

**CITY OF WALTERBORO, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2010**



**CITY OF WALTERBORO, SOUTH CAROLINA  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

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FINANCIAL STATEMENTS  
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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, 2010, 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 the 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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof 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 December 30, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 49 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic

financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walterboro, South Carolina's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the 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 States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Baird & Company, CPAs, LLC*

BAIRD & COMPANY, CPAs, LLC  
Certified Public Accountants

Augusta, Georgia  
December 30, 2010

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF WALTERBORO, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010. Please read this in conjunction with the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

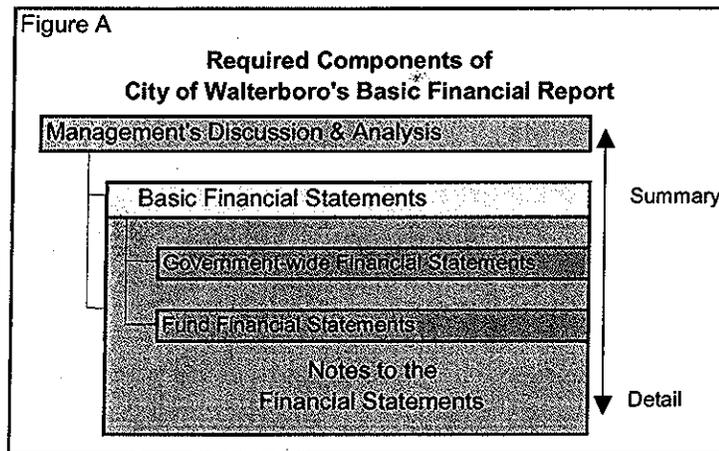
- ▶ Fiscal 2010 continued the trend that began September 2008 for the local economy as the national economic downturn hit South Carolina and Colleton County especially hard. The City of Walterboro was fortunate in that revenues did, for the second year of the downturn, continue to equal or exceed the prior year in most categories although they failed to reach budgeted amounts. Compared to many other municipalities in South Carolina, this was a very good result.
- ▶ The total primary government experienced a 4.1% increase in net assets to \$27,267,962 at June 30, 2010 from \$26,203,677 at June 30, 2009. This change in Net Assets is primarily the result of an increase in net capital assets of \$1,309,329. The majority of this increase was the result of substantial additional investment in our water and sewer system to continue to be able to provide sufficient adequate capacity to meet the needs of our citizens.
- ▶ Within the business-like activities, fiscal 2010 revenue from water and sewer department charges increased \$456,894(↑14.2%) to \$3,938,467. A substantial portion of this came from revenues relating to an increase in grants for new construction and the balance resulted almost exclusively from a 5% rate increase. Volumes were actually down slightly. At the same time, water and sewer operating expenses remained relatively flat, resulting in an increase in operating income before contributions and transfers of \$342,493 (↑29.6%).
- ▶ In governmental activities, revenue from the three major sources of taxes remained relatively flat, as shown below:

	<u>2010</u>	<u>2009</u>	<u>Change +/-</u>
Business License & Franchise Taxes	\$1,909,357	\$1,950,618	(\$41,261)
Local Option Sales Taxes	1,125,772	1,168,830	(43,058)
Property Taxes	<u>1,404,952</u>	<u>1,287,221</u>	<u>117,731</u>
Total	<u>\$4,440,081</u>	<u>\$4,406,669</u>	<u>\$33,412</u>

- ▶ 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 \$171,887 of this amount, including earned interest on the amount on hand, was still available as of June 30, 2010.
- ▶ In both fiscal years 2008 and 2009, 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. The City was unable to continue this policy in Fiscal 2010 and 2011 because of a decrease in revenue projections caused by the economic downturn which began primarily during the early part of Fiscal 2009. Instead, while the individual health insurance cost increases were covered, the cost of living raise was limited to one percent for 2010 and completely eliminated for 2011.

### 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.

<b>Figure B Major Elements of Walterboro's Government-wide and Fund Financial Statements</b>			
	<b>Government-Wide Statements</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
<b>Scope</b>	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
<b>Required financial statements</b>	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
<b>Accounting basis &amp; measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability</b>	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
<b>Type of inflow/outflow</b>	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

### Government-Wide Statements

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 two major 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)**

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### **Net assets**

The City's *combined* net assets at June 30, 2010 totaled \$27,267,962 (↑4.1%). Governmental Activities' net assets comprising \$8.7 million (↑6.8%), while Business-type Activities' net assets held the balance of \$18.5 million (↑2.8%).

Most of the Governmental Activities' net assets (\$5.9million) are invested in cash or cash equivalents, a decrease of 2.3%. The second largest asset category, \$5.0 million (↑6.9%), was held in capital assets (buildings, equipment, roads, etc). Governmental Activities unrestricted net assets remains strong at \$3,769,894 (↑6.6%) at the end of fiscal 2010, for overall positive net assets of \$8,727,923 (↑6.8) at the end of this year.

The total net assets of the City's Business-type Activities was \$18,540,039 at the end of fiscal year 2010. Of that total, most of the investment was invested in capital assets (\$16.3 million), net of related debt for the Water and Sewer Fund. Unrestricted net assets (assets available to support operations) decreased during the year by \$428,406 (↓7.2%) during 2010 as opposed to a decrease of \$584,662(↓9.6%) in 2009 primarily because of further investments in capital assets without related increases in borrowing. This caused the deployment of unrestricted net assets as capital assets.

## Changes In Net assets

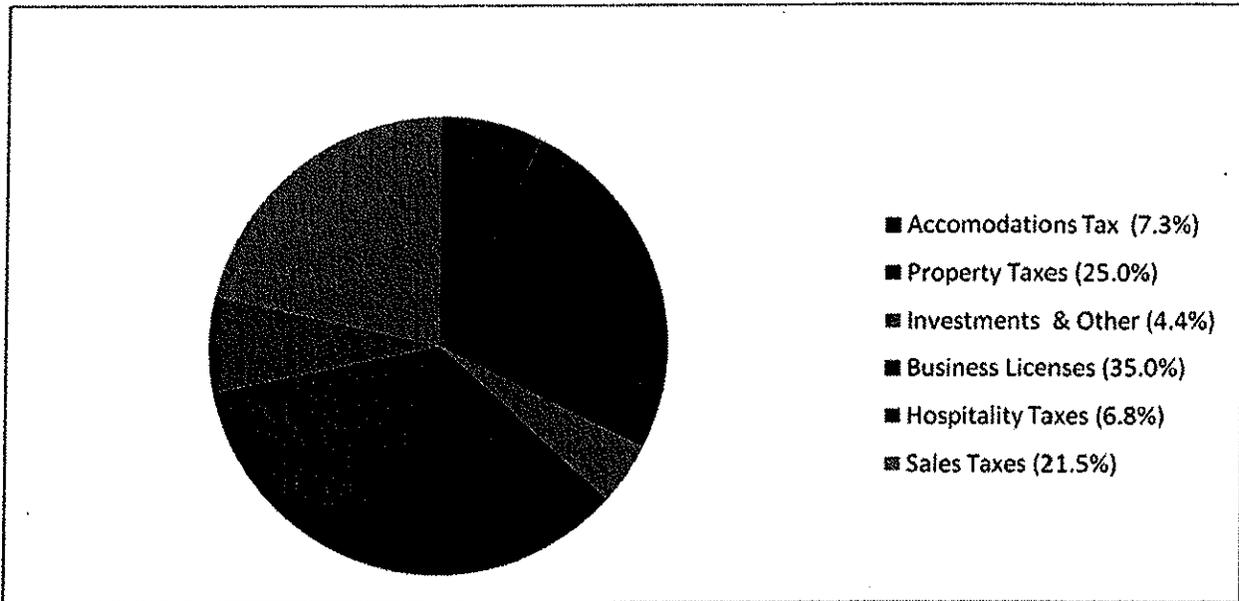
Total net assets increased from \$26,203,677 as of June 30, 2009 to \$27,267,962 (↑4.1%) in fiscal 2010. The major component of this increase in total net assets was the utilization of operating income to finance capital assets.

The City's total revenues held steady at \$9.6 million in fiscal year 2009 excluding one-time grants to finance the sewer line to the Quick Jobs Center. The economic downturn was the primary reason that revenues continue to be sluggish.

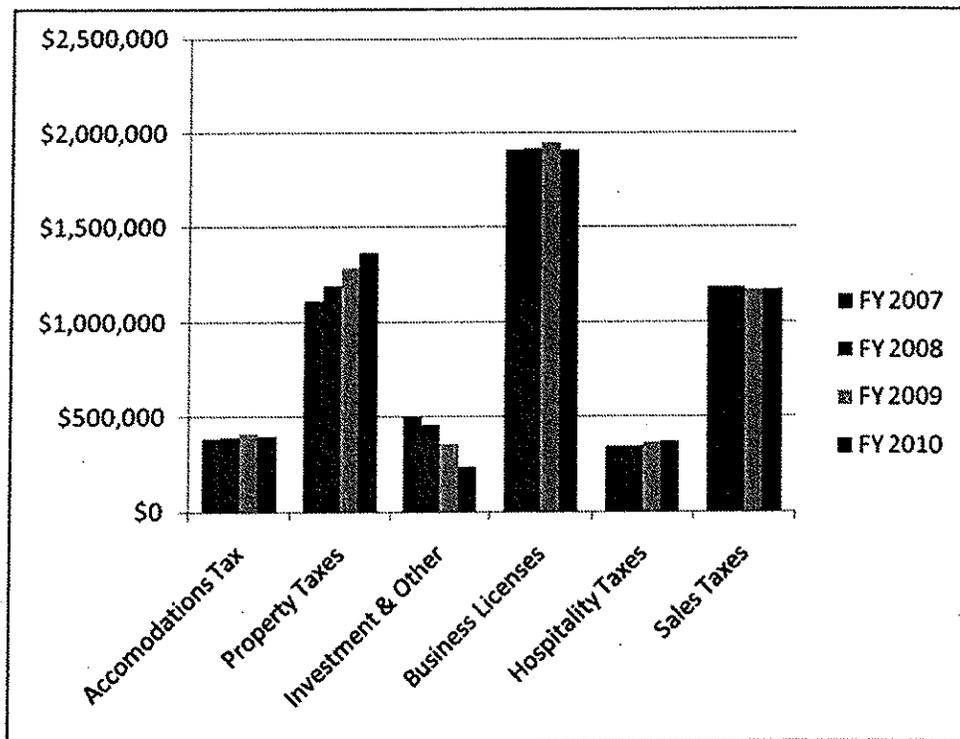
## Governmental Activities

- ▶ The cost of all governmental activities this year was \$6,860,400 (↑5.1%). However, the amount that our taxpayers paid for these activities through general revenues (primarily taxes and license fees) was \$5.6 million (↑2.6%).
- ▶ 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 (down 2.2%) 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 \$389,379 in fiscal 2010, down from \$411,722 a decrease of 5.6%. As a result of rate increases in the prior year, more commercial business has gone to the private sector, thus reducing total revenues.
- ▶ Program costs were also defrayed by grants and contributions although these amounts were insignificant in 2010.
- ▶ Figures C & D below show the various sources of general revenues for Fiscal Year 2010 (Figure C) and a comparison of these revenues to the same revenue categories for Fiscal Year 2009, 2008 and 2007 (Figure D):

**Figure C – Major General Fund Revenues By Sources**



**Figure D – Comparative Major 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 35.0% of total general revenues.
- The second largest source of general revenues is property taxes at 25.0%. The City's millage, 81 mills in 2009, was decreased 4 mills to 77 mills in 2010 to meet the property tax cap adjusted for reassessment without a tax increase for 2010 (bills due in early 2011). To avoid the burden on taxpayers, Council decided there would be no increase for 2010-11 and the reassessment was designed to be overall revenue neutral.
- The third largest general revenue source is the local option sales tax (21.5%). This fee is levied at 1% of gross receipts earned within the city limits and is used to off-set property tax and for general operations.

### **Business-type Activities**

The City operates a water department and sewer treatment plant and provides these services to the citizens of Walterboro and some of the surrounding areas.

### **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 a slight decrease from 2009. This decrease in combined fund balances of the governmental funds was calculated on ending fund balances. 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.
- ▶ The Code Enforcement department was expanded by an additional person and this enabled your City staff to do a much more thorough job in this area and revenues were up by 22% as a result of better enforcement activity.
- ▶ Fines, Fees and Licenses revenue were down somewhat for the year. The City changed the method of reporting revenue (a relatively minor change when compared to revenues taken as a whole) from recording revenues gross including payments to the state judicial department and the required set-aside for victim's advocate operations to reporting as revenue only the amount retained and actually belonging to the city. In the table below, both years are reported by making this change retroactive so that the years are on the same basis.

- ▶ Tax revenues, other than property taxes remained stable. Property taxes increased primarily because of commercial properties that came on line for the tax assessments made as of January 1, 2009.
- ▶ Solid Waste Charges remained stable. Fee increases will allow these to increase in fiscal year 2011 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	2010 Expenses	2009 Expenses	Percent Change
<b>General Funds</b>			
Mayor and Council	\$264,334	\$256,744	2.3%
Finance	398,053	382,297	1.6%
City Manager	193,593	188,369	4.88%
Public Works	1,143,648	1,294,674	-13.2%
Codes Enforcement	288,193	215,954	22.4%
Public Safety	2,784,872	2,661,287	4.6%
Judicial	165,602	162,866	1.7%
Sanitation	720,422	405,344	77.7%
Parks	301,156	354,600	-17.7%
Tourism	129,508	0	N/A
Other	254,694	212,609	19.8%
Total	<u>\$6,644,075</u>	<u>\$6,134,744</u>	8.3%

- ▶ For the most part, City expenses held in line with last year or were reduced because of belt tightening.
- ▶ A major exception to this was the sanitation department which bought a new garbage truck that was scheduled and then was forced to buy another truck because of a major accident which totaled the other truck. This caused a huge increase in expenses for the department as reflected above,
- ▶ Another exception to this was public safety which saw a small increase caused by events related to crime that had to be dealt with, forcing more overtime.
- ▶ Overall salary increases were held to 1% except for normal merit and promotion increases.

**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 directly from service charges increased approximately 2% in fiscal 2009, providing an additional \$60,651 in resources. Beginning in Fiscal 2007 Water and sewer service rates were increased for the first time since 2001 in an effort to offset loss generated by increased fuel and insurance. These changes were strongly recommended by the State's Office of Community Development Block Grants as a condition to receive much-needed funding for water and sewer system upgrades. Lower usage has offset much of the rate increase of 5%.

***Proprietary funds' expenses ~***

- ▶ In the Water and Sewer Fund, operating expenses for fiscal 2010 increased by 3.9 %.

**Analysis of Changes in Major Funds**

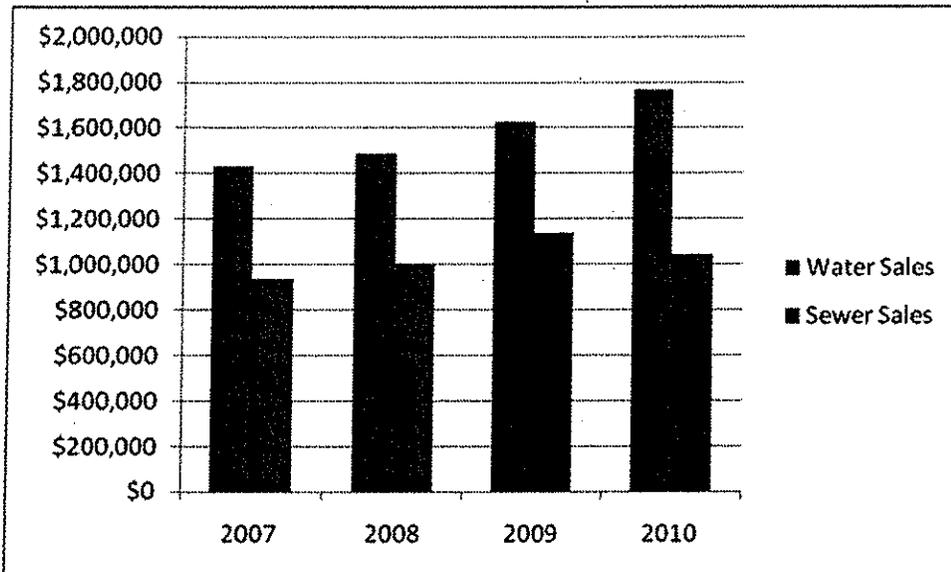
***The General Fund (The Governments primary operating fund) ~***

At the end of fiscal 2010 the total fund balance of the City's General Fund decreased \$411,704 (10.9%) from the prior year's ending balance. This was related primarily to an increase in capital assets.

***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.

Figure E shows the financial trends in the water and sewer fund.



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 levels modified to reflect changing conditions.

#### **CAPITAL ASSET AND DEBT MANAGEMENT**

##### **Capital Assets**

At the end of fiscal 2009, the City had invested \$23.4 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 5.4% 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 as of June 30, 2005 and appropriate adjustments have been made each year since.

## **Long-term Debt**

At 2010 fiscal year-end, the City had \$7.9 million in long-term debt outstanding, an increase of \$1.6 million which was primarily the portion of the major sewer rehabilitation begun in 2010 and to be completed in 2011. Of this debt, \$468,694 will mature during fiscal 2011. 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 approximately \$670,000. The City's total legal debt margin is currently \$2,088,699.

Although sales and use tax is considered a revenue source subject to variations in the economy, the consistent growth and relatively 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 5%, 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 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 volatility of fuel prices over the past two years may further 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 (October 2010) shows that the Walterboro area's unemployment rate (Colleton County) was 12.3% as compared to 14.2% last year at this time, but still up from the 10.0%, at this time in 2008. This compares to 10.75% for the State of South Carolina (11.6% in 2009 & 7.6% in 2008) and the national rate of 9.6% (9.8% in 2009 & 6.1% for 2008)

**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. For 2010, this was reduced to 1% because of economic conditions. This was totally eliminated for Fiscal Year 2011.

The City's staff considered these and other relevant factors in preparing the annual budget for fiscal year 2011. As a result of these uncertainties, the City's staff continues to monitor monthly revenue collections in more detail and more timely 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.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF WALTERBORO, SOUTH CAROLINA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 5,945,702	\$ 1,175,577	\$ 7,121,279
Receivables	1,259,971	573,527	1,833,498
Inventories	-	133,407	133,407
Notes receivable	40,834	273,183	314,017
Internal balances	34,631	(34,631)	-
Bond issue costs, net	28,287	23,008	51,295
Restricted cash	-	474,821	474,821
Capital assets	<u>5,626,195</u>	<u>20,195,631</u>	<u>25,821,826</u>
 Total assets	 <u>\$ 12,935,620</u>	 <u>\$ 22,814,523</u>	 <u>\$ 35,750,143</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 657,115	\$ 114,638	\$ 771,753
Current portion - long term debt	276,210	211,972	488,182
Interest payable	14,708	-	14,708
Customer deposits	-	243,099	243,099
Deferred revenue	-	28,773	28,773
Bonds, notes and leases payable	3,085,099	3,648,550	6,733,649
Compensated absences	<u>174,565</u>	<u>27,452</u>	<u>202,017</u>
 Total liabilities	 <u>4,207,697</u>	 <u>4,274,484</u>	 <u>8,482,181</u>
<b>NET ASSETS</b>			
Unrestricted	3,769,894	1,730,109	5,500,003
Restricted for debt service	-	474,821	474,821
Capital assets, net of related debt	<u>4,958,029</u>	<u>16,335,109</u>	<u>21,293,138</u>
 Total net assets	 <u>\$ 8,727,923</u>	 <u>\$ 18,540,039</u>	 <u>\$ 27,267,962</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, 2010**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
Mayor and Council	\$ 270,136	\$ -	\$ -	\$ -	\$ (270,136)	\$ -	\$ (270,136)
Grant fund	40,472	48,010	-	-	7,538	-	7,538
Housing project	17,313	-	5,050	-	(12,263)	-	(12,263)
Police drug fund	6,810	-	-	-	(6,810)	-	(6,810)
Victims advocate	2,240	21,974	-	-	19,734	-	19,734
Local law enforcement grant	6,639	-	-	8,230	1,591	-	1,591
Cash project fund	1,000	-	-	214,891	213,891	-	213,891
Miscellaneous grant fund	7,856	-	6,555	-	(1,301)	-	(1,301)
Great Swamp	15,156	-	-	-	(15,156)	-	(15,156)
Local accommodations tax fund	31,232	-	-	-	(31,232)	-	(31,232)
Local hospitality tax fund	100	-	-	-	(100)	-	(100)
State accommodations tax fund	207,372	-	-	-	(207,372)	-	(207,372)
Tourism development	129,508	-	-	-	(129,508)	-	(129,508)
Finance	398,053	-	-	-	(398,053)	-	(398,053)
City manager	201,594	-	-	-	(201,594)	-	(201,594)
Public works	1,172,210	-	-	-	(1,172,210)	-	(1,172,210)
Codes enforcement	267,388	44,490	-	-	(222,898)	-	(222,898)
Public safety	2,780,565	135,485	-	-	(2,645,080)	-	(2,645,080)
Judicial	165,602	-	-	-	(165,602)	-	(165,602)
Sanitation	484,031	389,379	-	-	(94,652)	-	(94,652)
Parks	343,969	-	-	-	(343,969)	-	(343,969)
Non-department support	19,199	-	-	-	(19,199)	-	(19,199)
Reserve accounts	148,049	-	-	-	(148,049)	-	(148,049)
Interest on long-term debt	143,906	-	-	-	(143,906)	-	(143,906)
<b>Total governmental activities</b>	<b>\$ 6,860,400</b>	<b>\$ 639,338</b>	<b>\$ 11,605</b>	<b>\$ 223,121</b>	<b>\$ (5,986,336)</b>	<b>\$ -</b>	<b>\$ (5,986,336)</b>
<b>Business-type activities:</b>							
Water	\$ 1,409,170	\$ 1,895,381	\$ -	\$ -	-	486,211	486,211
Sewer	792,298	1,774,235	-	-	-	981,937	981,937
<b>Total business-type activities</b>	<b>2,201,468</b>	<b>3,669,616</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,468,148</b>	<b>1,468,148</b>
<b>Total primary government</b>	<b>\$ 9,061,868</b>	<b>\$ 4,308,954</b>	<b>\$ 11,605</b>	<b>\$ 223,121</b>	<b>\$ (5,986,336)</b>	<b>\$ 1,468,148</b>	<b>\$ (4,518,188)</b>
<b>General revenues:</b>							
Property taxes					1,404,952	-	1,404,952
Sales taxes					1,125,772	-	1,125,772
Business licenses					1,909,357	-	1,909,357
Merchant inventory					38,062	-	38,062
Local accommodations tax					176,299	-	176,299
State accommodations tax					256,748	-	256,748
Hospitality tax					370,275	-	370,275
Grants and contributions not restricted to specific programs					142,078	-	142,078
Investment earnings					92,314	31,564	123,878
Gain on disposal of capital assets					35,052	-	35,052
Transfers					992,483	(992,483)	-
<b>Total general revenues</b>					<b>6,543,392</b>	<b>(960,919)</b>	<b>5,582,473</b>
Change in net assets					557,056	507,229	1,064,285
Net assets, beginning of year					8,170,867	18,032,810	26,203,677
<b>Net assets, end of year</b>					<b>\$ 8,727,923</b>	<b>\$ 18,540,039</b>	<b>\$ 27,267,962</b>

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

**CITY OF WALTERBORO, SOUTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

ASSETS	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$ 3,820,694	\$ 2,125,008	\$ 5,945,702
Receivables	594,536	665,435	1,259,971
Due from other funds	18,458	927,129	945,587
Notes receivable	<u>-</u>	<u>40,834</u>	<u>40,834</u>
Total assets	<u>\$ 4,433,688</u>	<u>\$ 3,758,406</u>	<u>\$ 8,192,094</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 74,284	\$ 582,831	\$ 657,115
Due to other funds	892,498	18,458	910,956
Deferred revenue	<u>120,520</u>	<u>40,834</u>	<u>161,354</u>
Total liabilities	<u>1,087,302</u>	<u>642,123</u>	<u>1,729,425</u>
<b>FUND BALANCES</b>			
Undesignated	<u>3,346,386</u>	<u>3,116,283</u>	<u>6,462,669</u>
Total fund balances	<u>3,346,386</u>	<u>3,116,283</u>	<u>6,462,669</u>
Total liabilities and fund balances	<u>\$ 4,433,688</u>	<u>\$ 3,758,406</u>	<u>\$ 8,192,094</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, 2010**

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

Total fund balances - governmental funds	\$ 6,462,669
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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	\$ 1,081,563	
Buildings and improvements, net of \$942,284 accumulated depreciation	2,559,003	
Machinery and Equipment, net of \$934,525 accumulated depreciation	517,895	
Vehicles, net of \$2,064,003 accumulated depreciation	1,092,864	
Infrastructure, net of \$34,232 accumulated depreciation	74,577	
Construction in progress	<u>300,293</u>	
Total capital assets		5,626,195

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.	161,354
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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, 2010 are:

Accrued interest payable	(14,708)	
General obligation bonds payable	(3,361,309)	
Accrued compensated absences	<u>(174,565)</u>	
Total long-term liabilities		(3,550,582)

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>28,287</u>
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Net assets of governmental activities	<u><u>\$ 8,727,923</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, 2010**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 2,624,879	\$ 768,477	\$ 3,393,356
Fines, fees and licenses	2,028,600	-	2,028,600
Intergovernmental	134,627	-	134,627
Solid waste charges	389,379	-	389,379
Miscellaneous	58,466	357,841	416,307
	<u>5,235,951</u>	<u>1,126,318</u>	<u>6,362,269</u>
Total revenues			
<b>EXPENDITURES</b>			
Mayor and Council	264,334	-	264,334
Finance	398,053	-	398,053
City manager	193,593	-	193,593
Public works	1,143,648	-	1,143,648
Code enforcement	288,193	-	288,193
Public safety	2,784,872	-	2,784,872
Judicial	165,602	-	165,602
Sanitation	720,422	-	720,422
Parks	301,156	-	301,156
Tourism	129,508	-	129,508
Non-department support	106,645	-	106,645
Reserve accounts	148,049	-	148,049
Grant fund	-	40,472	40,472
Housing project	-	17,313	17,313
Police drug fund	-	6,810	6,810
Victims advocate	-	2,240	2,240
Local law enforcement grant	-	6,640	6,640
Local hospitality	-	100	100
Project fund	-	50,062	50,062
Misc grant fund	-	7,856	7,856
Great Swamp	-	145,765	145,765
Local accommodations tax fund	-	50,047	50,047
State accommodations tax fund	-	207,372	207,372
	<u>6,644,075</u>	<u>534,677</u>	<u>7,178,752</u>
Total expenditures			
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	1,206,785	544,830	1,751,615
Operating transfers out	(339,665)	(717,503)	(1,057,168)
Insurance reimbursement	129,300	-	129,300
	<u>996,420</u>	<u>(172,673)</u>	<u>823,747</u>
Total other financing sources (uses)			
Net change in fund balance	(411,704)	418,968	7,264
Fund balance, beginning	3,758,090	2,697,315	6,455,405
Fund balance, ending	<u>\$ 3,346,386</u>	<u>\$ 3,116,283</u>	<u>\$ 6,462,669</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, 2010**

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		\$ 7,264
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 (\$768,581) exceeded depreciation, (\$401,304) in the current period.		367,277
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets		(106,744)
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		274,957
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.		
Compensated absences	\$ (10,671)	
Amortization of bond issue costs	(2,684)	
Deferred revenues	<u>27,657</u>	
		<u>14,302</u>
Total change in net assets of governmental activities		<u>\$ 557,056</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, 2010**

<b>ASSETS</b>	<b>Business-type Activities</b> <b>Enterprise Funds</b> <b><u>Water and Sewer</u></b>
<b>ASSETS</b>	
Current assets	
Cash	\$ 1,175,577
Receivables	573,527
Inventories	133,407
Notes receivable	<u>273,183</u>
Total current assets	<u>2,155,694</u>
Non-current assets	
Restricted cash	474,821
Bond issue costs	23,008
Capital assets	<u>20,195,631</u>
Total non-current assets	<u>20,693,460</u>
Total assets	<u>\$ 22,849,154</u>
 <b>LIABILITIES AND NET ASSETS</b>	
Current liabilities	
Accounts payable	\$ 114,638
Current portion - long-term debt	211,972
Customer deposits	243,099
Deferred revenue	28,773
Due to other funds	<u>34,631</u>
Total current liabilities	<u>633,113</u>
Non-current liabilities	
Bonds, notes, and leases payable	3,648,550
Annual leave	<u>27,452</u>
Total non-current liabilities	<u>3,676,002</u>
Total liabilities	<u>4,309,115</u>
Net assets	
Unrestricted	1,730,109
Restricted for debt service	474,821
Capital assets, net of related debt	<u>16,335,109</u>
Total net assets	<u>18,540,039</u>
Total liabilities and net assets	<u>\$ 22,849,154</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, 2010**

	<b>Business-type Activities</b> <b>Enterprise Funds</b> <b><u>Water and Sewer</u></b>
<b>Operating revenues</b>	
Charges for services	
Water sales	\$ 1,895,381
Sewer charges	<u>1,774,235</u>
Total operating revenues	<u>3,669,616</u>
<b>Operating expenses</b>	
Cost of sales and service	
Water	758,277
Sewer	568,849
Utility support	147,738
Economic development	59,011
Depreciation	540,954
Bank charges	5,212
Bond issue costs	<u>7,917</u>
Total operating expenses	<u>2,087,958</u>
<b>Operating income</b>	<u>1,581,658</u>
<b>Nonoperating revenues (expenses)</b>	
Investment income	31,564
Interest expense	<u>(113,510)</u>
Total nonoperating revenues (expenses)	<u>(81,946)</u>
Income before contributions and transfers	1,499,712
Operating transfers out	<u>(992,483)</u>
Change in net assets	507,229
Net assets, beginning	<u>18,032,810</u>
Net assets, ending	<u>\$ 18,540,039</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, 2010**

	<b>Business-type Activities</b> <b>Enterprise Funds</b> <b><u>Water and Sewer</u></b>
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 3,701,831
Cash paid to employees	(626,362)
Cash paid for operating goods and services	<u>(918,791)</u>
Net cash provided by operating activities	<u>2,156,678</u>
<b>Cash flows from capital financing activities:</b>	
Transfers to other funds	<u>(992,484)</u>
Net cash used in noncapital financing activities	<u>(992,484)</u>
<b>Cash flows from investing activities:</b>	
Interest received on investments	31,564
Purchases of capital assets	<u>(2,675,246)</u>
Net cash used in investing activities	<u>(2,643,682)</u>
<b>Cash flows from capital and related financing activities:</b>	
Interest and bank charges paid	(113,510)
Proceeds from capital debt	1,327,212
Principal paid on capital debt	<u>(179,938)</u>
Net cash provided by investing activities	<u>1,033,764</u>
Net decrease in cash	(445,724)
Cash at beginning of year	<u>2,096,122</u>
Cash at end of year	<u>\$ 1,650,398</u>
<b>Reconciliation of net income (loss) to net cash provided (used) by operating activities</b>	
Net operating income	<u>\$ 1,581,658</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation	540,954
Amortization	7,917
(Increase) decrease in accounts receivable	32,215
(Increase) decrease in inventories	2,238
Increase (decrease) in accounts payable	(7,157)
Increase (decrease) in annual leave	2,208
Increase (decrease) in due to other funds	11,717
Increase (decrease) in accrued liabilities	(21,832)
Increase (decrease) in customer deposits	<u>6,760</u>
Total adjustments	<u>575,020</u>
Net cash provided by operating activities	<u>\$ 2,156,678</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, 2010**

	Agency Funds	
	Municipal Court	Firemen's Fund
<b>ASSETS</b>		
Cash	\$ <u>70,692</u>	\$ <u>76</u>
Total assets	\$ <u>70,692</u>	\$ <u>76</u>
<b>LIABILITIES</b>		
Due to others	\$ <u>70,692</u>	\$ <u>76</u>
Total liabilities	\$ <u>70,692</u>	\$ <u>76</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, 2010**

**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, 2010**

**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.

**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.

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, and Net Assets or Equity – Continued**

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 other funds" or "due 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 15<sup>th</sup> with penalties assessed of 3% if paid after January 15<sup>th</sup>, 10% if paid after January 31<sup>st</sup>, and 15% if paid after March 15<sup>th</sup>. 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 2009 was 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 asset 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.

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	30-50
Water and Sewer System	30-50
Vehicles and Equipment	5-20
Infrastructure	20-50

**CITY OF WALTERBORO, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, and Net Assets or Equity – Continued**

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 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, 2010 amounted to \$174,565 and \$27,452, 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.

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 the government's investment in capital assets. Generally Accepted Accounting Principles require 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.

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, and Net Assets or Equity – Continued**

**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.

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 item 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. At June 30, 2010 the bank balances were \$5,198,658. All of the City's deposits at year end were covered by federal depository insurance or by collateral held in the pledging financial institution's trust department in the City's name. Therefore, none of the City's deposits were exposed to custodial credit risk at June 30, 2010.

**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.

**CITY OF WALTERBORO, SOUTH CAROLINA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 4 – RECEIVABLES**

**Accounts Receivable**

Receivables at June 30, 2010, including the applicable allowances for uncollectible accounts, are as follows for the fund and government-wide financial statements, respectively.

<u>Receivables</u>	<u>General Government</u>	<u>Proprietary Funds</u>	<u>Total</u>
Property taxes and assessments	\$ 260,743	\$ -	\$ 260,743
Intergovernmental	1,127,451	4,755	1,132,206
Charges for services	<u>-</u>	<u>697,135</u>	<u>697,135</u>
Gross receivables	1,388,194	701,890	2,090,084
Less allowance for uncollectible accounts	<u>(128,223)</u>	<u>(128,363)</u>	<u>(256,586)</u>
Net total receivables	<u>\$ 1,259,971</u>	<u>\$ 573,527</u>	<u>\$ 1,833,498</u>

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	\$ 120,520	\$ -
Net balance of housing notes receivable	<u>40,834</u>	<u>-</u>
Total	<u>\$ 161,354</u>	<u>\$ -</u>

**Notes Receivable**

The City has notes receivable from various individuals for \$45,371 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 \$4,537 as an allowance for bad debts as these loans are not always collectible in full and deferred the balance of \$40,834 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 amounted to \$273,183 at June 30, 2010.

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2010 was as follows:

<u>Governmental Activities</u>	<u>June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2010</u>
<i>Capital assets not being depreciated</i>				
Land and improvements	\$ 1,081,563	\$ -	\$ -	\$ 1,081,563
Construction in progress	114,300	198,486	12,493	300,293
Total capital assets, not being depreciated	<u>1,195,863</u>	<u>198,486</u>	<u>12,493</u>	<u>1,381,856</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	3,489,859	12,493	1,065	3,501,287
Machinery and equipment	1,438,087	14,333	-	1,452,420
Infrastructure	108,809	-	-	108,809
Vehicles	2,773,346	543,269	159,748	3,156,867
Total capital assets being depreciated	<u>7,810,101</u>	<u>570,095</u>	<u>160,813</u>	<u>8,219,383</u>
Less accumulated depreciation for:				
Buildings and improvements	868,781	73,503	-	942,284
Machinery and equipment	850,786	83,739	-	934,525
Infrastructure	24,910	9,322	-	34,232
Vehicles	1,895,825	234,740	66,562	2,064,003
Total accumulated depreciation	<u>3,640,302</u>	<u>401,304</u>	<u>66,562</u>	<u>3,975,044</u>
Total capital assets being depreciated, net	<u>4,169,799</u>	<u>168,791</u>	<u>94,251</u>	<u>4,244,339</u>
Governmental activities capital assets, net	<u>\$ 5,365,662</u>	<u>\$ 367,277</u>	<u>\$ 106,744</u>	<u>\$ 5,626,195</u>
<u>Business-type Activities</u>	<u>June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2010</u>
<i>Capital assets not being depreciated</i>				
Land and improvements	\$ 44,773	\$ -	\$ -	\$ 44,773
Construction in progress	1,360,629	2,659,675	1,419,784	2,600,520
Total capital assets, not being depreciated	<u>1,405,402</u>	<u>2,659,675</u>	<u>1,419,784</u>	<u>2,645,293</u>
<i>Capital assets being depreciated</i>				
Water system and improvements	13,440,563	704,014	-	14,144,577
Sewer system and improvements	10,274,154	715,770	-	10,989,924
Buildings and improvements	223,569	-	-	223,569
Machinery and equipment	665,855	-	-	665,855
Vehicles	251,686	15,571	-	267,257
Total capital assets being depreciated	<u>24,855,827</u>	<u>1,435,355</u>	<u>-</u>	<u>26,291,182</u>
Less accumulated depreciation for:				
Water system and improvements	3,055,436	270,764	-	3,326,200
Sewer system and improvements	4,359,821	207,603	-	4,567,424
Buildings and improvements	156,498	5,589	-	162,087
Machinery and equipment	420,666	37,972	-	458,638
Vehicles	207,469	19,026	-	226,495
Total accumulated depreciation	<u>8,199,890</u>	<u>540,954</u>	<u>-</u>	<u>8,740,844</u>
Total capital assets being depreciated, net	<u>16,655,937</u>	<u>894,401</u>	<u>-</u>	<u>17,550,338</u>
Business-type activities capital assets, net	<u>\$ 18,061,339</u>	<u>\$ 3,554,076</u>	<u>\$ 1,419,784</u>	<u>\$ 20,195,631</u>

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**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	1,393
Fire	9,681
Great Swamp	41,509
Mayor and council	5,802
Parks	1,304
Planning	3,366
Police	96,830
Public works	134,865
Sanitation	<u>98,553</u>
 Total depreciation expense	 <u>\$ 401,304</u>

<u>Business-type Activities</u>	
Sewer	\$ 236,048
Water	<u>304,906</u>
 Total depreciation expense	 <u>\$ 540,954</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, 2010 is as follows:

<u>Transfer Out</u>	<u>Transfer In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Water and Sewer Fund</u>	
General fund	\$ -	\$ 20,000	\$ 1,186,785	\$ 1,206,785
Nonmajor governmental fund	339,665	162,179	42,986	544,830
Water Sewer	<u>-</u>	<u>237,288</u>	<u>-</u>	<u>237,288</u>
 Total transfers out	 <u>\$ 339,665</u>	 <u>\$ 419,467</u>	 <u>\$ 1,229,771</u>	 <u>\$ 1,988,903</u>

**CITY OF WALTERBORO, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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	\$ 892,498	\$ 18,458
Other governmental funds	18,458	927,129
Water Sewer	<u>34,631</u>	<u>-</u>
Total due to/from other funds	<u>\$ 945,587</u>	<u>\$ 945,587</u>

**NOTE 7 – LONG-TERM OBLIGATIONS**

**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>(408,897)</u>
Total	<u>\$ 187,298</u>

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010, were as follows:

<u>Year Ending June 30.</u>	<u>Governmental Activities</u>
2011	\$ 22,803
2012	22,803
2013	22,803
2014	22,803
2015	<u>15,202</u>
 Total minimum lease payments	 106,414
Less amount representing interest	<u>(8,907)</u>
 Present value of minimum lease payments	 <u>\$ 97,507</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. Of this amount, \$171,883 was on hand at June 30, 2010. 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 per annum over 15 years.	\$ 669,231
\$1,735,000 TIF Revenue Bond, due in monthly installments of \$13,124 at 4.22% interest per annum over 15 years.	1,367,436
\$1,560,000, Lease Base Lease Hospitality Tax, due in monthly installments of \$11,712 at 5.11% interest per annum over 15 years.	<u>1,227,135</u>
 Total bonds payable	 <u>\$ 3,263,802</u>

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**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>
2011	\$ 256,722	\$ 131,443	\$ 388,165
2012	267,492	120,673	388,165
2013	278,711	109,454	388,165
2014	290,404	97,761	388,165
2015	302,586	85,579	388,165
2016-2020	1,676,729	214,748	1,891,477
Therafter	<u>191,158</u>	<u>3,298</u>	<u>194,456</u>
Total	<u>\$ 3,263,802</u>	<u>\$ 762,956</u>	<u>\$ 4,026,758</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 follows:

<u>Bonds Payable:</u>	<u>Water and Sewer Fund</u>
\$3,459,914, Sewer Line Rehabilitation Bond, Series 2001B, due in quarterly installments of \$63,036 with 4.0% interest through April, 2022.	\$ 2,354,615
\$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.	178,695
\$3,062,830, Sewer Rehabilitation, CFDA 66.458, paying agent, Bank of NY, terms quarterly 20 years of \$45,841 with 1.84% interest through December 2020.	<u>1,327,212</u>
Total bonds payable	<u>\$ 3,860,522</u>

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 7 – LONG-TERM OBLIGATIONS – CONTINUED**

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Water and Sewer</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 211,972	\$ 133,366	\$ 345,338
2012	250,568	114,608	365,176
2013	259,404	105,772	365,176
2014	268,512	96,664	365,176
2015	277,893	87,283	365,176
2016-2020	1,395,965	327,159	1,723,124
2021-2025	776,168	93,312	869,480
2026-2030	374,402	22,580	396,982
2031	<u>45,638</u>	<u>210</u>	<u>45,848</u>
Total	<u>\$ 3,860,522</u>	<u>\$ 980,954</u>	<u>\$ 4,841,476</u>

The following is a summary of changes in long-term obligations for the year ended June 30, 2010.

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>A Year</u>
<b><u>Governmental Activities</u></b>					
Bonds payable	\$ 3,510,190	\$ -	\$ 246,388	\$ 3,263,802	\$ 256,722
Notes and leases payable	<u>126,076</u>	<u>-</u>	<u>28,569</u>	<u>97,507</u>	<u>19,488</u>
Total	<u>\$ 3,636,266</u>	<u>\$ -</u>	<u>\$ 274,957</u>	<u>\$ 3,361,309</u>	<u>\$ 276,210</u>
<b><u>Business-type Activities</u></b>					
Bonds payable	<u>\$ 2,713,248</u>	<u>\$ 1,327,212</u>	<u>\$ 179,938</u>	<u>\$ 3,860,522</u>	<u>\$ 211,972</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 amounted to \$143,906 and \$113,510, 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, 2010**

**NOTE 9 – PENSION PLAN OBLIGATIONS**

**a. Local Government Employees' Retirement System**

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:

<b>SOUTH CAROLINA RETIREMENT CONTRIBUTION INFORMATION</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Covered payroll	\$ 1,943,051	\$ 1,765,602	\$ 1,674,289
Covered retirees	24,889	44,346	45,571
Employee contributions	127,916	117,647	111,791
Employee contribution rate (based upon salary)	7%	7%	7%
Employer contributions	181,838	167,238	155,819
Employer contribution rate (based upon salary)	9%	9%	9%
Group life contributions	2,952	2,715	2,580
Group life contribution rate (based upon salary)	0%	0%	0%

<b>SOUTH CAROLINA POLICE OFFICERS CONTRIBUTION INFORMATION</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Covered payroll	\$ 1,381,044	\$ 1,289,055	\$ 1,220,557
Employee contributions	89,768	83,789	79,336
Employee contribution rate (based upon salary)	7%	7%	7%
Employer contributions	147,081	137,285	125,717
Employer contribution rate (based upon salary)	11%	11%	10%
Group life contributions	2,762	2,579	2,441
Group life contribution rate (based upon salary)	0%	0%	0%

**b. Post Employment Benefits Other Than Pensions**

**Summary of Benefit Provisions**

**Eligibility**

All participants must be eligible to retire under the South Carolina Retirement System (SCRS) or Police Officers Retirement System (PORS); be hired before July 1, 2010; and meet at least one of the following criteria:

- Have at least 16 years of continuous service with the City of Walterboro and be a mayor, council member or council appointee.
- Have at least 15 years of continuous service with the City of Walterboro and retire from PORS.
- Have at least 18 years of continuous service with the City of Walterboro and retire from SCRS.

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 9 – PENSION PLAN OBLIGATIONS - CONTINUED**

**Summary of Benefit Provisions - continued**

Participants with less than 10 years of service with the City on July 1, 2010 may not receive benefits until they are at least age 60 regardless of age at retirement. Participants with at least 10 years of service with the City on July 1, 2010 receive benefits immediately upon retirement.

**Medical and Dental Benefit**

The City of Walterboro offers medical and dental benefits to its retirees and their spouses. Convergence is for the life of the retiree. Spouse coverage is for the life of the spouse. The retiree premiums for the year beginning July 1, 2010 follow the schedule below.

Medical Option	Single Coverage	Retiree and Spouse	Retiree and Child(ren)	Retiree and Family
Enhanced HRA	\$ 932	\$ 1,957	\$ 1,444	\$ 2,330
Standard HRA	784	1,647	1,216	1,961
Dental*	27	N/A	N/A	65

\*Dental Coverage is two-tiered. Any retiree who wants to cover a spouse or dependents must elect family coverage.

The base monthly Medicare supplement premium is \$132.50 and an additional \$232.65 for prescription coverage.

**Life Insurance Benefit**

The City also offers life insurance benefits to its retirees. The amount of the benefit awarded to each retiree's beneficiary depends upon the age at which the retiree dies. The death benefit is based on the following schedule.

Age at Death	Benefit
Under age 65	\$ 40,000
Ages 65 to 69	26,000
Ages 70 to 74	18,000
Ages 75 to 79	12,000
Ages 80 to 84	8,000
Ages 85 to 89	6,000
Ages 90 or older	4,000

**Employer Contributions**

For each retiree the City makes contributions toward the single-coverage monthly medical premium as well as the monthly life insurance premium based on service and service class. The schedule below shows the minimum amount of service necessary to receive given percentages of the medical premiums and the life insurance premiums.

	Service Class		
	Mayor and Council Members	SCRS Members	PORS Members
50%	N/A	18	15
75%	N/A	23	20
100%	16	28	25

In addition, retirees may elect to have the City pay an additional \$783 per year (\$65 per month) toward the sum of the remaining premium costs (dental, life, and any remaining medical premium). The \$783 may be used to cover spousal or other dependent beneficiary coverage and does not increase over time.

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 9 – PENSION PLAN OBLIGATIONS - CONTINUED**

**Summary of Benefit Provisions - continued**

**Disability Retirement Benefit**

The Plan offers a disability benefit for those participants who become eligible for disabled retirement through SCRS/PORS and meet the requirements for service with the City (described in *section IV.a*). The City makes contributions for disabled retirees on the same basis as other retirees.

**Death Benefit**

The Plan does not include a pre-retirement death benefit.

**Withdrawal Benefit**

The Plan does not include a withdrawal benefit.

**Service**

Service is credited from the date of hire.

**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.

**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 plan 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 is a defendant in various lawsuits. Most of this litigation is covered by insurance or settled through subsequent agreements. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's council the resolution of these matters will not have a material adverse effect on the financial condition of the City.

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.

**CITY OF WALTERBORO, SOUTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**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 – UNCERTAIN TAX POSITIONS**

The City evaluates income tax positions judged to be uncertain. A loss contingency reserve is accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred, and the amount of such a loss can be reasonably estimated. No accrual for uncertain tax positions was recorded at June 30, 2010.

**NOTE 15 – COMMITMENTS AND SUBSEQUENT EVENTS**

In preparing the financial statements, the City evaluated events and transactions for potential recognition or disclosure through December 30, 2010, the date the financial statements were available to be issued.

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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, 2010**

	<u>General Fund</u>			<b>Variance Favorable (Unfavorable)</b>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 2,512,600	\$ 2,512,600	\$ 2,624,879	\$ 112,279
Fines, fees and licenses	2,180,600	2,180,600	2,028,600	(152,000)
Intergovernmental	141,000	141,000	134,627	(6,373)
Solid waste charges	420,000	420,000	389,379	(30,621)
Miscellaneous	120,000	120,000	58,466	(61,534)
Total revenues	<u>5,374,200</u>	<u>5,374,200</u>	<u>5,235,951</u>	<u>(138,249)</u>
<b>EXPENDITURES</b>				
Mayor and council	226,965	226,965	264,334	(37,369)
Finance	403,553	403,553	398,053	5,500
City manager	191,813	191,813	193,593	(1,780)
Public works	1,306,899	1,306,899	1,143,648	163,251
Codes enforcement	303,996	303,996	288,193	15,803
Public safety	2,754,489	2,754,489	2,784,872	(30,383)
Judicial	162,391	162,391	165,602	(3,211)
Sanitation	673,412	673,412	720,422	(47,010)
Parks	303,189	303,189	301,156	2,033
Tourism	142,348	142,348	129,508	12,840
Non-department support	111,930	111,930	106,645	5,285
Reserve accounts	35,000	35,000	148,049	(113,049)
Total expenditures	<u>6,615,985</u>	<u>6,615,985</u>	<u>6,644,075</u>	<u>(28,090)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	1,206,785	1,206,785	1,206,785	-
Operating transfers out	-	-	(339,665)	(339,665)
Insurance reimbursement	-	-	129,300	129,300
Total financing sources (uses)	<u>1,206,785</u>	<u>1,206,785</u>	<u>996,420</u>	<u>(210,365)</u>
Net income (loss)	(35,000)	(35,000)	(411,704)	(376,704)
Fund balance, beginning	<u>2,525,795</u>	<u>2,525,795</u>	<u>3,758,090</u>	<u>1,232,295</u>
Fund balance, ending	<u>\$ 2,490,795</u>	<u>\$ 2,490,795</u>	<u>\$ 3,346,386</u>	<u>\$ 855,591</u>

**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, 2010**

	<u>Water and Sewer</u>			<b>Variance Favorable (Unfavorable)</b>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
<b>OPERATING REVENUES</b>				
Charges for service				
Water sales	\$ 1,869,000	\$ 1,869,000	\$ 1,895,381	\$ 26,381
Sewer charges	<u>1,233,000</u>	<u>1,233,000</u>	<u>1,774,235</u>	<u>541,235</u>
Total revenues	<u>3,102,000</u>	<u>3,102,000</u>	<u>3,669,616</u>	<u>567,616</u>
<b>OPERATING EXPENDITURES</b>				
Costs of sales and service				
Water	755,836	755,836	758,277	(2,441)
Sewer	696,337	696,337	568,849	127,488
Utility support	442,706	442,706	147,738	294,968
Economic development	64,836	64,836	59,011	(5,825)
Bank charges	-	-	5,212	(5,212)
Bond issue costs	-	-	7,917	(7,917)
Depreciation	-	-	<u>540,954</u>	<u>(540,954)</u>
Total expenditures	<u>1,959,715</u>	<u>1,959,715</u>	<u>2,087,958</u>	<u>(139,893)</u>
Operating income	<u>1,142,285</u>	<u>1,142,285</u>	<u>1,581,658</u>	<u>427,723</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	44,500	44,500	31,564	(12,936)
Interest expense	-	-	<u>(113,510)</u>	<u>(113,510)</u>
Total nonoperating revenues (expenses)	<u>44,500</u>	<u>44,500</u>	<u>(81,946)</u>	<u>(126,446)</u>
Income before contributions and transfers	1,186,785	1,186,785	1,499,712	301,277
Operating transfers out	<u>(1,186,785)</u>	<u>(1,186,785)</u>	<u>(992,483)</u>	<u>194,302</u>
Change in net assets	-	-	507,229	495,579
Fund balance, beginning	<u>15,318,229</u>	<u>15,862,226</u>	<u>18,032,810</u>	<u>2,170,584</u>
Fund balance, ending	<u>\$ 15,318,229</u>	<u>\$ 15,862,226</u>	<u>\$ 18,540,039</u>	<u>\$ 2,666,163</u>

# 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.

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

**CITY OF WALTERBORO, SOUTH CAROLINA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**

	<u>Grant Fund</u>	<u>Housing Project 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>	<u>Local Hospitality Fund</u>
Cash	\$ 8,126	\$ 156,449	\$ 3,562	\$ 286	\$ 10,511	\$ 171,886	\$ 1,027,208	\$ 240,596
Receivables	556,661	-	-	1,553	-	-	-	32,611
Due from other funds	-	-	-	-	-	-	-	-
Notes receivable	-	40,834	-	-	-	-	-	-
Total Assets	<u>\$ 564,787</u>	<u>\$ 197,283</u>	<u>\$ 3,562</u>	<u>\$ 1,839</u>	<u>\$ 10,511</u>	<u>\$ 171,886</u>	<u>\$ 1,027,208</u>	<u>\$ 273,207</u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Current Liabilities	
Accounts payable	\$ -
Accrued expenses	-
Due to other funds	-
Deferred revenues	-
Total Liabilities	<u>\$ -</u>

**FUND BALANCES**

Unreserved	8,126	156,449	3,562	1,839	10,511	171,886	1,027,208	273,207
Total Fund Balances	<u>8,126</u>	<u>156,449</u>	<u>3,562</u>	<u>1,839</u>	<u>10,511</u>	<u>171,886</u>	<u>1,027,208</u>	<u>273,207</u>
Total Liabilities & Fund Balances	<u>\$ 564,787</u>	<u>\$ 197,283</u>	<u>\$ 3,562</u>	<u>\$ 1,839</u>	<u>\$ 10,511</u>	<u>\$ 171,886</u>	<u>\$ 1,027,208</u>	<u>\$ 273,207</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, 2010**

	<u>Equipment Replacement Fund</u>	<u>Project Fund</u>	<u>Misc Grant Fund</u>	<u>Great Swamp Fund</u>	<u>Local Accommodations Tax Fund</u>	<u>State Accommodations Tax Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Cash	\$ -	\$ 1	\$ -	\$ -	\$ 483,975	\$ 22,408	\$ 2,125,008
Receivables	-	683	-	-	14,679	59,248	665,435
Due from other funds	782,681	120,528	23,920	-	-	-	927,129
Notes receivable	-	-	-	-	-	-	40,834
Total Assets	<u>\$ 782,681</u>	<u>\$ 121,212</u>	<u>\$ 23,920</u>	<u>\$ -</u>	<u>\$ 498,654</u>	<u>\$ 81,656</u>	<u>\$ 3,758,406</u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Current Liabilities							
Accounts payable	\$ -	\$ 683	\$ -	\$ -	\$ -	\$ 25,487	\$ 582,831
Due to other funds	-	-	18,458	-	-	-	18,458
Deferred revenues	-	-	-	-	-	-	40,834
Total Liabilities	<u>-</u>	<u>683</u>	<u>18,458</u>	<u>-</u>	<u>-</u>	<u>25,487</u>	<u>642,123</u>

**FUND BALANCES**

Unreserved	782,681	120,529	5,462	-	498,654	56,169	3,116,283
Total Fund Balances	<u>782,681</u>	<u>120,529</u>	<u>5,462</u>	<u>-</u>	<u>498,654</u>	<u>56,169</u>	<u>3,116,283</u>
Total Liabilities & Fund Balances	<u>\$ 782,681</u>	<u>\$ 121,212</u>	<u>\$ 23,920</u>	<u>\$ -</u>	<u>\$ 498,654</u>	<u>\$ 81,656</u>	<u>\$ 3,758,406</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  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Grant Fund</u>	<u>Housing Project 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>	<u>Local Hospitality Fund</u>
<b>REVENUES</b>								
Taxes	\$ -	-	-	-	-	-	-	-
Miscellaneous	48,598	21,832	210	22,158	8,466	1,196	20,184	370,275
Total revenues	<u>48,598</u>	<u>21,832</u>	<u>210</u>	<u>22,158</u>	<u>8,466</u>	<u>1,196</u>	<u>20,184</u>	<u>4,309</u>
								<u>374,584</u>
<b>EXPENDITURES</b>								
Grant fund	40,472	-	-	-	-	-	-	-
Housing project	-	17,313	-	-	-	-	-	-
Police drug fund	-	-	6,810	-	-	-	-	-
Victims advocate	-	-	-	2,240	-	-	-	-
Local law enforcement grant	-	-	-	-	6,640	-	-	-
Bond fund	-	-	-	-	-	-	-	-
TIF fund	-	-	-	-	-	-	-	-
Local hospitality	-	-	-	-	-	-	-	-
Project fund	-	-	-	-	-	-	-	100
Grant fund	-	-	-	-	-	-	-	-
Great Swamp	-	-	-	-	-	-	-	-
Accommodations tax	-	-	-	-	-	-	-	-
Total expenditures	<u>40,472</u>	<u>17,313</u>	<u>6,810</u>	<u>2,240</u>	<u>6,640</u>	<u>-</u>	<u>-</u>	<u>100</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Operating transfers in	-	-	-	-	3,000	-	-	-
Operating transfers out	-	(34,463)	-	(20,000)	-	-	(131,632)	(298,035)
Total other financing sources (uses)	<u>-</u>	<u>(34,463)</u>	<u>-</u>	<u>(20,000)</u>	<u>3,000</u>	<u>-</u>	<u>(131,632)</u>	<u>(298,035)</u>
Net income (loss)	8,126	(29,944)	(6,600)	(82)	4,826	1,196	(111,448)	76,449
Fund balances, beginning	-	186,393	10,162	1,921	5,685	170,690	1,138,656	196,758
Fund balances, ending	<u>\$ 8,126</u>	<u>\$ 156,449</u>	<u>\$ 3,562</u>	<u>\$ 1,839</u>	<u>\$ 10,511</u>	<u>\$ 171,886</u>	<u>\$ 1,027,208</u>	<u>\$ 273,207</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, 2010**

	Equipment Replacement Fund	Project Fund	Misc Grant Fund	Great Swamp Fund	Local Accommodations Tax Fund	State Accommodations Tax Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 176,299	\$ 221,903	\$ 768,477
Miscellaneous	-	214,891	6,555	-	8,815	627	357,841
Total revenues	-	214,891	6,555	-	185,114	222,530	1,126,318
<b>EXPENDITURES</b>							
Grant fund	-	-	-	-	-	-	40,472
Housing project	-	-	-	-	-	-	17,313
Police drug fund	-	-	-	-	-	-	6,810
Victims advocate	-	-	-	-	-	-	2,240
Local law enforcement grant	-	-	-	-	-	-	6,640
Bond fund	-	-	-	-	-	-	-
TIF fund	-	-	-	-	-	-	-
Local hospitality	-	-	-	-	-	-	100
Project fund	-	50,062	-	-	-	-	50,062
Grant fund	-	-	7,856	-	-	-	7,856
Great Swamp	-	-	-	145,765	-	-	145,765
Local accommodations tax	-	-	-	-	50,047	-	50,047
State accommodations tax	-	-	-	-	-	207,372	207,372
Total expenditures	-	50,062	7,856	145,765	50,047	207,372	534,677
<b>OTHER FINANCING SOURCES (USES)</b>							
Operating transfers in	222,233	154,925	-	145,765	-	18,907	544,830
Operating transfers out	-	(202,825)	-	-	(30,548)	-	(717,503)
Total other financing sources (uses)	222,233	(47,900)	-	145,765	(30,548)	18,907	(172,673)
Net income (loss)	222,233	116,929	(1,301)	-	104,519	34,065	418,968
Fund balances, beginning	560,448	3,600	6,763	-	394,135	22,104	2,697,315
Fund balances, ending	\$ 782,681	\$ 120,529	\$ 5,462	\$ -	\$ 498,654	\$ 56,169	\$ 3,116,283

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, 2010**

	Business-type Activities			Total
	Walterboro Water & Sewer	Ruffin Water	Hendersonville Water & Sewer	
<b>ASSETS</b>				
Current assets				
Cash	\$ 1,001,619	\$ 158,496	\$ 15,462	\$ 1,175,577
Receivables	553,806	10,635	9,086	573,527
Inventories	133,407	-	-	133,407
Notes receivables	273,183	-	-	273,183
Total current assets	<u>1,962,015</u>	<u>169,131</u>	<u>24,548</u>	<u>2,155,694</u>
Non-current assets				
Restricted cash	474,821	-	-	474,821
Bond issue costs	23,008	-	-	23,008
Capital assets	<u>18,362,398</u>	<u>1,229,615</u>	<u>603,618</u>	<u>20,195,631</u>
Total non-current assets	<u>18,860,227</u>	<u>1,229,615</u>	<u>603,618</u>	<u>20,693,460</u>
Total assets	<u>\$ 20,822,242</u>	<u>\$ 1,398,746</u>	<u>\$ 628,166</u>	<u>\$ 22,849,154</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	\$ 114,638	\$ -	\$ -	\$ 114,638
Current portion - long-term debt	211,972	-	-	211,972
Due to other funds	34,631	-	-	34,631
Deferred revenue	28,773	-	-	28,773
Customer deposits	<u>243,099</u>	<u>-</u>	<u>-</u>	<u>243,099</u>
Total current liabilities	<u>633,113</u>	<u>-</u>	<u>-</u>	<u>633,113</u>
Non-current liabilities				
Bonds, notes and leases payable	3,648,550	-	-	3,648,550
Annual leave	<u>27,452</u>	<u>-</u>	<u>-</u>	<u>27,452</u>
Total non-current liabilities	<u>3,676,002</u>	<u>-</u>	<u>-</u>	<u>3,676,002</u>
Total liabilities	<u>4,309,115</u>	<u>-</u>	<u>-</u>	<u>4,309,115</u>
Net assets				
Unrestricted	1,536,430	169,131	24,548	1,730,109
Restricted for debt service	474,821	-	-	474,821
Capital assets, net of related debt	<u>14,501,876</u>	<u>1,229,615</u>	<u>603,618</u>	<u>16,335,109</u>
Total net assets	<u>16,513,127</u>	<u>1,398,746</u>	<u>628,166</u>	<u>18,540,039</u>
Total liabilities and net assets	<u>\$ 20,822,242</u>	<u>\$ 1,398,746</u>	<u>\$ 628,166</u>	<u>\$ 22,849,154</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, 2010**

	<u>Business-type Activities</u>			<u>Total</u>
	<u>Walterboro Water &amp; Sewer</u>	<u>Ruffin Water</u>	<u>Hendersonville Water &amp; Sewer</u>	
<b>OPERATING REVENUES</b>				
Charges for service				
Water sales	\$ 1,810,595	\$ 79,384	\$ 5,402	\$ 1,895,381
Sewer charges	<u>1,770,157</u>	<u>-</u>	<u>4,078</u>	<u>1,774,235</u>
Total operating revenues	<u>3,580,752</u>	<u>79,384</u>	<u>9,480</u>	<u>3,669,616</u>
<b>OPERATING EXPENDITURES</b>				
Costs of sales and service				
Water	724,357	31,759	2,161	758,277
Sewer	567,361	-	1,488	568,849
Utility support	143,938	3,395	405	147,738
Economic development	57,493	1,356	162	59,011
Bank charges	5,212	-	-	5,212
Bond issue costs	7,917	-	-	7,917
Depreciation	<u>498,881</u>	<u>28,027</u>	<u>14,046</u>	<u>540,954</u>
Total expenditures	<u>2,005,159</u>	<u>64,537</u>	<u>18,262</u>	<u>2,087,958</u>
Operating income (loss)	<u>1,575,593</u>	<u>14,847</u>	<u>(8,782)</u>	<u>1,581,658</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	31,564	-	-	31,564
Interest expense	<u>(113,510)</u>	<u>-</u>	<u>-</u>	<u>(113,510)</u>
Total nonoperating revenues (expenses)	<u>(81,946)</u>	<u>-</u>	<u>-</u>	<u>(81,946)</u>
Income before contributions and transfers	1,493,647	14,847	(8,782)	1,499,712
Operating transfers, net	<u>(992,483)</u>	<u>-</u>	<u>-</u>	<u>(992,483)</u>
Change in net assets	501,164	14,847	(8,782)	507,229
Fund balance, beginning	<u>16,011,963</u>	<u>1,383,899</u>	<u>636,948</u>	<u>18,032,810</u>
Fund balance, ending	<u>\$ 16,513,127</u>	<u>\$ 1,398,746</u>	<u>\$ 628,166</u>	<u>\$ 18,540,039</u>

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

**CITY OF WALTERBORO, SOUTH CAROLINA  
SCHEDULE OF FINES AND ASSESSMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>COURT FINES</b>	
Court fines collected	\$ 137,105
Court fines retained by the City	<u>(137,105)</u>
Court fines remitted to the State Treasurer	-
<b>COURT ASSESSMENTS</b>	
Court assessments collected	116,429
Court assessments retained by the City	<u>-</u>
Court assessments remitted to the State Treasurer	116,429
<b>COURT SURCHARGES</b>	
Court surcharges collected	58,122
Court surcharges retained by the City	<u>-</u>
Court surcharges remitted to the State Treasurer	58,122
<b>VICTIMS ASSISTANCE</b>	
Court assessments allocated to Victims Assistance	14,568
Court surcharges allocated to Victims Assistance	<u>7,405</u>
Funds allocated to Victim Assistance	21,973
Interest income	184
Victim Services expenditures	<u>(22,240)</u>
Funds available (deficit) for carryforward	(83)
Beginning balance	<u>1,922</u>
Ending balance	<u>\$ 1,839</u>

**STATISTICAL SECTION**

**CITY OF WALTERBORO, SOUTH CAROLINA  
COMPUTATION OF LEGAL DEBT MARGIN  
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010 was \$2,088,699.

**CITY OF WALTERBORO, SOUTH CAROLINA  
COMPARISON OF REVENUE AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Revenues</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2009</u>	<u>Percent of Increase (Decrease)</u>
Taxes	\$ 2,624,879	50.13%	\$ 25,635	.99%
Fines, fees and licenses	2,028,600	38.74%	(254,643)	(11.15%)
Intergovernmental	134,627	2.57%	(25,903)	(16.14%)
Sanitation	389,379	7.44%	(22,343)	(5.43%)
Miscellaneous	58,466	1.12%	(42,029)	(41.82%)
 Total revenues	 \$ 5,235,951	 100%	 \$ (319,283)	 (5.75%)

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2009</u>	<u>Percent of Increase (Decrease)</u>
Mayor and Council	\$ 264,334	3.98%	\$ 7,590	2.96%
City manager	193,593	2.91%	5,224	2.77%
Finance	398,053	5.99%	15,756	4.12%
Public works	1,143,648	17.21%	(151,026)	(11.67%)
Codes enforcement	288,193	4.34%	72,239	33.45%
Public safety	2,784,872	41.92%	123,585	4.64%
Judicial	165,602	2.49%	(183,718)	(52.59%)
Sanitation	720,422	10.84%	315,078	77.73%
Parks	301,156	4.53%	(53,444)	(15.07%)
Tourism	129,508	1.95%	129,508	-
Miscellaneous	254,694	3.83%	42,085	19.79%
 Total expenditures	 \$ 6,644,075	 100%	 \$ 322,877	 5.11%

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

City of Walterboro 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, 2010, which collectively comprise the City of Walterboro, South Carolina's basic financial statements and have issued our report thereon dated December 30, 2010. 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 opinions 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Walterboro, South Carolina, in a separate letter dated December 30, 2010.

This report is intended solely for the information and use of management, City Council, others within the entity, 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  
December 30, 2010

**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 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, 2010. 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 City of Walterboro, South Carolina's management. Our responsibility is to express an opinion on 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*, 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 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 of City of Walterboro, South Carolina's compliance with those requirements.

In our opinion, 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, 2010.

Internal Control Over Compliance

Management of City of Walterboro, South Carolina, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Walterboro, South Carolina's internal control over compliance with the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the City of Walterboro, South Carolina's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 management, City Council, others within the entity, 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  
December 30, 2010

**CITY OF WALTERBORO, SOUTH CAROLINA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor/ Pass Thru Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor/ Contract Number</u>	<u>Program Expenditures</u>
<u>Environmental Protection Agency</u>			
<u>(Passed through State Revolving Fund/Office of Local Government/Budget &amp; Control)</u>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	S1-122-09-441-07	\$ 532,553
<b>Total Environmental Protection Agency</b>			<u>532,553</u>
<u>U.S. Department of Justice/Grants Administration Division/COPS Hiring</u>			
Recovery Program Award ID:89450	16.710	2009RKWX0748	<u>38,005</u>
<b>Total U.S. Department of Justice</b>			<u>38,005</u>
<u>Office of Comptroller/Community Infrastructure</u>			
<u>(Passed through the South Carolina Department of Commerce)</u>			
Community Development Block Grant - Pine Needle Pump Station	14.228	4-CI-08-026	238,250
Community Development Block Grant - Lincoln Apartment Water Extension	14.228	4-CI-09-021	<u>51,141</u>
<b>Total Office of Comptroller/Community Infrastructure</b>			<u>289,391</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 859,949</u>

**CITY OF WALTERBORO, SOUTH CAROLINA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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 under programs of the federal government for the year ended June 30, 2010. 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*. Because the schedule presents only a selected portion of the operations the City of Walterboro, South Carolina, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Walterboro, South Carolina.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principals contained in OMB Circular A-87, Cost Principals for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited to reimbursement.

**Note 3 – Non-cash Awards**

The City of Walterboro, South Carolina did not receive any non-cash federal awards during the year ended June 30, 2010.

**Note 4 – EPA Loan**

In August, 2009, the City entered into a bond agreement not to exceed \$3,116,588 of which \$1,531,415 was American Recovery and Reinvestment Act (ARRA) funds bearing interest rate of 0% and \$1,531,415 was Regular funds bearing an interest rate of 1.84%, with the South Carolina Water Quality Revolving Fund Authority to fund wastewater system rehabilitation and pump station upgrade within the City. At June 30, 2010 \$1,327,212 of loan funds had been disbursed. The City will make annual interest and principal payments beginning September, 2010. Repayment shall be made in 79 equal installments of \$45,840.98 each, and one final installment of \$45,840.39.

**CITY OF WALTERBORO, SOUTH CAROLINA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**I. Summary of Auditors' Results**

- A. The auditors' report expresses an unqualified opinion on the financial statements of the City of Walterboro, South Carolina.
- B. Our audit of the financial statements disclosed no significant deficiencies in internal control over financial reporting.
- C. No instances of noncompliance material to the financial statements of the City of Walterboro, South Carolina, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
- D. No significant deficiencies in internal controls over major federal award programs were disclosed during the audit.
- E. The auditors' report on compliance for the major federal award programs the City of Walterboro, South Carolina expresses an unqualified opinion on all major federal programs.
- F. Our audit disclosed no audit findings which relate to the federal awards which are required to be reported under section 510(a) of OMB Circular A-133.
- G. Major federal program for the City of Walterboro, South Carolina for the fiscal year ended June 30, 2010 are:

<u>Program Name</u>	<u>CFDA#</u>
Environmental Protection Agency Capitalization Grants for Clean Water State Revolving Funds	66.458

- 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 Financial Statements of the City of Walterboro, South Carolina:**

There were no findings noted for the year ended June 30, 2010 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, 2010, that are required to be reported in accordance with OMB Circular A-133 criteria.