appropriated budget for the enterprise fund but is not required to report budgetary comparisons in the financial statements.

NOTE 3 – RECEIVABLES

Non-Intergovernmental:

Receivables as of year-end for the government's individual major funds and non-major funds in the aggregate (governmental activities), including the applicable allowance for uncollectible accounts, are as follows:

	General Fund	Hospitality Tax	Total
Taxes	\$ 70,039	-	70,039
Other	46,324	23,745	70,069
Gross Receivables	116,363	23,745	140,108
Less Allowance	(47,937)	-	(47,937)
Net Receivables	<u>\$ 68,426</u>	<u>23,745</u>	<u>92,171</u>

Intergovernmental:

Intergovernmental receivables consist of the following:

State of South Carolina	\$ 13,106
S.C. State housing Authority	5,817
Spartanburg County	100,456
Other	9
Total Intergovernmental Receivables	<u>\$ 119,388</u>

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 4 – RESTRICTED CASH

Sewer Fund restricted assets consist of cash deposits restricted for the Sewer Fund debt service. Under provisions of the Sewer Revenue Bond Indenture, the City is required to engage a custodian to administer the establishment and maintenance of certain funds. The City has designated SunTrust Bank as the custodian of the reserved funds as shown below.

Year Ended June 30, 2017	Bond and Interest A	Operation and Maintenance B	Depreciation Contingency A	Cushion A	Total
Total Restricted Cash	-	-	92,165	210,946	\$ 303,111

A = Required

B = This reserve is funded at the discretion of the City Council

NOTE 5 – CAPITAL ASSETS

Capital assets purchased are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions and improvements that significantly extend the useful life of an asset are depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, Sewer Plant	30 years
Sewer Lines	25 years
Improvements	15 years
Fire Trucks	10 years
Other Vehicles	5 years
Machinery, Equipment	5 years
Furniture	5 years

GASB Statement no. 34 requires the City to report and depreciate infrastructure assets (such as sidewalks, street lights, and annexed sewer lines). The City has elected to implement the general provisions of GASB Statement No. 34. The City maintains a minimum capitalization threshold of \$1,000 for all capital assets.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 5 – CAPITAL ASSETS, Continued

A. General Fund

General fund capital assets are reported under the column Governmental Activities in the Government-Wide Statement of Net Position and are presented in the schedule on the next page.

Primary government capital asset activity for the year ended June 30, 2017 is as follows:

Governmental Activities	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital Assets Not Being Depreciated:					
Land	\$ 70,597	-	-	-	70,597
Total Capital Assets at Historical Cost Not Being Depreciated	70,597	-	-	-	70,597
Capital Assets Being Depreciated:					
Buildings	345,770	-	-	-	345,770
Improvements / Infrastructure	993,038	-	-	-	993,038
Machinery, Equipment & Furniture	327,934	-	-	-	327,934
Fire Trucks	1,147,785	-	-	-	1,147,785
Vehicles	260,168	76,330	11,300	-	325,198
Total Capital Assets at Historical Cost Being Depreciated	3,074,695	76,330	11,300	-	3,139,725
Less Accumulated Depreciation	2,301,638	200,033	5,650	-	2,496,021
Total Capital Assets Being Depreciated, Net Government-Type Activities Capital Assets, Net	\$ 843,654	(123,703)	5,650	-	714,301

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

Administration	\$ 11,783
Streets, Sanitation & Park	74,968
Fire	74,592
Police & Judicial	38,690
Total	\$ 200,033

Amortization of asset, recorded under capital lease obligation, has been included with depreciation expense.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 5 – CAPITAL ASSETS, Continued

B. Enterprise Fund

Enterprise fund capital assets are reported under the column Business-Type Activities in the Government-Wide Statement of Net Position. They are also reported in the Proprietary Fund Statement of Net Position.

Primary government capital asset activity for the year ended June 30, 2017 is as follows:

Business-Type Activities	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 69,181	-	-	69,181
Construction in Progress	161,759	-	-	161,759
	<u>230,940</u>	<u>-</u>	<u>-</u>	<u>230,940</u>
Capital Assets Being Depreciated:				
Sewer Plant	11,536,422	-	-	11,536,422
Sewer Lines & Infrastructure	3,939,081	-	-	3,939,081
Vehicles	359,778	-	51,093	308,685
Machinery and Equipment	447,491	24,544	-	472,035
Total Capital Assets Being Depreciated	<u>16,282,772</u>	<u>24,544</u>	<u>51,093</u>	<u>16,256,223</u>
Less Accumulated Depreciation	<u>8,024,349</u>	<u>504,244</u>	<u>51,093</u>	<u>8,477,500</u>
Total Capital Assets Being Depreciated, Net	<u>8,258,423</u>	<u>(479,700)</u>	<u>-</u>	<u>7,778,723</u>
Business-Type Activities Capital Assets, Net	<u>\$ 8,489,363</u>	<u>(479,700)</u>	<u>-</u>	<u>8,009,663</u>

The depreciation expense of \$504,244 is reported in the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position.

NOTE 6 – LONG-TERM DEBT

A. General Fund

- The City financed a 2008 fire truck under an equipment lease-purchase agreement with BB&T Bank. The transaction was recorded as a note payable with a 3.79% interest rate. The agreement was dated March 24, 2008, with 11 annual payments of \$58,617.73 and a balloon payment of \$213,833.58 on March 24, 2020. The truck was capitalized at a cost of \$661,410. On March 24, 2012 this equipment base was refinanced at a 2.79% interest rate, due March 24, 2023, with annual payments of \$55,559.32. At June 30, 2017 accumulated depreciation related to this truck was \$611,804 with a net book value of \$49,606. The future minimum lease payments under the capital lease are as follows: \$302,665 principal and \$45,762 interest.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 6 – LONG-TERM DEBT, Continued

A. General Fund, continued

2. Two police vehicles were purchased under a note payable with Palmetto Bank. The original loan was \$30,585 with a 3.25% interest rate. The note was dated July 5, 2012, with 5 annual payments of \$6,759.70. The vehicles are collateral for the debt. The automobiles are capitalized at a cost of \$37,108.50.
3. On June 1, 2016, the City entered into a 5 year Conserve Fund Loan Agreement with the SC Office of Regulatory Staff- Energy Office. The original loan was \$35,156.48 with a 2% interest rate, annual payment of \$7,458.74, and due April 1, 2021. The proceeds were used for the installation of energy efficient LED lights in and around the City building facilities.
4. On September 19, 2016, the City financed a 2016 Ford F-150 truck in the amount of \$36,000 under an equipment lease-purchase agreement with a 2.030% interest rate, due September 6, 2019, with annual payments of \$12,490.46. The truck was capitalized at a cost of \$35,680. At June 30, 2017 accumulated depreciation related to this truck was \$5,946.67 with a net book value of \$29,733.33. The future minimum lease payments under the capital lease are as follows: \$36,000 principal and \$1,471.38 interest.
5. On October 20, 2016, the City financed a 2015 Ford Taurus truck in the amount of \$26,750 under an equipment lease-purchase agreement with a 2.360% interest rate, due September 22, 2020, with annual payments of \$7,086.66. The truck was capitalized at a cost of \$26,750. At June 30, 2017 accumulated depreciation related to this truck was \$3,566.67 with a net book value of \$23,183.33. The future minimum lease payments under the capital lease are as follows: \$26,750 principal and \$1,596.64 interest.
6. On June 13, 2017, the City issued the Hospitality Fee Revenue Bond Anticipation Note, Series 2017 in the amount of \$304,000. The proceeds are being used to finance certain costs of acquiring, constructing, and equipping a municipally owned park facility known as "Leroy Mathis Park", including a performance amphitheater and playground amenities.
7. A summary of debt service requirements to maturity is listed below:

Year End June 30	Capital Leases		Bond Anticipation Note		ConserFund Loan		Total Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 65,254	9,806	304,000	4,672	6,891	568	376,145	15,046
2019	66,957	8,113	-	-	7,028	430	73,985	8,543
2020	68,705	6,362	-	-	7,169	290	75,874	6,652
2021	58,010	4,566	-	-	7,312	146	65,322	4,712
2022	52,512	2,975	-	-	-	-	52,512	2,975
2023	53,977	1,508	-	-	-	-	53,977	1,508
	<u>\$ 365,415</u>	<u>33,330</u>	<u>304,000</u>	<u>4,672</u>	<u>28,400</u>	<u>1,434</u>	<u>697,815</u>	<u>39,437</u>

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 6 – LONG-TERM DEBT, Continued

B. Enterprise Fund

- On August 30, 1999, the United States Department of Agriculture, Rural Development loaned \$1,802,300 to the City to finance improvement, enlargements and extensions to the sewerage system of the City. The loan was provided by the issuance of a \$1,494,300 Sewer System Revenue Bond Series 1999A and a \$308,000 Sewer System Revenue Bond Series 1999 B. The schedule below summarized the terms of both Bonds Series.

Sewer System Revenue Bond Series		
	1999 A	1999 B
Amount	\$ 1,494,300	308,000
Monthly Payment	6,964	1,436
Interest Rate	4.75%	4.75%
Maturity Date	8/28/2039	8/28/2039

The total cost of the Sewer Improvement Project was \$3,390,000. The remaining costs of the Project were financed with a grant from Rural Development in the amount of \$1,587,700.

- On June 13, 2017, the City issued at par \$1,255,415 in Sewer System Refunding Revenue Bond, Series 2017 for the purpose of refunding \$1,190,414 outstanding Sewer System Revenue Bond, Series 1999. The City completed the refunding to reduce its total debt service payments and to obtain an economic gain (difference between the present value of the old and new debt service payment) of \$252,150.

Sewer System Revenue Bond Series	
	2017
Amount	\$ 1,255,415
Monthly Payment	8,377.27
Interest Rate	2.59%
Maturity Date	6/28/2032

- On December 28, 2008, the United State Department of Agriculture, Rural Development loaned the City \$4,837,000 to finance improvements, enlargements, and extensions to the sewerage system of the City. The schedule below summarized the terms of the Bond Series.

Sewer System Revenue Bond Series			
	2008 A	2008 B	2008 C
Amount	\$ 2,868,000	998,000	971,000
Monthly Payment	12,677	4,332	4,292
Interest Rate	4.375%	4.250%	4.375%
Maturity Date	12/22/2048	12/22/2048	12/22/2048

The total cost of the Project was \$8,275,000. The remaining costs were financed with grants from Rural Development in the amount of \$3,438,000.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 6 – LONG-TERM DEBT, Continued

B. Enterprise Fund, continued

4. A summary of debt service requirements to maturity is listed below.

<u>Year Ended June 30</u>	<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>
2018	135,758	220,381
2019	140,529	215,610
2020	145,479	210,660
2021	150,613	280,105
2022	155,942	200,198
2023-2027	866,944	913,752
2028-2032	1,033,908	747,033
2033-2037	699,433	578,627
2038-2042	868,998	409,062
2043-2047	1,079,681	198,379
2048-2049	343,848	11,120
	<u>\$ 5,621,133</u>	<u>3,984,927</u>

The debt agreements with USDA, Rural Development provide for the City to set aside ten percent of each monthly principal and interest payment in a separate interest bearing account until the balance reaches one full annual payment for all debt payable. At June 30, 2017 the City had set aside funds as follows:

	<u>Annual Payment</u>	<u>Reserve Balance</u>
Revenue Bonds Series 2008	\$ 255,612	\$ 210,946
Revenue Bonds Series 2017	100,527	-
Total In Bank Account		<u>\$ 210,946</u>

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 6 – LONG-TERM DEBT, Continued

C. Changes in Long-Term Debt

1. General Fund

	Balance			Balance	Due Within
	June 30, 2016	Additions	Retirements	June 30, 2017	One Year
Capital Leases	\$ 348,906	62,750	46,081	365,575	65,318
Note Payable	6,535	-	6,535	-	-
ConserFund Loan	35,156	-	6,756	28,400	6,891
Bond Anticipation Note	-	304,000	-	304,000	304,000
Total	<u>\$ 390,597</u>	<u>366,750</u>	<u>59,372</u>	<u>697,975</u>	<u>376,209</u>

2. Enterprise Fund

	Balance			Balance	Due Within
	June 30, 2016	Additions	Retirements	June 30, 2017	One Year
USDA Rural Development					
Sewer System Revenue Bonds					
Series 1999	\$ 1,410,867	-	1,410,867	-	-
Series 2008	4,436,656	-	63,916	4,372,740	66,749
Series 2017	-	1,255,415	7,022	1,248,393	69,009
Total	<u>\$ 5,847,523</u>	<u>1,255,415</u>	<u>1,481,805</u>	<u>5,621,133</u>	<u>135,758</u>

Resources from the General Fund have been used to liquidate the governmental activities note payable and capital lease obligation. Resources from Sewer Fund have been used to liquidate the business-type activities debt.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the 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, 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.

Plan Description

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

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

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

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS, Continued

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.

State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment provides for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

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.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS, Continued

Benefits

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

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

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.

The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class Two members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class Three members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included.

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. 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.

The benefit formula for full benefits for the PORS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class Two members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class Three members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS, Continued

Benefits, continued

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

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.

Effective July 1, 2016, employees participating in the SCRS were required to contribute 8.66% of all earnable compensation. The employer contribution rate for SCRS was 16.89%. Included in the total SCRS employer contribution rate is a base retirement contribution of 11.41%, 0.15% for the incidental death benefit program and a 5.33% surcharge that will fund retiree health and dental insurance coverage. The City's actual retirement and incidental death benefit program contributions for participating employees and TERI participants to the SCRS for the years ended June 30, 2017, 2016, and 2015 were:

<u>Fiscal Year Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2017	11.410%	\$ 58,334	0.15%	\$ 767
2016	10.910%	49,229	0.15%	677
2015	10.750%	45,005	0.15%	628

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS, Continued

Contributions, continued

Effective July 1, 2016, employees participating in the PORS were required to contribute 9.24% of all earnable compensation. The employer contribution rate for PORS was 19.57%. Included in the total PORS employer contribution rate is a base retirement contribution of 13.84%, 0.20% for the incidental death benefit program, 0.20% for the accidental death program, and a 5.33% surcharge that will fund retiree health and dental insurance coverage. The City's actual retirement, incidental death benefit program and accidental death program contributions to the PORS for the years ended June 30, 2017, 2016, and 2015 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2017	13.840%	\$ 41,682	0.20%	\$ 602	0.20%	\$ -
2016	13.340%	41,823	0.20%	627	0.20%	-
2015	13.010%	39,145	0.20%	602	0.20%	-

Employee and employer contributions to the State ORP are at the same rates as SCRS. Employees participating in the State ORP were required to contribute 8.66% of all earnable compensation. In fiscal year 2017, the employer contribution rate for the State ORP was 11.56% plus the retiree surcharge of 5.33% that will fund retiree health and dental insurance coverage. Of the 11.56% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 6.41% retirement contribution and 0.15% incidental death benefit program contribution amounts are remitted to 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. The June 30, 2016, total pension liability, net pension liability, and sensitivity information were determined by the Systems 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 Systems' fiscal year ended June 30, 2016, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS, Continued

Actuarial Assumptions and Methods, continued

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

		<u>SCRS</u>	<u>PORS</u>
Actuarial Cost Method		Entry age normal	Entry age normal
Investment Rate of Return	1	7.5%	7.5%
Projected Salary Increases	1	3.5% to 12.5% (varies by service)	4.0% to 10.0% (varies by service)
Benefit Adjustments		Lesser of 1% or \$500 annually	Lesser of 1% or \$500 annually

1 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.

<u>Former Job Class</u>	<u>Males</u>	<u>Females</u>
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 by PEBA 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.

<u>Plan</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Pension</u>	<u>Employers' Net Pension Liability (Asset)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>	<u>City of Inman's Portion</u>
SCRS	\$ 45,356,214,752	23,996,362,354	21,359,852,398	52.9%	995,366
PORS	6,412,510,458	3,876,035,732	2,536,474,726	60.4%	614,686

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS, Continued

Net Pension Liability, continued

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements at <http://www.peba.sc.gov/assets/financialsretirement.pdf>. 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.

A plan's Net Pension Liability (NPL) is determined by reducing its total pension liability by its fiduciary net position. Total pension liability is defined by the Governmental Accounting Standards Board (GASB) as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the requirements of GASB 67. Total pension liability may be impacted annually by the cost of service accrued by participants, interest accrued on the liability, the impact of benefit and assumption changes, the cost of benefit payments, and the difference between expected and actual plan experience. The most significant impact on a plan's fiduciary net position relates to the rate of return on its investments. Consequently, significant fluctuations in the market value of investments substantially affect the fiduciary net position component of the NPL calculation, and as a result, cause a direct change in the NPL.

South Carolina Retirement System (SCRS) and Police Officers' Retirement System (PORS) are in a net cash outflow flow position with benefit payments exceeding contributions; therefore, investment performance must make up this gap before fiduciary net position can grow. Investments earned negative 0.39 percent during the plan year ended June 30, 2016, and thus the market value of SCRS and PORS investments decreased. Consequently, both plans experienced an overall decrease in plan fiduciary net position for the fiscal year ended June 30, 2016. This change, coupled with the annual increase in the total pension liability, led to a \$2.39 billion and \$357 million increase in the NPL for SCRS and PORS, respectively, for the measurement period ended June 30, 2016.

As previously communicated by PEBA, the financial reporting changes required by GASB 68 are likely to result in increased volatility in an employers' reported proportionate share of the NPL from one year to the next. Regardless of the NPL reported on the employer's financial statements, the employer is responsible only for making the contributions required by state law during any given year. Employers cannot pay down or pay off their proportionate share of the NPL because SCRS and PORS are multiple employer, cost-sharing defined benefit plans.

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

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2015. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by PEBA's consulting actuary.

At June 30, 2017, the City reported liabilities of \$995,369 and \$614,689 for its proportionate share of the net pension liabilities of SCRS and PORS, respectively. The net pension liability was measured as of June 30, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2016, the City's SCRS and PORS proportion was 0.004465% and 0.02423%, respectively.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS, Continued

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

For the year ended June 30, 2017, the City recognized net pension expenses of \$96,985 and \$73,257 for SCRS and PORS, respectively.

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SCRS</u>	<u>PORS</u>
Deferred Outflows of Resources		
Liability Experience	10,318	9,121
Investment Experience	83,742	69,700
Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions	27,302	20,387
City Contributions Subsequent to the Measurement Date	<u>59,100</u>	<u>42,285</u>
TOTAL	<u>\$ 180,462</u>	<u>141,493</u>
Deferred Inflows of Resources		
Liability Experience	1,081	-
Investment Experience	-	-
Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions	861	-
TOTAL	<u>\$ 1,942</u>	<u>-</u>

The \$238,992 and \$425,743 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>SCRS</u>	<u>PORS</u>
2017	\$ 31,446	24,604
2018	26,053	24,142
2019	42,075	33,630
2020	19,846	16,831
2021	-	-
Thereafter	-	-

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS, Continued

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital markets outlook at the end of the third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 7 - PENSION PLANS, Continued

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 City's proportionate share of the SCRS and PORS net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's respective net pension liability would be if it were calculated using a discount rate of 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

<u>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</u>			
Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
SCRS	\$ 1,241,696	995,369	790,312
PORS	805,603	614,689	443,118

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 located at <http://www.peba.sc.gov/assets/financialsretirement.pdf> (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2016 located at <http://www.peba.sc.gov/assets/06.30.2016-gasb-68-report-final-protected.pdf>.

NOTE 8 – SCHEDULE OF FINES, ASSESSMENTS AND SURCHARGES

In accordance with South Carolina code sections 14-1-206, 14-1-207, and 14-1-208, a schedule of victim services is shown as other supplementary information in these financial statements. The \$136,084 of court fines is reported as revenue in the General Fund. The City maintained a Victim Services Account for the fiscal year. The \$18,382 of funds available for carry-forward is reported as a cash asset of the Special Revenue Fund.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 9 – DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

As of August 26, 1996, laws governing Section 457 plans were changed to state that plans were not eligible unless all assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

Johnson & Higgins/Kirke-Van Orsdel, Inc., 400 Locust Street, Des Moines, Iowa, 50306 (under state contract) are the program administrators of the 457 Plan, as well as the other available 401K Plan. The choice of deferred compensation options are selected by the participant. As recommended by GASB No. 32, *Accounting and Financial Reporting for IRC Section 457 Deferred compensation Plans*, the value of the assets under the Plan are not included in the City's financial statements.

NOTE 10 – CONTINGENCIES

Due to the nature of the City's normal activities, it is routinely subject to a variety of claims and demands by various individuals and entities. Loss contingencies are situations involving uncertainties as to possible loss. The uncertainties are resolved when certain events occur or fail to occur. Loss contingencies may result from litigation, claims, audit disallowances, threatened property loss, or uncollectible receivables. Such situations are loss contingencies at June 30 if the related liability has not been recorded yet a loss is reasonably possible. Guarantees of others' debts are loss contingencies, however, even if the probability of loss is remote. The City maintains insurance against certain loss contingencies with tort liability policies and physical damage coverage. At the date of this report, the City is not a party to any lawsuits which, in the opinion of the City's management and legal council, would give rise to any material loss contingency. Settlements have not exceeded insurance coverage limits for the last three fiscal years.

The City has received proceeds from State and Federal grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies.

NOTE 11 – COMMITMENTS

The City has entered into an agreement with the Town of Chesnee to provide specified services necessary to operate its waste treatment facilities in exchange for \$38,000 annually to be paid monthly, in addition to labor and materials cost of maintenance and repairs. The total amount received under this agreement for the fiscal year ended June 30, 2017 was \$52,331 including reimbursement for the costs for maintenance and repairs and is included in operating revenues in the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund.

The City has received USDA/Rural Development grants totaling \$3,438,000, which the City used to initially expand its sewer treatment facility. These grants and the assets they purchased carry the restriction that the City shall "Not transfer or dispose of the system, or any part thereof, being constructed or improved with such grant funds without the written consent of the Grantor."

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 12 – LOAN RECEIVABLE

The City has entered into a Sewer System Improvements Agreement with Spartanburg County School District One whereby the City constructed a sewer line extension for the benefit of the District, and obtained financing from USDA/Rural Development in the form of a grant and a loan. This grant portion does not have to be repaid however the loan is to be repaid over a forty year period with interest. The District agreed to be responsible for 9.48% of the monthly payments, or \$2,315 per month over the term of the loan. The total amount of principal and interest payment and a summary of the loan receivable activity for the fiscal year ended June 30, 2016 is shown below:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
Loan Receivable - Spartanburg County School District One	\$ 428,165	-	5,040	423,125

Year Ended June 30	Principal	Interest	Total
2018	\$ 5,315	22,464	27,779
2019	5,606	22,174	27,780
2020	5,913	21,867	27,780
2021	6,236	21,544	27,780
2022	6,578	21,202	27,780
2022-2027	38,699	102,209	140,908
2028-2032	50,511	88,389	138,900
2033-2037	65,930	72,970	138,900
2038-2042	86,055	52,845	138,900
2043-2047	112,322	26,577	138,899
2047-2049	39,960	1,710	41,670
	\$ 423,125	453,951	877,076

The entire amount of the original loan (\$456,833) was shown as a sewer connection charge and included in revenue on the Statement of Revenue, Expenses and Changes in Net Position – Proprietary Fund for the June 30, 2010 fiscal year.

CITY OF INMAN
Notes To Financial Statements, Continued
June 30, 2017

NOTE 13 – TAX ABATEMENTS

The City receives support in the form of property tax revenue from Spartanburg County. The County has entered into various property tax abatement agreements with local businesses.

Companies that are located in South Carolina and are classified as manufacturing facilities are subject to *ad valorem taxes*. The fair market value is multiplied by the assessment ratio, generally equal to 10.5%, to produce the assessed value and then multiplied by the millage rate. The County provide certain tax reductions through the following programs:

1. Fee in Lieu of Ad Valorem Tax
2. Special Source Revenue Credit

The *Fee in Lieu of Ad Valorem Tax* program is intended to encourage investment in commercial and industrial investments in South Carolina. The property tax reduction is granted pursuant to Chapter 44 of Title 12 of the South Carolina Code of Laws of South Carolina 1976 as amended. Taxpayers are eligible to receive a reduction in property taxes, through reduced assessed values and locked millage rates, if they enter into an agreement with the County and invest at least \$2.5 million in taxable property (or some other negotiated investment floor) within a 5 year period. Under the *Fee in Lieu of Ad Valorem Tax* program, if a taxpayer does not make the required investment within the 5 year period, then the reduced property taxes terminate and the taxpayer must repay the County the difference between the abated taxes received and what the taxpayer would have paid had it not had the benefit of the *Fee in Lieu of Ad Valorem Tax* program.

Spartanburg County have multiple taxpayers that have entered into agreements under the *Fee in Lieu of Ad Valorem Tax* program. In the aggregate, these taxpayers, without the benefit of the program would pay significantly more in *ad valorem* tax. However, due to the benefit provided by the *Fee in Lieu of Ad Valorem Tax* program, the taxpayers paid less in the most recent fiscal year, as shown in the table below.

The *Special Source Revenue Credit* program is intended to encourage investment into infrastructure serving the County or infrastructure serving a commercial or manufacturing enterprise in the County. The property tax reduction is granted pursuant to Chapter 1 of Title 4 of the South Carolina Code of Laws of South Carolina 1976, as amended. All property that is located in an MCIP, *Multi-County Industrial Park*, is exempt from property taxes, but property owners must pay an amount equivalent to the property taxes that would otherwise be due. The companies that make an agreement with the county based on this option are based on infrastructure credits or credits based on investments /money spent to improve a facility. Taxpayers are eligible to receive a percentage reduction off their total property tax liability if the taxpayer is located in a multicounty park, enters into an agreement with the County and agrees to make an investment in taxable property in the County and create jobs. If the taxpayer does not meet its investment or job commitments, the taxpayer must repay a portion of the reduction.

The County has several taxpayers that have entered into agreements with the counties under the Special Source Revenue Credit program. In the aggregate, these taxpayers, without the benefits of the program would pay more in *ad valorem* tax in the most recent fiscal year. However, due to the benefit provided by the *Special Source Revenue Credit* program, the taxpayers pay significantly less as shown below.

	<u>Fee in Lieu of Tax</u>	<u>Special Source Revenue Credits</u>	<u>Total</u>	<u>Total Ad Valorem Tax</u>
Spartanburg County	\$ 5,237,738	1,697,454	6,935,192	14,893,090

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF INMAN
Schedule of General Fund - Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Licenses, Permits, Fees	\$ 494,000	494,000	540,532	46,532
Taxes	391,000	391,000	422,992	31,992
Intergovernmental	128,385	128,385	140,764	12,379
Police Fines	83,075	83,075	70,110	(12,965)
Garbage Service	5,000	5,000	4,480	(520)
Miscellaneous	5,500	5,500	8,419	2,919
Total Revenues	<u>1,106,960</u>	<u>1,106,960</u>	<u>1,187,297</u>	<u>80,337</u>
EXPENDITURES:				
Administration:				
Salaries, Benefits	75,308	76,492	136,325	(59,833)
Utilities	16,000	23,500	44,483	(20,983)
Other	191,387	256,387	208,447	47,940
Streets, Sanitation & Park:				
Salaries, Benefits	53,400	53,992	54,835	(843)
Sanitation Contract	87,000	87,000	86,176	824
Streets Lights	50,000	50,000	51,735	(1,735)
Other	34,780	34,780	29,679	5,101
Fire:				
Salaries, Benefits	100,037	109,701	116,413	(6,712)
Debt Service	55,560	55,560	55,560	-
Utilities	8,000	8,000	10,550	(2,550)
Capital Outlay	-	-	35,680	(35,680)
Other	57,726	58,726	70,144	(11,418)
Police & Judicial:				
Salaries, Benefits	402,817	414,942	463,540	(48,598)
Debt Service	6,760	6,760	6,687	73
Utilities	2,000	2,000	1,725	275
Other	97,185	100,685	96,539	4,146
Total Expenditures	<u>1,237,960</u>	<u>1,338,525</u>	<u>1,468,518</u>	<u>(129,993)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(131,000)</u>	<u>(231,565)</u>	<u>(281,221)</u>	<u>(49,656)</u>
OTHER FINANCING SOURCES:				
Proceeds From Issuance of Loans	-	-	35,680	35,680
Proceeds From Issuance of Bond Anticipation Note	-	-	304,000	304,000
Insurance Proceeds	-	-	2,328	2,328
Transfers In	56,000	56,000	56,000	-
Transfers Out	-	-	(8,172)	(8,172)
Total Other Financing Sources (Uses)	<u>56,000</u>	<u>56,000</u>	<u>389,836</u>	<u>333,836</u>
NET CHANGE IN FUND BALANCE	(75,000) *	(175,565) *	108,615	(284,180)
FUND BALANCES BEGINNING			<u>779,714</u>	
FUND BALANCES ENDING			<u><u>888,329</u></u>	

* This amount represents beginning cash balances budgeted by ordinance.

CITY OF INMAN
 GASB 68 Required Supplementary Information
 For The Year Ended June 30, 2017

**Schedule of the City's
 Proportionate Share of the Net Pension Liability (SCRS)**

	2017	2016	2015
City's proportion of the net pension liability (asset)	0.004660%	0.004465%	0.004474%
State's proportionate share of the net pension liability (asset) associated with the City	\$ 21,359,852,398	18,965,482,129	17,216,684,770
City's proportionate share of the net pension liability (asset)	<u>995,369</u>	<u>846,809</u>	<u>770,559</u>
City's covered-employee payroll	\$ 451,225	418,648	406,178
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	2.21%	2.02%	1.90%
Plan fiduciary net position as a percentage of the total pension liability	52.9%	57.0%	59.9%

*This schedule will continue to build prospectively until a 10 year trend of data is compiled.

**Schedule of the City's
 Proportionate Share of the Net Pension Liability (PORS)**

	2017	2016	2015
City's proportion of the net pension liability (asset)	0.02423%	0.02393%	0.02267%
State's proportionate share of the net pension liability (asset) associated with the City	\$ 2,536,474,726	2,179,496,384	1,914,427,438
City's proportionate share of the net pension liability (asset)	<u>614,689</u>	<u>521,445</u>	<u>433,905</u>
City's covered-employee payroll	\$ 313,512	300,882	276,918
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	1.96%	1.73%	1.57%
Plan fiduciary net position as a percentage of the total pension liability	60.4%	64.6%	67.5%

*This schedule will continue to build prospectively until a 10 year trend of data is compiled.

CITY OF INMAN
 GASB 68 Required Supplementary Information
 For The Year Ended June 30, 2017

Schedule of City's Contributions (SCRS)

	2017	2016	2015
Contractually required contribution	\$ 59,101	49,906	45,005
Contributions in relation to the contractually required contribution	(59,101)	(49,906)	(45,005)
Contribution deficiency (excess)	-	-	-
City's covered-employee payroll	\$ 511,253	451,225	418,648
Contributions as a percentage of covered-employee payroll	11.56%	11.06%	10.75%

*This schedule will continue to build prospectively until a 10 year trend of data is compiled.

Schedule of City's Contributions (PORS)

	2017	2016	2015
Contractually required contribution	\$ 42,284	42,450	39,145
Contributions in relation to the contractually required contribution	(42,284)	(42,450)	(39,145)
Contribution deficiency (excess)	-	-	-
City's covered-employee payroll	\$ 301,169	313,512	300,882
Contributions as a percentage of covered-employee payroll	14.04%	13.54%	13.01%

*This schedule will continue to build prospectively until a 10 year trend of data is compiled.

SUPPLEMENTARY INFORMATION

CITY OF INMAN
Municipal Court
Summary Schedule of Court Fines and Fees, Assessments and Surcharges
June 30, 2017

Total Fines, Assessments, Surcharges Collected	\$ 136,084
Amounts Remitted to State Treasurer:	
Assessments	(50,927)
Surcharges	(22,286)
Allocated to Victim Services	<u>(8,172)</u>
Amount Retained by City Treasurer	<u><u>54,699</u></u>
 Victim Services Funds	
Beginning Fund Balance	17,431
Court Assessments and Surcharges Allocated	8,172
Other Revenue and Transfers	4,409
Victim Services Expenditures	<u>(11,630)</u>
Ending Fund Balance	<u><u>\$ 18,382</u></u>

Independent Auditors' 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

City of Inman
Inman, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Inman as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprised City of Inman's basic financial statements, and have issued our report thereon dated December 15, 2017.

Internal Control Over Financial Reporting

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

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

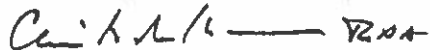
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Inman's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

 Cynthia A. [unclear] CPA

Gaffney, SC
December 15, 2017