

**CITY OF GAFFNEY, SOUTH CAROLINA**

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**Independent Auditors' Report**

**Financial Statements and Schedules  
For the Year Ended June 30, 2016**



# CITY OF GAFFNEY, SOUTH CAROLINA

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**FINANCIAL SECTION**

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Independent Auditors' Report

The Honorable Henry L. Jolly, Mayor  
and Members of the City Council  
City of Gaffney, South Carolina

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Gaffney as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Gaffney Local Development Corporation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Gaffney as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and other post-employment benefits information, the schedule of the City's proportionate share of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) net pension liability, and the schedule of the City's contributions to the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

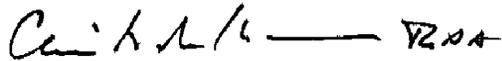
### *Other Information*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of the City of Gaffney's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "C. H. H. / 16" followed by a horizontal line and the year "2016".

Gaffney, SC  
October 26, 2016

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

### **FINANCIAL HIGHLIGHTS**

The assets of the City exceeded its liabilities at the close of the most recent year by \$7,411,997. Of this amount, \$3,121,777 may be used to meet the government's ongoing obligations to citizens and creditors, exclusive of the effect of GASB 68.

At the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$5,393,680 an increase of \$677,158 as compared to the prior fiscal year. Of this total amount, \$3,687,399 is unassigned fund balance for governmental funds.

At the end of the current fiscal year, unassigned fund balance for the General Fund balance for the Governmental Funds was \$3,614,891 or approximately 33.58% of total General Fund expenditures.

During the year, the City's long-term debt increased from \$1,636,361 to \$2,050,980, a net increase of \$414,619.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

#### ***Government-wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of the City of Gaffney's finances in a manner similar to a private-sector business. The statement of net position includes all of the City of Gaffney's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Gaffney is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows.

The government-wide financial statements of the City of Gaffney are divided into two categories:

- Governmental activities – Most of the City's basic services are included here, such as police, fire, public works, and recreation departments, and general administration. Property taxes and franchises and licenses finance most of these activities.
- Component units- The City includes one other legally separate entity in its report – Gaffney Local Development Corporation.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Gaffney, like other local governments, uses fund accounting to ensure and demonstrate compliance with State Law and other finance-related legal requirements. The funds of the City of Gaffney can be grouped into two fund types: 1) governmental funds and 2) fiduciary funds.

*Governmental funds* – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds, which focus on how assets can readily be converted to cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Consequently, the governmental funds statements provide a detailed short-term view that assists in determining whether there are more or fewer financial resources to finance the City's programs. The relationship between government activities and governmental funds is described in a reconciliation that is a part of the fund financial statements.

*Fiduciary funds* – The City acts as agent, or *fiduciary*, for other entities' resources. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate fund financial statement. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position, over time, may serve as one useful indicator of a government's financial position. The following table provides a summary of the City's position at June 30, 2016 as compared to June 30, 2015 and June 30, 2014.

	<i>Governmental Activities</i>			
	<b>2016</b>	<b>2015</b> <b>(Restated) <sup>1</sup></b>	<b>2015</b>	<b>2014</b>
<b>Assets:</b>				
Current and Other Assets	\$6,141,928	\$5,350,015	\$5,350,015	\$6,013,394
Capital Assets, Net	\$14,066,840	\$13,595,947	\$13,595,947	\$11,865,079
Total Assets	\$20,208,768	\$18,945,962	\$18,945,962	\$17,878,473
Deferred Outflows	\$1,524,256	\$823,950		
<b>Liabilities:</b>				
Long-Term Liabilities	\$3,605,544	\$3,108,950	\$3,108,950	\$2,635,018
Net Pension Obligation	\$9,178,085	\$8,401,753	-	-
Other Liabilities	\$728,138	\$561,287	\$561,287	\$504,591
Total Liabilities	\$13,511,767	\$12,071,990	\$3,670,237	\$3,139,609
Deferred Inflows	\$809,260	\$850,795		
<b>Net Position:</b>				
Net Invested in Capital Assets	\$11,587,815	\$11,536,173	\$11,536,173	\$10,128,903
Restricted	\$1,165,494	\$1,219,703	\$1,219,703	\$1,225,719
Unrestricted	(\$5,341,312)	(\$5,908,749)	\$2,519,849	\$3,384,242
Total Net Position	\$7,411,997	\$6,847,127	\$15,275,725	\$14,738,864

*1 – The City adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, by restating fiscal year 2015 Net Position as of July 1, 2014.*

By far the largest portion of the City's net position (\$11,587,815) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Deferred outflows increased by \$700,306 from the prior year, consisting of a decrease in liability experience of \$57,023, a difference in investment experience versus expected of \$705,128, and an addition of \$52,201 in retirement contributions required by the new GASB statement. Additionally, the increase in net pension liability of \$776,332 was due to the implementation of GASB Statement No. 68. The City implemented GASB Statement No. 68 in fiscal year 2015. As a result, a net pension liability of \$8,401,753 was recorded. The effects of GASB Statement No. 68 are not reflected in the fiscal year 2014 amounts. Deferred inflows decreased by \$41,535 from the prior year, which was the difference in pension investment experience of \$228,617, retirement contributions of \$179,727, and liability experience of \$7,355 from what was expected. Net position increased by \$564,870 after the effect of GASB Statement No. 68 (\$34,491). As part of the new accounting standard, the City was required to record the net pension liability of \$9,178,085 thus reducing unrestricted net assets.

An additional portion of the City's net position (\$1,165,494) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$3,121,777) net of GASB Statement No. 68 effect, may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current year, the City is able to report positive balances in all three categories of net position, for the government as a whole, net of GASB Statement No. 68 effect.

During the current year, the City's net position increased by \$564,870 including the effect of GASB 68 (\$34,491).

### ***Governmental Activities***

Governmental Activities increased the City's net position by \$564,870 net of GASB 68 effect. The following table shows the change in net position for 2016 compared to 2015 and 2014.

	<b><i>Governmental Activities</i></b>			
	<b>2016</b>	<b>2015</b> <b>(Restated) <sup>1</sup></b>	<b>2015</b>	<b>2014</b>
Revenues:				
Program Revenue:				
Charges for Service	\$1,125,950	\$717,433	\$717,433	\$775,316
Operating Grants and Contributions	\$1,065,051	\$666,362	\$666,362	\$662,540
Capital Grants	\$240,203	\$468,959	\$468,959	\$237,194
Total Program Revenues	<u>\$2,431,204</u>	<u>\$1,852,754</u>	<u>\$1,852,754</u>	<u>\$1,675,050</u>
General Revenue:				
Taxes	\$5,553,595	\$5,439,316	\$5,439,316	\$5,304,134
Business License	\$2,304,162	\$2,097,895	\$2,097,895	\$2,055,390
Intergovernmental	\$371,831	\$1,011,350	\$1,011,350	\$1,027,974
Other	\$1,687,749	\$1,637,554	\$1,637,554	\$1,843,160
Total General Revenues	<u>\$9,917,337</u>	<u>\$10,186,115</u>	<u>\$10,186,115</u>	<u>\$10,230,658</u>
Total Revenues	<u>\$12,348,541</u>	<u>\$12,038,869</u>	<u>\$12,038,869</u>	<u>\$11,905,708</u>
Expenses:				
General Government	\$1,817,981	\$1,597,701	\$1,523,422	\$1,445,982
Visitors Center <sup>7</sup>		\$265,442	\$265,442	\$230,119
Finance	\$450,906	\$452,617	\$452,617	\$447,260
Municipal Court	\$467,010	\$449,115	\$449,115	\$387,850
Police	\$3,297,921	\$2,978,942	\$2,978,942	\$3,006,048
Fire	\$2,766,649	\$2,449,775	\$2,449,775	\$2,359,685
Streets	\$945,022	\$1,254,332	\$1,254,332	\$959,380
Sanitation	\$833,287	\$926,460	\$926,460	\$911,316
Parks and Recreation	\$410,264	\$424,544	\$424,544	\$310,067
Tourism and Beautification	\$117,461	\$102,844	\$102,844	\$117,437
Community Development	\$361,753	\$360,882	\$360,882	\$507,951
Maintenance Garage	\$280,167	\$267,899	\$267,899	\$258,533
Interest and Fiscal Charge	\$35,250	\$45,734	\$45,734	\$52,609
Total Expense	<u>\$11,783,671</u>	<u>\$11,576,287</u>	<u>\$11,502,008</u>	<u>\$10,994,237</u>
Change in Net Position	\$564,870	\$462,582	\$536,861	\$911,471
Net Position Beginning of Year	\$6,847,127	\$14,738,864	\$14,738,864	\$13,827,393
Cumulative Effect of GASB 68		(\$8,354,319)		
Net Position Beginning of Year (Restated)	\$6,847,127	\$6,384,545	\$14,738,864	\$13,827,393
Net Position End of Year	\$7,411,997	\$6,847,127	\$15,275,725	\$14,738,864

*1 – The City adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, by restating fiscal year 2015 Net Position as of July 1, 2014.*

- Charges for services increased by \$408,517
- Operating grants and contributions increased by \$398,689
- Tax revenues increased by \$114,274 due to an overall increase in the Local Option Sales Tax and an increase in Property Tax Revenue.

## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S (CITY'S) FUNDS**

### ***Governmental Funds***

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

As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$5,393,680, an increase of \$677,158 in comparison with the prior year. Of this total amount, \$3,687,399 is unassigned fund balance for the governmental funds.

The General Fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the General Fund was \$3,614,891. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance and total fund balance represent approximately 34% and 38% of total General Fund expenditures, respectively.

During the current year, the fund balance of the City's General Fund increased by \$800,128. Key factors in the increase are as follows:

- Better than expected revenue from Local Option Sales Tax
- Better than expected revenue from Business Licenses

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the year there was one change in total budget for supplemental revenues and appropriations in the amount of \$741,738.

## CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

### *Capital Assets*

The City's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$14,066,840 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, roads, sidewalks and storm drainage systems.

Major capital asset additions during the current year included the following:

- Purchase of Fire Apparatus
- Purchase of Police Vehicles
- Fire Department Substation
- Fire Department Training Facility
- Construction of New Infrastructure
- Purchase of Public Works Tractor

### *Debt Administration*

At the end of the year, the City had \$2,050,980 in debt (general obligation bonds, notes, lease purchase agreements) outstanding compared to \$1,636,361 in the prior fiscal year, an increase of \$414,619.

	<i>Governmental Activities</i>		
	2016	2015	2014
Outstanding Debt			
Note Payable	\$11,078	\$12,078	\$13,078
General Obligation Bonds	\$1,030,000	\$1,140,000	\$1,225,000
Lease Purchase Agreements	\$1,009,902	\$484,283	\$81,387
Total	<u>\$2,050,980</u>	<u>\$1,636,361</u>	<u>\$1,319,465</u>

The City issued new debt for the fiscal year ended June 30, 2016 consisting of the following:

- Lease purchase financing in the amount of \$845,000 for vehicles and equipment.

## **ECONOMIC FACTORS AND THEIR EFFECT ON THE FISCAL YEAR 2016 BUDGET**

Several Factors were considered in preparing the Fiscal Year 2016 Budget including:

- The continued rise in healthcare cost, nationally and locally, is reflected in the insurance premiums for employee medical insurance.
- The local economy has experienced the same economic downturn as is seen nationally.
- Business license revenue and tax revenue have stabilized or increased slightly after having decreased for several years.
- Reductions in state aid and unfunded mandates also affect the City's future financial position.
- The instability in energy costs will also impact the City's finances.
- The Fiscal Year 2016 Budget included a continued reduction of the number of City employees. This latest reduction was the result of the elimination of City-provided garbage collection. This service is now provided by Cherokee County. The actions should serve to improve the City's financial position if the local economy continues to improve.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Gaffney's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Director, P.O. Box 2109, Gaffney, South Carolina 29342.

**CITY OF GAFFNEY, SOUTH CAROLINA**

## Statement of Net Position

June 30, 2016

	Primary Government <u>Governmental Activities</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 4,733,742	90,751
Receivables:		
Taxes, Net	94,911	-
Intergovernmental	1,168,263	-
Other	66,967	13,625
Prepaid Expense	7,240	430
Inventory	70,805	-
Property Held for Resale	-	107,682
Capital Asset:	31,297,413	-
Less Accumulated Depreciation	(17,230,573)	-
Total Capital Assets Net of Depreciation	<u>14,066,840</u>	<u>-</u>
Total Assets	<u>20,208,768</u>	<u>212,488</u>
<b>DEFERRED OUTFLOWS</b>	<u>1,524,256</u>	<u>-</u>
<b>LIABILITIES</b>		
Accounts Payable	258,475	14,121
Accrued Expenses	258,671	15,850
Unremitted Withholdings	97,271	-
Police Bonds Pending	20,083	-
Police Seizures Pending	7,122	-
Tax Sale Proceeds Pending	77,643	-
Accrued Interest Payable	6,491	-
Other Liabilities	2,382	-
Long-term Liabilities:		
Due Within One Year	905,087	-
Due in More than One Year	2,700,457	-
Net Pension Liability	9,178,085	-
Total Liabilities	<u>13,511,767</u>	<u>29,971</u>
<b>DEFERRED INFLOWS</b>	<u>809,260</u>	<u>-</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	11,587,815	-
Restricted For:		
Cemetery	47,517	-
Various Purposes	1,117,977	11,094
Unrestricted	(5,341,312)	171,423
Total Net Position	<u>\$ 7,411,997</u>	<u>182,517</u>

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



**CITY OF GAFFNEY, SOUTH CAROLINA**

## Balance Sheet - Governmental Funds

June 30, 2016

	Major Governmental Funds		Non-Major Governmental Funds		Total Governmental Funds
	General	Hospitality Tax	Capital Projects	Special Revenue	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 3,515,973	740,068	151,768	325,933	4,733,742
Taxes Receivable	154,294	-	-	-	154,294
Intergovernmental Receivables	1,022,776	-	-	39,661	1,062,437
Other Receivables	49,252	105,826	6,303	11,412	172,793
Inventories	70,805	-	-	-	70,805
Prepaid Expense	6,115	1,125	-	-	7,240
Due From Other Funds	-	-	11,250	-	11,250
Total Assets	<u>\$ 4,819,215</u>	<u>847,019</u>	<u>169,321</u>	<u>377,006</u>	<u>6,212,561</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 162,821	197	80,862	14,595	258,475
Accrued Expense	258,671	-	-	-	258,671
Unremitted Withholdings	97,271	-	-	-	97,271
Police Bonds Pending	20,083	-	-	-	20,083
Police Seizures Pending	-	-	-	7,122	7,122
Tax Sale Proceeds Pending	77,643	-	-	-	77,643
Due to Other Funds	749	-	-	10,501	11,250
Other Liabilities	2,382	-	-	-	2,382
Total Liabilities	<u>619,620</u>	<u>197</u>	<u>80,862</u>	<u>32,218</u>	<u>732,897</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Property Taxes	<u>85,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,984</u>
<b>FUND BALANCES</b>					
Fund Balances					
Nonspendable	76,920	1,125	-	-	78,045
Restricted	-	845,697	47,517	272,280	1,165,494
Committed	421,800	-	-	-	421,800
Assigned	-	-	40,942	-	40,942
Unassigned	3,614,891	-	-	72,508	3,687,399
Total Fund Balances	<u>4,113,611</u>	<u>846,822</u>	<u>88,459</u>	<u>344,788</u>	<u>5,393,680</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,819,215</u>	<u>847,019</u>	<u>169,321</u>	<u>377,006</u>	<u>6,212,561</u>

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
 Reconciliation of Total Governmental Fund  
 Balances to Net Position of Governmental Activities  
 June 30, 2016

Total fund balances - Governmental funds June 30, 2015		\$ 5,393,680
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Capital Assets not Being Depreciated		2,910,058
Capital Assets Being Depreciated		28,387,355
Accumulated depreciation		<u>(17,230,573)</u>
Total capital assets		<u>14,066,840</u>
Some revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		
Property taxes		<u>26,601</u>
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General obligation debt		(1,041,078)
Capital leases		(1,009,902)
Accrued interest		(6,491)
Landfill closure and post closure care costs		(428,045)
Compensated absences		(448,619)
OPEB Accrued Liability		(677,900)
Net Pension Obligation		(9,178,085)
Deferred Outflows/Inflows- Net		714,996
Total long-term liabilities		<u>(12,075,124)</u>
Total Net Position - Governmental activities, June 30, 2016		<u><u>\$ 7,411,997</u></u>

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2016

	Major Governmental Funds		Non-Major Governmental Funds		Total Governmental Funds
	General	Hospitality Tax	Capital Projects	Special Revenue	
<b>REVENUES</b>					
Taxes	\$ 4,816,942	-	-	-	4,816,942
Licenses	2,516,726	-	-	-	2,516,726
Intergovernmental	2,654,153	-	-	385,368	3,039,521
Police and Fire	362,360	-	-	11,390	373,750
Fees and Permits	99,294	1,243,324	-	134,230	1,476,848
Cemetery	43,000	-	50	-	43,050
Commercial Sanitation	32,390	-	-	-	32,390
Miscellaneous	39,965	5,760	55	4,660	50,440
Total Revenues	<u>10,564,830</u>	<u>1,249,084</u>	<u>105</u>	<u>535,648</u>	<u>12,349,667</u>
<b>EXPENDITURES</b>					
Current					
General Government	1,426,149	619,959	36,430	57,354	2,139,892
Visitor's Center	-	87,947	-	199	88,146
Finance	444,490	-	-	-	444,490
Municipal Court	454,058	-	7,098	-	461,156
Public Safety					
Police	3,028,948	-	266,193	46,088	3,341,229
Fire	2,401,401	-	86,521	302,948	2,790,870
Public Improvements					
Streets	835,855	-	189,661	-	1,025,516
Sanitation	734,132	-	-	-	734,132
Parks and Recreation	304,425	27,944	-	-	332,369
Tourism and Beautification	111,438	-	-	-	111,438
Community Development	332,505	-	27,042	-	359,547
Maintenance Garage	260,834	-	-	-	260,834
Debt Service					
Principal and Interest	463,806	-	-	-	463,806
Total Expenditures	<u>10,798,041</u>	<u>735,850</u>	<u>612,945</u>	<u>406,589</u>	<u>12,553,425</u>
Excess of Revenue Over (Under Expenditures)	<u>(233,211)</u>	<u>513,234</u>	<u>(612,840)</u>	<u>129,059</u>	<u>(203,758)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Capital Lease Proceeds	-	-	845,000	-	845,000
Insurance Claim Proceeds	35,916	-	-	-	35,916
Operating Transfers In	1,294,476	-	266,518	65,700	1,626,694
Operating Transfers Out	(297,053)	(601,696)	(568,930)	(159,015)	(1,626,694)
	<u>1,033,339</u>	<u>(601,696)</u>	<u>542,588</u>	<u>(93,315)</u>	<u>880,916</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	800,128	(88,462)	(70,252)	35,744	677,158
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<u>3,313,483</u>	<u>935,284</u>	<u>158,711</u>	<u>309,044</u>	<u>4,716,522</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 4,113,611</u>	<u>846,822</u>	<u>88,459</u>	<u>344,788</u>	<u>5,393,680</u>

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

**CITY OF GAFFNEY, 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, 2016

Total change in fund balances - total governmental funds	\$	677,158
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:</p>		
Capital outlay		1,309,473
Depreciation expense		(787,183)
Book Value of Disposals of Assets		(51,397)
Excess of capital outlay over depreciation and other expense		<u>470,893</u>
<p>Because some revenue will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred property tax revenues decreased by this amount this year.</p>		
		<u>(50,271)</u>
<p>The issuance of long-term debt provides current financial resources to governmental funds, while repayment of long-term debt is reported as an expenditure in governmental funds. In the current year, these amounts consisted of:</p>		
Proceeds from Issuance of Capital Lease		(845,000)
Bond Principal Retirement, Net		111,000
Capital Lease Payments		319,381
		<u>(414,619)</u>
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.</p>		
		<u>(1,825)</u>
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Accrued Compensated Absences		35,957
Accrued Closure Costs		(4,632)
OPEB Expense		(113,300)
Pension Obligation		(34,491)
		<u>(116,466)</u>
Change in Net Position - Governmental activities, June 30, 2016	\$	<u><u>564,870</u></u>

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Statement of Fiduciary Net Position  
June 30, 2016

	Local Option Sales Tax	Perpetual Care	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 422,122	19,703	441,825
Accounts Receivable	326,346	-	326,346
Total Assets	\$ 748,468	19,703	768,171
<b>LIABILITIES</b>			
Unearned Revenue	\$ 748,468	-	748,468
Funds Held For Others	-	19,703	19,703
Total Liabilities	\$ 748,468	19,703	768,171

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Gaffney, the county seat of Cherokee County, is situated in the northeast corner of the Piedmont region of the upstate. With a population in the 2010 census of almost 13,000, Gaffney is right in the middle of the I-85 corridor between two of the fastest growing metro areas in the Piedmont - Greenville, South Carolina and Charlotte, North Carolina.

**The Entity**

The City of Gaffney, South Carolina - the primary government - is a political subdivision of the State of South Carolina. It is governed by a mayor, elected at large, and a six-member council elected from single-member districts. These financial statements present all the fund types and account groups of the City and its component units. Component units are legally separate entities that meet any one of the following criteria for financial accountability: (1) the City appoints a voting majority of the board of the entity and is able to impose its will on the entity and/or is in a relationship of financial benefit or burden with the entity, (2) the entity is fiscally dependent upon the City, or (3) the financial statements would be misleading if data from the entity were not included. Component units may be presented by two different methods. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City. A discretely presented component unit which is included in these financial statements is Gaffney Local Development Corporation. Separate financial statements for each discretely presented component unit are available from each component unit or by writing the city at Post Office Box 2109, Gaffney, South Carolina 29342.

Included within the reporting entity:

The Gaffney Local Development Corporation is included in the City of Gaffney general purpose financial statements. It is a not-for-profit corporation operated by the City of Gaffney's Community Development Department and is shown in these financial statements as a discrete presentation. The officers of the corporation are also city council members.

Excluded from the Reporting Entity:

The Board of Public Works of the City of Gaffney was created pursuant to Act No. 389 of the Acts and Joint Resolutions of the South Carolina General Assembly, 1907. This and other Acts empower the Board to be the sole provider of electric, water and sewer services within the corporate limits of the City of Gaffney, and to provide utility services to other areas near Gaffney, to establish rules and regulations and set rates for such services. Bond issuance authorizations are required by the Gaffney City Council but the City exercises no oversight and is not responsible for the revenue debt.

The Housing Authority of the City of Gaffney is a non-profit corporation organized under the laws of the State of South Carolina for the purpose of providing adequate housing for qualified low - income individuals in areas where a shortage of such housing exists. The Housing Authority's governing board (appointed by the City Council) selects the director and oversees the operation and management in accordance with HUD regulations and guidelines. The City provides no funding to the Housing Authority, does not hold title to any of its assets, and is not liable for its debt in the event of default, nor does it have any right to the Housing Authority's surpluses. The City does receive a payment in lieu of taxes each year from the Housing Authority.

**Basis of Presentation**

The City's basic financial statements consist of government-wide financial statements which includes a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

***Government-Wide Financial Statements***

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature, which normally are supported by taxes and intergovernmental revenues, and those that are considered business-type activities, which rely to a significant extent on fees and charges for support. The statement of net position presents the financial condition of the governmental and any business-type activities of the City at year-end.

The statement of activities presents a comparison between direct expenses and program revenue for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

The City has implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position in the financial statements for the fiscal year ended June 30, 2013. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

***Fund Financial Statements***

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**Fund Accounting**

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The City has the following fund types:

***Governmental funds*** are used to account for the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Fund Accounting**, Continued

The City considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for interest of general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, cablevision franchise fees, state shared revenues, grants, and other miscellaneous fees are susceptible to accrual. Property taxes and franchise fees are recognized as revenue in the fiscal year for which they are levied. Intergovernmental sources are recognized as revenue when the underlying eligibility requirements are met and the resources become available. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. Other sources become measurable and available when cash is received by the City and are recognized as revenue at that time.

Governmental funds include the following types:

The *general fund* is the City'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 *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects).

The *debt service fund* accounts for the accumulation of resources for, and the payment of, long-term general obligation principal, interest and related costs not being financed by proprietary funds.

The *capital projects funds* account for the construction or acquisition of major capital projects not being financed by proprietary funds.

***Fiduciary funds*** account for assets held by the City in a trustee capacity or as an agent for individuals, other governmental units, and/or other funds. The City's only fiduciary fund is its agency funds. The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. The City is holding funds for the cemetery perpetual care and Local Option Sales Tax.

***Governmental Accounting Standards Board Statement No. 45*** During fiscal year 2010, the City adopted GASB Statement No.45 (GASB 45). GASB 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension*, was issued in 2004. GASB 45 establishes standards for the measurement, recognition, and display of OPEB costs and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (e.g., life insurance) when provided separately from a pension plan. The approach followed by GASB 45 is consistent with the approach adopted in GASB Statement No.27, *Accounting for Pensions by State and Local Government Employers*, with modifications to reflect differences between pension benefits and OPEB. GASB 45 improves the relevance and usefulness of financial reporting by: (1) recognizing the cost of benefits in periods when the related services are received by the employer; (2) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (3) providing information useful in assessing potential demands on the employer's future cash flows. In fiscal year 2016, the financial reporting impact resulting from the implementation of GASB 45 was the recognition of a higher OPEB expense of \$112,500 and an OPEB liability of \$677,900 for the Medical and Dental Retiree Health plan, in the City's financial statements (See Note 1, Other Post Employment Benefits-Health Care Benefits for disclosure information related to the OPEB plan).

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Fund Accounting**, Continued

***Governmental Accounting Standards Board Statement No.65*** Effective for the fiscal year ending June 30, 2014, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 identifies deferred outflows of resources and deferred inflows of resources for certain items previously reported as assets and liabilities. Adoption of this statement resulted in no material impact to the City.

**Revenues - Exchange And Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: delinquent taxes, grants, interest, fees and charges for services.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

**Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of a fiscal year are reported as "due to/from other funds."

All accounts receivable are shown net of an allowance for doubtful accounts. Real property taxes receivable is the actual property taxes levied and still outstanding after the fiscal year end.

**Intergovernmental Receivable**

Amounts due from federal grants represent reimbursable costs, which have been incurred by the City but have not been reimbursed by the grantor agency. Costs under grant programs are recognized as expenditures in the period in which they are incurred by the City.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Inventories**

Inventories are determined by actual physical count and are valued at moving average cost. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased (consumption basis).

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

All reported capital assets except for the land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Land Improvements	10 - 20 Years
Buildings	20 - 50 Years
Building Improvements	10 - 50 Years
Vehicles	5 - 20 Years
Furniture and Equipment	10- 20 Years
Machinery and Equipment	3 - 15 Years
Infrastructure	25 - 50 Years

**Long-Term Obligations**

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

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Net Position**

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

- *Invested in Capital Assets, Net of Related Debt* groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* reflects net position that is subject to constraints either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandates payment of resources and includes a *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. At June 30, 2016, restricted net position for the governmental activities was \$1,165,494 as reported on the government-wide statement of net position.
- *Unrestricted Net Position* represents net position of the City that is not restricted for any project or purpose.

**Fund Equity**

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2016, fund balances for government funds are made up of the following:

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Fund Equity**, Continued

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

Fund balances for all major and nonmajor governmental funds as of June 30, 2016, were distributed as follows:

	General Fund	Hospitality Tax	Nonmajor Funds	Total
<b>Nonspendable:</b>				
Prepaid Expense	\$ 6,115	1,125	-	\$ 7,240
Inventory	70,805	-	-	70,805
Subtotal	<u>76,920</u>	<u>1,125</u>	<u>-</u>	<u>78,045</u>
<b>Restricted For:</b>				
Cemetery	-	-	47,517	47,517
Public Safety	-	-	42,578	42,578
Parks & Tourism	-	845,697	229,702	1,075,399
Subtotal	<u>-</u>	<u>845,697</u>	<u>319,797</u>	<u>1,165,494</u>
<b>Committed:</b>				
2016 - 2017 Budget	421,800	-	-	421,800
Subtotal	<u>421,800</u>	<u>-</u>	<u>-</u>	<u>421,800</u>
<b>Assigned To:</b>				
Capital Projects	-	-	40,942	40,942
Subtotal	<u>-</u>	<u>-</u>	<u>40,942</u>	<u>40,942</u>
<b>Unassigned</b>	<u>3,614,891</u>	<u>-</u>	<u>72,508</u>	<u>3,687,399</u>
<b>TOTAL</b>	<u>\$ 4,113,611</u>	<u>846,822</u>	<u>433,247</u>	<u>\$ 5,393,680</u>

**Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursement, are reported as transfers. Non-recurring or non-routine permanent transfer of equity are reported as residual equity transfer. All other interfund transfers are reported as operating transfer.

**Management Estimates**

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

**Compensated Absences**

The City's annual leave policy allows accrual of between twenty-two and thirty days per year at graduated rates per pay period, depending on continuous length of service with a maximum accumulation to be carried over from one year to the next 480 hours. Employees terminating or retiring are paid for up to 240 hours of their accumulated leave based on the hourly rate of pay earned at the time of termination or retirement. Employees terminating or retiring are not paid for their accumulated sick leave. The amount of accumulated annual leave at June 30, 2016 is approximately \$448,619, and relates principally to the General Fund.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Comparative Total Data**

The total data are the aggregate of the fund types and account groups. No consolidating or other eliminations were made in arriving at the totals; thus they do not present consolidated information.

**Budgets And Budgetary Accounting**

The City follows procedures in establishing the budgetary data on the accrual basis reflected in the financial statements for its governmental funds. The budget calendar is as follows:

- ◆ Publish Budget Calendar
  - ◆ Detailed Instructions and Budget Worksheets to Departments
  - ◆ Departmental Budget Requests to City Administrator
  - ◆ Budget Workshop with Finance Committee and Department Heads
  - ◆ Budget Workshop with Council
  - ◆ Publish Notice of Public Hearing on Proposed FY 2015-16 Budget in Cherokee Chronicle
  - ◆ Publish Notice of Public Hearing on Proposed FY 2015-16 Budget in Gaffney Ledger
  - ◆ First Reading on FY 2015-16 Budget
  - ◆ Public Hearing and Second Reading and Adoption of Budget Ordinance (Special Council Meeting)
  - ◆ Publish Final Adopted Fiscal Year Budget Document
  - ◆ Publish Notice of Audit Report Availability for Public Inspection No Later Than 30 Days Following its Completion and Receipt by the City
1. The budget is administered by the City Administrator, who is authorized to transfer appropriated funds within and between departments and agencies of the City as may be necessary to achieve the budget objectives set by City Council.
  2. Revisions that alter the total budgeted expenditures of the City as a whole must be approved by City Council (legal level). There was one revision for the fiscal year ended June 30, 2016 for the tax millage rate, due to reassessment.
  3. Appropriations lapse at year-end.
  4. Formal budgetary integration is employed as a management control device for the General and the Special Revenue Funds. As noted earlier, the City Administrator may move funds between departments because it is at the total appropriation level that fiscal responsibility for budgets is enforced.
  5. Encumbrances are included in budgetary expenditures. Encumbered appropriations carryforward and a reserve of fund balance are established to offset the expenditure. A reconciliation of budget to GAAP is as follows:

	General Fund	Capital Projects Fund	Special Revenue Fund	Total
Budget Expenditures	\$ 10,798,041	612,945	1,142,439	12,553,425
Prior Year Encumbrances	-	-	-	-
Current Year Encumbrances	-	-	-	-
GAAP Expenditures	<u>\$ 10,798,041</u>	<u>612,945</u>	<u>1,142,439</u>	<u>12,553,425</u>

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Deposits And Investments**

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

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

1. Obligations of the United States and agencies thereof;
2. General obligations of the State of South Carolina or any of its political units;
3. Savings and Loan Associations to the extent that the same are insured by an agency of the federal government;
4. Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
5. Repurchase agreements when collateralized by securities as set forth in this section;
6. No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustees or agent for a bond or other debt issue of the City, if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), and (5) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share to that end, value its assets by the amortized cost method.

**DEPOSITS:**

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

***Custodial Credit Risk***

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

It is the policy of the City of Gaffney to invest all available funds in accounts that will provide maximum return on investment with the least possible risk. Funds will only be deposited with financial institutions that are insured and guaranteed by FDIC, or other Federal or State Regulatory Agencies. There have not been any violations of these policies.

The deposits for the City of Gaffney primary government at June 30, 2016, were \$4,995,274. The entire amount was insured or collateralized with securities held by the pledging institution in the City's name.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Deposits And Investments**, Continued

**DEPOSITS:**, Continued

***Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The City of Gaffney does not maintain deposits that are denominated in a currency other than the United States dollar, therefore, the City is not exposed to this risk.

**INVESTMENTS:**

The City is authorized, by the South Carolina Code of Laws, Title 6, Chapter 5, to invest in obligations of the United States and its agencies, obligations of the State of South Carolina and its political subdivisions, collateralized or federally insured certificates of deposit, and collateralized repurchase agreements.

The City had no investments at June 30, 2016.

***Custodial Credit Risk***

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the City will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

The City's policy concerning custodial credit risk is to invest all available funds in accounts that will provide maximum return on investment with the least possible risk. Funds will only be deposited with financial institutions that are insured and guaranteed by FDIC, or other Federal or State Regulatory Agencies. There have not been any violations of these policies.

The City had no investments at June 30, 2016, that were held by the City or in the City's name by the City's custodial banks. The City recognized no losses during the year due to the default by counterparties to investment transactions.

***Credit Risk***

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations.

The City's policy concerning custodial credit risk is to invest all available funds in accounts that will provide maximum return on investment with the least possible risk. Funds will only be deposited with financial institutions that are insured and guaranteed by FDIC, or other Federal or State Regulatory Agencies. There have not been any violations of these policies.

The City had no rated debt investments as of June 30, 2016.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a policy on concentration of credit risk.

The City had no debt securities investments at June 30, 2016.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Deposits And Investments**, Continued

**INVESTMENTS:**, Continued

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. It occurs because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase, thereby affording potential purchasers more favorable rates on essentially equivalent securities.

The City's policy concerning interest rate risk is to invest all available funds in accounts that will provide maximum return on investment with the least possible risk. Funds will only be deposited with financial institutions that are insured and guaranteed by FDIC, or other Federal or State Regulatory Agencies. There have not been any violations of these policies

***Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The City of Gaffney does not maintain investments that are denominated in a currency other than the United States dollar, and therefore, the City is not exposed to this risk.

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

**Statement of Net Position**

Cash and Cash Equivalents	<u>\$ 4,732,542</u>
Total Statement of Net Position	<u><u>\$ 4,732,542</u></u>

**Disclosure, Deposits and Investments:**

Carrying Value of Deposits:	
Held by Banks	\$ 4,732,542
Cash on Hand	<u>1,200</u>
Total Disclosure, Deposits and Investments	<u><u>\$ 4,733,742</u></u>

The deposits for the Component Unit at June 30, 2016, were \$90,751. Of these, \$0- was exposed to custodial credit risk as uninsured and uncollateralized, and \$90,751 was insured and guaranteed by FDIC.

At year-end, the City's carrying amount of fiduciary deposits was \$441,825 and the bank balance was \$441,825 which was entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name per the fiduciary statement of net position, Exhibit 7.

**Income Taxes**

The Gaffney Local Development Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for federal income taxes in the accompanying financial statement. In addition, The GLDC has been determined by the Internal Revenue Service not to be a "Private Foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the period ended June 30, 2016.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Other Post-Employment Benefits – Healthcare Benefits**

***Plan Description***

In addition to providing pension benefits, the City has elected to provide healthcare benefits to retirees of the City who are participating in the City’s medical and dental program and have completed 20 years of service (yos) at the City of Gaffney and for SCRS Employees: the earlier of age 60 & 20 yos, age 55 & 25 yos, or 28 years of service; for PORS employees: 25 years of service or age 55 & 20 yos, or for disabled employees who qualify for SCRS or PORS disability, City Policy requires 20 or more years of service. To be covered, all full time employees must be covered by the active plan at the time of retirement or disability.

Retired employees meeting the criteria discussed herein will be provided hospitalization as follows:

Type of Coverage	Retiree	Spouse
Life Insurance	No Post-Retirement Life Insurance is Valued	Not Applicable
Medical Coverage		
Retiree Cost Sharing*	Employer Pays 50% of Basic Blue Plan and Retiree Pays Rest of Premium	Retiree Pays 100% of Spousal Premium
Coverage Ceases	Coverage Stops at Age 65	Coverage Stops at Spouse Age 65.
Disability Coverage		
Retiree Cost Sharing	Employer Pays 50% of Basic Blue Plan and Retiree Pays Rest of Premium	Retiree Pays 100% of Spousal Premium
Coverage Ceases	Coverage Stops at Eligibility for Medicare	Coverage Stops at Spouse Eligibility for Medicare.
Dental & Vision Coverage		
Retiree Cost Sharing	Retiree Pays 100% of Dental Premium and 50% of Vision Premium. Employer Pays 50% of Vision Premium.	Retiree Pays 100% of Spousal Premium
Coverage Ceases	Coverage Stops at Age 65.	Coverage Stops at Spouse Age 65

\* There are no retirees that retired prior to July 17, 2006 where the City pays 100% of their Medical premium. There are 2 retirees for whom the City pays 50% of their medical premiums.

Retirees can purchase coverage for their dependents at the city’s group rates. Currently, retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2016, the City made payments for post-retirement health benefit premiums of \$6,824. The City purchases insurance from a private carrier for health care coverage. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the Plan consisted of the following at July 1, 2014, the date of the latest actuarial valuation:

Retirees and Dependents Receiving Benefits	\$	3
Terminated Plan Members Entitled To, But Not Yet Receiving, Benefits		-
Active Plan Members		151
Total	<u>\$</u>	<u>154</u>

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

***Funding Policy***

For members that retire with generally at least 20 years of service or are disabled, the City pays 50% of the cost of coverage for the healthcare and vision benefits paid to qualified retirees under a city resolution that can be amended by the City Council. The City's members pay the current active employee rate for dependent coverage, if the retiree elects to purchase the coverage

The funding policy of the City is to contribute to the plan the net claims paid during the year. The City of Gaffney has elected to make an annual contribution equal to these Benefit Payments. This requires the use of an interest rate based on the long term expected return on short term investments. The Employer Share of Net Benefits is the difference between the "Expected Benefit (or Premium) Payments" and the "Retiree Contributions". It is sometimes referred to as "PAYGO". The Expected Benefit (or Premium) Payments are actuarially determined to reflect the age difference between the overall covered group and the retiree group.

*Under GASB, an accrued contribution contributed within twelve (12) months after the end of a fiscal year may be counted against the Net OPEB Obligation.*

The current ARC is the normal cost plus or minus the 30-year amortization of the unfunded actuarial liability. For the current year, the City contributed only the current year benefit payment for all retirees, (the City's share) in the amount of \$3,238. The retiree contributions for their share of the benefit payments amounted to \$3,586. The City purchases insurance from a private carrier for health care coverage. The City's obligation to contribute to the Plan is established and may be amended by the City Council.

***Annual OPEB Cost and Net Obligation***

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the post-employments healthcare benefits:

	Governmental Activities
Annual Required Contribution	\$ 135,500
Interest on Net OPEB Obligation	22,600
Adjustments to Annual Required Contribution	(23,500)
Annual OPEB Cost (Expense)	134,600
Contribution Made	22,100
Increase (Decrease) in Net OPEB Obligation	112,500
Net OPEB Obligation, Beginning of Year	565,400
Net OPEB Obligation, End of Year	\$ 677,900

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**Annual OPEB Cost and Net Obligation**, Continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year Ended June 30	Annual Required Contribution	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 107,500	\$ 107,100	35.07%	\$ 70,000
2013	\$ 113,000	\$ 112,500	37.61%	\$ 70,000
2014	\$ 118,700	\$ 118,100	32.77%	\$ 79,200
2015	\$ 128,300	\$ 127,600	22.45%	\$ 98,800
2016	\$ 135,500	\$ 134,600	16.31%	\$ 112,500

**Funding Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$975,600. The covered payroll (annual payroll of active employees covered by the plan) for actuarial computation purposes was \$4,633,200, and the ratio of the UAAL to the covered payroll was 25.7 percent. As of June 30, 2016 the plan is not funded and the actuarial accrued liability and unfunded amount has increased by \$112,500 to \$677,900.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets in increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00 percent interest discount rate and an annual medical and premium cost trend increase of 10.0 percent in 2014, to decrease at a rate of 0.5% per year until an ultimate rate of 5.0% is reached. The rate includes a 4 percent inflation assumption. The actuarial value of assets was determined to be \$-0-. The UAAL is being amortized on a level straight line basis including a 2.5% interest factor. The remaining amortization period at July 1, 2014, was 27 years.

**Deferred Outflows/Inflows of Resources**

In fiscal year 2014, the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflow of resources. Requirements of this Statement are effective for financial statements whose fiscal year begins after December 15, 2012.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 2 - PROPERTY TAX CALENDAR**

The City property tax is levied October 1 on the assessed valuation of property located in the City as of the preceding January 1. Assessed values for real estate are established annually by the County Tax Assessor at 4% of market value for legal residence and 6% of market value for rental and other real property, except farm land, which is at 4% of use value.

Assessed values for personal property and real estate are established annually by the County Auditor at between 4% and 10.5% of market value determined by the South Carolina Tax Commission. Assessed values for privately-owned public utilities are established by the South Carolina Tax Commission. The 2015 assessed value was \$36,452,245 including \$3,475,647 for vehicles, the total of which was between 4% and 10.5% of the estimated value of \$650,072,677. The City operating tax rate during the current fiscal year was 120.8 mills.

Taxes are receivable without penalty through October 31. A 5% delinquent tax penalty is added on November 1, December 1, and January 1 for a cumulative penalty of 15%. Property taxes attach as an enforceable lien on March 15. The County of Cherokee bills and collects the City's vehicle taxes. City property tax revenues are recognized when they become measurable and available. Property taxes collected within 60 days of the year end are included in revenue in the current fiscal year and are reflected as taxes receivable on the combined balance sheet. Unavailable Revenue – Property Taxes in the Deferred Inflow of Resources section of the combined balance sheet are taxes paid in advance, not to be recognized as revenue until they are levied. Taxes are levied on October 1 for the next year, and therefore are not booked as taxes receivable at year end, June 30.

The City follows Governmental Accounting Standards Board (GASB) Statement Number 33, Accounting and Financial Reporting for Non-exchange Transactions to account for non-exchange revenues, which primarily consist of imposed non-exchange revenues or ad valorem taxes. Under the standard, a receivable is recorded when an enforceable legal claim for property taxes has arisen, and revenue is recognized when the resources are available.

**NOTE 3 - RECEIVABLES**

***Non-Intergovernmental:***

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

	<u>General</u>	<u>Hospitality Tax</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Taxes	\$ 154,294	-	-	154,294
Other	49,252	105,826	17,715	172,793
Gross Receivables	203,546	105,826	17,715	327,087
Less Allowance	(85,984)	-	-	(85,984)
Net Receivables	<u>\$ 117,562</u>	<u>105,826</u>	<u>17,715</u>	<u>241,103</u>

***Intergovernmental:***

General Fund Intergovernmental receivables consist of the following:

Cherokee County	\$ 7,314
Cherokee County School District	1,387
State of South Carolina	186,753
Board of Public Works	650,864
Local Option Sales Tax	176,458
Total Intergovernmental Receivables	<u>\$ 1,022,776</u>

Special Revenue Fund Intergovernmental Receivables

consist of the following:

State Accommodations Tax	\$ 39,661
Total Intergovernmental Receivables	<u>\$ 39,661</u>

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 4- SPECIAL REVENUE FUNDS**

Pursuant to the provisions of Title I of Public Law 92-512, Special Revenue Funds have been established to account for funds received from the Federal Government.

**NOTE 5 - CAPITAL ASSETS**

Primary government capital asset activity for the year ended June 30, 2016 is as follows:

<b>Governmental Activities</b>	Balance 06/30/15	Additions	Retirements	Transfers	Balance 06/30/16
Capital Assets Not Being Depreciated:					
Land	\$ 1,819,453	319,450	-	-	2,138,903
Historical Preservation Asset	43,703	-	-	-	43,703
Construction in Progress	1,037,508	218,948	-	(529,004)	727,452
Total Capital Assets Not Being Depreciated	<u>2,900,664</u>	<u>538,398</u>	<u>-</u>	<u>(529,004)</u>	<u>2,910,058</u>
Capital Assets Being Depreciated:					
Land Improvements	827,446	-	-	-	827,446
Buildings and Improvements	9,101,873	110,432	-	-	9,212,305
Furniture, Fixtures and Equipment	5,440,690	318,762	534,889	(77,695)	5,146,868
Intangible Asset (Under Capital Lease)	69,985	-	-	-	69,985
Assets Under Capital Lease	495,697	284,713	-	606,699	1,387,109
Infrastructure	<u>11,686,474</u>	<u>57,168</u>	<u>-</u>	<u>-</u>	<u>11,743,642</u>
Total Other Capital Assets at Historical Cost Being Depreciated	<u>27,622,165</u>	<u>771,075</u>	<u>534,889</u>	<u>529,004</u>	<u>28,387,355</u>
Less Accumulated Depreciation	<u>16,926,882</u>	<u>787,183</u>	<u>483,492</u>	<u>-</u>	<u>17,230,573</u>
Total Capital Assets Being Depreciated, Net	<u>10,695,283</u>	<u>(16,108)</u>	<u>51,397</u>	<u>529,004</u>	<u>11,156,782</u>
Government-Type Activities Capital Assets, Net	<u>\$ 13,595,947</u>	<u>522,290</u>	<u>51,397</u>	<u>-</u>	<u>14,066,840</u>

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

Governmental Activities	
General Government	\$ 171,833
Visitor's Center	52,105
Finance	-
Public Safety	
Police	151,143
Fire	175,470
Public Improvements	
Streets	36,063
Sanitation	81,801
Parks and Recreation	101,182
Tourism and Beautification	3,910
Community Development	128
Maintenance Shop	13,548
	<u>\$ 787,183</u>

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 6 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of net position (government-wide and proprietary funds) and the balance sheet (governmental funds) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense/expenditures) until then.

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

**NOTE 7 - GENERAL LONG-TERM DEBT**

A summary of the outstanding debt at June 30, 2016, is as follows:

	Balance June 30, 2015	Added	Retired	Balance June 30, 2016	Amounts Due Within One Year
<u>Note Payable</u>					
Annual installments of \$1,000 at no interest. Highway right-of-way. Due 2027.	\$ 12,078	-	1,000	11,078	1,000
<u>General Obligation Debt</u>					
\$1,140,000 General Obligation Bonds due in annual principal installments of \$110,000 to \$140,000 through May 1, 2024; plus interest semiannually at 1.75%.	1,140,000	-	110,000	1,030,000	115,000
<u>Capital Leases</u>					
Lease purchase with six semi-annual installments of \$98,471.58 including interest at 1.105% per annum. Secured by equipment. Due October 1, 2017.	484,283	-	192,110	292,173	194,244
Lease purchase with eight semi-annual installments of \$62,144.22 including interest at 2.085% per annum. Secured by equipment. Due April 1, 2021.	-	545,000	90,833	454,167	98,556
Lease purchase with eight semi-annual installments of \$9,925.18 including interest at 2.570% per annum. Secured by equipment. Due November 1, 2019.	-	300,000	36,438	263,562	73,930
	484,283	845,000	319,381	1,009,902	366,730
<u>Other</u>					
C & D Landfill Closure and Post Closure					
Care Costs	423,413	4,632	-	428,045	-
Accrued Annual Leave	484,576	480,436	516,393	448,619	422,357
OPEB Accrued Liability	564,600	113,300	-	677,900	-
	1,472,589	598,368	516,393	1,554,564	422,357
	<u>\$ 3,108,950</u>	<u>1,443,368</u>	<u>946,774</u>	<u>3,605,544</u>	<u>905,087</u>

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 7 - GENERAL LONG-TERM DEBT**, Continued

The general fund retires all debt.

Future principal and interest payments of long-term debt for each of the next five fiscal years and in aggregate thereafter are as follows:

	Note Payable			General Obligation Bond			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 1,000	-	1,000	115,000	18,025	133,025	116,000	18,025	134,025
2018	1,000	-	1,000	118,000	16,013	134,013	119,000	16,013	135,013
2019	1,000	-	1,000	125,000	13,947	138,947	126,000	13,947	139,947
2020	1,000	-	1,000	128,000	11,760	139,760	129,000	11,760	140,760
2021	1,000	-	1,000	132,000	9,520	141,520	133,000	9,520	142,520
2022-2026	5,000	-	5,000	412,000	14,508	426,508	417,000	14,508	431,508
2027-2031	1,078	-	1,078	-	-	-	1,078	-	1,078
	<u>\$ 11,078</u>	<u>-</u>	<u>11,078</u>	<u>1,030,000</u>	<u>83,773</u>	<u>1,113,773</u>	<u>1,041,078</u>	<u>83,773</u>	<u>1,124,851</u>

**Capital Leases**

The City has entered into three separate lease agreements as lessee for financing the acquisition of police and fire department equipment (emergency services) and public works equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Equipment	\$ 1,387,109
Less: Accumulated Depreciation	(191,977)
Total	<u>\$ 1,195,132</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 were as follows:

<u>Fiscal Year Ending June 30</u>	
2017	\$ 367,309
2018	266,839
2019	168,366
2020	129,600
2021	<u>90,834</u>
Total Minimum Lease Payments	1,022,948
Less Amount Representing Interest	<u>(13,046)</u>
Present Value of Minimum Lease Payments	<u>\$ 1,009,902</u>

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 8- OPERATING LEASES**

The City is leasing a mailing machine and nine copiers under seven separate noncancelable leases that expire between April, 2019 and February, 2021, one with a purchase option. The following is a schedule of future minimum rental payments required under these operating leases as of June 30, 2016:

	<u>Amount</u>
2017	\$ 5,808
2018	5,808
2019	4,128
2020	4,128
2021	688

Rental expense for this equipment amounted to approximately \$5,120 for the current fiscal year.

The City also rents copiers and other equipment as needed on a month to month basis. These rentals are also included in lease expense.

**NOTE 9 - PENSION AND RETIREMENT PLANS**

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review.

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

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 9 - PENSION AND RETIREMENT PLANS**, Continued

Plan Description

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

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

Membership

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

SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

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

Benefits

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

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 9 - PENSION AND RETIREMENT PLANS**, Continued

Benefits, Continued

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

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

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

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

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

Contributions

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 9 - PENSION AND RETIREMENT PLANS**, Continued

Contributions, Continued

Effective July 1, 2015, employees participating in the SCRS were required to contribute 8.16% of all earnable compensation. The employer contribution rate for SCRS was 16.39%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.91%, 0.15% for the incidental death benefit program and a 5.33% surcharge that will fund retiree health and dental insurance coverage. The City of Gaffney's actual retirement and incidental death benefit program contributions for participating employees and TERI participants to the SCRS for the years ended June 30, 2016, 2015, and 2014 were:

<u>Fiscal Year Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2016	10.910%	\$ 230,059	0.15%	\$ 3,163
2015	10.750%	\$ 218,897	0.15%	\$ 3,054
2014	10.450%	\$ 212,373	0.15%	\$ 3,048

Effective July 1, 2015, employees participating in the PORS were required to contribute 8.74% of all earnable compensation. The employer contribution rate for PORS was 19.07%. Included in the total PORS employer contribution rate is a base retirement contribution of 13.34%, 0.20% for the incidental death benefit program, 0.20% for the accidental death program, and a 5.33% surcharge that will fund retiree health and dental insurance coverage. The City of Gaffney's actual retirement, incidental death benefit program and accidental death program contributions to the PORS for the years ended June 30, 2016, 2015, and 2014 were:

<u>Fiscal Year Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>		<u>Accidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2016	13.340%	\$ 400,434	0.20%	\$ 6,004	0.20%	\$ 6,004
2015	13.010%	\$ 374,565	0.20%	\$ 5,758	0.20%	\$ 5,758
2014	12.440%	\$ 355,207	0.20%	\$ 5,711	0.20%	\$ 5,711

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 9 - PENSION AND RETIREMENT PLANS**, Continued

Actuarial Assumptions and Methods, Continued

The June 30, 2015, total pension liability, net pension liability, and sensitivity information were determined by PEBA's consulting actuary Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS and PORS.

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

<sup>1</sup> Includes inflation at 2.75%

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014, valuations for SCRS and PORS are as follows.

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 9 - PENSION AND RETIREMENT PLANS**, Continued

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular System's total pension liability determined by PEBA in accordance with GASB No. 67 less that System's fiduciary net position.

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

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

Investments earned 1.60% during the plan year ended June 30, 2015 and thus the market value of the South Carolina Retirement System (SCRS) and Police Officers' Retirement System's (PORS) investments increased slightly. However, this resulted in negative cash flows because net investment income plus other plan additions (contributions) were not substantial enough to offset plan deductions (benefit payments and administrative costs). Accordingly, SCRS and PORS experienced an overall decrease in plan fiduciary net position for the fiscal year ended June 30, 2015. This change, coupled with the annual increase in the total pension liability, led to a \$1.75 billion and \$265 million increase in the NPL for SCRS and PORS, respectively, for the measurement period ended June 30, 2015.

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 9 - PENSION AND RETIREMENT PLANS**, Continued

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

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2014. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2014 actuarial valuations, using membership data as of July 1, 2014, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2015, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by PEBA's consulting actuary.

At June 30, 2016, the City of Gaffney reported liabilities of \$4,113,044 and \$5,065,041 for its proportionate share of the net pension liabilities of SCRS and PORS, respectively. The net pension liability was measured as of June 30, 2015. The City of Gaffney's proportion of the net pension liability was based on the City of Gaffney's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2015, the City of Gaffney's SCRS and PORS proportion was 0.021687% and 0.23240%, respectively.

For the year ended June 30, 2016, the City of Gaffney recognized net pension expenses of \$268,271 and \$429,034 for SCRS and PORS, respectively.

At June 30, 2016, the City of Gaffney reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SCRS	PORS
Deferred Outflows of Resources		
Liability Experience	73,075	100,390
Investment Experience	263,619	441,509
Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions	-	0
City's Contributions Subsequent to the Measurement Date	233,222	412,441
<b>TOTAL</b>	<b>\$ 569,916</b>	<b>954,340</b>
Deferred Inflows of Resources		
Liability Experience	7,355	-
Investment Experience	236,089	386,089
Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions	96,501	86,226
<b>TOTAL</b>	<b>\$ 339,945</b>	<b>472,315</b>

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 9 - PENSION AND RETIREMENT PLANS**, Continued

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

The \$233,222 and \$412,441 reported as deferred outflows of resources related to pensions resulting from the City of Gaffney contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	SCRS	PORS
2017	\$ (12,891)	(6,173)
2018	(12,891)	(6,173)
2019	(37,991)	(10,607)
2020	60,552	95,537
2021	-	-
Thereafter	-	-

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 9 - PENSION AND RETIREMENT PLANS**, Continued

Long-term Expected Rate of Return, Continued

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
Short Term	<b>5.0%</b>		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	<b>13.0%</b>		
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income	<b>9.0%</b>		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	<b>31.0%</b>	7.10%	2.20%
Global Tactical Asset Allocation	<b>10.0%</b>	4.90%	0.49%
Alternatives	<b>32.0%</b>		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	<u>100.0%</u>		<u>6.00%</u>
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			<u>8.75%</u>

Discount Rate

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

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 9 - PENSION AND RETIREMENT PLANS**, Continued

Sensitivity Analysis

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
SCRS	\$ 5,185,373	8,799,604	6,876,788
PORS	6,899,768	5,065,041	3,424,894

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2015 located at <http://www.peba.sc.gov/assets/financialsretirement.pdf> (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2015 located at [http://www.peba.sc.gov/assets/06.30.2015-gasb-68\\_report\\_final-protected.pdf](http://www.peba.sc.gov/assets/06.30.2015-gasb-68_report_final-protected.pdf).

**NOTE 10 - INTERFUND RECEIVABLES AND INTERFUND PAYABLES**

During the course of its operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and purchase and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is determined by City management. To the extent that certain transactions between funds had not been paid or received as of June 30, 2016, balances of interfund amounts receivable or payable have been recorded. The City uses the pooling of cash method of accounting whereby the general fund makes all receipts and disbursements for the other funds. The due to/from in the other funds generally corresponds to the amount of cash on hand for those funds in the general fund.

The following is a summary of amount Interfund Receivables and Interfund Payables:

	Due From	Due To
General Fund		
Due To Special Revenue Fund	\$ -	749
Special Revenue Fund		
Due From General Fund	\$ 749	-
Due To Capital Projects Fund	-	11,250
Capital Projects Fund		
Due From Special Revenue Fund	\$ 11,250	-

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 11 - CONTINGENCIES**

Due to the nature of the City's normal activities, it is routinely subject to a variety of claims and demands by various individuals and entities. Loss contingencies are situations involving uncertainties as to possible loss. The uncertainties are resolved when certain events occur or fail to occur. Loss contingencies may result from litigation, claims, audit disallowances, threatened property loss, or uncollectible receivables. Such situations are loss contingencies at June 30 if the related liability has not been recorded yet a loss is reasonably possible. Guarantees of others' debts are loss contingencies, however, even if the probability of loss is remote. The City maintains insurance against certain loss contingencies with tort liability policies and physical damage coverage. At the date of this report, the City is a party to several lawsuits, none of which, in the opinion of the City's management and legal council would give rise to any material loss contingency. Settlements have not exceeded insurance coverage limits for the last three fiscal years.

**NOTE 12 - DEFERRED COMPENSATION PLAN**

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

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

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

**NOTE 13 - RISK MANAGEMENT**

The City has an agreement for insurance coverage with the South Carolina Municipal Insurance & Risk Financing Fund (SCMIRFF) whereby the City, as well as other entities, pay premiums to the SCMIRFF which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Real property, its contents, and other equipment.
2. Motor vehicles.
3. General liability.

Prior to entering into this agreement with SCMIRFF, the City had a similar agreement with the State Insurance Reserve Fund (IRF).

The SCMIRFF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. The SCMIRFF purchases insurance for aircraft and ocean marine coverage. The SCMIRFF's rates are determined actuarially.

- There were no significant increases or reductions in insurance coverage from the prior year.
- There were no insurance settlements exceeding insurance coverage for the past three years.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 14 - CONTRACTUAL COMMITMENTS**

The City has entered into an agreement with the Gaffney Board of Public Works whereby the City would receive from the Board's "surplus revenues" as defined in its general bond ordinance 3.05% of audited gross electric revenues. Also, the City will pay to the Board all fees and charges for water, sewer and electric services. In addition the agreement calls for the Board of Public Works to install, monitor and maintain all fire hydrants within the City and the City to pay the Board for installation, maintenance and electric charges of all street and traffic lighting in the City. The Board of Public Works makes an annual payment under this agreement and bills the City for utility services quarterly. The amounts paid pursuant to this agreement for the fiscal year ended June 30, 2016 are as follows:

3.05% of gross electric revenues	\$ 650,864
City's utility services	712,241

At June 30, 2016 this \$650,864 is included in the receivable from the Board of Public Works.

The City has entered into a long-term agreement with Cherokee County whereby the County will house all adult male and female prisoners over which the City municipal court has jurisdiction, for a per day fee to be adjusted annually each July 1 based on actual cost of operation. The per day fee was adjusted to \$38.99 effective July 1, 2015. The agreement is for 25 years, and was initiated in November, 1997. The total amount paid under this agreement for the fiscal year ended June 30, 2016 was \$103,181. Effective July 1, 2016 and for the next fiscal year it appears the per day fee has not been charged as of the date of these statements.

The City has also entered into a ten year agreement with Cherokee County whereby the City will provide fire protection in a defined fire protection area outside the City limits in exchange for the County providing monthly payments to the City for the cost of providing fire protection on a cost per call basis. The per call fee is to be adjusted annually based on actual cost of the previous fiscal year provided the maximum amount to be paid by the County to the City will not exceed the amount of taxes generated by twelve (12) mills in the Gaffney Fire Protection Area. The initial term of the agreement expired on December 31, 2010, and has been extended for an additional five year term, in accordance with the terms of the agreement.

During the year, in September, 2015, the City entered into an agreement with Cherokee County whereby the County will provide for each residence within the city the collection, transportation and disposal of solid waste generated by that residence. The agreement also provides, for the transfer from the City to the County of all spare rollout carts/containers and four trash trucks. The City has transferred to the County three trucks purchased between 1999 and 2010 with an original cost of \$274,682 and a book value of \$43,670. The fourth truck with an original cost of \$131,292 was purchased in August of 2015 under a capital lease. This vehicle is being subleased to the county for \$10 paid in advance for a term beginning September 22, 2015 and ending October 1, 2017, at which time the equipment will be conveyed to the County.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 15 - LANDFILL CLOSURE AND POST CLOSURE CARE COSTS**

The City began operations of a construction, demolition and land clearing debris (C&D) landfill site in 1988-89. State and Federal laws will require the City to close the landfill once its capacity is reached and to monitor and maintain the site for thirty subsequent years. The City intends to recognize a portion of the closure and post closure care costs in each future operating period even though actual payouts will not occur until the landfill is closed. Estimates are not available to apportion these costs to the current year. The amount recognized to date is based on the landfill capacity used as of the balance sheet date. As of June 30, 2016, the City has incurred a liability of \$428,045, which represents the amount of costs reported to date based on an estimated 71.34 percent of landfill capacity used to date. This amount is reflected as long-term debt in the statement of net assets. The liability as of June 30, 2015 was \$423,413. The City has completed a substantial portion of closure on the portion of the landfill capacity already used, including construction of a sediment pond, capping and seeding work, which has reduced the estimated cost of ultimate closure. The remaining estimated liability for these costs is \$171,955, which will be recognized as the remaining capacity is used (estimated to be thirty-five years).

The closure and postclosure costs are subject to changes such as the effects of inflation, revision of laws and other variables. By federal and state laws, the City is required to establish financial assurance by the use of one of several approved mechanisms, to accumulate, or otherwise provide, the assets needed for the actual payout of closure and postclosure care costs. As of June 30, 2016, the City has complied with these regulations.

**NOTE 16 - COMPONENT UNIT INFORMATION**

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component units have been included in the financial reporting entity. The Gaffney Local Development Corporation is discretely presented on the financial statements and the following is the associated note disclosure.

(A) Deposits

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

It is the policy of the Gaffney Local Development Corporation to invest all available funds in accounts that will provide maximum return on investment with the least possible risk. Funds will only be deposited with financial institutions that are insured and guaranteed by FDIC, or other Federal or State Regulatory Agencies. There have not been any violations of these policies.

The deposits for the Gaffney Local Development Corporation at June 30, 2016, were \$90,751. Of these, \$-0- was exposed to custodial credit risk as uninsured and uncollateralized, and \$90,751 was insured and guaranteed by FDIC.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 16 - COMPONENT UNIT INFORMATION**, Continued

(B) Property Held for Resale

In the normal course of business the GLDC acquires properties through acquisition, condemnation and foreclosure. These properties are being held with the intent to sell and liquidate, in accordance with corporate by-laws and purposes.

Land held for resale as of June 30, 2016 is summarized as follows:

	Cost	Fair Value
Commercial Building and Lot (Parking Lot)	\$ 313,497	89,400
Residential Lots (6)	39,047	18,282
	\$ 352,544	107,682

Fair Value was determined from the assessed value for property tax purposes.

(C) Accrued Liabilities

Accrued liabilities at June 30, 2016 consist of five separate contracted obligations to pay amounts over future periods of up to 25 years. These contracts were entered into in order to entice annexation into the city corporate limits, and typically provide for an up-front payment with all city taxes to be reimbursed for the succeeding 5 to 25 years. Some annexed properties are narrow strips of land and the city property taxes to be paid over the 20 and 25 year periods are not considered to be material. The accrued liability and payments for these obligations for the next five years and the five-year increments thereafter are as follows:

Fiscal Year Ending June 30	Amount
2017	5,040
2018	5,040
2019	5,040
2020	-
2021	-
2022-2026	-
	\$ 15,120

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Notes To Financial Statements, Continued  
June 30, 2016

**NOTE 17 - RELATED PARTIES**

By agreement, the City of Gaffney provides all administrative services and provides office space and other services for use in connection with the operations of the GLDC. The GLDC does not always reimburse the city for these expenses. During the year the GLDC paid the City a total of \$-0- for administrative services and rental of office space. The GLDC's Board of Directors is made up of the members of city council and in the course of normal business relations they would not have business dealings with the GLDC.

A summary of goods and services provided by the City of Gaffney during the fiscal year is as follows:

Administrative Services	\$ 2,180
Cost of Space	4,525
Utilities	398
Insurance	178
Equipment (Copier/Phone)	439
Supplies	194
	<hr/>
	\$ 7,914
	<hr/> <hr/>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Schedule of Governmental Funds - Revenues, Expenditures, and Changes  
in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2016

	General Fund			Variance Favorable (Unfavor- able)
	Budget		Actual	
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 4,776,107	4,776,107	4,816,942	40,835
Licenses	2,237,000	2,237,000	2,516,726	279,726
Intergovernmental	2,438,859	2,438,859	2,654,153	215,294
Police and Fire	311,500	356,500	362,360	5,860
Fees and Permits	60,350	59,950	99,294	39,344
Cemetery	25,000	25,000	43,000	18,000
Commercial Sanitation	-	-	32,390	32,390
Miscellaneous	21,450	21,050	39,965	18,915
Total Revenues	<u>9,870,266</u>	<u>9,914,466</u>	<u>10,564,830</u>	<u>650,364</u>
<b>EXPENDITURES</b>				
General Government	1,509,845	1,523,539	1,454,378	69,161
Finance	457,782	488,758	463,983	24,775
Municipal Court	455,797	474,521	469,002	5,519
Public Safety				
Police	3,120,127	3,122,169	3,149,109	(26,940)
Fire	2,366,899	2,503,473	2,498,548	4,925
Public Improvements				
Streets	964,479	958,730	922,128	36,602
Sanitation	903,999	820,960	804,861	16,099
Parks and Recreation	315,409	311,740	304,425	7,315
Tourism and Beautification	122,566	123,632	111,438	12,194
Community Development	365,830	356,502	351,998	4,504
Maintenance Garage	254,115	264,602	268,171	(3,569)
Total Expenditures	<u>10,836,848</u>	<u>10,948,626</u>	<u>10,798,041</u>	<u>150,585</u>
Excess of Revenues Over (Under Expenditures)	<u>(966,582)</u>	<u>(1,034,160)</u>	<u>(233,211)</u>	<u>800,949</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Lease Proceeds	-	-	-	-
Insurance Claim Proceeds	-	-	35,916	35,916
Operating Transfers In	1,279,549	-	1,294,476	14,927
Operating Transfers Out	(472,891)	-	(297,053)	175,838
	<u>806,658</u>	<u>-</u>	<u>1,033,339</u>	<u>226,681</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(159,924)	(1,034,160)	800,128	1,027,630
FUND BALANCE AT BEGINNING OF YEAR			<u>3,313,483</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 4,113,611</u>	

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Schedule of Governmental Funds - Revenues, Expenditures, and Changes  
in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2016

	Capital Projects Fund			Variance Favorable (Unfavor- able)
	Budget		Actual	
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ -	-	-	-
Licenses	-	-	-	-
Intergovernmental	-	-	-	-
Police and Fire	-	-	-	-
Fees and Permits	-	-	-	-
Cemetery	-	-	50	50
Commercial Sanitation	-	-	-	-
Miscellaneous	-	-	55	55
Total Revenues	<u>-</u>	<u>-</u>	<u>105</u>	<u>105</u>
<b>EXPENDITURES</b>				
General Government	15,000	41,523	36,430	5,093
Finance	-	-	-	-
Municipal Court	-	7,611	7,098	513
Public Safety				
Police	181,300	265,858	266,193	(335)
Fire	116,590	86,540	86,521	19
Public Improvements				
Streets	140,000	197,051	189,661	7,390
Sanitation	-	-	-	-
Parks and Recreation	-	-	-	-
Tourism and Beautification	-	-	-	-
Community Development	20,000	44,215	27,042	17,173
Maintenance Shop	-	-	-	-
Total Expenditures	<u>472,890</u>	<u>642,798</u>	<u>612,945</u>	<u>29,853</u>
Excess of Revenues Over (Under) Expenditures	<u>(472,890)</u>	<u>(642,798)</u>	<u>(612,840)</u>	<u>29,958</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Lease Proceeds	298,800	298,800	845,000	(546,200)
Insurance Claim Proceeds	-	-	-	-
Operating Transfers In	-	-	266,518	266,518
Operating Transfers Out	-	-	(568,930)	(568,930)
	<u>298,800</u>	<u>298,800</u>	<u>542,588</u>	<u>(848,612)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(174,090)	(343,998)	(70,252)	(818,654)
<b>FUND BALANCE AT BEGINNING OF YEAR</b>			<u>158,711</u>	
<b>FUND BALANCE AT END OF YEAR</b>			<u>\$ 88,459</u>	

**CITY OF GAFFNEY, SOUTH CAROLINA**  
 Schedule of Governmental Funds - Revenues, Expenditures, and Changes  
 in Fund Balances - Budget and Actual  
 For the Year Ended June 30, 2016

	Special Revenue Fund			Variance Favorable (Unfavor- able)
	Budget		Actual	
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ -	-	-	-
Licenses	-	-	-	-
Intergovernmental	275,000	275,000	95,188	(179,812)
Police and Fire	116,200	341,153	304,174	(36,979)
Fees and Permits	1,198,600	1,198,600	1,377,554	178,954
Cemetery	-	-	-	-
Commercial Sanitation	-	-	-	-
Miscellaneous	3,700	4,500	7,816	3,316
<b>Total Revenues</b>	<u>1,593,500</u>	<u>1,819,253</u>	<u>1,784,732</u>	<u>(34,521)</u>
<b>EXPENDITURES</b>				
General Government	451,230	771,164	765,459	5,705
Finance	-	-	-	-
Municipal Court	-	-	-	-
Public Safety				
Police	43,305	51,805	46,088	5,717
Fire	45,000	344,988	302,948	42,040
Public Improvements				
Streets	-	-	-	-
Sanitation	-	-	-	-
Parks and Recreation	22,000	28,630	27,944	686
Tourism and Beautification	-	-	-	-
Community Development	275,000	100,000	-	100,000
Maintenance Shop	-	-	-	-
<b>Total Expenditures</b>	<u>836,535</u>	<u>1,296,587</u>	<u>1,142,439</u>	<u>154,148</u>
Excess of Revenues Over (Under Expenditures)	<u>756,965</u>	<u>522,666</u>	<u>642,293</u>	<u>119,627</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Lease Proceeds	-	-	-	-
Insurance Claim Proceeds	-	-	-	-
Operating Transfers In	-	-	65,700	65,700
Operating Transfers Out	(806,658)	-	(760,711)	45,947
	<u>(806,658)</u>	<u>-</u>	<u>(695,011)</u>	<u>111,647</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(49,693)	522,666	(52,718)	231,274
FUND BALANCE AT BEGINNING OF YEAR			<u>1,244,327</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 1,191,609</u>	

**CITY OF GAFFNEY, SOUTH CAROLINA**  
Schedule of Governmental Funds - Revenues, Expenditures, and Changes  
in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2016

	Totals All Governmental Funds (Memorandum Only)			Variance Favorable (Unfavor- able)
	Budget		Actual	
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 4,776,107	4,776,107	4,816,942	40,835
Licenses	2,237,000	2,237,000	2,516,726	279,726
Intergovernmental	2,713,859	2,713,859	2,749,341	35,482
Police and Fire	427,700	697,653	666,534	(31,119)
Fees and Permits	1,258,950	1,258,550	1,476,848	218,298
Cemetery	25,000	25,000	43,050	18,050
Commercial Sanitation	-	-	32,390	32,390
Miscellaneous	25,150	25,550	47,836	22,286
<b>Total Revenues</b>	<b>11,463,766</b>	<b>11,733,719</b>	<b>12,349,667</b>	<b>615,948</b>
<b>EXPENDITURES</b>				
General Government	1,976,075	2,336,226	2,256,267	79,959
Finance	457,782	488,758	463,983	24,775
Municipal Court	455,797	482,132	476,100	6,032
Public Safety				
Police	3,344,732	3,439,832	3,461,390	(21,558)
Fire	2,528,489	2,935,001	2,888,017	46,984
Public Improvements				
Streets	1,104,479	1,155,781	1,111,789	43,992
Sanitation	903,999	820,960	804,861	16,099
Parks and Recreation	337,409	340,370	332,369	8,001
Tourism and Beautification	122,566	123,632	111,438	12,194
Community Development	660,830	500,717	379,040	121,677
Maintenance Shop	254,115	264,602	268,171	(3,569)
<b>Total Expenditures</b>	<b>12,146,273</b>	<b>12,888,011</b>	<b>12,553,425</b>	<b>334,586</b>
Excess of Revenues Over (Under Expenditures)	<u>(682,507)</u>	<u>(1,154,292)</u>	<u>(203,758)</u>	<u>950,534</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Lease Proceeds	298,800	298,800	845,000	546,200
Insurance Claim Proceeds	-	-	35,916	35,916
Operating Transfers In	1,279,549	-	1,626,694	1,626,694
Operating Transfers Out	<u>(1,279,549)</u>	<u>-</u>	<u>(1,626,694)</u>	<u>(1,626,694)</u>
	<u>298,800</u>	<u>298,800</u>	<u>880,916</u>	<u>582,116</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(383,707) *	(855,492) *	677,158	1,532,650
<b>FUND BALANCE AT BEGINNING OF YEAR</b>			<u>4,716,521</u>	
<b>FUND BALANCE AT END OF YEAR</b>			<u><u>\$ 5,393,679</u></u>	

\* This amount represents beginning cash balances budgeted by ordinance.

**CITY OF GAFFNEY, SOUTH CAROLINA**  
 Other Post-Employment Benefits  
 Required Supplementary Information  
 For the Year Ended June 30, 2016

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)		Unfunded AAL (UAAL) (b-a)		Normal Cost	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7-01-2011	- \$	0 \$	0 \$	0 \$	0 \$	0	0%	\$ 0	21.92%
7-01-2014	- \$	0 \$	0 \$	0 \$	0 \$	0	0%	\$ 0	25.70%

Schedule of Employer Contributions

Year Ending June 30,	Annual Required Contribution	Employer Contribution	Percentage Contributed
2012	\$ 107,500	37,700	35.07%
2013	113,000	42,500	37.61%
2014	118,700	38,900	32.77%
2015	128,300	28,800	22.45%
2016	135,500	22,100	16.31%

Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest valuation follows:

Valuation Date	7-01-2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Straight Line
Remaining Amortization Period	27 Years
Asset Valuation Method	N/A
Actuarial assumptions:	
Investment Rate of Return*	N/A
Medical Cost Trend Rate	10% Decreasing to 5% at .5% annually
Year of Ultimate Trent Rate	2018

**CITY OF GAFFNEY**  
 GASB 68 Required Supplementary Information  
 For The Year Ended June 30, 2016

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

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.021687%	0.022385%
State's proportionate share of the net pension liability (asset) associated with the City	\$ 18,965,482,129	\$ 17,216,684,770
City's proportionate share of the net pension liability (asset)	<u>\$ 4,113,044</u>	<u>\$ 3,854,055</u>
City's covered-employee payroll	\$ 2,036,250	\$ 2,032,280
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	2.02%	1.90%
Plan fiduciary net position as a percentage of the total pension liability	57.0%	59.9%

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

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

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.23240%	0.23740%
State's proportionate share of the net pension liability (asset) associated with the City	\$ 2,179,496,384	\$ 1,914,427,438
City's proportionate share of the net pension liability (asset)	<u>\$ 5,065,041</u>	<u>\$ 4,547,698</u>
City's covered-employee payroll	\$ 2,879,055	\$ 2,855,358
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	1.76%	1.59%
Plan fiduciary net position as a percentage of the total pension liability	64.6%	67.5%

**CITY OF GAFFNEY**  
 GASB 68 Required Supplementary Information  
 For The Year Ended June 30, 2016

**Schedule of City's Contributions (SCRS)**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 233,222	\$ 218,897
Contributions in relation to the contractually required contribution	<u>(233,222)</u>	<u>(218,897)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,108,701	\$ 2,036,250
Contributions as a percentage of covered-employee payroll	11.06%	10.75%

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

**Schedule of City's Contributions (PORS)**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 412,442	\$ 374,565
Contributions in relation to the contractually required contribution	<u>(412,442)</u>	<u>(374,565)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,001,753	\$ 2,879,055
Contributions as a percentage of covered-employee payroll	13.74%	13.01%

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

**SUPPLEMENTARY INFORMATION**

**CITY OF GAFFNEY, SOUTH CAROLINA**  
 Municipal Court  
 Summary Schedule of Court Fines and Fees, Assessments and Surcharges  
 June 30, 2016

	Total Collections	Amount Retained by City Treasurer	Amount Remitted to State Treasurer	Amount Allocated to Victim's Services
Fines and Fees	\$ 137,505	137,505	-	-
Assessments	144,213	-	128,113	16,100
Surcharges	71,730	-	60,218	11,512
<b>Total</b>	<b>\$ 353,448</b>	<b>137,505</b>	<b>188,331</b>	<b>27,612</b>
	Beginning Fund Balance	Revenues	Expenditures	Ending Fund Balance
Victim's Services	\$ 131,932	27,612 (1)	8,166	151,378

(1) Does not include interest of \$27.

Independent Auditors' Report On Internal Control Over  
Financial Reporting And On Compliance And Other Matters  
Based On An Audit Of Financial Statements Performed  
In Accordance With Government Auditing Standards

City of Gaffney  
Gaffney, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Gaffney as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprised City of Gaffney's basic financial statements, and have issued our report thereon dated October 26, 2016. The Gaffney Local Development Corporation's financial statements were not audited in accordance with Government Auditing Standards.

**Internal Control Over Financial Reporting**

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

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

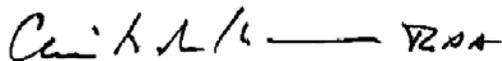
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in black ink, appearing to read "Cynthia L. [unclear] CPA". The signature is written in a cursive style with a horizontal line extending to the right.

Gaffney, SC  
October 26, 2016