

**CITY OF HANAHAN, SOUTH CAROLINA**  
**BASIC FINANCIAL STATEMENTS**  
**Year Ended June 30, 2013**



CITY OF HANAHAN, SOUTH CAROLINA  
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YEAR ENDED JUNE 30, 2013

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CITY OF HANAHAN, SOUTH CAROLINA  
PRINCIPAL OFFICIALS  
For the Year Ended June 30, 2013

MAYOR

Minnie Newman-Caldwell

COUNCIL MEMBERS

Joel E. Hodges, Mayor Pro-Tem  
Jeff C. Chandler  
C. Kevin Cox  
J. Mike Dyson  
T. Dan Owens  
Michael Sally

CITY ADMINISTRATOR

John P. Cribb

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of City Council  
City of Hanahan, South Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hanahan, South Carolina, as of and for the year ended June 30, 2013, 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.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of



the entity's internal control. Accordingly, 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 opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hanahan, South Carolina, as of June 30, 2013, and the respective changes in financial position and where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

The City of Hanahan, South Carolina has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hanahan, South Carolina's basic financial statements. The Supplemental Schedule of Fines, Assessments and Surcharges – General Fund is presented for purposes of additional analysis, as required by the State of South Carolina, but it is not a required part of the basic financial statements. Such information is the responsibility of management, and the data was derived from and relate directly to the underlying accounting and other records used to prepare the 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 is 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 February 14, 2014, on our consideration of the City of Hanahan, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of

laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in considering the City of Hanahan, South Carolina's internal control over financial reporting and compliance.

February 14, 2014

*Riser, McLaurin & Gibbons, L.L.P.*

CITY OF HANAHAN, SOUTH CAROLINA  
STATEMENT OF NET POSITION  
June 30, 2013

Exhibit A-1

	Governmental Activities
<b>ASSETS</b>	
Non-pooled cash and cash equivalents	\$ 643,262
Pooled cash and cash equivalents	5,444,571
Cash with fiscal agents	59,783
Taxes receivable, net	2,278,960
Due from other entities	277,110
Inventories	7,915
Prepaid insurance	38,164
Deferred bond issuance costs	20,220
Restricted assets:	
Non-pooled cash and cash equivalents	352,507
Pooled cash and cash equivalents	4,370,076
Capital assets (Note IV.E):	
Nondepreciable capital assets	1,730,141
Other capital assets, net of accumulated depreciation	9,317,554
Total capital assets	<u>11,047,695</u>
Total assets	<u>24,540,263</u>
<b>LIABILITIES</b>	
Accounts payable	281,396
Accrued compensation and related liabilities	185,000
Deferred revenue	2,200,000
Compensated absences:	
Expected to be paid within one year	112,833
Expected to be paid after one year	131,490
General obligation bonds payable:	
Portion due within one year	160,000
Portion due after one year	1,485,000
Total liabilities	<u>4,555,719</u>
<b>NET POSITION</b>	
Net investment in capital assets	10,242,917
Restricted for capital projects	2,301,733
Restricted for property tax rollback	305,102
Restricted for other specific purposes	142,524
Unrestricted	<u>6,992,268</u>
Total net position	<u>\$ 19,984,544</u>

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

CITY OF HANAHAN, SOUTH CAROLINA  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2013

Exhibit A-2

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue – Governmental Activities
		Charges for Services	Operating Grants	Capital Grants	
Governmental activities:					
General government	\$ 1,590,161	\$ 20,000	\$ -	\$ -	\$ (1,570,161)
Public safety:					
Police	2,261,749	534,926	50,034	6,655	(1,670,134)
Fire	1,468,838	432,388	-	-	(1,036,450)
Public works	795,338	15,725	-	-	(779,613)
Code enforcement	214,458	1,510,622	-	-	1,296,164
Recreation and parks	769,674	292,071	-	8,500	(469,103)
Depreciation	773,717	-	-	-	(773,717)
Interest on long-term debt/bond costs	138,181	-	-	-	(138,181)
Total governmental activities	8,012,116	2,805,732	50,034	15,155	(5,141,195)
GENERAL REVENUES					
Property taxes					2,263,878
Intergovernmental revenues – local option sales tax					1,333,419
Intergovernmental revenues – other					725,936
Franchise fees					946,779
Miscellaneous revenues					102,830
Interest earnings					19,085
Bond interest received					128,702
Total general revenues					5,520,629
Change in net position					379,434
Net position – beginning					19,605,110
Net position - ending					<u>\$19,984,544</u>

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



CITY OF HANAHAN, SOUTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2013

Exhibit B-1

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>			
Non-pooled cash and cash equivalents	\$ 643,262	\$ -	\$ 643,262
Pooled cash and cash equivalents	4,194,026	-	4,194,026
Cash with fiscal agents	59,783	-	59,783
Property taxes receivable (net of allowance for uncollectible taxes)	2,278,960	-	2,278,960
Due from other entities	277,110	-	277,110
Due from other funds	2,665,139	120,483	2,785,622
Prepaid insurance	38,164	-	38,164
Restricted assets:			
Non-pooled cash and cash equivalents	340,347	12,160	352,507
Pooled cash and cash equivalents	1,927,045	2,443,031	4,370,076
Total assets	<u>\$ 12,423,836</u>	<u>\$ 2,575,674</u>	<u>\$ 14,999,510</u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Accounts payable	\$ 281,396	\$ -	\$ 281,396
Accrued compensation	185,000	-	185,000
Due to other funds	-	2,033,756	2,033,756
Deferred revenue	2,222,874	-	2,222,874
Total liabilities	<u>2,689,270</u>	<u>2,033,756</u>	<u>4,723,026</u>

**FUND BALANCES**

Nonspendable	38,164	-	38,164
Restricted for: capital projects/development	1,759,815	541,918	2,301,733
drug/police enforcement	142,524	-	142,524
Committed for property tax rollback	305,102	-	305,102
Committed for capital projects	59,952	-	59,952
Assigned for subsequent years' appropriation	629,744	-	629,744
Unassigned	6,799,265	-	6,799,265
Total fund balances (deficit)	<u>9,734,566</u>	<u>541,918</u>	<u>10,276,484</u>
Total liabilities and fund balances	<u>\$ 12,423,836</u>	<u>\$ 2,575,674</u>	

Amounts reported for governmental activities in the statement of net position

(Exhibit A-1) are different because (see Note II for more detailed information):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,685,181
Certain assets are not available to pay for current period expenditures, and thus are not included in fund balance	43,094
Long-term liabilities, including general obligation bonds and compensated absences are not due and payable in the current period, and therefore are not reported in the funds.	(1,889,323)
Internal service funds are used by management to charge the cost of Fleet service activities to individual fund departments. Net position of the internal service fund of \$1,869,108 is included in governmental activities in the statement of net position.	1,869,108
Net position of governmental activities	<u>\$ 19,984,544</u>

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

CITY OF HANAHAN, SOUTH CAROLINA  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2013

Exhibit B-2

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 1,982,002	\$ 288,716	\$ 2,270,718
Intergovernmental revenues – local option sales tax	1,333,419	-	1,333,419
Intergovernmental revenues – other	725,936	-	725,936
Intergovernmental revenues – grants	65,189	-	65,189
Franchise fees	946,779	-	946,779
Licenses and permits	1,509,669	-	1,509,669
Court fines	461,236	-	461,236
Impact fees	-	70,636	70,636
Recreational program fees	248,754	-	248,754
911 revenues	236,176	-	236,176
Miscellaneous revenues	340,880	-	340,880
Interest earnings	14,324	2,111	16,435
<b>Total revenues</b>	<b>\$ 7,864,364</b>	<b>\$ 361,463</b>	<b>\$ 8,225,827</b>
<b>EXPENDITURES</b>			
Current:			
General government	\$ 1,489,481	\$ -	\$ 1,489,481
Public works	828,589	-	828,589
Police	2,352,090	-	2,352,090
Fire	1,545,688	-	1,545,688
Code enforcement	217,876	-	217,876
Recreation and parks	799,257	-	799,257
Grant expenditures	64,299	-	64,299
Debt Service:			
Principal payments	-	1,332,790	1,332,790
Interest payments	-	136,626	136,626
Capital outlay	1,079,717	693	1,080,410
<b>Total expenditures</b>	<b>8,376,997</b>	<b>1,470,109</b>	<b>9,847,106</b>
Excess of expenditures over revenues	(512,633)	(1,108,646)	(1,621,279)
<b>OTHER FINANCING SOURCES</b>			
Operating transfers	(2,897,849)	2,897,849	-
Bond interest payments received	128,702	-	128,702
<b>Total other financing sources</b>	<b>(2,769,147)</b>	<b>2,897,849</b>	<b>128,702</b>
Net change in fund balances	(3,281,780)	1,789,203	(1,492,577)
Fund balances (deficit), beginning	13,016,346	(1,247,285)	11,769,061
<b>Fund balances, ending</b>	<b>\$ 9,734,566</b>	<b>\$ 541,918</b>	<b>\$ 10,276,484</b>

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

CITY OF HANAHAN, SOUTH CAROLINA Exhibit B-3  
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, 2013

Net change in fund balances – total governmental funds (from Exhibit B-2)	\$(1,492,577)
Amounts reported for <i>governmental activities</i> in the statement of activities (Exhibit A-2) are different because (see Note II for more detailed information on the more significant reconciling items.)	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	614,083
Revenues reported in the statement of activities that do not provide current financial resources and therefore are not reported as revenues in the governmental funds.	(6,840)
Internal service funds are used by management to charge the costs of fleet service activities to individual fund departments. Net loss of internal service funds of \$38,302 is reported with governmental activities.	(38,302)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,331,235
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.	<u>(28,165)</u>
Change in net position of governmental activities (see Exhibit (A-2))	<u>\$ 379,434</u>

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

CITY OF HANAHAN, SOUTH CAROLINA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND – BUDGETARY BASIS  
For the Year Ended June 30, 2013

Exhibit C-1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property Taxes	\$ 2,300,000	\$ 2,300,000	\$ 1,982,002	\$ (317,998)
Intergovernmental revenues – local option sales tax	1,300,000	1,300,000	1,333,419	33,419
Intergovernmental revenues – other	660,892	660,892	725,936	65,044
Intergovernmental revenues – grants	131,172	146,037	65,189	(80,848)
Franchise fees	919,500	919,500	946,779	27,279
Licenses and permits	1,200,000	1,200,000	1,509,669	309,669
Court fines	675,000	675,000	461,236	(213,764)
Recreational program fees	224,180	251,980	248,754	(3,226)
911 revenues	296,300	296,300	236,176	(60,124)
Miscellaneous revenues	295,375	302,375	340,880	38,505
Interest earnings	15,500	15,500	14,324	(1,176)
<b>Total revenues</b>	<b>8,017,919</b>	<b>8,067,584</b>	<b>7,864,364</b>	<b>(203,220)</b>
<b>EXPENDITURES</b>				
Current:				
General government	1,724,719	1,724,719	1,489,481	235,238
Public works	860,041	895,041	828,589	66,452
Police	2,650,082	2,657,082	2,352,090	304,992
Fire	1,805,011	1,805,011	1,545,688	259,323
Code enforcement	277,892	277,892	217,876	60,016
Recreation and parks	900,289	900,289	799,257	101,032
Grant expenditures	136,295	157,969	64,299	93,670
Capital outlay	421,314	421,314	1,079,717	(658,403)
<b>Total expenditures</b>	<b>8,775,643</b>	<b>8,839,317</b>	<b>8,376,997</b>	<b>462,320</b>
Excess of revenues over (under) expenditures	(757,724)	(771,733)	(512,633)	259,100
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond payment received	296,053	296,053	296,053	-
Transfers made to other funds	(46,500)	(46,500)	-	46,500
<b>Total other financing sources</b>	<b>249,553</b>	<b>249,553</b>	<b>296,053</b>	<b>46,500</b>
Net change in fund balance	(508,171)	(522,180)	(216,580)	305,600
Fund balance - beginning	13,016,346	13,016,346	13,016,346	-
Fund balance – ending	<b>\$12,508,175</b>	<b>\$12,494,166</b>	<b>\$ 12,799,766</b>	<b>\$ 305,600</b>

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

CITY OF HANAHAN, SOUTH CAROLINA  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
June 30, 2013

Exhibit D-1

	Internal Service Fund
<hr/>	
ASSETS	
Pooled cash and cash equivalents	\$ 1,250,545
Inventories	7,915
Capital assets, net of accumulated depreciation	<u>1,362,514</u>
Total assets	<u>2,620,974</u>
LIABILITIES	
Due to other funds	<u>751,866</u>
Total liabilities	<u>751,866</u>
NET POSITION	
Net investment in capital assets	1,362,514
Unrestricted	<u>506,594</u>
Total net position	<u>\$ 1,869,108</u>

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



CITY OF HANAHAN, SOUTH CAROLINA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET POSITION  
PROPRIETARY FUND  
For the Year Ended June 30, 2013

Exhibit D-2

	Internal Service Fund
OPERATING REVENUES	
Internal service charges	\$ 724,995
Total operating revenues	<u>724,995</u>
OPERATING EXPENSES	
Depreciation	285,426
Fuel, lubricants, and tires	302,759
Maintenance	157,486
Insurance	56,487
Administrative expenses	5,000
Total operating expenses	<u>807,158</u>
Operating income (loss)	<u>(82,163)</u>
NON-OPERATING REVENUES	
Investment income	2,650
Other revenues	41,211
Total non-operating revenues	<u>43,861</u>
Income (loss) before operating transfers	(38,302)
Transfers from other funds	<u>-</u>
Change in net position	(38,302)
Total net position, beginning of year	<u>1,907,410</u>
Total net position, end of year	<u>\$ 1,869,108</u>

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

CITY OF HANAHAN, SOUTH CAROLINA  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND**  
For the Year Ended June 30, 2013

Exhibit D-3

	<u>Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from other funds	\$ 707,287
Cash payments for goods and services (by other funds)	<u>(521,732)</u>
Net Cash Provided By (Used In) Operating Activities	<u>185,555</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Insurance proceeds from damage to capital assets	41,211
Acquisition of capital assets	<u>(109,796)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(68,585)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest earned on investments	<u>2,650</u>
Net Cash Provided By Investing Activities	<u>2,650</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	119,620
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,130,925</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 1,250,545</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating Income (Loss)	\$ (82,163)
Adjustments to reconcile operating income (loss) to net net cash provided by operating activities:	
Depreciation	285,426
Increase in inventories	(1,004)
Decrease in amounts due to other funds	<u>(16,704)</u>
<b>NET CASH PROVIDED IN OPERATING ACTIVITIES</b>	<u><u>\$ 185,555</u></u>

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

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Introduction**

The financial statements of the City of Hanahan (hereinafter referred to as the City) are prepared in accordance with Generally Accepted Accounting Principles (GAAP), as applied to local government entities. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City applies all relevant GASB pronouncements.

The accounting and reporting framework and the more significant accounting principles and practices of the City of Hanahan (hereinafter referred to as the City) are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2013.

**B. Financial Reporting Entity**

The City of Hanahan was incorporated September 21, 1973, under the laws of the State of South Carolina. Section 47-26 of the 1962 Code of Laws, as amended (Home Rule Act), requires that municipalities adopt a specific form of government. Accordingly, the City has adopted the Council form of government. The City Council is composed of the mayor and six council members. The City provides a full range of services to its citizens including Police and Fire Protection, EMS, Recreation and Parks, Code Enforcement and General Administrative Services.

In evaluating how to define the City, for financial reporting purposes, management has considered any potential component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). Based on the application of the criteria set forth in GAAP, management has considered any potential component units over which the City exercises significant influence and has determined that the City has no component units for financial reporting purposes.

**C. Basis of Accounting / Measurement Focus**

*Government-Wide Financial Statements*

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements report financial information for the City as a whole. Individual funds are not displayed but the statements reflect governmental activities generally supported by taxes and City general revenues. Fiduciary activities of the City are not included in these statements.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two presented as net position.

Net position is reported as one of three categories: Invested in capital assets, net of related debt; restricted; or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that is otherwise restricted.

The statement of activities presents information showing how the net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event gives rise to the change that occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated. In the statement of activities, internal service fund transactions have also been eliminated.

*Governmental Fund Financial Statements*

Governmental Fund Financial Statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds, which consists of the general fund and the capital projects fund. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements. The City has presented all major funds that meet those qualifications.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

sheet. The statement of revenues, expenditures and changes in fund net position presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net position. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally sixty days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, franchise fees, intergovernmental revenues, and interest. In general, other revenues are recognized when cash is received. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

*Proprietary Fund Financial Statements*

Proprietary Fund Financial Statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows for each major proprietary fund, which consists of a single internal service fund. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fleet service fund. Principal operating revenues for this proprietary fund are charges to various departments of the City on a cost reimbursement basis for providing these services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets.

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



CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Fund Types and Major Funds**

*Governmental Funds:*

The City reports the following major governmental funds:

General Fund – The general fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund – The capital projects fund is used to account for financial resources to be used for the construction of major capital projects not being financed by proprietary fund types. The City's routine purchases of capitalizable items are budgeted and reported in the general fund or in the proprietary fund types as appropriate.

*Proprietary Funds:*

The City reports the following fund type:

Internal Service Fund – The fleet service fund accounts for the financing of goods and services provided by one department to other departments within the City on a cost reimbursement basis. The fleet service fund was established in order to improve efficiency and productivity through the scheduled maintenance and replacement of vehicles. All vehicle operating costs are accounted for in this fund. The proprietary fund activity is reported with governmental activities in the government-wide statements.

**E. Assets, Liabilities, and Net Position or Equity**

*Cash and Investments*

The City maintains non-pooled cash and investment accounts, which are separately held, and reflected in their respective funds as "non-pooled cash and cash equivalents" and "cash and investments with fiscal agents," some of which are restricted assets. In addition, the City maintains or participates in cash and investment pools. Each fund's portion of a pool is presented on its respective balance sheet as "pooled cash and cash equivalents."

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments. For purposes of the proprietary fund's statement of cash flows, all short-term highly liquid investments, including restricted assets, with original maturities of three months or less from the date of acquisition are considered to be cash equivalents.

The City has a number of financial instruments, none of which are held for trading purposes. Except for non-participating interest earning investment contracts,

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts such as non-negotiable certificates of deposits and repurchase agreements are reported at cost. Cash deposits are reported at carrying amount, which reasonable estimates fair value. Additional cash and investment information and fair values are presented in Note IV.A.

*Concentration of Credit Risk and Taxes Receivable*

The Berkeley County Treasurer collects property taxes for all of the governmental units located in Berkeley County, including the City of Hanahan, under a unified collection system. Current tax collections are made through the office of the County Treasurer and delinquent tax collections are made through the Delinquent Tax Collector of Berkeley County.

The City recognizes property taxes in the period in which they are levied and available for financing current expenditures. Property taxes receivable represent delinquent real and personal taxes for the past ten years, less an allowance for amounts estimated to be uncollectible, plus taxes levied on the assessed value of real and personal property, excluding vehicles, as of January 1, 2013. All net property taxes receivable at year end, except those collected within sixty days, are recorded as deferred revenue, and thus not recognized as revenue until collected.

Taxes on real property and certain personal property attach as an enforceable lien on the property as of January 1. Taxes are levied and billed the following September on all property other than vehicles and are payable without penalty until January 15 of the following year. Penalties are assessed on unpaid taxes beginning January 16 – three percent (3%), February 2 – an additional seven percent (7%), March 16 – an additional five percent (5%). On March 16, the property tax bills are turned over to the delinquent tax office and if not paid by October 1, the properties are subject to sale. Taxes on licensed motor vehicles are levied during the month when the taxpayer's license registration is due for renewal. The taxpayer must provide proof of payment to the Highway Department before that agency will renew the vehicle license.

All property taxes receivable are shown net of an allowance for uncollectible amounts. The allowance for property taxes receivable is based upon a composite average of each delinquent tax year's collections to the outstanding balance at the beginning of the fiscal year.

*Inventories*

Inventories in proprietary funds are recorded at the lower of cost or market on the first-in, first-out basis. The cost of inventories is recorded as an expense when consumed rather than when purchased.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Capital Assets and Depreciation*

The City's property, plant, and equipment of all funds are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in its respective fund financial statements. Donated assets are stated at fair value on the date donated. All public domain or "infrastructure" fixed assets such as water, sewer, and drainage improvements, street signs and lighting are capitalized and are depreciated over their estimated useful lives. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not included as capital assets. Repairs and maintenance are recorded as expenditures or expenses; renewals and betterments are capitalized.

Estimated useful lives, in years, for depreciable capital assets are as follows:

Building and structural components	10 to 50 years
Equipment	5 to 10 years
Road and drainage improvements	20 years
Recreation and parks facilities	20 to 25 years
Fire trucks	20 years
Police cars	5 years
Garbage trucks	10 years
Other vehicles	3 to 5 years

*Restricted Assets*

Certain cash accounts in the City's governmental fund types are earmarked for specific purposes such as property tax rollback, land development, capital projects, and Police Department programs. Certain cash and investments held by fiscal agents are classified as restricted assets on the balance sheet because their use is limited to specific purposes based on the source of the funds received.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond issuance costs, bond discounts, or premiums, if applicable, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs and principal payments on long-term obligations are reported as expenditures.

*Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since it is the City's policy to record the cost of sick leave only when it is paid, and no benefits vest upon termination. All vacation pay is accrued when incurred in the government-wide financial statements.

Expenditures for compensated absences are recorded in the governmental fund types when employees use leave. In accordance therewith, these amounts are charged against the current budget when paid.

*Restricted Assets and Restricted Net Position*

Some assets restricted for capital projects (including tax increment financing projects), special police grants and other funding, and other specific projects are restricted due to requirements placed upon them from the funding sources. Amounts that should be accumulated in restricted assets, including excess cash and investments accumulated, are reported as restricted assets.

*Fund Balances*

As of these financial statements, the City has adopted GASB Statement No. 54, which redefined how fund balances of governmental funds are presented in the financial statements. Fund balances are classified as follows:

**Nonspendable** – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. A portion of the June 30, 2013 fund balance, attributable to prepaid insurance, has been classified as nonspendable.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Restricted – Amounts that can be spent only for specific purposes because of the City charter, state or federal laws, or externally imposed conditions by grantors or other funding sources. A portion of the June 30, 2013 fund balance has been restricted for the City's capital projects and police/drug enforcement.

Committed – Amounts that can be used only for specific purposes determined by a formal action by City ordinance or resolution. A portion of the June 30, 2013 fund balance has been committed for property tax rollbacks.

Assigned – Amounts that are designated by the City for a specific purpose but are neither restricted nor committed. A portion of the June 30, 2013 fund balance has been assigned for the City's subsequent year's appropriation.

Unassigned – All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 5). The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

*Use of Estimates*

The preparation of financial statements in accordance with generally accepted accounting principles requires the City's management to make estimates and assumptions. These 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/expenditures during the reporting period. Actual results could differ from those estimates.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position**

The governmental funds balance sheet (Exhibit B-1) includes a reconciliation between *fund balances – total governmental funds* and *net position of governmental*



CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

*activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets used in governmental funds are not financial resources and therefore are not reported in the funds." The details of this \$9,685,181 difference are as follows:

Cost of nondepreciable capital assets	\$ 1,730,141
Cost of other capital assets	14,152,088
Subtotal	<u>15,882,229</u>
Less accumulated depreciation	<u>6,197,048</u>
Net adjustment to increase fund balances – total governmental funds to arrive at net position of governmental activities	<u>\$ 9,685,181</u>

Another element of that reconciliation explains that "certain assets are not available to pay for current period expenditures, and thus are not included in fund balance." The details of this \$43,094 difference are as follows:

Taxes receivable	\$ 22,874
Deferred issuance costs	<u>20,220</u>
Net adjustment to increase fund balances – total governmental funds to arrive at net position of governmental activities	<u>\$ 43,094</u>

Another element of that reconciliation explains that "long-term liabilities, including general obligation bonds and compensated absences are not due and payable in the current period and therefore are not reported in the funds." The details of this \$1,889,323 difference are as follows:

General obligation bonds payable	\$ 1,645,000
Accrued compensated absences	<u>244,323</u>
Net adjustment to decrease fund balances – total governmental funds to arrive at net position of governmental activities	<u>\$ 1,889,323</u>

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental funds statement of revenues, expenditures, and changes in fund balances, includes a reconciliation (Exhibit B-3) between *net change in fund balances – total governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$614,083 difference are as follows:

Capital outlay	\$ 1,080,410
Capital outlay included in grant expenditures	21,964
Depreciation expense	<u>(488,291)</u>
Net adjustment to increase net change in fund balances – total governmental funds to arrive at change in net position of governmental activities	<u>\$ 614,083</u>

Another element of that reconciliation states that “revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental funds.” The details of this \$6,840 difference are as follows:

Deferred tax revenues, June 30, 2013	\$ 22,874
Deferred tax revenues, June 30, 2012	<u>(29,714)</u>
Net adjustment to decrease net change in fund balances – total governmental funds to arrive at change in net position of governmental activities	<u>\$ (6,840)</u>

Another element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$1,331,235 difference are as follows:

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Principal repayments of long-term debt	\$ 1,332,790
Amortization of debt issuance costs	<u>(1,555)</u>
Net adjustment to increase net change in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 1,331,235</u>

Another element of that reconciliation states that “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.” The details of this \$28,165 difference are as follows:

Compensated absences	\$ 16,573
Expenditures treated as capital outlay in fund financial statements which do not meet the criteria for capitalization for the statement of activities and thus are reflected as expenditures	<u>(44,738)</u>
Net adjustment to decrease net change in fund balances – total governmental funds to arrive at change in net position of governmental activities	<u>\$ (28,165)</u>

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

In May of each year the City Administrator submits to the City Council a proposed annual budget for the City for the fiscal year commencing the following July 1. The proposed operating budget is derived from estimates of revenues and proposed expenditures for all City funds as determined by City department heads. During June, the proposed budget is formally introduced and has a first and second reading prior to legal enactment through passage of a budget ordinance by City Council.

The annual budget is adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund, the capital projects fund, and the internal service fund, except that principal bond proceeds received are reflected as other financing sources.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Formal budgetary integration is employed as a management control device during the year. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. The budget is submitted to City Council for approval in summary form with a more detailed line item budget included for administrative control. Revenues are budgeted by source. Expenditures are budgeted by department and category.

The legal level of budgetary control is determined by City Council at the individual fund level. Expenditures by department and major category, i.e. personnel, non-personnel and capital outlay, are further defined in the budget document and are subject to City Administrator approval. The City Administrator is authorized to make transfers between major expenditure categories within departments and between departments within the same fund. The budget ordinance must be amended by Council to effect changes in fund totals.

Budgets, as reported in the financial statements, are as originally passed by ordinance and subsequently amended. During the year, supplementary appropriations may be approved by Council. In addition, reappropriations may be approved resulting in transfers between major expenditure categories within departments and between departments within the same fund. This would result in increases and decreases within individual departments within the funds.

Appropriations which have not been expended or encumbered lapse at the end of each fiscal year. Capital outlay appropriations do not lapse until the purpose for which the appropriation was made is accomplished or abandoned.

Encumbrance accounting is used for the general fund. Encumbrances are recorded when purchase orders are issued, but they are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a commitment of fund balance on the governmental fund balance sheet. Encumbrances do not lapse at the close of the fiscal year, but are carried forward as committed fund balance until liquidated. There were no encumbrances at June 30, 2013.

The Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual for the General Fund – Budgetary Basis on page 8 is presented on a budgetary basis, which includes the entire payment received on the City's note receivable, rather than only reflecting the interest portion received during the year. This difference of \$167,351 represents the current year's principle payment received on the note receivable, which is the only difference between the budgetary funds on a budgetary basis and GAAP General Fund on a GAAP basis.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**B. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2013, overall expenditures in the general fund and in the capital projects fund exceeded total revenues by \$512,633 and \$1,108,646, respectively, which were the result of paying off long-term debt of approximately \$1,060,646 and construction costs of approximately \$741,133 during the year ended June 30, 2013.

As of June 30, 2013, the City had no deficit balance in net position in its proprietary fund.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

*Deposits*

Deposits consist of demand deposits maintained in one financial institution. As of June 30, 2013, the carrying amount of the City's deposits was \$995,419 and the bank balances totaled \$1,449,864. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2013, \$623,365 of the City's bank balance of \$1,449,864 was exposed to custodial credit risk as a result of it being uninsured and uncollateralized by the financial institution.

*Investments*

At June 30, 2013, the City had total investments of \$9,814,647 with the South Carolina Local Government Investment Pool. As required by South Carolina law, investments on hand with the Investment Pool are fully collateralized. The City has no regulatory oversight for the pool, which is governed and administered by the South Carolina Office of the State Treasurer. The pool is audited annually by the State Auditor's Office.

*Interest Rate Risk*

As a means of limiting its exposure to interest rate risk, the South Carolina Local Government Investment Pool diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. It is the policy of the State Treasurer's Office that the weighted average maturity of the South Carolina Local Government Investment Pool portfolio not exceed 60 days.



CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**IV. DETAILED NOTES ON ALL FUNDS**

*Credit Risk*

State law and City policy limit investments to those authorized by South Carolina Code of Laws Section 6-5-10. These state statutes authorize investments in the following:

- a. Obligations of the United States and agencies thereof;
- b. General obligations of the State of South Carolina or any of its political units;
- c. Cash and time deposits to the extent insured by the FDIC;
- d. Certificates of deposit and repurchase agreements collateralized by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of certificates of deposit and repurchase agreements so secured including interest; and
- e. No load open and closed end management type investment companies registered under the Investment Company Act of 1940, as amended, where the investment is made by a financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit.

In addition, South Carolina State Statutes authorize the City to invest in the South Carolina Local Government Investment Pool (the Pool), which is duly chartered and administered by the State Treasurer's Office. The Pool is a 2a7-like pool, which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Pool was created by state legislation, which restricts the types of securities the Pool can purchase. Funds deposited into the South Carolina Local Government Investment Pool by legally qualified entities are used to purchase investment securities as follows:

- a. U.S. Government Securities (direct obligations)
- b. Federal Agency Securities
- c. Repurchase Agreements secured by U.S. Government Securities and/or Federal Agency Securities
- d. A1/P1 Commercial Paper (Moody's/S&P highest rating)

Funds belonging to any entity that are on deposit with the South Carolina Local Government Investment Pool represent participation units in a portfolio comprised of the above referenced securities.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**IV. DETAILED NOTES ON ALL FUNDS**

It is the policy of the State Treasurer's Office that no derivatives of U.S. Government Securities, Federal Agency Securities, or A1/P1 Commercial Paper be purchased by or for the South Carolina Local Government Investment Pool.

The Pool is an external investment pool. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. The fair value of the City's position in the Pool is the same as the value of its Pool shares.

At June 30, 2013, the City's investments consisted solely of funds invested in the South Carolina Local Government Investment Pool. These investments, which totaled \$9,814,647, are specifically excluded from the categorization described above since the City has not issued securities, but rather it owns an undivided beneficial interest in the assets of the South Carolina Local Government Investment Pool. These amounts are presented on the combined balance sheet as "pooled cash and cash equivalents."

The City's balance sheet also includes cash and investments with fiscal agents in the amount of \$59,783, which is specifically excluded from collateralization.

*Concentration of Credit Risk*

State laws limit the type of investments as stated above. The City has no investment policy that would further limit its investment choices.

A reconciliation of cash and investments as shown on the statement of net position for the City of Hanahan at June 30, 2013 follows:

Cash on hand	\$ 350
Carrying amount of non-pooled cash and cash equivalents	642,912
Carrying amount of pooled cash and cash equivalents	5,444,571
Carrying amount of cash with fiscal agents	59,783
Carrying amount of restricted non-pooled cash and cash equivalents	352,507
Carrying amount of restricted pooled cash and cash Equivalents	<u>4,370,076</u>
Total carrying amount of cash and investments	<u>\$ 10,870,199</u>

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**IV. DETAILED NOTES ON ALL FUNDS**

**B. Receivables and Deferred Revenue**

*Property Taxes Receivable and Deferred Revenue*

With the previous implementation of GASB 33, the 2013 levy for real and personal property is included in taxes receivable at June 30, 2013 since it has an enforceable lien date of January 1, 2013. Because it does not meet the criteria for being "available", the entire amount has been deferred at June 30, 2013.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collected.

Taxes receivable as of June 30, 2013, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General Fund</u>
Taxes receivable	\$ 2,356,302
Less: Allowance for uncollectibles	<u>77,342</u>
Net taxes receivable	<u>\$ 2,278,960</u>

*Deferred Revenue*

The City reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Deferred revenue as of June 30, 2013 consists of the following:

	<u>General Fund</u>
Deferred 2013 property taxes	\$ 2,200,000 (a)
Deferred 2012 property taxes	<u>22,874 (b)</u>
Total deferred revenue	<u>\$ 2,222,874</u>

(a) Consists of 2013 tax assessments having an enforceable lien date of January 1, 2013.

(b) Consists of all back taxes receivable (net of allowance for uncollectible amounts) not collected within sixty days of June 30, 2013.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**IV. DETAILED NOTES ON ALL FUNDS**

**C. Due from Other Entities**

The balance at June 30, 2013 consists of amounts due from:

State of South Carolina	\$ 201,300
Utilities and insurance companies	14,794
Employees	25,589
Various other entities	<u>35,427</u>
Total due from other entities	<u>\$ 277,110</u>

**D. Interfund Receivables and Payables**

The composition of interfund balances reflected in the fund financial statements at June 30, 2013, is as follows:

	Receivable Fund	Payable Fund
General fund	\$ 2,665,139	\$ -
Fleet service fund	-	751,866
Capital projects fund	<u>120,483</u>	<u>2,033,756</u>
Total	<u>\$ 2,785,622</u>	<u>\$ 2,785,622</u>

On the statement of net position all interfund balances have been eliminated.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**IV. DETAILED NOTES ON ALL FUNDS**

**E. Capital Assets**

*Changes in Capital Assets*

The following is a summary of the changes in capital assets for the fiscal year:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 923,676	\$ -	\$ -	\$ 923,676
Construction in progress	85,197	741,133	(19,865)	806,465
Total capital assets not being depreciated	1,008,873	741,133	(19,865)	1,730,141
Capital assets being depreciated:				
Buildings and improvements	10,467,948	7,688	(9,326)	10,466,310
Machinery and equipment	1,142,087	185,562	(34,040)	1,293,609
Vehicles and related equipment	4,513,187	109,796	-	4,622,983
Office furnishings and equipment	574,807	28,593	(27,439)	575,961
Other assets	1,698,677	119,180	(1,649)	1,816,208
Total capital assets being depreciated	18,396,706	450,819	(72,454)	18,775,071
Less accumulated depreciation for:				
Buildings and improvements	(2,987,573)	(315,405)	4,670	(3,298,308)
Machinery and equipment	(895,591)	(67,079)	34,040	(928,630)
Vehicles and related equipment	(2,975,043)	(285,426)	-	(3,260,469)
Office furnishings and equipment	(460,201)	(33,737)	27,439	(466,499)
Other assets	(1,433,190)	(72,070)	1,649	(1,503,611)
Total accumulated depreciation	(8,751,598)	(773,717)	67,798	(9,457,517)
Total capital assets being depreciated, net	9,645,108	(322,898)	(4,656)	9,317,554
Total capital assets, net	\$ 10,653,981	\$ 418,235	\$ (24,521)	\$ 11,047,695

**F. Sale of Sewer System/Bonds Receivable**

In May 2000, the City passed a Referendum and entered into an Asset Sale Agreement to sell its sewer system to Berkeley County. The sales price was \$4,375,000, receivable semiannually in 50 installments of \$148,027 including interest on the unpaid balance at the rate of 4.855%. In conjunction therewith, the City granted to Berkeley County an exclusive franchise to furnish sewer service within the City for a period of forty years. All the terms of the Asset Sale Agreement were met and the sale of the sewer system was finalized on May 10, 2001.

As consideration for the sale of the sewer system, Berkeley County issued \$4,375,000 in Water and Sewer System Revenue Bonds with the terms outlined above. The entire principal balance of these bonds, including interest accrued through May 9, 2013, totaling \$2,897,849, was repaid to the City on May 9, 2013.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**IV. DETAILED NOTES ON ALL FUNDS**

**G. Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Tax Increment Bonds	\$ 647,511	\$ -	\$ 647,511	\$ -	\$ -
General Obligation Bonds	1,800,000	-	155,000	1,645,000	160,000
Capital Lease Obligation	530,280	-	530,280	-	-
Compensated Absences	260,896	146,257	162,830	244,323	112,833
	<u>\$ 3,238,687</u>	<u>\$ 146,257</u>	<u>\$ 1,495,621</u>	<u>\$ 1,889,323</u>	<u>\$ 272,833</u>

All long-term debt payments are paid from the general fund. Compensated absences liabilities will also be paid by the general fund.

*General Obligation Bonds of 2011, due September 2026*

On October 6, 2011, the City issued General Obligation Bonds of 2011 dated October 6, 2011 in the total amount of \$1,800,000 to defray the cost of (i) designing, acquiring, constructing and expending various capital improvements within the City, including without limitation recreational facilities and a public works building, and (ii) redeeming and retiring the City's outstanding 2003 Tax Increment Bond. Principal payments are due annually for the General Obligation Bonds of 2011 beginning September 1, 2013. Interest is due March 1, and September 1, of each year at an average annual rate of 2.74%.

The annual requirements to amortize the General Obligation Bonds of 2011 as of June 30, 2013 are as follows:

Fiscal Year Ending June 30	Bond Principal	Interest on Bonds	Total Principal and Interest
2014	\$ 160,000	\$ 42,881	\$ 202,881
2015	165,000	38,429	203,429
2016	170,000	33,839	203,839
2017	175,000	29,112	204,112
2018	180,000	24,249	204,249
2019-2023	475,000	70,487	545,487
2024-2027	320,000	17,947	337,947
	<u>\$ 1,645,000</u>	<u>\$ 256,944</u>	<u>\$ 1,901,944</u>

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**IV. DETAILED NOTES ON ALL FUNDS**

*Tax Increment Bonds (Hanahan Redevelopment Plan Project), Series 2006*

On October 17, 2006, the City issued Tax Increment Bonds, Series 2006 dated October 17, 2006 in the total amount of \$1,016,000 for the purpose of providing a portion of the cost of acquiring certain land and constructing certain public improvements to be undertaken pursuant to the Hanahan Redevelopment Plan. The bonds are payable in twelve annual installments of principal due on September 15 each year and interest due semi-annually on March 15 and September 15 each year. The bonds bear interest on the unpaid principal balance at the rate of 3.99% per annum. These bonds, including accrued interest of \$5,766 and a prepayment penalty of \$22,563, were paid off on June 19, 2013.

*Capital Lease Obligation*

On December 20, 2007, the City entered an equipment lease agreement in the total amount of \$823,890 for the purpose of acquiring a 95' aerial ladder fire truck. The lease is payable in ten annual installments of principal and interest of \$100,368 due on December 20th each year, including interest at 3.76% per annum. The fire truck serves as collateral on the lease obligation. This lease obligation, including accrued interest of \$16,961 was paid off on June 13, 2013.

*Other Contractual Obligations – Compensated Absences*

Specific years for payment of compensated absences are not determinable. However, the portion of the accrued liability for compensated absences expected to be paid within one year is estimated to be approximately \$112,833. Historically, the amount of compensated absences used by employees during the year has approximated the amount earned in a year.

**V. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. For all of these risks, the City is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments. The City pays an annual premium to the State Insurance Reserve Fund for its general insurance coverage. The State Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**V. OTHER INFORMATION**

The City is also subject to risks of loss from providing health, life, accident, and other medical benefits to employees, retirees, and their dependents. The City has enrolled substantially all of its employees in health and life insurance plans administered by a commercial insurance company. In addition, the City insures the risk of job related injury or illness to its employees through the South Carolina Worker's Compensation Trust, a public entity risk pool operating for the benefit of local governments. The City pays an annual premium to the Worker's Compensation Trust for its insurance coverage.

Given the lack of coverage available, the City has no coverage for potential losses from environmental damages, although it does have insurance coverage through the State Insurance Reserve Fund with regard to potential liabilities related to underground storage tanks. The coverage limits and the deductibles for all of the above risk management programs have stayed relatively constant for the last several years. Settled claims resulting from these risks have not exceeded insurance coverage for the last several years. For each of the insurance programs and the public entity risk pools in which they participate, the City has effectively transferred all risk with no liability for unfunded claims.

**B. Contingent Liabilities**

Litigation – The City is party to various legal proceedings, which normally occur, in governmental operations. Although the outcomes are not presently determinable, it is the opinion of legal counsel that resolution of these matters, individually or in the aggregate in excess of insurance coverage will not have a material adverse effect on the financial condition of the City.

Grants – Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial. Management has not been informed of any significant matters of noncompliance with grant provisions or planned grantor audits.

Commitments – At year end, the City had construction commitments outstanding for the Amphitheater/City Park Project, in the form of contracts and purchase orders, of approximately \$751,482, of which approximately \$547,932 had been completed as of June 30, 2013.



CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**V. OTHER INFORMATION**

**C. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan under a program administered by the South Carolina Deferred Compensation Commission. The multiple-employer deferred compensation plan offers employees the choice of four plans: The Internal Revenue Code Section 457 plan; the Internal Revenue Service Code Section 401(k) plan; the Roth 401(k) plan; and the Roth 457 plan. The Plan, available to all regular City employees, permits them to defer until future years up to 100% of annual gross earnings not to exceed \$17,500 for both the 457 plan and for the 401(k) plan with an additional \$5,500 catch-up provision for employees over age 50 with pre-tax contributions. The Roth 401(k) and Roth 457 plans offer employees the opportunity to contribute on an after-tax basis. Employee after-tax contributions for Roth 401(k) and Roth 457 participants must be combined with pre-tax contributions and cannot exceed these annual limits. The deferred compensation is not available to an employee until termination, retirement, disability, death, or approved hardship. The City has no obligation to make contributions to these plans and has made no contributions during the year.

**D. Other Post-Employment Benefits**

In addition to pension benefits, the City provides post-employment benefit options for health care to eligible retirees, terminated employees, and their dependents in accordance with City ordinances and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Eligible employees are required to pay the full cost of post-employment benefits. The City does not currently provide any additional post-employment benefits for its employees.

**E. Employee Retirement Systems and Plans**

*South Carolina Retirement and Police Officers' Retirement Systems*

*Plan Description*

All permanent employees of the City participate in either the South Carolina Retirement System (SCRS) or the South Carolina Police Officers' Retirement System (SCPORS). Both systems are cost-sharing multiple-employer defined benefit pension plans administered by the South Carolina Public Employment Benefit Authority (PEBA), a division of the State Budget and Control Board. The SCRS and SCPORS provide retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance and survivor benefits to plan members and beneficiaries. Each plan's provisions are established under Title 9 of the S.C. Code of Laws, which requires both plan employees and employers to contribute to the plan.

CITY OF HANAHAN, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
Continued

**V. OTHER INFORMATION**

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for both the SCRS and SCPORS is issued and publicly available by writing the South Carolina Public Employment Benefit Authority, P.O. Box 11960, Columbia, SC 29211-1960 or by accessing their website at [www.retirement.sc.gov](http://www.retirement.sc.gov).

*Funding Policy – SCRS* – Plan members are required to contribute 7% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 10.45% of annual covered payroll. In addition, employers contribute .15% of payroll to provide a group life insurance benefit for their participants.

*Funding Policy – SCPORS* – Plan members are required to contribute 7% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 11.9% of annual covered payroll. In addition, employers contribute .2% of payroll to provide a group life insurance benefit and .2% of payroll to provide an accidental death benefit for their participants.

*Contribution Information* – The following table presents the required contributions to the SCRS and SCPORS by the City for the fiscal years ended June 30, 2013, 2012, and 2011:

	2013		2012		2011	
SCRS Contributions	\$	157,764	\$	148,446	\$	142,469
SCPORS Contributions	\$	251,730	\$	254,867	\$	256,495

The City contributed one hundred percent (100%) of its required contributions for the current year and each of the previous two years.

**F. Subsequent Events**

Subsequent to June 30, 2013, the City has planned to add improvements to the Amphitheater/City Park projects, including parking at an estimated cost of \$29,166. In addition, there are plans to add restroom and concession facilities, but the costs and plans are still being discussed. The City is also involved in negotiations to purchase real estate for its new public works facility.

**SUPPLEMENTARY**

**INFORMATION**

CITY OF HANAHAN, SOUTH CAROLINA  
SUPPLEMENTAL SCHEDULE OF FINES, ASSESSMENTS AND SURCHARGES  
GENERAL FUND  
Year Ended June 30, 2013

Court Fines	
Court fines collected	\$ 197,408
Court fines retained by the City	<u>(197,408)</u>
Court fines remitted to the State Treasurer	<u>\$ -</u>
Court Assessments	
Court assessments collected	\$ 223,552
Court assessments retained by the City	<u>(23,215)</u>
Court assessments remitted to the State Treasurer	<u>\$ 200,337</u>
Court Surcharges	
Court surcharges collected	\$ 64,145
Court surcharges retained by the City	<u>(5,042)</u>
Court surcharges remitted to the State Treasurer	<u>\$ 59,103</u>
Victims Services	
Court assessments allocated to Victim Services	\$ 23,215
Court surcharges allocated to Victim Services	<u>5,042</u>
Funds allocated to Victim Services	28,257
Victims Services funds expended during the year	<u>(48,247)</u>
Net Victims Services funds expended during the year	<u>\$ (19,990)</u>

See Independent Auditor's Report.

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

Honorable Mayor and Members of City Council  
City of Hanahan, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Hanahan, South Carolina as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Hanahan, South Carolina's basic financial statements and have issued our report thereon dated February 14, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Hanahan, South Carolina'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hanahan, South Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hanahan, South Carolina'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 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 over financial reporting 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 the City of Hanahan, South Carolina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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.

February 14, 2014

*Riser, McLaurin & Gibbons, L.L.P.*