

CITY OF WALTERBORO, SOUTH CAROLINA
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

City of Walterboro Council
City of Walterboro, South Carolina

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 Walterboro, South Carolina, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Walterboro, South Carolina's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Walterboro, South Carolina as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008, on our consideration of the City of Walterboro, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The City of Walterboro, South Carolina's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules described in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office Of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Walterboro, South Carolina. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the audit procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Baird & Company, CPAs, LLC

BAIRD & COMPANY, CPAs, LLC
Certified Public Accountants

Augusta, Georgia
October 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF WALTERBORO, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2008

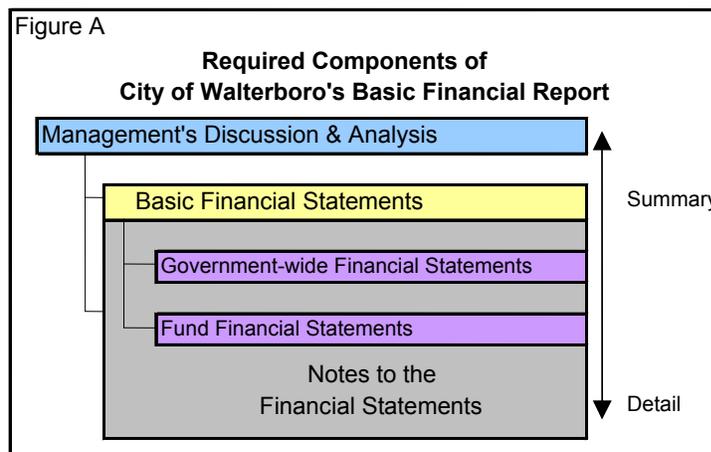
This section of the City of Walterboro’s annual financial report (AFR) presents City management’s discussion and analysis of the City’s financial performance during the fiscal year that ended on June 30, 2008. Please read this in conjunction with the City’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ The total primary government experienced a 6.4% increase in net assets from \$23.8 million at June 30, 2007 to \$25.4 million at June 30, 2008. This change in Net Assets is due primarily to an increase in net capital assets of \$1.6 million.
- ▶ Within the business-like activities, fiscal 2008, revenue from water and sewer charges increased \$153,957(↑5.9%) from \$2.61 million to \$2.77 million. At the same time, water and sewer operating expenses remained relatively flat, resulting in an increase in operating income of \$166,963 (↑23.9%). At the same time, in governmental activities, revenue from taxes remained relatively flat, growing by \$74,754 (↑1.4%).
- ▶ Early in fiscal 2004, the City issued general obligation bonds in the amount of \$1,000,000 to fund the purchase of various capital equipment and property, and \$443,093 was still on hand as of June 30, 2008.
- ▶ In both fiscal years 2007 and 2008, the City continued to support its employees through a three percent cost of living raise, while maintaining no costs to the employees for individual health insurance.

OVERVIEW OF THE FINANCIAL STATEMENTS

Figure A below gives a graphic presentation of the arrangement and components of this Financial Report.



As shown in Figure A above, the financial statements consist of three parts: 1) management’s discussion and analysis (this section), 2) the basic financial statements, and the 3) narrative notes to the financial statements. The basic financial statements include two kinds of statements that present different views of the City.

- ▶ The first two statements are government-wide financial statements that provide both long-term and short-term information about the City’s overall financial status.
- ▶ The remaining statements are fund financial statements that focus on individual elements of the City government, reporting the City’s operations in more detail than the government-wide statements.
 - ⦿ The governmental funds statements tell how general government services, like public safety, were financed in the short term as well as what remains for future spending.
 - ⦿ Proprietary funds statements offer short- and long-term financial information about the activities the government operates like businesses, such as the water and sewer systems.

The financial statements also include narrative notes that explain some of the information in the financial statements and provide more detailed data.

Figure B, below, summarizes the major elements of the financial statements, including the portion of the City government they include and the types of information they contain. The remainder of this overview explains the structure and contents of each of the financial statements.

Government-Wide Statements

Figure B	Major Elements of Walterboro’s Government-wide and Fund Financial Statements		
	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government and the City’s component units	The activities of the City that are not proprietary, such as police, and fire.	Activities the City operates similar to private businesses: Water and Sewer Fund
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of cash flows
Accounting basis & measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow	All revenue and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The *government-wide financial statements* report information about the City as a whole, using accounting methods similar to those used by private-sector companies.

- ▶ The *statement of net assets* includes all of the government's assets and liabilities, with the difference between the two reported as net assets.
- ▶ All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This presents a change in net assets in the most recent fiscal year. All changes in net assets (revenues and expenses) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. In the future, trend data will be developed, providing a useful indicator of the City's financial condition.

To assess the overall economic health of the City, additional non-financial factors such as changes in the City's tax base and the condition of the City's roads should be considered. The government-wide financial statements of the City are divided into three categories:

- ▶ *Governmental activities.* Most of the City's basic services are included here, such as the Police, Fire, Public Works, and Finance departments. General revenues from sales and use taxes, property taxes, charges for services, and state and federal grants finance most of these activities.
- ▶ *Business-type activities.* The City charges fees to customers to help it cover the costs of certain services it provides. The City's Water and Sewer Fund is reported here and represents the only activity in the City's "Business-type Activities".

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are groupings of related accounts that the City uses to keep track of specific revenue and spending for particular purposes.

- ▶ The City also establishes funds to show compliance with certain legally restricted revenue sources, such as tracking debt-financed capital projects and grant proceeds.

The City has two kinds of funds:

- ▶ *Governmental funds.* Most of the City's basic services are accounted for in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Doing so will provide a better understanding of the long-term impact of the government's short-term funding decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balances for governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- ▶ *Proprietary funds.* Services provided to the general public for which customers are charged a fee are generally reported in Enterprise funds, which are proprietary funds. Proprietary funds' financial statements, like the government-wide statements, provide both long- and short-term financial information. The City of Waltherboro has one proprietary fund: the Water and Sewer Fund which is an enterprise fund. This fund

functions like business activities, so its financial statements provide different information than those of governmental funds, such as depreciation expense and cash flows.

In addition to these funds, the City maintains certain smaller funds in a fiduciary capacity. The City has no ownership in these funds. A Statement of the Assets and Liabilities for the Fiduciary Funds Group can be found immediately preceding the Notes to the Financial Statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Supplementary Information

In addition to the above, this report also contains Supplementary Information that can be useful to the reader in order to better understand the financial statements and the results of the City's operations. This information can be found after the Notes to Financial Statements. The City adopts an annual budget for its General Fund and other governmental funds. A budgetary comparison statement for the General Fund has been provided following the notes to the financial statements as the first report in the Supplementary Information.

FINANCIAL ANALYSIS OF THE CITY (PRIMARY GOVERNMENT)

Net assets

The City's *combined* net assets at June 30, 2008, totaled \$25,364,513 (↑6.4%). Governmental Activities' net assets comprising \$7.7 million (↑16.7%), while Business-type Activities' net assets held the balance of \$17.7 million (↑2.5%).

Most of the Governmental Activities' net assets (\$6.2 million) are invested in cash or cash equivalents, an increase of 1.7%. While the second largest asset category, \$5.0 million (↑15.7%), was held in capital assets (buildings, equipment, roads, etc). Governmental Activities unrestricted net assets remains strong at \$3.4 million (↑11.6%) at the end of fiscal 2008, for overall positive net assets of \$7.7 million (↑16.7) at the end of this year.

The total net assets of the City's Business-type Activities was \$17.7 million in fiscal year 2008. Of that total, most of the investment was tied into capital assets (\$17.1 million), net of related debt for the Water and Sewer Fund. Unrestricted net assets (assets available to support operations) decreased during the year by \$624,335 (↓17.3%) primarily because of further investments in capital assets without increases in borrowing.

Changes in net assets

Total net assets increased by \$1.5 million (↑6.4%) in fiscal 2008. The major component of this increase in total assets was a \$1.6 million (↑9.6%) increase in Capital Assets.

The City's total revenues reached \$9.6 million (↑9%) in fiscal year 2008. The cause of this increase in revenue was shared by (a) increases in water revenue in the proprietary funds, (b) over \$590,000 in grant revenues in the propriety funds and (c) tax and licenses revenue in the general fund. A major component of the increase in taxes

and licenses was from local hospitality taxes which increased to over \$344 thousand or more than double the previous year.

Governmental Activities

Transfers and Revenues, including general revenues (\$5.4 million), were sufficient to cover expenses for fiscal year 2008, resulting in a net income of \$156 thousand for the year.

- ▶ The cost of all governmental activities this year was \$6.9 million (↑3.9%). However, the amount that our taxpayers paid for these activities through general revenues (primarily taxes and license fees) was \$5.4 million (↑3.2%).
- ▶ Some of the program costs of governmental activities were paid by revenues collected from those who directly benefited from the programs. These revenue sources include:
 - ⦿ Business license fees, which generated \$1.9 million (↑15.6%) to pay the costs of providing general government services.
 - ⦿ The City's solid waste collection was funded, in part, by citizen-customers' solid waste collection fees, which totaled \$338,195 in fiscal 2007, an increase of 1.5%.
- ▶ Program costs were also defrayed by grants and contributions (\$120,042, ↓64.0%). A large portion of this funding comes from the South Carolina Department of Parks, Recreation and Tourism. Fiscal 2007 Land and Water Conservation Fund and South Carolina National Heritage Corridor grant revenues of \$50,142 were used to develop the Great Swamp Sanctuary and Construct a Welcome Center.

The City financed the \$4.2 million (↑18.8%) net expenses for governmental activities from the \$5.0 million (↑19.4%) in taxes, license fees and other general revenues, such as interest earnings as well as transfers from business-like activities.

- ▶ Figures C & D below show the various sources of general revenues for Fiscal Year 2008, (Figure C) and a comparison of these revenues to the same revenue categories for Fiscal Year 2007, (Figure D):

Figure C – General Fund Revenues By Sources

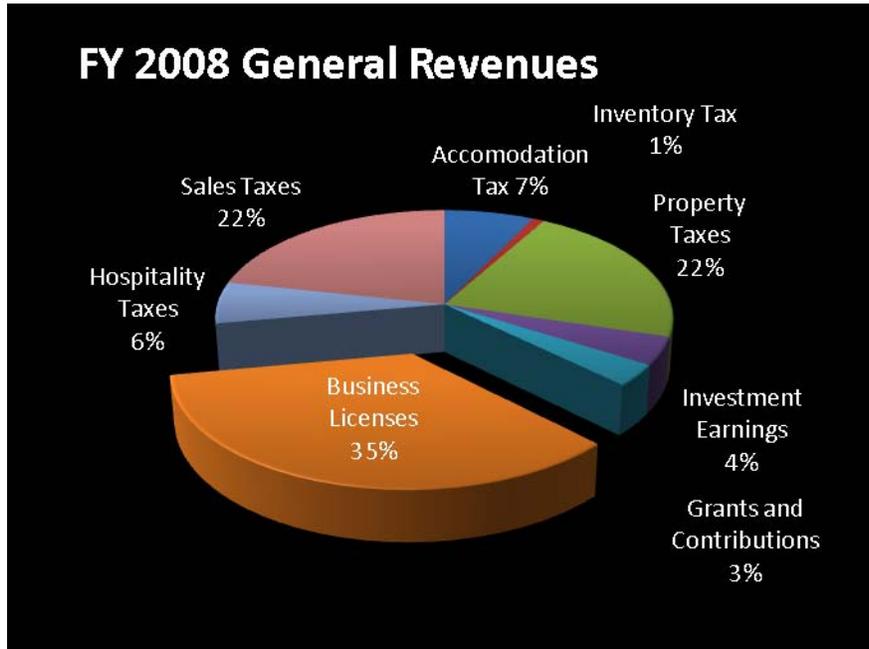
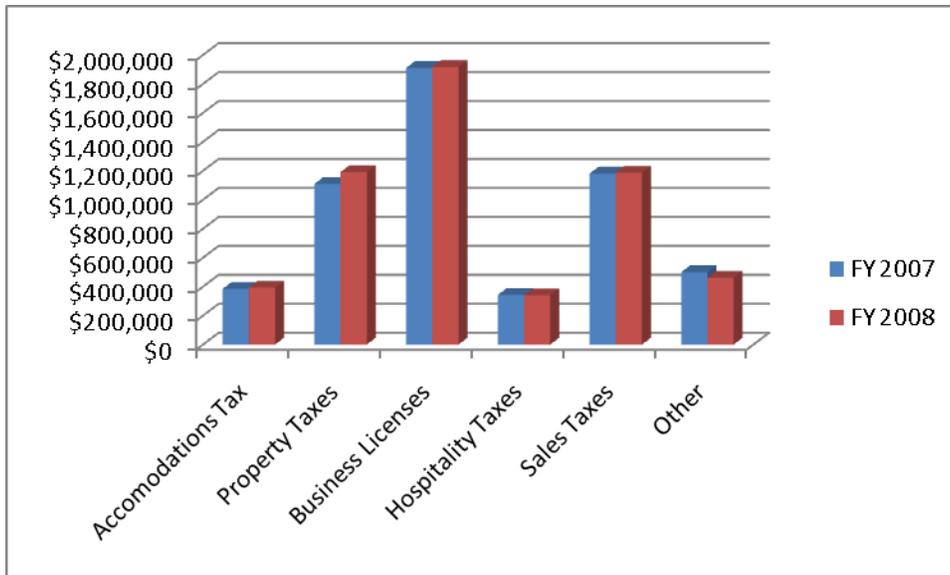


Figure D – Comparative General Fund Revenues



- General revenues are defined as all revenues that are not required to be reported as program revenues. All taxes, even those that are levied for a specific purpose, are general revenues. All other nontax revenues (including interest, gains and losses and contributions) that do not meet the criteria for program revenues are reported as general revenues.

- The largest of the City's general revenues is business license fees, comprising 35% of total general revenues.
- The second largest general revenue source is a local option sales tax (22%). This fee is levied at 1% of gross receipts earned within the city limits and is used to off-set property tax.
- The third largest source of general revenues (and very close in amount to the number two source, local option sales taxes) is property taxes (also 22%). The City's millage, 81 mills, was increased 3 mills from 78 mills in 2007, to meet the property tax cap adjusted to population and CPI increases.

Business-type Activities

The City operates a water and sewer treatment plant and provides these services to the citizens of Walterboro and some of the surrounding areas. Revenue from charges for services of water sales and sewer treatment and disposal grew by 5.9% or approximately \$154,000. This growth was primarily the result of a 6% rate increase.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a *combined* fund balance of \$6.5 million which was an increase of 2.4 % over 2007. This increase in combined fund balances of the governmental funds was calculated on ending fund balances and is primarily because of increases in cash and a decrease in amounts owed to other funds.

These financial activities comprised the major changes in governmental fund balances:

Governmental revenues ~

- ▶ Total revenues of the governmental funds showed an increase of 13.9% and \$835,233 over the prior year, primarily due to increased local hospitality taxes and grant revenues. Although the fund balances have grown, much of this increase is not available for normal City operations.
- ▶ Fines, Fees and Licenses revenue remained relatively stable
- ▶ Tax revenues, other than hospitality taxes remained stable
- ▶ Solid Waste Charges remained stable. Fee increases will allow these to increase in fiscal year 2009, as management continues to work to adjust revenues to cover operating costs for specific services that can readily be measured.

Governmental expenses ~

► **Expenses by major governmental function are shown below:**

Function	2007 Expenses	2008 Expenses	% Δ
Mayor and Council	\$226,629	\$257,994	12.16%
Bond Fund	151,094	11,305	-1237%
Project Fund	306,965	47,232	-549.91%
Great Swamp Accommodations	363,798	318,736	-14.14%
Tax	268,045	239,425	-11.95%
Finance	351,114	363,427	3.39%
City Manager	195,074	194,745	-0.17%
Public Works	1,008,932	1,310,624	23.02%
Codes Enforcement	101,243	140,544	27.96%
Public Safety	2,170,675	2,681,615	19.05%
Judicial	223,563	318,073	29.71%
Sanitation	419,404	607,179	30.93%
Parks	210,078	206,119	-1.92%
Non-departmental	177,021	188,725	6.20%
Other	186,462	35,491	-425%
Total	\$6,360,097	\$6,921,234	8.82%

Note – prior to Fiscal 2008, Public Safety was two departments (police and fire)

- Of the increase in City departments' spending, personal services (salaries and benefits) costs were increased due to a City Council approved 3% cost of living raise to its employees in fiscal year 2008. The cost of living raise, together with merit salary increases earned by employees through excellent performance, accounted for the rise in personal services costs.
- Of the increases in public safety the major items were vacancies in the prior year that were filled in fiscal 2008, amounting to about \$300,000 and the purchase of a ticket automation system costing \$156,709.
- Major capital outlay expenditures in fiscal year 2008, included: A ticket automation system for public safety costing \$156,709, three police vehicles with a total cost of \$79,107, and two trucks and a backhoe for other departments totaling \$308,000.

The City's combined proprietary funds, which account for its business activities, reflects increased net assets of \$263,534 at the end of fiscal 2008, an increase of 1.5 percent.

Proprietary funds' revenues, other resources ~

- ▶ The City's proprietary fund is its Water and Sewer Fund, which accounts for sewer treatment and disposal services provided to citizens and businesses within the city limits and in the surrounding areas as well as water treatment and provision. Water and Sewer Fund revenues from service charges increased 3.3% in fiscal 2007, providing an additional \$82,452 in resources. Water and sewer service rates were increased in FY 2006 for the first time since 2001, in an effort to offset loss generated by increased fuel and insurance.

Proprietary funds' expenses ~

- ▶ In the Water and Sewer Fund, operating expenses for fiscal 2007, increased by \$66,785 (3.4%).

Analysis of Changes in Major Funds

The General Fund (The Governments primary operating fund) ~

At the end of fiscal 2007, the total fund balance of the City's General Fund increased \$594,823 (18.8%) over the prior year's ending balance. At the end of fiscal 2008, the General Fund increased by \$62,843 or 1.7%. The smaller increase was caused primarily by the fact there were several capital improvement projects included in the fiscal 2008, budget with the intent of reducing the fund balance, as it exceeded recommended levels. These totaled \$445,000. This part of the planned reduction in fund balance did not occur primarily because of cost savings incurred in the capital projects as a result of the slackening construction market. Together with the above \$62,843 increase, the savings are \$508,243 or 14% over budgeted fund balance. In effect, the changes in fund balances are thus relatively comparable.

General Fund total assets increased by \$665,013 (19.8%). The most significant change in General Fund assets was the increase of cash and cash equivalents of \$636,455.

Water and Sewer Fund (Business-type activity) ~

Generally, the Water and Sewer Funds account for the provision of water and sewer services to the City's residents and businesses, as well as several surrounding areas. In addition, the Water and Sewer Fund accounts for the capital expansion activities of the City's sewer collection, treatment and disposable facilities and the City's Water treatment and distribution infrastructure. The City has been involved in several grant funded projects to expand the water and sewer services to nearby communities and schools. The infrastructure resulting from these projects have been capitalized in the Water and Sewer Fund.

Function	2007 Expenses	2008 Expenses	% Δ
Cost of Sales & Services:			
Water	\$771,523	\$725,505	-6.34%
Sewer	524,436	538,397	2.59%
Utility Support	105,105	109,639	4.14%
Depreciation	506,833	517,245	2.01%
Bank Charges & Bond Costs	6,893	10,992	37.29%
Total	<u>\$1,914,790</u>	<u>\$1,901,778</u>	

In fiscal 2008, the Water and Sewer Fund's net assets increased by 1.5%. This increase was accounted for by net income of \$941,869 less operating transfers of \$678,333. Net operating transfers for the year were down by \$55 thousand (↓8.1).

General Fund Budgetary Highlights

The City of Walterboro adopts an annual budget, as required by State law. Walterboro's management actively uses the budget as a financial management tool, reporting on budget status to the City Council each month. Historically each annual budget was reviewed following the completion of the first half of the fiscal year. Revenue projections were updated and budgeted expenditures are adjusted to reflect changing conditions. Because of economic uncertainties, budgets for 2009, will be monitored even more closely with a monthly analysis of revenues being made to ensure management is aware of any downturns that may require budgetary adjustments as soon as possible. Any items deemed to require action will be brought to the attention of Council on a timely basis.

The final fiscal year 2008, General Fund budget projected \$5.0 million in revenue and \$1.5 million in other financing sources; appropriations were made for \$6.5 million in expenditures, producing a balanced budget. Actual amounts for revenues (\$5.4 million), other sources (\$0.9 million), and expenditures (\$6.3 million) all varied favorably in comparison to the budget. As a result, the General Fund balance increased by \$54,644.

The actual revenue was \$324,961 more than the original projections. This resulted primarily from better than projected tax revenues, which are generally projected conservatively.

Unrealized expenditures in the Police Department due to vacancies was the most significant factor causing expenditures to decrease \$185,083 under the original budget.

CAPITAL ASSET AND DEBT MANAGEMENT

Capital Assets

At the end of fiscal 2008, the City had invested \$22.2 million in a broad range of capital assets, including land, buildings, park facilities, roads, sidewalks, bikeways, vehicles and other equipment. This amount represents a increase of 6.7% over last year. In fiscal 2005, the City increased the capitalization threshold from \$1,000 to \$5,000, reducing the number of items considered capital assets.

As required by the Governmental Accounting Standards Board (GASB) Statement No. 34, the City has included infrastructure capital assets in the Statement of Net Assets for June 30, 2008. The reader should note that GASB 34 allows additional time for governments to inventory the infrastructure capital assets acquired prior to the implementation of the new accounting requirement. The Statement of Net Assets in this report include only those infrastructure capital assets constructed and acquired during fiscal years 2004, to 2008. The City is working to develop the retroactive infrastructure capital assets data for inclusion in future years' financial statements. Note 5 provides additional details on capital assets.

Long-term Debt

At 2008 fiscal year-end, the City had \$6.8 million in long-term debt outstanding, of which \$450,481 will mature during fiscal 2008. The net decrease in long-term debt from the previous year was \$452,590 or 6.6%. The City's long-term debt is comprised of bonds, warrants, notes and capital leases payable.

General obligation debt is payable from the City's general revenues (the General Fund).

The reader may refer to Note 7 for more detail concerning the debt issuances and debt outstanding of the City and its component units.

State law limits the amount of general obligation debt the City can issue to 8 percent of the assessed value of all taxable property within the City's corporate limits. The outstanding debt applicable to this limit is \$788,305 (43%), resulting in a legal debt margin of \$1,025,962.

Although sales and use tax is considered a revenue source subject to variations in the economy, the consistent growth and stable economy of Walterboro, in conjunction with the City government's sound management practices, means that debt repayment remains predictable. The ratio of debt service to general expenditures is approximately 5½%, considered below average ratio for a city of our size. Walterboro has been able to both expand and maintain its infrastructure to meet citizens needs based on careful financial management.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As we write this, certain factors at the national level, including the overall stability of the economy because of the threat of massive bank, insurance company and investment house failures, make the uncertainties we face in the near future far more unpredictable than at any time in recent memory.

Another factor that raises uncertainties is the extent to which the recent volatility of fuel prices may affect the City's tourism industry. While the City is not a major tourist destination, the traffic along I-95 accounts for a significant portion of business licenses, local option sales tax, accommodations tax and hospitality tax revenues. Together, these revenue sources account for about half of the City's annual budget.

With these caveats, we will set forth our comments in view of current circumstances about which we have more direct knowledge.

Even with the general economic downturn experienced within the State of South Carolina over the past several years, Walterboro has remained a stable, growing economy. Price level changes within the City are comparable with national indices. The City's unemployment rates typically compare unfavorably with the State and national rates. The most recent data available show that the Walterboro area's unemployment rate for August 2008, (Colleton County) was 10.0% as compared to 7.6% for the State of South Carolina and the national rate of 6.1% (source: SC Employment Security Commission).

Revenue growth for the City's General Revenues, as defined above, continue to be relatively stable. Expenses continue to grow at about the same rate as annual payroll costs, which are set primarily by the cost of living increases Council approves for a specific year (as noted above this was 3% in each of the past fiscal years).

The City's staff considered these and other relevant factors in preparing the annual budget for fiscal year 2009. As a result of these uncertainties, the City's staff is monitoring monthly revenue collections in more detail and on a more timely basis than in the past.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Walterboro's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the public assets under its management. Please contact the City of Walterboro Finance Department, 248 Hampton Street, Walterboro, South Carolina 29488, with any questions or to request additional information.

BASIC FINANCIAL STATEMENTS

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CITY OF WALTERBORO, SOUTH CAROLINA
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 6,249,221	\$ 2,582,439	\$ 8,831,660
Receivables	376,291	498,709	875,000
Inventories	-	111,276	111,276
Notes receivable	69,266	273,183	342,449
Internal balances	86,471	(86,471)	-
Bond issue costs	33,655	38,842	72,497
Restricted cash	-	297,517	297,517
Capital assets	<u>5,020,547</u>	<u>17,142,000</u>	<u>22,162,547</u>
 Total assets	 <u>\$ 11,835,451</u>	 <u>\$ 20,857,495</u>	 <u>\$ 32,692,946</u>
LIABILITIES			
Accounts payable	\$ 94,803	\$ 7,783	\$ 102,586
Current portion - long term debt	277,556	172,915	450,471
Interest payable	15,884	-	15,884
Customer deposits	-	238,625	238,625
Bonds, notes & leases payable	3,636,267	2,713,249	6,349,516
Compensated absences	<u>147,693</u>	<u>23,648</u>	<u>171,341</u>
 Total liabilities	 <u>4,172,203</u>	 <u>3,156,220</u>	 <u>7,328,423</u>
NET ASSETS			
Unrestricted	3,430,996	3,147,922	6,578,918
Restricted	-	297,517	297,517
Capital assets, net of related debt	<u>4,232,242</u>	<u>14,255,836</u>	<u>18,488,078</u>
 Total net assets	 <u>\$ 7,663,238</u>	 <u>\$ 17,701,275</u>	 <u>\$ 25,364,513</u>

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

**CITY OF WALTERBORO, SOUTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Mayor and council	\$ 246,884	\$ -	\$ -	\$ -	\$ (246,884)	\$ -	\$ (246,884)
Housing Project	695	-	14,005	-	13,310	-	13,310
Police drug fund	100	-	6,326	-	6,226	-	6,226
DARE program	294	-	-	-	(294)	-	(294)
Victims advocate	1,808	25,628	-	-	23,820	-	23,820
Local law enforcement grant	2,376	-	-	3,000	624	-	624
Bond fund	-	-	624	-	624	-	624
Cash project fund	18,593	-	-	591,950	573,357	-	573,357
Grant fund	4,947	-	4,684	-	(263)	-	(263)
Great swamp	37,852	-	-	-	(37,852)	-	(37,852)
Accommodations tax fund	204,435	-	-	-	(204,435)	-	(204,435)
Finance	359,167	-	-	-	(359,167)	-	(359,167)
City manager	200,570	-	-	-	(200,570)	-	(200,570)
Public works	1,116,447	-	-	-	(1,116,447)	-	(1,116,447)
Codes enforcement	148,449	35,442	-	-	(113,007)	-	(113,007)
Public safety	2,548,926	309,894	-	-	(2,239,032)	-	(2,239,032)
Judicial	322,306	-	-	-	(322,306)	-	(322,306)
Sanitation	521,770	331,460	-	-	(190,310)	-	(190,310)
Parks	202,133	-	-	-	(202,133)	-	(202,133)
Non-department support	101,279	-	-	-	(101,279)	-	(101,279)
Reserve accounts	25,271	-	-	-	(25,271)	-	(25,271)
Interest on long-term debt	166,941	-	-	-	(166,941)	-	(166,941)
Total governmental activities	\$ 6,231,243	\$ 702,424	\$ 25,639	\$ 594,950	(4,908,230)	-	(4,908,230)
Business-type activities:							
Water	\$ 1,303,066	\$ 1,687,985	\$ -	\$ -	-	384,919	384,919
Sewer	718,335	1,079,166	-	-	-	360,831	360,831
Total business-type activities	2,021,401	2,767,151	-	-	-	745,750	745,750
Total primary government	\$ 8,252,644	\$ 3,469,575	\$ 25,639	\$ 594,950	(4,908,230)	745,750	(4,162,480)
General revenues:							
Property taxes					1,021,703	-	1,021,703
Sales taxes					1,189,079	-	1,189,079
Business licenses					1,917,324	-	1,917,324
Merchant inventory					50,749	-	50,749
Accommodations tax					393,445	-	393,445
Hospitality tax					341,285	-	341,285
Grants and contributions not restricted to specific programs					179,149	-	179,149
Investment earnings					231,908	196,118	428,026
Transfers					678,335	(678,335)	-
Total general revenues					6,002,977	(482,217)	5,520,760
Change in net assets					1,094,747	263,533	1,358,280
Net assets, beginning of year					6,568,491	17,267,742	23,836,233
Net assets, end of year					\$ 7,663,238	\$ 17,531,275	\$ 25,194,513

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

**CITY OF WALTERBORO, SOUTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

ASSETS	General	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Cash	\$ 4,017,979	\$ 2,231,242	\$ 6,249,221
Receivables	273,880	102,411	376,291
Due from other funds	8,388	454,092	462,480
Notes receivable	<u> -</u>	<u> 69,266</u>	<u> 69,266</u>
Total assets	<u>\$ 4,300,247</u>	<u>2,857,011</u>	<u>\$ 7,157,258</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 52,716	\$ 42,087	\$ 94,803
Due to other funds	349,027	26,982	376,009
Deferred revenue	<u> 79,916</u>	<u> 69,265</u>	<u> 149,181</u>
Total liabilities	<u> 481,659</u>	<u> 138,334</u>	<u> 619,993</u>
 FUND BALANCES			
Undesignated	<u> 3,818,588</u>	<u> 2,718,677</u>	<u> 6,537,265</u>
Total fund balances	<u> 3,818,588</u>	<u> 2,718,677</u>	<u> 6,537,265</u>
Total liabilities and fund balances	<u>\$ 4,300,247</u>	<u>\$ 2,857,011</u>	<u>\$ 7,157,258</u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total net assets reported for governmental activities in the statement of net assets is different because:

Total fund balances - governmental funds	\$ 6,537,265
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land and improvements	\$ 1,174,784
Buildings and improvements, net of \$802,114 accumulated depreciation	2,293,014
Machinery and Equipment, net of \$768,539 accumulated depreciation	470,274
Vehicles, net of \$2,083,799 accumulated depreciation	975,624
Construction in progress	<u>106,851</u>

Total capital assets	5,020,547
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Some of the City's receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.	149,181
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities (both current and long-term) are reported in the statement of net assets. Balances at June 30, 2008 are:

Accrued interest payable	(15,884)
General obligation bonds payable	(3,913,833)
Accrued compensated absences	<u>(147,693)</u>
Total long-term liabilities	(4,077,410)

Bond issue costs are reported as an expenditure in governmental funds but amortized over the period of the bond in the statement of net assets.	<u>33,655</u>
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Net assets of governmental activities	<u><u>\$ 2,642,691</u></u>
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CITY OF WALTERBORO, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 2,520,293	\$ 509,940	\$ 3,030,233
Fines, fees and licenses	2,204,815	-	2,204,815
Intergovernmental	168,257	-	168,257
Solid waste charges	331,460	-	331,460
Miscellaneous	150,687	981,285	1,131,972
	<u>5,375,512</u>	<u>1,491,225</u>	<u>6,866,737</u>
Total revenues			
EXPENDITURES			
Mayor and council	257,994	-	257,994
Housing project	-	695	695
DARE project	-	294	294
Police drug fund	-	100	100
Victims advocate	-	1,808	1,808
Local law enforcement grant	-	2,376	2,376
Bond fund	-	11,305	11,305
Project fund	-	47,232	47,232
Grant fund	-	4,947	4,947
Great swamp	-	318,736	318,736
Accommodations tax fund	-	239,425	239,425
Finance	363,427	-	363,427
City manager	194,745	-	194,745
Public works	1,310,624	-	1,310,624
Code enforcement	140,544	-	140,544
Public safety	2,681,615	-	2,681,615
Judicial	318,073	-	318,073
Sanitation	607,179	-	607,179
Parks	206,119	-	206,119
Non-department support	188,725	-	188,725
Reserve accounts	25,271	-	25,271
	<u>6,294,316</u>	<u>626,918</u>	<u>6,921,234</u>
Total expenditures			
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,153,532	615,086	1,768,618
Operating transfers out	(171,885)	(1,386,431)	(1,558,316)
	<u>981,647</u>	<u>(771,345)</u>	<u>210,302</u>
Total other financing sources (uses)			
Net change in fund balance	62,843	92,962	155,805
Fund balance, beginning	3,755,745	2,625,715	6,381,460
Fund balance, ending	<u>\$ 3,818,588</u>	<u>\$ 2,718,677</u>	<u>\$ 6,537,265</u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

The change in net assets reported for governmental activities in the statement of activities is different because:

Net change in fund balance - total governmental funds	\$	155,805
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,045,849) exceeded depreciation (\$362,896) in the current period.</p>		
		682,962
<p>Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>		
		286,423
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences	\$	(14,798)
Accrued interest		1,131
Amortization of bond issue costs		(2,684)
Deferred revenues		<u>(14,082)</u>
		<u>(30,433)</u>
Total change in net assets of governmental activities	\$	<u><u>1,094,757</u></u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Business-type Activities Enterprise Funds <u>Water and Sewer</u>
ASSETS	
Current Assets	
Cash	\$ 2,582,439
Receivables	498,709
Inventories	111,276
Notes receivable	273,183
Due from other funds	<u>18,594</u>
Total current assets	<u>3,484,201</u>
Non-current assets	
Restricted cash	297,517
Bond issue costs	38,842
Capital assets	<u>17,142,000</u>
Total non-current assets	<u>17,478,359</u>
Total assets	<u><u>\$ 20,962,560</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 7,783
Current portion - long-term debt	172,915
Customer deposits	238,625
Due to other funds	<u>275,065</u>
Total current liabilities	<u>694,388</u>
Non-current liabilities	
Bonds, notes, and leases payable	2,713,249
Annual leave	<u>23,648</u>
Total non-current liabilities	<u>2,736,897</u>
Total liabilities	<u>3,431,285</u>
Net assets	
Unrestricted	2,977,922
Restricted	297,517
Capital assets, net	<u>14,255,836</u>
Total net assets	<u>17,531,275</u>
Total liabilities and net assets	<u><u>\$ 20,962,560</u></u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Business-type activities Enterprise Funds <u>Water and Sewer</u>
Operating revenues	
Charges for services	
Water sales	\$ 1,687,985
Sewer charges	<u>1,079,166</u>
Total operating revenues	<u>2,767,151</u>
Operating expenses	
Cost of sales and service	
Water	725,505
Sewer	538,397
Utility support	109,639
Depreciation	517,245
Bank charges	3,076
Bond issue costs	<u>7,917</u>
Total operating expenses	<u>1,901,779</u>
Operating income	<u>865,372</u>
Nonoperating revenues (expenses)	
Investment income	196,118
Interest expense	<u>(119,622)</u>
Total nonoperating revenues (expenses)	<u>76,496</u>
Income before contributions and transfers	941,868
Operating transfers out	<u>(678,335)</u>
Change in net assets	263,533
Net assets, beginning	<u>17,267,742</u>
Net assets, ending	<u>\$ 17,531,275</u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Business-type Activities Enterprise Funds <u>Water and Sewer</u>
Cash flows from operating activities:	
Cash received from customers	\$ 2,762,660
Cash paid to employees	(576,962)
Cash paid for operating goods and services	<u>(504,258)</u>
Net cash provided (used) by operating activities	<u>1,681,440</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	<u>(678,335)</u>
Net cash provided (used) by noncapital financing activities	<u>(678,335)</u>
Cash flows from investing activities:	
Interest received on investments	196,118
Purchases of fixed assets	<u>(1,235,563)</u>
Net cash provided (used) by investing activities	<u>(1,039,445)</u>
Cash flows from capital and related financing activities:	
Interest and bank charges paid	(119,621)
Repayment of long-term debt	<u>(166,168)</u>
Net cash provided (used) by investing activities	<u>(285,789)</u>
NET INCREASE (DECREASE) IN CASH	(322,129)
CASH AT BEGINNING OF YEAR	<u>3,202,085</u>
CASH AT THE END OF YEAR	<u>\$ 2,879,956</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities	
Net operating income	<u>\$ 865,373</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation	525,162
(Increase) decrease in accounts receivable	(4,491)
(Increase) decrease in inventories	14,956
Increase (decrease) in accounts payable	(2,287)
Increase (decrease) in annual leave	1,904
Increase (decrease) in due to other funds	271,819
Increase (decrease) in customer deposits	<u>9,004</u>
Total adjustments	<u>816,067</u>
Net cash provided (used) by operating activities	<u>\$ 1,681,440</u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2008

	Agency Funds	
	Municipal Court	Firemen's Fund
ASSETS		
Cash	\$ 64,035	\$ 73
Total assets	<u>\$ 64,035</u>	<u>\$ 73</u>
LIABILITIES		
Due to others	\$ 64,035	\$ 73
Total liabilities	<u>64,035</u>	<u>73</u>
Agency fund balance	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The City of Walterboro, South Carolina (City) a political subdivision of the State of South Carolina was incorporated in 1826. As required by Section 47-26 of the 1962 Code of Laws as amended by the Home Rule Act, which required municipalities to adopt a specific form of government, the City has adopted the Council-Manager form of government. The City provides a full range of services to its citizens including fire and police protection, sanitation, public improvements, water and sewer service and general administration.

Generally accepted accounting principles, as established by the Governmental Accounting Standards Board, require that the financial reporting entity's financial statements include the financial operation of the primary government organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The basic criteria for including organizations as component units within the reporting entity include imposition of will, and financial benefit or burden on a primary government and organizations that must be included in the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the reporting government as a whole, except for its fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

Property taxes, franchise fees, licenses, certain intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The City reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the water and sewer operations. The City operates the sewage treatment plant, sewage pumping stations and collection systems and the water distribution system.

Additionally, the City reports the following fund types:

The *agency fund* is used to account for resources held by the City in a trustee capacity for the City of Walterboro municipal court account, and the fireman's account.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing service and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the enterprise fund are charges to customers for sales and services. The fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Restricted cash refers to resources that are classified as restricted because their use is restricted by applicable bond covenants.

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the City are reported at fair value.

Receivables and Payables

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

All housing rehabilitation loans, property taxes, and customer accounts receivables are shown net of an allowance for uncollectible accounts.

The City Code of Ordinances provides for taxation of all real and personal property located within the City limits on the first day of January. Motor vehicle taxes are billed and collected by the County Treasurer on a monthly basis. Other personal and real property taxes are levied by the City in October of each year and become due and payable immediately upon receipt by the taxpayer. Real property taxes are delinquent after January 15th with penalties assessed of 3% if paid after January 15th, 10% if paid after January 31st, and 15% if paid after March 15th. Assessed property is subject to lien one year from the levy date if taxes remain unpaid. The property tax rate approved by ordinance for calendar year 2007 is 81 mills. Property taxes are assessed and collected by Colleton County under a joint billing and collection agreement.

Inventories

Inventories of the general fund are recorded as expenditures when acquired and are not inventoried at year end since they are not material to the financial statements. Inventories of the water and sewer fund are valued at cost using the first-in/ first-out (FIFO) method.

Capital Assets

Capital assets, which include property and equipment and infrastructure assets (e.g. roads, lighting, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as property and equipment with an initial, individual cost of more than \$5,000 and infrastructure assets with an initial, individual cost of more than \$100,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of assets constructed.

CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Assets, Liabilities, and Net Assets or Equity – Continued

Capital Assets - Continued

Property and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	30-50
Water and Sewer System	30-50
Vehicles and Equipment	5-20

Compensated Absences

Unused vacation leave liabilities are reported in the applicable governmental type activities columns in the government-wide financial statements. Upon proper resignation or termination for non-disciplinary reasons, an employee shall be paid at their regular straight time rate for unused leave earnings up to a maximum of no more than 144 hours plus one-half of current year earnings not to exceed 224 hours. The City has no financial liability for its unused sick leave. Compensated absences are paid from the general fund and the water and sewer fund. The liability for compensated absences at June 30, 2008 was \$147,693 and \$23,648, respectively.

The fund financial statements governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets, therefore, compensated absences are not included in the fund financial statements. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

**CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Assets, Liabilities, and Net Assets or Equity – Continued

Fund Equity - Continued

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

The government-wide statement of net assets reports government assets; therefore, a significant portion of the net assets reported there typically reflects a government's investment in capital assets. Generally Accepted Accounting Principles requires the amount of net assets invested in capital assets to be reported as a separate category of net assets. Net assets invested in capital assets, net of related debt includes all capital assets less accumulated depreciation and outstanding principal of related debt.

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

To conform to GAAP, the difference between total net assets and the two categories discussed above (invested in capital assets, net of related debt and restricted net assets) is reported as unrestricted net assets.

Expenses/Expenditures

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

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

In accordance with the State of South Carolina General Statute, the City prepares an annual balanced budget ordinance. The City adopts annual budgets for the general fund using the modified accrual basis. An annual budget for the special revenue fund is not adopted as sufficient budgetary control is achieved through restrictions included in the various grant agreements. An annual operating budget for the proprietary fund is adopted using the accrual basis of accounting. Appropriations lapse at the end of the budget year.

**CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

Budgetary Information - Continued

In March, the budget process begins with a special comprehensive work session in which the finance department and administrator meet with all department heads to discuss current and future trends, needs and goals of the City. All department heads submit comprehensive lists of programs, projects, and initiatives to be considered in the upcoming budget and meet with finance department staff and the administrator individually. During May and June, formal budget workshops are held. The Council holds public hearings and a final budget must be prepared and adopted no later than June 30.

Budgets are prepared at the fund and department level. Budgets are adopted at the fund level and are amended as necessary during the fiscal year in one of two ways. First, the administrator delegated by the City Council, may make line items transfers within individual fund budgets with subsequent monthly notice to City Council. Such transfers can neither increase nor decrease the overall budget at the fund level. Secondly, the budget may be increased or decreased at the fund level as changing circumstances dictate, subject to City Council approval.

NOTE 3 – DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned. The City has a deposit policy for custodial credit risk. As of June 30, 2008, none of the City’s deposits were exposed to custodial credit risk.

Credit Risk – The City has an investment policy that limits investment types to those approved by State Statute 6-5-10 under South Carolina Code of Laws. Currently the City’s investments consist of certificate of deposits and South Carolina Local Investment Pool.

NOTE 4 – RECEIVABLES

Accounts Receivable

Receivables at June 30, 2008, including the applicable allowances for uncollectible accounts, are as follows for the fund and government-wide financial statements, respectively.

<u>Receivables</u>	<u>General</u>	<u>Proprietary Funds</u>	<u>Total</u>
Property taxes and assessments	\$ 200,758	\$ -	\$ 200,758
Intergovernmental	183,964	-	183,964
Charges for services	<u>-</u>	<u>584,295</u>	<u>584,295</u>
Gross receivables	384,722	584,295	969,017
Less allowance for uncollectible accounts	<u>(110,843)</u>	<u>(85,586)</u>	<u>(196,429)</u>
Net total receivables	<u>\$ 273,879</u>	<u>\$ 498,709</u>	<u>\$ 772,588</u>

**CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 4 – RECEIVABLES – CONTINUED

Accounts Receivable - Continued

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Government funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the government funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable	\$ 79,916	\$ -
Net balance of housing notes receivable	<u>69,266</u>	<u>-</u>
Total	<u>\$ 149,182</u>	<u>\$ -</u>

Notes Receivable

The City has notes receivable from various individuals for \$76,961 for funds received from several community development block grants. The terms of the note call for monthly payments until the loans are paid off. The City has recorded \$7,696 as an allowance for bad debts as these loans are not always collectible in full and deferred the balance of \$69,266 to be recognized as the payments are collected.

The City has recorded a note receivable from the Walterboro-Colleton County Airport Commission for funds that were advanced to the commission on a non-interest bearing promissory note due on or before August 15, 2015. The balance of this loan was \$273,183 at June 30, 2008.

CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 was as follows:

<u>Governmental Activities</u>	<u>June 30, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2008</u>
<i>Capital assets not being depreciated</i>				
Land and improvements	\$ 1,081,563	\$ 93,221	\$ -	\$ 1,174,784
Construction in progress	66,912	58,537	18,598	106,851
Total capital assets, not being depreciated	<u>1,148,475</u>	<u>151,758</u>	<u>18,598</u>	<u>1,281,635</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	2,763,045	332,084	-	3,095,129
Machinery and equipment	914,276	324,536	-	1,238,812
Vehicles	2,802,284	277,134	20,000	3,059,418
Total capital assets being depreciated	<u>6,479,605</u>	<u>933,754</u>	<u>20,000</u>	<u>7,393,359</u>
Less accumulated depreciation for:				
Buildings and improvements	748,389	53,726	-	802,115
Machinery and equipment	693,331	75,207	-	768,538
Vehicles	1,848,766	255,028	20,000	2,083,794
Total accumulated depreciation	<u>3,290,486</u>	<u>383,961</u>	<u>20,000</u>	<u>3,654,447</u>
Total capital assets being depreciated, net	<u>3,189,119</u>	<u>549,793</u>	<u>-</u>	<u>3,738,912</u>
Governmental activities capital assets, net	<u>\$ 4,337,594</u>	<u>\$ 701,551</u>	<u>\$ 18,598</u>	<u>\$ 5,020,547</u>
<u>Business-type Activities</u>	<u>June 30, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2008</u>
<i>Capital assets not being depreciated</i>				
Land and improvements	\$ 44,773	\$ -	\$ -	\$ 44,773
Construction in progress	-	490,665	-	490,665
Total capital assets, not being depreciated	<u>44,773</u>	<u>490,665</u>	<u>-</u>	<u>535,438</u>
<i>Capital assets being depreciated</i>				
Water system and improvements	12,205,804	666,011	-	12,871,815
Sewer system and improvements	10,261,304	12,850	-	10,274,154
Buildings and improvements	223,569	-	-	223,569
Machinery and equipment	617,015	33,235	-	650,250
Vehicles	283,081	32,814	-	315,895
Total capital assets being depreciated	<u>23,590,773</u>	<u>744,910</u>	<u>-</u>	<u>24,335,683</u>
Less accumulated depreciation for:				
Water system and improvements	2,545,241	246,065	-	2,791,306
Sewer system and improvements	3,944,882	207,341	-	4,152,223
Buildings and improvements	145,319	5,590	-	150,909
Machinery and equipment	342,676	40,676	-	383,352
Vehicles	233,759	17,572	-	251,331
Total accumulated depreciation	<u>7,211,877</u>	<u>517,244</u>	<u>-</u>	<u>7,729,121</u>
Total capital assets being depreciated, net	<u>16,378,896</u>	<u>227,666</u>	<u>-</u>	<u>16,606,562</u>
Business-type activities capital assets, net	<u>\$ 16,423,669</u>	<u>\$ 718,331</u>	<u>\$ -</u>	<u>\$ 17,142,000</u>

**CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 5 – CAPITAL ASSETS – CONTINUED

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

<u>Governmental Activities</u>	
City manager	\$ 8,001
Code enforcement	4,180
Fire	24,562
Great Swamp	32,256
Judicial	1,493
Mayor and council	4,997
Parks	870
Police	126,308
Public works	92,984
Sanitation	<u>87,250</u>
Total depreciation expense	<u>\$ 382,901</u>

<u>Business-type Activities</u>	
Sewer	\$ 237,117
Water	<u>280,127</u>
Total depreciation expense	<u>\$ 517,244</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The transfer from the water and sewer fund to the general fund was to pay for operations. The transfers to the nonmajor funds were related to the Great Swamp project and the equipment replacement fund.

The composition of interfund balances as of June 30, 2008 is as follows:

<u>Transfer Out</u>	<u>General Fund</u>	<u>Transfer In Nonmajor Governmental</u>	<u>Total</u>
General fund	\$ -	\$ 171,885	\$ 171,885
Nonmajor governmental fund	-	303,311	303,311
Water Sewer	<u>1,130,532</u>	<u>208,219</u>	<u>1,338,751</u>
Total transfers out	<u>\$ 1,130,532</u>	<u>\$ 683,415</u>	<u>\$ 1,813,947</u>

**CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - CONTINUED

Interfund balances must generally be eliminated in the government-wide financial statements, except for the net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expense of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated. No amounts were reported in the government-wide financial statements, as the amount did not involve the transfers of the financial resources.

	<u>Due To</u>	<u>Due From</u>
General fund	\$ 349,027	\$ 8,388
Other governmental funds	<u>8,388</u>	<u>349,027</u>
Total due to/from other funds	<u>\$ 357,415</u>	<u>\$ 357,415</u>

NOTE 7 – LONG-TERM OBLIGATIONS

Operating Leases

The City leases equipment under non-cancelable operating leases. The total costs for such leases amounted to \$3,000 for the year ended June 30, 2008. The future minimum leases for these leases are as follows:

<u>Year Ending June 30,</u>	<u>Business-type Activities</u>
2009	\$ 3,000
2010	<u>3,000</u>
Total	<u>\$ 6,000</u>

Capital Leases

The City has entered into various lease agreements for financing of vehicles and heavy equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Governmental Activities</u>
Vehicles	\$ 596,195
Less accumulated depreciation	<u>(323,129)</u>
Total	<u>\$ 273,066</u>

**CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 7 – LONG-TERM OBLIGATIONS – CONTINUED

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2009	\$ 46,491
2010	32,673
2011	22,803
2012	22,803
2013 to 2015	<u>60,809</u>
Total minimum lease payments	185,579
Less amount representing interest	<u>(18,416)</u>
Present value of minimum lease payments	<u>\$ 167,163</u>

Governmental Activities Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and large equipment. During the year ended June 30, 2004, general obligation bonds were issued for the governmental activities in the amount of \$1,000,000. \$443,093 of this funding was still on hand in cash accounts at June 30, 2008. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds have pledged certain tax revenues. Bonds currently outstanding are as follows:

<u>Bonds Payable</u>	<u>Governmental Activities</u>
\$1,000,000, series 2003 serial bonds due in annual installments of \$90,130 due on December 30th at 4.03% interest rate over 15 years.	\$ 788,305
\$1,735,000 TIF Revenue Bond due in monthly installments of \$13,124 at 4.22% interest rate over 15 years.	1,558,487
\$1,560,000 Lease Base Lease Hospitality Tax due in monthly installments of \$11,712 at 5.11% interest rate over 15 years.	<u>1,399,868</u>
Total bonds payable	<u>\$ 3,746,660</u>

**CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 7 – LONG-TERM OBLIGATIONS – CONTINUED

Governmental Activities Bonds - Continued

Annual debt service requirements to maturity for bonds are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 236,469	\$ 152,312	\$ 388,781
2010	245,745	142,419	388,164
2011	256,053	132,112	388,165
2012	266,793	121,372	388,165
2013	277,983	110,180	388,163
2014-2018	1,574,931	365,888	1,940,819
2019-2021	<u>888,686</u>	<u>55,588</u>	<u>944,274</u>
Total	<u>\$ 3,746,660</u>	<u>\$ 1,079,871</u>	<u>\$ 4,826,531</u>

Proprietary Fund Bonds

The City also issues bonds where the City pledges income derived from revenue producing operations. The City has revenue bonds outstanding from a prior years' issuance of revenue bonds from the operations of the water and sewer fund. Revenue bonds outstanding at year-end are as follow:

	<u>Water and Sewer Fund</u>
<u>Bonds Payable:</u> \$3,459,914, Sewer Line Rehabilitation Bond, Series 2001B, due in quarterly installments of \$63,036 with 4.0% interest through April, 2022.	\$ 2,656,776
\$378,153, Bells Highway Water and Sewer Expansion, South Carolina Infrastructure Revolving Loan Fund, Number 2-020-00, Series 2001A, due in quarterly installments of \$8,412 with 4.0% interest through May, 2016.	<u>229,387</u>
Total bonds payable	<u>\$ 2,886,163</u>

**CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 7 – LONG-TERM OBLIGATIONS – CONTINUED

Proprietary Fund Bonds - Continued

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Water and Sewer</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2009	\$ 172,915	\$ 112,874	\$ 285,789
2010	179,937	105,853	285,790
2011	187,242	98,548	285,790
2012	194,790	90,990	285,780
2013	202,591	83,189	285,780
2014-2018	1,068,616	311,909	1,380,525
2019-2022	<u>880,072</u>	<u>112,601</u>	<u>992,673</u>
Total	<u>\$ 2,886,163</u>	<u>\$ 915,964</u>	<u>\$ 3,802,127</u>

The following is a summary of changes in long-term obligations for the year ended June 30, 2008.

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2008</u>	<u>Due Within A Year</u>
<u>Governmental Activities</u>					
Bonds payable	\$ 3,973,610	\$ -	\$ 226,950	\$ 3,746,660	\$ 236,469
Notes and leases payable	<u>226,646</u>	<u>-</u>	<u>59,483</u>	<u>167,163</u>	<u>41,087</u>
Total	<u>\$ 4,200,256</u>	<u>\$ -</u>	<u>\$ 286,433</u>	<u>\$ 3,913,823</u>	<u>\$ 277,556</u>
<u>Business-type Activities</u>					
Bonds payable	<u>\$ 3,052,331</u>	<u>\$ -</u>	<u>\$ 166,167</u>	<u>\$ 2,886,164</u>	<u>\$ 172,915</u>

Debt Service Requirements – The general fund pays the debt payments on the governmental activities debt. The water and sewer fund pays the debt payments for the business-type activities. Interest expense in the general fund and the water and sewer fund for the year was \$166,941 and \$119,622, respectively.

NOTE 8 – FUND BALANCES – GOVERNMENTAL FUNDS

Fund balance designations are established to reflect management’s plan for financial resources allocation in a future period. Such plans or intents are subject to change and may never result in expenditures. Reserved fund balances include noncurrent assets.

CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 9 – RETIREMENT PLAN

All of the City’s full-time employees participate in the South Carolina Retirement System. The City’s full-time police officers participate in the South Carolina Police Officers Retirement System. Each system is a cost-sharing multi-employer defined benefit pension plan administrated by the Retirement Division of the State Budget and Control Board.

Both employees and employers are required to contribute to the plan under authority of Title 9 of the South Carolina Code of Laws. All employers contribute at the actuarially required contribution rates.

The South Carolina Retirement System offers retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. The plan’s provisions are established under Title 9 of the South Carolina Code of Laws.

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11970, Columbia, South Carolina 29211-1970. A summary of the required contribution rates and the amounts contributed to the plan follows:

SOUTH CAROLINA RETIREMENT CONTRIBUTION INFORMATION	2008	2007	2006
Covered payroll	\$ 1,674,289	\$ 1,645,894	\$ 1,454,558
Covered retirees	45,571	40,722	40,006
Employee contributions	111,791	109,556	93,411
Employee contribution rate (based upon salary)	7%	7%	6%
Employer contributions	155,819	135,773	112,840
Employer contribution rate (based upon salary)	9%	8%	8%
Group life contributions	2,580	2,530	2,243
Group life contribution rate (based upon salary)	0%	0%	0%

SOUTH CAROLINA POLICE OFFICERS CONTRIBUTION INFORMATION	2008	2007	2006
Covered payroll	\$ 1,220,557	\$ 1,016,325	\$ 1,036,235
Employee contributions	79,336	66,062	67,357
Employee contribution rate (based upon salary)	7%	7%	7%
Employer contributions	125,717	104,682	106,732
Employer contribution rate (based upon salary)	10%	10%	10%
Group life contributions	2,441	2,033	4,146
Group life contribution rate (based upon salary)	0%	0%	0%

NOTE 10 – EMPLOYEE BENEFIT PLANS

The City of Walterboro currently offers substantially all full-time employees the option of participating in a 401(K) plan. The South Carolina Retirement System administers the plan. Under the terms of the plan employees may contribute a minimum of two percent and maximum of twenty percent of adjusted gross income subject to the limits of Section 401(K) of the Internal Revenue Code. It is the opinion of the City’s legal counsel that the government has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Therefore, the assets and liabilities of the 401(K) plan are not reflected in the City’s financial statements.

**CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 11 – POST-RETIREMENT BENEFITS

The City adopted Resolution No. 2001-10 effective June 26, 2001 whereby the City agreed to become a member of the SCLGAG Retiree Plan, according to the terms of the SCLGAG Board Policy establishing the Plan dated March 23, 1989 and revised March 4, 1999. Employees retiring from the City who meet the requirements of the Retiree Plan shall be eligible to participate in the plan. Those persons who are eligible to participate in the Retiree Program will be able to have all or a portion of their health care insurance paid by the City. The cost to the City is approximately \$8,000 per year and is included in insurance expenditures.

NOTE 12 – SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

The City has several lawsuits against it. Most of this litigation is covered by insurance or settled through subsequent agreements.

In the normal course of operations, the City received grant funds from various federal and state agencies. These grant programs are subject to program compliance audits by grantors or representatives. The amount, if any, of liability for reimbursement which may arise from these audits cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 13 – RISK MANAGEMENT

The City is exposed to various types of risk and loss and maintains elements of both self-insurance and purchased insurance policies divided into coverage of worker’s compensation, property and casualty, and employee health insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits.

The City participates in the South Carolina Municipal Insurance Trust, a public entity risk pool for its workers compensation coverage. Pool members are subject to a supplemental assessment in the event of deficiencies.

The City has recorded insurance premium expenditures in the applicable functional expenditure categories of the general fund. These expenditures do not include estimated claim losses and estimable premium adjustments.

In management’s opinion, supplemental premium assessments, if any, would not be significant enough to have a material adverse effect on the financial position of the City.

There have been no reductions in insurance coverage from the prior year.

The amount of settlements has not exceeded coverage in each of the past three fiscal years.

NOTE 14 – COURT FINES, FEES, AND ASSESSMENTS

<u>Court</u>	<u>Gross Collections</u>	<u>State Portion</u>	<u>City Portion</u>	<u>Victim Witness</u>
Police fines	<u>\$ 335,422</u>	<u>\$ 172,369</u>	<u>\$ 137,425</u>	\$ 25,628
Other income				378
Less expenditures through June 30, 2008				(24,808)
Carryforward from June 30, 2007				2,560
Carryforward at June 30, 2008				<u>\$ 3,758</u>

The cost of the audit of court fines was \$500.

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

To the Mayor and City Council
City of Walterboro, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Walterboro, South Carolina, as of and for the year ended June 30, 2008, which collectively comprise the City of Walterboro, South Carolina's basic financial statements and have issued our report thereon dated October 10, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Walterboro, South Carolina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Walterboro, South Carolina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Walterboro, South Carolina's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Walterboro, South Carolina's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Walterboro, South Carolina's financial statements that is more than inconsequential will not be prevented or detected by the City of Walterboro, South Carolina's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Walterboro, South Carolina's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Walterboro, South Carolina's financial statements are free of material misstatements, 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 statements 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*.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baird & Company, CPAs, LLC

BAIRD & COMPANY CPAs, LLC
Certified Public Accountants

Augusta, Georgia
October 10, 2008

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SUPPLEMENTARY INFORMATION

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CITY OF WALTERBORO, SOUTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund			Variance Favorable (Unfavorable)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 2,427,000	\$ 2,427,000	\$ 2,520,293	\$ 93,293
Fines, fees and licenses	1,930,000	1,930,000	2,204,815	274,815
Intergovernmental	151,000	151,000	168,257	17,257
Solid waste charges	474,352	474,352	331,460	(142,892)
Miscellaneous	<u>60,000</u>	<u>60,000</u>	<u>150,687</u>	<u>90,687</u>
Total revenues	<u>5,042,352</u>	<u>5,042,352</u>	<u>5,375,512</u>	<u>333,160</u>
EXPENDITURES				
Mayor and council	243,926	243,926	257,994	(14,068)
Finance	403,519	403,519	363,427	40,092
City manager	195,458	195,458	194,745	713
Public works	1,371,630	1,371,630	1,310,624	61,006
Codes enforcement	109,419	109,419	140,544	(31,125)
Public safety	2,781,070	2,781,070	2,681,615	99,455
Judicial	304,747	304,747	318,073	(13,326)
Sanitation	611,435	611,435	607,179	4,256
Parks	244,853	244,853	206,119	38,734
Non-department support	189,430	189,430	188,725	705
Reserve accounts	<u>23,912</u>	<u>23,912</u>	<u>25,271</u>	<u>(1,359)</u>
Total expenditures	<u>6,479,399</u>	<u>6,479,399</u>	<u>6,294,316</u>	<u>185,083</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,153,532	1,153,532	1,153,532	-
Operating transfers out	<u>(171,885)</u>	<u>(171,885)</u>	<u>(171,885)</u>	<u>-</u>
Total financing sources (uses)	<u>981,647</u>	<u>981,647</u>	<u>981,647</u>	<u>-</u>
Net income	(455,400)	(455,400)	62,843	518,243
Fund balances, beginning	<u>3,161,195</u>	<u>3,161,195</u>	<u>3,755,745</u>	<u>594,550</u>
Fund balance, ending	<u>\$ 2,705,795</u>	<u>\$ 2,705,795</u>	<u>\$ 3,818,588</u>	<u>\$ 1,112,793</u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS – BUDGET AND ACTUAL
PROPRIETARY FUND - BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Water and Sewer			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
OPERATING REVENUES				
Charges for service				
Water sales	\$ 1,802,000	\$ 1,802,000	\$ 1,687,985	\$ (114,015)
Sewer charges	<u>1,089,000</u>	<u>1,089,000</u>	<u>1,079,166</u>	<u>(9,834)</u>
Total Revenues	<u>2,891,000</u>	<u>2,891,000</u>	<u>2,767,151</u>	<u>(123,849)</u>
OPERATING EXPENDITURES				
Costs of sales and service				
Water	1,956,413	1,956,413	725,505	1,230,908
Sewer	853,908	853,908	538,397	315,511
Utility support	115,060	115,060	109,639	5,421
Bank charges	-	-	3,075	(3,075)
Bond issue costs	-	-	7,917	(7,917)
Depreciation	<u>-</u>	<u>-</u>	<u>517,245</u>	<u>(517,245)</u>
Total expenditures	<u>2,925,381</u>	<u>2,925,381</u>	<u>1,901,778</u>	<u>1,023,603</u>
Operating income (loss)	(34,381)	(34,381)	865,373	899,754
NONOPERATING REVENUES (EXPENSES)				
Investment income	85,000	85,000	196,118	111,118
Interest expense	<u>(285,790)</u>	<u>(285,790)</u>	<u>(119,622)</u>	<u>166,168</u>
Total Nonoperating revenues (expenses)	<u>(200,790)</u>	<u>(200,790)</u>	<u>76,496</u>	<u>277,286</u>
Income (loss) before contributions and transfers	(235,171)	(235,171)	941,869	1,177,040
Operating transfers out	<u>(1,182,266)</u>	<u>(1,182,266)</u>	<u>(678,335)</u>	<u>503,931</u>
Change in net assets	(1,417,437)	(1,417,437)	263,534	1,680,971
Fund balances, beginning	<u>17,279,663</u>	<u>17,279,663</u>	<u>17,267,741</u>	<u>(11,922)</u>
Fund balance, ending	<u>\$ 15,862,226</u>	<u>\$ 15,862,226</u>	<u>\$ 17,531,275</u>	<u>\$ 1,669,049</u>

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

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Housing Project Fund	This fund is used to account for the revenues and expenditures that relate to the repayment of grant loans from community development block funds.
DARE Fund	This fund is used to account for contributions restricted for use by the police department for the DARE program.
Police Drug Fund	This fund is used to account for the money seized in drug raids and is used to prevent the use and distributions of drugs.
Victims Advocate Fund	This fund is legally restricted for victim advocacy.
Police Grant Fund	This fund is used to account for the funds received for federal grants to purchase law enforcement equipment.
Bond Fund	This fund is used to account for general obligation debt restricted to specific purposes.
Tax Incremental Financing Fund	This fund is used to account for capital infrastructure improvements in the tax incremental financing district.
Local Hospitality Tax Fund	This fund is used to account for the local hospitality taxes collected by the city.
Equipment Replacement Fund	This fund is used to account for the budgeted accumulation of resource to purchase equipment.
Project Fund	This fund is used to account for various projects.
Grant Fund	This fund is used to account for various grants awarded to the City.
Great Swamp Fund	This fund is used to account for the funds related to the construction of the Great Swamp Project.
Accommodations Tax Fund	This fund is used to account for the accommodations taxes collected by the City.

**CITY OF WALTERBORO, SOUTH CAROLINA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

	Housing Project Fund	DARE Fund	Police Drug Fund	Victims Advocate Fund	Police Grant Fund	Bond Fund	TIF Fund
ASSETS							
Cash	\$ 161,567	\$ -	\$ 7,492	\$ 2,501	\$ 8,346	\$ 443,093	\$ 1,206,261
Receivables	-	-	-	1,256	-	-	-
Due from other funds	-	-	-	-	-	-	-
Notes receivable	<u>69,266</u>	-	-	-	-	-	-
Total Assets	<u>\$ 230,833</u>	<u>\$ -</u>	<u>\$ 7,492</u>	<u>\$ 3,757</u>	<u>\$ 8,346</u>	<u>\$ 443,093</u>	<u>\$ 1,206,261</u>
 LIABILITIES AND FUND BALANCES							
LIABILITIES							
Current Liabilities							
Accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
Deferred revenues	<u>69,265</u>	-	-	-	-	-	-
Total Liabilities	<u>69,265</u>	-	-	-	-	-	-
 FUND BALANCES							
Unreserved	<u>161,568</u>	-	<u>7,492</u>	<u>3,757</u>	<u>8,346</u>	<u>443,093</u>	<u>1,206,261</u>
Total Fund Balances	<u>161,568</u>	-	<u>7,492</u>	<u>3,757</u>	<u>8,346</u>	<u>443,093</u>	<u>1,206,261</u>
Total Liabilities & Fund Balances	<u>\$ 230,833</u>	<u>\$ -</u>	<u>\$ 7,492</u>	<u>\$ 3,757</u>	<u>\$ 8,346</u>	<u>\$ 443,093</u>	<u>\$ 1,206,261</u>

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

**CITY OF WALTERBORO, SOUTH CAROLINA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>Local Hospitality Fund</u>	<u>Equipment Replacement Fund</u>	<u>Project Fund</u>	<u>Grant Fund</u>	<u>Great Swamp Fund</u>	<u>Accom Tax Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS							
Cash	\$ 97,268	\$ -	\$ -	\$ -	\$ -	\$ 304,714	\$ 2,231,242
Receivables	32,080	-	-	-	-	69,075	102,411
Due from other funds	-	348,480	91,950	13,662	-	-	454,092
Notes Receivable	-	-	-	-	-	-	69,266
Total Assets	<u>\$ 129,348</u>	<u>\$ 348,480</u>	<u>\$ 91,950</u>	<u>\$ 13,662</u>	<u>\$ -</u>	<u>\$ 373,789</u>	<u>\$ 2,857,011</u>
 LIABILITIES AND FUND BALANCES							
LIABILITIES							
Current Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,087	\$ 42,087
Due to other funds	-	-	18,594	8,388	-	-	26,982
Deferred revenues	-	-	-	-	-	-	69,265
Total Liabilities	<u>-</u>	<u>-</u>	<u>18,594</u>	<u>8,388</u>	<u>-</u>	<u>42,087</u>	<u>138,334</u>
 FUND BALANCES							
Unreserved	<u>129,348</u>	<u>348,480</u>	<u>73,356</u>	<u>5,274</u>	<u>-</u>	<u>331,702</u>	<u>2,718,677</u>
Total Fund Balances	<u>129,348</u>	<u>348,480</u>	<u>73,356</u>	<u>5,274</u>	<u>-</u>	<u>331,702</u>	<u>2,718,677</u>
Total Liabilities & Fund Balances	<u>\$ 129,348</u>	<u>\$ 348,480</u>	<u>\$ 91,950</u>	<u>\$ 13,662</u>	<u>\$ -</u>	<u>\$ 373,789</u>	<u>\$ 2,857,011</u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Housing Project Fund</u>	<u>DARE Fund</u>	<u>Police Drug Fund</u>	<u>Victims Advocate Fund</u>	<u>Police Grant Fund</u>	<u>Bond Fund</u>	<u>TIF Fund</u>
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	40,009	-	6,562	26,006	3,249	16,587	56,815
Total revenues	<u>40,009</u>	<u>-</u>	<u>6,562</u>	<u>26,006</u>	<u>3,249</u>	<u>16,587</u>	<u>56,815</u>
EXPENDITURES							
Housing project	695	-	-	-	-	-	-
DARE project	-	294	-	-	-	-	-
Police drug fund	-	-	100	-	-	-	-
Victims advocate	-	-	-	1,808	-	-	-
Local law enforcement grant	-	-	-	-	2,376	-	-
Bond fund	-	-	-	-	-	11,305	-
TIF fund	-	-	-	-	-	-	-
Local hospitality	-	-	-	-	-	-	-
Project fund	-	-	-	-	-	-	-
Grant fund	-	-	-	-	-	-	-
Great swamp	-	-	-	-	-	-	-
Accommodations tax	-	-	-	-	-	-	-
Total expenditures	<u>695</u>	<u>294</u>	<u>100</u>	<u>1,808</u>	<u>2,376</u>	<u>11,305</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)							
Operating transfers in	-	-	-	-	-	-	-
Operating transfers out	(6,315)	-	-	(23,000)	-	(7,375)	(350,033)
Total other financing sources (uses)	<u>(6,315)</u>	<u>-</u>	<u>-</u>	<u>(23,000)</u>	<u>-</u>	<u>(7,375)</u>	<u>(350,033)</u>
Net income	32,999	(294)	6,462	1,198	873	(2,093)	(293,218)
Fund balances, beginning	<u>128,569</u>	<u>294</u>	<u>1,030</u>	<u>2,559</u>	<u>7,473</u>	<u>445,186</u>	<u>1,499,479</u>
Fund balances, ending	<u>\$ 161,568</u>	<u>\$ -</u>	<u>\$ 7,492</u>	<u>\$ 3,757</u>	<u>\$ 8,346</u>	<u>\$ 443,093</u>	<u>\$ 1,206,261</u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Local Hospitality Fund</u>	<u>Equipment Replacement Fund</u>	<u>Project Fund</u>	<u>Grant Fund</u>	<u>Great Swamp Fund</u>	<u>Accom Tax Fund</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES							
Taxes	\$ 341,285	\$ -	\$ -	\$ -	\$ -	\$ 168,655	\$ 509,940
Miscellaneous	2,852	-	591,950	4,684	-	232,571	981,285
Total revenues	<u>344,137</u>	<u>-</u>	<u>591,950</u>	<u>4,684</u>	<u>-</u>	<u>401,226</u>	<u>1,491,225</u>
EXPENDITURES							
Housing project	-	-	-	-	-	-	695
DARE project	-	-	-	-	-	-	294
Police drug fund	-	-	-	-	-	-	100
Victims advocate	-	-	-	-	-	-	1,808
Local law enforcement grant	-	-	-	-	-	-	2,376
Bond fund	-	-	-	-	-	-	11,305
TIF fund	-	-	-	-	-	-	-
Local hospitality	-	-	-	-	-	-	-
Project fund	-	-	47,232	-	-	-	47,232
Grant fund	-	-	-	4,947	-	-	4,947
Great swamp	-	-	-	-	318,736	-	318,736
Accommodations tax	-	-	-	-	-	239,425	239,425
Total expenditures	<u>-</u>	<u>-</u>	<u>47,232</u>	<u>4,947</u>	<u>318,736</u>	<u>239,425</u>	<u>626,918</u>
OTHER FINANCING SOURCES (USES)							
Operating transfers in	-	181,754	105,008	-	328,324	-	615,086
Operating transfers out	(298,034)	-	(689,122)	-	-	(12,552)	(1,386,431)
Total other financing sources (uses)	<u>(298,034)</u>	<u>181,754</u>	<u>(584,114)</u>	<u>-</u>	<u>328,324</u>	<u>(12,552)</u>	<u>(771,345)</u>
Net income	46,103	181,754	(39,396)	(263)	9,588	149,249	92,962
Fund balances, beginning	<u>83,245</u>	<u>166,726</u>	<u>112,752</u>	<u>5,537</u>	<u>(9,588)</u>	<u>182,453</u>	<u>2,625,715</u>
Fund balances, ending	<u>\$ 129,348</u>	<u>\$ 348,480</u>	<u>\$ 73,356</u>	<u>\$ 5,274</u>	<u>\$ -</u>	<u>\$ 331,702</u>	<u>\$ 2,718,677</u>

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

PROPRIETARY FUNDS

Enterprise Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Walterboro Water & Sewer

This fund is used to account for water and sewer activities in the Walterboro area.

Ruffin Water

This fund is used to account for water operations in the Ruffin area.

Hendersonville Water and Sewer

This fund is used to account for water and sewer operations in the Hendersonville area.

**CITY OF WALTERBORO, SOUTH CAROLINA
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUNDS – ENTERPRISE FUNDS
JUNE 30, 2008**

	Business-type Activities			
	Walterboro Water & Sewer	Ruffin Water	Hendersonville Water & Sewer	
ASSETS				
Current assets				
Cash	\$ 2,485,022	\$ 91,870	\$ 5,547	\$ 2,582,439
Receivables	479,533	10,251	8,925	498,709
Inventories	111,276	-	-	111,276
Notes receivables	273,183	-	-	273,183
Due from other funds	18,594	-	-	18,594
Total current assets	<u>3,367,608</u>	<u>102,121</u>	<u>14,472</u>	<u>3,484,201</u>
Non-current assets				
Restricted cash	297,517	-	-	297,517
Bond issue costs	38,842	-	-	38,842
Capital assets	<u>15,224,621</u>	<u>1,285,669</u>	<u>631,710</u>	<u>17,142,000</u>
Total non-current assets	<u>15,560,980</u>	<u>1,285,669</u>	<u>631,710</u>	<u>17,478,359</u>
Total assets	<u>\$ 18,928,588</u>	<u>\$ 1,387,790</u>	<u>\$ 646,182</u>	<u>\$ 20,962,560</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 7,783	\$ -	\$ -	\$ 7,783
Current portion - long-term debt	172,915	-	-	172,915
Due to other funds	275,065	-	-	275,065
Customer deposits	<u>238,625</u>	<u>-</u>	<u>-</u>	<u>238,625</u>
Total current liabilities	<u>694,388</u>	<u>-</u>	<u>-</u>	<u>694,388</u>
Non-current liabilities				
Bonds, notes and leases payable	2,713,249	-	-	2,713,249
Annual leave	<u>23,648</u>	<u>-</u>	<u>-</u>	<u>23,648</u>
Total non-current liabilities	<u>2,736,897</u>	<u>-</u>	<u>-</u>	<u>2,736,897</u>
Total liabilities	<u>3,431,285</u>	<u>-</u>	<u>-</u>	<u>3,431,285</u>
Net assets				
Unrestricted	2,861,329	102,121	14,472	2,977,922
Restricted	297,517	-	-	297,517
Capital assets, net	<u>12,338,457</u>	<u>1,285,669</u>	<u>631,710</u>	<u>14,255,836</u>
Total net assets	<u>15,497,303</u>	<u>1,387,790</u>	<u>646,182</u>	<u>17,531,275</u>
Total liabilities and net assets	<u>\$ 18,928,588</u>	<u>\$ 1,387,790</u>	<u>\$ 646,182</u>	<u>\$ 20,962,560</u>

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

CITY OF WALTERBORO, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS – ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Business-type Activities</u>			
	<u>Walterboro Water & Sewer</u>	<u>Ruffin Water</u>	<u>Hendersonville Water & Sewer</u>	<u>Total</u>
OPERATING REVENUES				
Charges for service				
Water sales	\$ 1,643,880	\$ 38,852	\$ 5,253	\$ 1,687,985
Sewer charges	<u>1,075,522</u>	<u>-</u>	<u>3,644</u>	<u>1,079,166</u>
Total operating revenues	<u>2,719,402</u>	<u>38,852</u>	<u>8,897</u>	<u>2,767,151</u>
OPERATING EXPENDITURES				
Costs of sales and service				
Water	706,613	16,687	2,205	725,505
Sewer	536,585	-	1,812	538,397
Utility support	107,593	1,665	381	109,639
Bank charges	3,075			3,075
Bond issue costs	7,917			7,917
Depreciation	<u>475,173</u>	<u>28,026</u>	<u>14,046</u>	<u>517,245</u>
Total expenditures	<u>1,836,956</u>	<u>46,378</u>	<u>18,444</u>	<u>1,901,778</u>
Operating income	882,446	(7,526)	(9,547)	865,373
NONOPERATING REVENUES (EXPENSES)				
Investment income	196,118	-	-	196,118
Interest expense	<u>(119,622)</u>	<u>-</u>	<u>-</u>	<u>(119,622)</u>
Total nonoperating revenues (expenses)	<u>76,496</u>	<u>-</u>	<u>-</u>	<u>76,496</u>
Income before contributions and transfers	958,942	(7,526)	(9,547)	941,869
Operating transfers out	<u>(678,335)</u>	<u>-</u>	<u>-</u>	<u>(678,335)</u>
Change in net assets	280,607	(7,526)	(9,547)	263,534
Fund balances, beginning	<u>15,216,696</u>	<u>1,395,316</u>	<u>655,729</u>	<u>17,267,741</u>
Fund balance, ending	<u>\$ 15,497,303</u>	<u>\$ 1,387,790</u>	<u>\$ 646,182</u>	<u>\$ 17,531,275</u>

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

STATISTICAL SECTION

**CITY OF WALTERBORO, SOUTH CAROLINA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE YEAR ENDED JUNE 30, 2008**

Legal Debt Limit

The State Constitution restricts the City's borrowing power. This law provides that a local unit cannot at any time have total debt outstanding in an amount that exceeds eight percent of its assessed property value. Excluded from the limitation are: bonded indebtedness approved by the voters and issued within five years of the date of such referendum; special bonded indebtedness levies assessed on properties located in an area receiving special benefits from the taxes collected; and bonded indebtedness existing on December 1, 1977, the effective date of amendment of Article X of the constitution of South Carolina pertaining to bonded debt. The City's legal debt margin as June 30, 2008 was \$1,025,962.

**CITY OF WALTERBORO, SOUTH CAROLINA
COMPARISON OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008**

Revenues	Amount	Percent of Total	Increase (Decrease) 2007	Percent of Increase (Decrease)
Taxes	\$ 2,520,293	46.88%	\$ 89,461	3.68%
Fines, Fees and Licenses	2,204,815	41.02%	74,162	3.48%
Intergovernmental	168,257	3.13%	16,015	10.52%
Sanitation	331,460	6.17%	(6,735)	-1.99%
Miscellaneous	150,687	2.80%	(5,970)	-3.81%
Total revenues	<u>\$ 5,375,512</u>	<u>100.00%</u>	<u>\$ 166,933</u>	

Expenditures	Amount	Percent of Total	Increase (Decrease) from 2007	Percent of Increase (Decrease)
Mayor and Council	\$ 257,994	4.10%	\$ 31,365	13.84%
City Manager	194,745	3.09%	(329)	-0.17%
Finance	363,427	5.77%	12,313	3.51%
Public Works	1,310,624	20.82%	301,692	29.90%
Codes Enforcement	140,544	2.23%	39,301	38.82%
Public Safety	2,681,615	42.60%	510,940	23.54%
Judicial	318,073	5.05%	94,510	42.27%
Sanitation	607,179	9.65%	187,775	44.77%
Parks	206,119	3.27%	(3,959)	-1.88%
Miscellaneous	213,996	3.40%	(98,710)	-31.57%
Total expenditures	<u>\$ 6,294,316</u>	<u>100.00%</u>	<u>\$ 1,074,898</u>	

Baird & Company CPAs, LLC

CERTIFIED PUBLIC ACCOUNTANTS & FINANCIAL ADVISORS
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Walterboro Council
City of Walterboro, South Carolina

Compliance

We have audited the compliance of the City of Walterboro, South Carolina with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Walterboro, South Carolina's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Walterboro, South Carolina's management. Our responsibility is to express an opinion on the City of Walterboro, South Carolina's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Walterboro, South Carolina's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Walterboro, South Carolina's compliance with those requirements.

In our opinion, the City of Walterboro, South Carolina, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the City of Walterboro, South Carolina is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Walterboro, South Carolina's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Walterboro, South Carolina's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the city council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baird & Company, CPAs, LLC

BAIRD & COMPANY, CPAs, LLC
Certified Public Accountants

Augusta, Georgia
October 10, 2008

**CITY OF WALTERBORO, SOUTH CAROLINA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant Number	Program Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
(Passed through the South Carolina Department of Commerce)			
Community Development Block Grant	14.228	4-CI-06-011	<u>\$ 500,000</u>
<u>U.S. Department of the Interior</u>			
(Passed through the South Carolina Department of Parks Recreation and Tourism)			
Historic Preservation Grants	15.904	20-22-08-06-4	<u>8,604</u>
			<u>\$ 508,604</u>

CITY OF WALTERBORO, SOUTH CAROLINA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Walterboro, South Carolina and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non – Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts in, or used in the preparation of, the basic financial statements.

Note 2 – Non-cash Awards

The City of Walterboro, South Carolina did not receive any non-cash federal awards during the year ended June 30, 2008.

**CITY OF WALTERBORO, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

I. Summary of Auditor's Results

- A. An unqualified opinion was issued on the financial statements of the City of Walterboro, South Carolina
- B. Our audit of the financial statements disclosed no significant deficiencies in internal controls over financial reporting.
- C. Our audit of the financial statements disclosed no instances of noncompliance that are material to the financial statements.
- D. Our audit of compliance with requirements applicable to the City's major program disclosed no significant deficiencies in internal controls over compliance.
- E. An unqualified opinion was issued on the City of Walterboro, South Carolina's compliance with requirements applicable to its major federal program.
- F. Our audit disclosed no audit findings which relate to federal awards which are required to be reported under section 510(a) of OMB Circular A-133.
- G. The major federal program for the City of Walterboro, South Carolina for the fiscal year ended June 30, 2008, is:

<u>Program Name</u>	<u>CFDA#</u>
CDBG	14.228

- H. The threshold for determining Type A programs for the City of Walterboro, South Carolina is \$300,000.
- I. The City of Walterboro, South Carolina did not qualify as a low risk auditee.

II. Findings Related to the audit of the Basic Financial Statements of the City of Walterboro, South Carolina

There were no findings noted for the year ended June 30, 2008 which are required to be reported in accordance with *Government Auditing Standards*.

III. Findings and Questioned Costs Related to the Audit of Federal Awards

There were no findings noted for the year ended June 30, 2008 which are required to be reported under OMB Circular A-133 criteria.