

CITY OF HANAHAN, SOUTH CAROLINA
BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2015



**RISER, MCLAURIN
& GIBBONS, L.L.P.**

A REGISTERED LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HANAHAN, SOUTH CAROLINA
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YEAR ENDED JUNE 30, 2015

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CITY OF HANAHAN, SOUTH CAROLINA
PRINCIPAL OFFICIALS
For the Year Ended June 30, 2015

MAYOR

Minnie Newman

COUNCIL MEMBERS

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

CITY ADMINISTRATOR

John P. Cribb



RISER, MCLAURIN
& GIBBONS, L.L.P.

A REGISTERED LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS

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BARRY E MCLAURIN, Jr
GLENN D GIBBONS
WILLIAM D RISER
CATHY JEAN SINEATH
CHARLES W CARPENTER
TYLER K. GIBBONS

HAROLD D RISER
(1921-1993)

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, 2015, 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 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 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hanahan, South Carolina, as of June 30, 2015, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and GASB Statement No. 68 net pension liability and related information on pages 40-41 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. Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, as stated above. Our opinion on the basic financial statements is not affected by the missing information. We have applied certain limited procedures to the GASB Statement No. 68 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 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 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 Supplemental Schedule of Fines, Assessments and Surcharges – General Fund 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 January 29, 2016, 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* in considering the City of Hanahan, South Carolina's internal control over financial reporting and compliance.

January 29, 2016

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

CITY OF HANAHAN, SOUTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2015

Exhibit A-1

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Non-pooled cash and cash equivalents | \$ 1,985,390 |
| Pooled cash and cash equivalents | 6,163,155 |
| Cash with fiscal agents | 49,896 |
| Taxes receivable, net | 2,279,289 |
| Due from other entities | 322,992 |
| Inventories | 5,887 |
| Prepaid insurance | 34,951 |
| Restricted assets: | |
| Non-pooled cash and cash equivalents | 504,240 |
| Pooled cash and cash equivalents | 2,072,557 |
| Capital assets (Note IV.E): | |
| Nondepreciable capital assets | 1,105,136 |
| Other capital assets, net of accumulated depreciation | 11,782,653 |
| Total capital assets | <u>12,887,789</u> |
| Total assets | <u>26,306,146</u> |
| DEFFERED OUTFLOWS OF RESOURCES | |
| Deferred pension contributions | 474,490 |
| Deferred pension actuarial experience differences | 123,757 |
| Total deferred outflows of resources | <u>598,247</u> |
| LIABILITIES | |
| Accounts payable | 224,015 |
| Accrued compensation and related liabilities | 236,926 |
| Unearned revenues | 65,000 |
| Net pension liability | 6,289,108 |
| Compensated absences: | |
| Expected to be paid within one year | 125,758 |
| Expected to be paid after one year | 106,856 |
| General obligation bonds payable: | |
| Portion due within one year | 170,000 |
| Portion due after one year | 1,150,000 |
| Total liabilities | <u>8,367,663</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable property tax revenues – current | 2,200,000 |
| Deferred pension investment differences | 479,233 |
| Total deferred inflows of resources | <u>2,679,233</u> |
| NET POSITION | |
| Net investment in capital assets | 11,567,789 |
| Restricted for capital projects | 1,646,507 |
| Restricted for property tax rollback | 593,323 |
| Restricted for other specific purposes | 69,916 |
| Unrestricted | <u>1,979,962</u> |
| Total net position | <u>\$ 15,857,497</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, 2015

Exhibit A-2

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | | Net (Expense) Revenue – Governmental Activities |
|---|--------------|-------------------------|---------------------|-------------------|--|
| | | Charges for Services | Operating Grants | Capital Grants | |
| Governmental activities: | | | | | |
| General government | \$ 1,759,025 | \$ 22,800 | \$ - | \$ - | \$ (1,736,225) |
| Public safety: | | | | | |
| Police | 2,479,008 | 781,503 | - | 980 | (1,696,525) |
| Fire | 1,807,608 | 331,355 | 1,752 | - | (1,474,501) |
| Public works | 765,954 | 16,125 | - | - | (749,829) |
| Code enforcement | 239,426 | 1,705,326 | - | - | 1,465,900 |
| Recreation and parks | 869,995 | 319,950 | - | 76,197 | (473,848) |
| Depreciation | 761,834 | - | - | - | (761,834) |
| Interest on long-term debt | 38,429 | - | - | - | (38,429) |
| Total governmental activities | 8,721,279 | 3,177,059 | 1,752 | 77,177 | (5,465,291) |
| GENERAL REVENUES | | | | | |
| Property taxes | | | | | 2,660,633 |
| Intergovernmental revenues - local option sales tax | | | | | 1,665,407 |
| Intergovernmental revenues - other | | | | | 741,323 |
| Franchise fees | | | | | 1,506,156 |
| Miscellaneous revenues | | | | | 52,341 |
| Interest earnings | | | | | 20,526 |
| Total general revenues | | | | | 6,646,386 |
| Change in net position | | | | | 1,181,095 |
| Net position - beginning (as restated) | | | | | 14,676,402 |
| Net position - ending | | | | | <u>\$15,857,497</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, 2015

Exhibit B-1

| | General Fund | Capital Projects Fund | Total Governmental Funds |
|--|----------------------|-----------------------------|--------------------------------|
| ASSETS | | | |
| Non-pooled cash and cash equivalents | \$ 1,985,390 | \$ - | \$ 1,985,390 |
| Pooled cash and cash equivalents | 3,682,993 | 1,617,499 | 5,300,492 |
| Cash with fiscal agents | 49,896 | - | 49,896 |
| Property taxes receivable (net of allowance for uncollectible taxes) | 2,279,289 | - | 2,279,289 |
| Due from other entities | 322,992 | - | 322,992 |
| Due from other funds | 2,109,903 | 121,959 | 2,231,862 |
| Prepaid insurance | 34,951 | - | 34,951 |
| Restricted assets: | | | |
| Non-pooled cash and cash equivalents | 503,091 | 1,149 | 504,240 |
| Pooled cash and cash equivalents | 1,626,988 | 445,569 | 2,072,557 |
| Total assets | \$ 12,595,493 | \$ 2,186,176 | \$ 14,781,669 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 224,015 | \$ - | \$ 224,015 |
| Accrued compensation | 236,926 | - | 236,926 |
| Due to other funds | - | 1,592,109 | 1,592,109 |
| Total liabilities | 460,941 | 1,592,109 | 2,053,050 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable property tax revenues – current | 2,200,000 | - | 2,200,000 |
| Unavailable property tax revenues – delinquent | 19,698 | - | 19,698 |
| Total deferred inflows of resources | 2,219,698 | - | 2,219,698 |
| FUND BALANCES | | | |
| Nonspendable | 34,951 | - | 34,951 |
| Restricted for: capital projects/development | 1,052,440 | 594,067 | 1,646,507 |
| drug/police enforcement | 69,916 | - | 69,916 |
| Committed for property tax rollback | 593,323 | - | 593,323 |
| Assigned for subsequent years' appropriation | 312,891 | - | 312,891 |
| Unassigned | 7,851,333 | - | 7,851,333 |
| Total fund balances | 9,914,854 | 594,067 | 10,508,921 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 12,595,493 | \$ 2,186,176 | |

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.

11,621,819

Some of the City's property taxes receivable will be collected after year-end, but are not available soon enough to pay for current period expenditures, and therefore are reported as deferred inflows of resources in the funds.

19,698

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.

(7,787,708)

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 \$1,494,767 is included in governmental activities in the statement of net position.

1,494,767

Net position of governmental activities

\$ 15,857,497

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, 2015

Exhibit B-2

| | General Fund | Capital Projects Fund | Total Governmental Funds |
|--|---------------------|-----------------------------|--------------------------------|
| REVENUES | | | |
| Property taxes | \$ 2,279,753 | \$ 387,582 | \$ 2,667,335 |
| Intergovernmental revenues – local option sales tax | 1,665,407 | - | 1,665,407 |
| Intergovernmental revenues – other | 741,323 | - | 741,323 |
| Intergovernmental revenues – grants | 5,232 | 73,697 | 78,929 |
| Franchise fees | 1,506,156 | - | 1,506,156 |
| Licenses and permits | 1,705,326 | - | 1,705,326 |
| Court fines | 516,195 | - | 516,195 |
| Impact fees | - | 211,022 | 211,022 |
| Recreational program fees | 247,909 | - | 247,909 |
| 911 revenues | 204,262 | - | 204,262 |
| EMS fees received | 167,560 | - | 167,560 |
| Miscellaneous revenues | 177,126 | - | 177,126 |
| Interest earnings | 12,517 | 5,681 | 18,198 |
| Total revenues | \$ 9,228,766 | \$ 677,982 | \$ 9,906,748 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | \$ 1,695,888 | \$ - | \$ 1,695,888 |
| Public works | 765,491 | - | 765,491 |
| Police | 2,460,772 | - | 2,460,772 |
| Fire | 1,825,268 | - | 1,825,268 |
| Code enforcement | 243,472 | - | 243,472 |
| Recreation and parks | 860,246 | - | 860,246 |
| Grant expenditures | 4,945 | 92,671 | 97,616 |
| Debt Service: | | | |
| Principal payments | - | 165,000 | 165,000 |
| Interest payments | - | 38,429 | 38,429 |
| Capital outlay | 1,731,968 | 509,014 | 2,240,982 |
| Total expenditures | 9,588,050 | 805,114 | 10,393,164 |
| Excess of expenditures over revenues | (359,284) | (127,132) | (486,416) |
| Net change in fund balances | (359,284) | (127,132) | (486,416) |
| Fund balances, beginning | 10,274,138 | 721,199 | 10,995,337 |
| Fund balances, ending | \$ 9,914,854 | \$ 594,067 | \$ 10,508,921 |

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, 2015

| | |
|---|--------------------|
| Net change in fund balances – total governmental funds (from Exhibit B-2) | \$ (486,416) |
| 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. | 1,792,694 |
| Delinquent property taxes receivable will be collected this year, but are reported as deferred inflows of resources in the governmental funds because they are not available soon enough to pay for the current period's expenditures | (6,702) |
| 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 \$239,273 is reported with governmental activities. | (239,273) |
| 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 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. | 249,440 |
| 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. | (128,648) |
| Change in net position of governmental activities (see Exhibit (A-2)) | <u>\$1,181,095</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

Exhibit C-1

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|--------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property Taxes | \$ 2,390,000 | \$ 2,290,000 | \$ 2,279,753 | \$ (10,247) |
| Intergovernmental revenues – local option sales tax | 1,300,000 | 1,400,000 | 1,665,407 | 265,407 |
| Intergovernmental revenues – other | 725,892 | 725,892 | 741,323 | 15,431 |
| Intergovernmental revenues – grants | 3,200 | 3,200 | 5,232 | 2,032 |
| Franchise fees | 1,388,000 | 1,388,000 | 1,506,156 | 118,156 |
| Licenses and permits | 1,475,000 | 1,475,000 | 1,705,326 | 230,326 |
| Court fines | 502,500 | 502,500 | 516,195 | 13,695 |
| Recreational program fees | 221,700 | 221,700 | 247,909 | 26,209 |
| 911 revenues | 53,900 | 53,900 | 204,262 | 150,362 |
| EMS fees received | 175,000 | 175,000 | 167,560 | (7,440) |
| Miscellaneous revenues | 151,050 | 151,050 | 177,126 | 26,076 |
| Interest earnings | 11,000 | 11,000 | 12,517 | 1,517 |
| Total revenues | 8,397,242 | 8,397,242 | 9,228,766 | 831,524 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,753,638 | 1,753,638 | 1,695,888 | 57,750 |
| Public works | 814,973 | 814,973 | 765,491 | 49,482 |
| Police | 2,506,355 | 2,506,355 | 2,460,772 | 45,583 |
| Fire | 1,868,199 | 1,868,199 | 1,825,268 | 42,931 |
| Code enforcement | 307,508 | 307,508 | 243,472 | 64,036 |
| Recreation and parks | 937,508 | 937,508 | 860,246 | 77,262 |
| Grant expenditures | 5,500 | 5,500 | 4,945 | 555 |
| Capital outlay | 349,995 | 349,995 | 1,731,968 | (1,381,973) |
| Total expenditures | 8,543,676 | 8,543,676 | 9,588,050 | (1,044,374) |
| Excess of expenditures over revenues | (146,434) | (146,434) | (359,284) | (212,850) |
| Net change in fund balance | (146,434) | (146,434) | (359,284) | (212,850) |
| Fund balance - beginning | 10,274,138 | 10,274,138 | 10,274,138 | - |
| Fund balance – ending | \$10,127,704 | \$10,127,704 | \$ 9,914,854 | \$ (212,850) |

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, 2015

Exhibit D-1

| | <u>Internal Service Fund</u> |
|---|----------------------------------|
| ASSETS | |
| Pooled cash and cash equivalents | \$ 862,663 |
| Inventories | 5,887 |
| Capital assets, net of accumulated depreciation | <u>1,265,970</u> |
| Total assets | <u>2,134,520</u> |
| LIABILITIES | |
| Due to other funds | <u>639,753</u> |
| Total liabilities | <u>639,753</u> |
| NET POSITION | |
| Net investment in capital assets | 1,265,970 |
| Unrestricted | <u>228,797</u> |
| Total net position | <u>\$ 1,494,767</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, 2015

Exhibit D-2

| | Internal Service Fund |
|--|--------------------------|
| OPERATING REVENUES | |
| Internal service charges | \$ - |
| Total operating revenues | <u>-</u> |
| OPERATING EXPENSES | |
| Depreciation | 220,875 |
| Fuel, lubricants, and tires | 20,726 |
| Total operating expenses | <u>241,601</u> |
| Operating income (loss) | <u>(241,601)</u> |
| NON-OPERATING REVENUES | |
| Investment income | 2,328 |
| Total non-operating revenues | <u>2,328</u> |
| Income (loss) before operating transfers | <u>(239,273)</u> |
| Change in net position | (239,273) |
| Total net position, beginning of year | <u>1,734,040</u> |
| Total net position, end of year | <u>\$ 1,494,767</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, 2015

Exhibit D-3

| | Internal Service Fund |
|---|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash paid by other funds for capital assets | \$ 40,018 |
| Cash payments for goods and services (by other funds) | (3,628) |
| Net Cash Provided By (Used In) Operating Activities | <u>36,390</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of capital assets | (220,365) |
| Net Cash Used In Capital and Related Financing Activities | <u>(220,365)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest earned on investments | 2,328 |
| Net Cash Provided By Investing Activities | <u>2,328</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (181,647) |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>1,044,310</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 862,663</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Operating Income (Loss) | \$ (241,601) |
| Adjustments to reconcile operating income (loss) to net net cash provided by operating activities: | |
| Depreciation | 220,875 |
| Decrease in inventories | 6,074 |
| Increase in amounts due to other funds | <u>51,042</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>\$ 36,390</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, 2015

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, 2015.

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 (Continued)

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: Net investment in capital assets; 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 (Continued)

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 (Continued)

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. Up until June 30, 2014, all vehicle operating costs were accounted for in this fund. However, beginning July 1, 2014 all vehicle operating costs except depreciation are budgeted, paid from, and accounted for in the General Fund. The proprietary fund activity is reported with governmental activities in the government-wide statements.

E. Assets, Liabilities, Deferred Inflows of Resources and Net Position

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.

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has a number of financial instruments, none of which are held for trading purposes. Except for non-participating interest earning investment contracts, 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, 2015. All net property taxes receivable at year end, except those collected within sixty days, are recorded as deferred inflows of resources, 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.

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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

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, 2015 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 (Continued)

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, 2015 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, 2015 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, 2015 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 6). 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 activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets used in governmental

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

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

funds are not financial resources and therefore are not reported in the funds." The details of this \$11,621,819 difference are as follows:

| | |
|--|---------------------|
| Cost of nondepreciable capital assets | \$ 1,105,136 |
| Cost of other capital assets | 17,155,827 |
| Subtotal | <u>18,260,963</u> |
| Less accumulated depreciation | 6,639,144 |
| Net adjustment to increase fund balances – total governmental funds to arrive at net position of governmental activities | <u>\$11,621,819</u> |

Another element of that reconciliation explains that "some of the City's property taxes receivable will be collected after year end, but are not available soon enough to pay for current period expenditures, and therefore are reported as deferred inflows of resources in the funds." The details of this \$19,698 difference are as follows:

| | |
|--|------------------|
| Property taxes receivable | \$ 19,698 |
| Net adjustment to increase fund balances – total governmental funds to arrive at net position of governmental activities | <u>\$ 19,698</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 \$7,787,708 difference are as follows:

| | |
|---|---------------------|
| Net pension liability | \$ 6,289,108 |
| Deferred inflows of resources – investment differences | 479,233 |
| Deferred outflows of resources – pension contributions | (474,490) |
| Deferred outflows of resources – actuarial differences | (123,757) |
| Net pension differences | <u>6,170,094</u> |
| General obligation bonds payable | 1,320,000 |
| Accrued compensated absences | 232,614 |
| Unearned revenues to be received in the future for development; provided by the City as consideration for real estate donated by a developer | <u>65,000</u> |
| Net adjustment to decrease fund balances – total governmental funds to arrive at net position of governmental activities | <u>\$ 7,787,708</u> |

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

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

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 \$1,792,694 difference are as follows:

| | |
|--|---------------------|
| Capital outlay | \$ 2,240,982 |
| Capital outlay included in grant expenditures | 92,671 |
| Depreciation expense | <u>(540,959)</u> |
| Net adjustment to increase net change in fund balances – total governmental funds to arrive at change in net position of governmental activities | <u>\$ 1,792,694</u> |

Another element of that reconciliation states that “delinquent property taxes receivable will be collected this year, but are reported as deferred inflows of resources in the governmental funds because they are not available soon enough to pay for the current period’s expenditures.” The details of this \$6,702 difference are as follows:

| | |
|--|-------------------|
| Unavailable property tax revenues, June 30, 2015 | \$ 19,698 |
| Unavailable property tax revenues, June 30, 2014 | <u>26,400</u> |
| Net adjustment to increase net change in fund balances – total governmental funds to arrive at change in net position of governmental activities | <u>\$ (6,702)</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 bond 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 \$249,440 difference are as follows:

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

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

| | |
|---|-------------------|
| Principal repayments of long-term debt | \$ 165,000 |
| Net pension expense differences – current | <u>84,440</u> |
| Net adjustment to increase net change in fund balances – total governmental funds to arrive at changes in net position of governmental activities | <u>\$ 249,440</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 \$128,648 difference are as follows:

| | |
|---|---------------------|
| Compensated absences | \$ 13,460 |
| 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>(142,108)</u> |
| Net adjustment to decrease net change in fund balances – total governmental funds to arrive at change in net position of governmental activities | <u>\$ (128,648)</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 (Continued)

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, 2015.

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

B. Excess of Expenditures Over Appropriations

As of June 30, 2015, 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, 2015, the carrying amount of the City's deposits was \$2,487,780 and the bank balances totaled \$2,576,167. 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, 2015, \$447,066 of the City's bank balance of \$2,576,167 was exposed to custodial credit risk as a result of it being uninsured and uncollateralized by the financial institution.

Investments

At June 30, 2015, the City had total investments of \$8,235,712 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 (Continued)

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 (Continued)

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, 2015, the City's investments consisted solely of funds invested in the South Carolina Local Government Investment Pool. These investments, which totaled \$8,235,712, 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 \$49,896, 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, 2015 follows:

| | |
|--|----------------------|
| Cash on hand | \$ 1,850 |
| Carrying amount of non-pooled cash and cash equivalents | 1,983,540 |
| Carrying amount of pooled cash and cash equivalents | 6,163,155 |
| Carrying amount of cash with fiscal agents | 49,896 |
| Carrying amount of restricted non-pooled cash and cash equivalents | 504,240 |
| Carrying amount of restricted pooled cash and cash Equivalents | <u>2,072,557</u> |
| Total carrying amount of cash and investments | <u>\$ 10,775,238</u> |

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables and Deferred Inflows of Resources

Property Taxes Receivable and Deferred Inflows of Resources

With the previous implementation of GASB 33, the 2015 levy for real and personal property is included in taxes receivable at June 30, 2015 since it has an enforceable lien date of January 1, 2015. Because it does not meet the criteria for being "available", the entire amount has been deferred at June 30, 2015.

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, 2015, including the applicable allowance for uncollectible accounts, are as follows:

| | <u>General Fund</u> |
|------------------------------------|---------------------|
| Taxes receivable | \$ 2,360,799 |
| Less: Allowance for uncollectibles | <u>81,510</u> |
| Net taxes receivable | <u>\$ 2,279,289</u> |

Deferred Inflows or Resources

The City reports deferred inflows of resources on its governmental fund balance sheet. Deferred inflows of resources 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 inflows of resources is removed from the balance sheet and revenue is recognized. Deferred inflows of resources as of June 30, 2015 consist of the following:

| | <u>General Fund</u> |
|---|---------------------|
| Unavailable 2015 property tax revenues - current | \$ 2,200,000 (a) |
| Unavailable 2014 property tax revenues - delinquent | <u>19,698 (b)</u> |
| Total deferred inflows of resources | <u>\$ 2,219,698</u> |

(a) Consists of 2015 tax assessments having an enforceable lien date of January 1, 2015.

(b) Consists of all back taxes receivable (net of allowance for uncollectible amounts) not collected within sixty days of June 30, 2015.

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

IV. DETAILED NOTES ON ALL FUNDS (Continued)

C. Due from Other Entities

The balance at June 30, 2015 consists of amounts due from:

| | |
|---|-------------------|
| State of South Carolina / local government agencies | \$ 241,782 |
| Utilities and insurance companies | 27,165 |
| Employees | 745 |
| Various other entities | 53,300 |
| Total due from other entities | <u>\$ 322,992</u> |

D. Interfund Receivables and Payables

The composition of interfund balances reflected in the fund financial statements at June 30, 2015, is as follows:

| | Receivable Fund | Payable Fund |
|-----------------------|---------------------|---------------------|
| General fund | \$ 2,109,903 | \$ - |
| Fleet service fund | - | 639,753 |
| Capital projects fund | 121,959 | 1,592,109 |
| Total | <u>\$ 2,231,862</u> | <u>\$ 2,231,862</u> |

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

E. Unearned Revenues

During February 2014 the City bought a 1.6 acre tract of land from a real estate developer in consideration of a \$65,000 reduction of future building fees that will be incurred by the developer, or its successor, on land adjacent to the parcel that was purchased. The \$65,000 property value corresponds to the amount of unearned future building fees that will be discounted once construction of a 395,000 s.f. building on the adjacent parcel begins. The contract terms state the City (the purchaser) shall reduce future fees due from the seller to the purchaser as follows:

- The reduction of fees shall be for, and limited to, the construction of a building on the seller's remaining property;
- Future building fees shall be reduced by 50%, provided the total amount of reduced fees shall not exceed \$65,000;
- The future building fees due from the seller to the purchaser shall consist of the building cost fee, plan review fee, electrical permit fee, mechanical permit fee, plumbing permit fee, and gas permit fee;
- The reduction agreement is assignable to any successor in interest of the seller.

As a result of the above transaction, the only statement affected at June 30, 2015 is the Statement of Net Position, which reflects both the cost as a capital asset and the unearned revenues as a liability. As these unearned revenues are assessed and collected in the future, the fees will be recognized and the unearned revenues will decrease accordingly.

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Capital Assets

Changes in Capital Assets

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

| | Balance June 30, 2014 | Additions | Reductions | Balance June 30, 2015 |
|---|--------------------------|--------------|--------------|--------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 988,676 | \$ - | \$ - | \$ 988,676 |
| Construction in progress | 174,055 | 116,460 | (174,055) | 116,460 |
| Total capital assets not being depreciated | 1,162,731 | 116,460 | (174,055) | 1,105,136 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 11,637,899 | 2,032,294 | - | 13,670,193 |
| Machinery and equipment | 1,283,022 | 120,950 | (74,928) | 1,329,044 |
| Vehicles and related equipment | 4,478,157 | 220,365 | (20,822) | 4,677,700 |
| Office furnishings and equipment | 486,116 | 73,553 | (54,449) | 505,220 |
| Other assets | 1,803,061 | 32,472 | (184,163) | 1,651,370 |
| Total capital assets being depreciated | 19,688,255 | 2,479,634 | (334,362) | 21,833,527 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (3,618,527) | (368,746) | - | (3,987,273) |
| Machinery and equipment | (927,199) | (85,631) | 68,450 | (944,380) |
| Vehicles and related equipment | (3,211,677) | (220,875) | 20,822 | (3,411,730) |
| Office furnishings and equipment | (369,814) | (35,215) | 52,192 | (352,837) |
| Other assets | (1,486,055) | (51,367) | 182,768 | (1,354,654) |
| Total accumulated depreciation | (9,613,272) | (761,834) | 324,232 | (10,050,874) |
| Total capital assets being depreciated, net | 10,074,983 | 1,717,800 | (10,130) | 11,782,653 |
| Total capital assets, net | \$ 11,237,714 | \$ 1,834,260 | \$ (184,185) | \$ 12,887,789 |

G. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2015 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------|----------------------|------------|------------|-------------------|------------------------|
| General Obligation Bonds | \$ 1,485,000 | \$ - | \$ 165,000 | \$ 1,320,000 | \$ 170,000 |
| Compensated Absences | 246,074 | 158,826 | 172,286 | 232,614 | 125,758 |
| | \$ 1,731,074 | \$ 158,826 | \$ 337,286 | \$ 1,552,614 | \$ 295,758 |

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

IV. DETAILED NOTES ON ALL FUNDS (Continued)

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, 2015 are as follows:

| Fiscal Year Ending June 30 | Bond Principal | Interest on Bonds | Total Principal and Interest |
|-------------------------------|---------------------|----------------------|---------------------------------|
| 2016 | \$ 170,000 | \$ 33,839 | \$ 203,839 |
| 2017 | 175,000 | 29,112 | 204,112 |
| 2018 | 180,000 | 24,249 | 204,249 |
| 2019 | 185,000 | 19,249 | 204,249 |
| 2020 | 70,000 | 15,755 | 85,755 |
| 2021-2025 | 375,000 | 48,841 | 423,841 |
| 2025-2027 | 165,000 | 4,589 | 169,589 |
| | <u>\$ 1,320,000</u> | <u>\$ 175,634</u> | <u>\$ 1,495,634</u> |

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 \$125,758. Historically, the amount of compensated absences used by employees during the year has approximated the amount earned in a year.

H. Restatement of Beginning Net Position

The implementation of GASB Statement No. 68 (Accounting and Financial Reporting for Pensions) during the year ended June 30, 2015, requires accounting

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

IV. DETAILED NOTES ON ALL FUNDS (Continued)

changes adopted to conform to its provisions to be applied retroactively by restating financial statements or by restating beginning net position by the cumulative effect of applying the statement. In governmental fund financial statements, a net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Since the City's fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting, the net pension liability will not be liquidated with expendable available financial resources. As a result, the effects of GASB Statement No. 68 are not applicable to the City's fund financial statements, and they are only applicable to the government-wide statements (pages 4 – 5).

Due to the GASB Statement No. 68 implementation described above, beginning net position for the year ended June 30, 2015 has been decreased by \$6,254,535, from \$20,930,937 to \$14,676,402. The difference represents the cumulative effect of restating the net pension liability as of June 30, 2014.

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.

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

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

V. OTHER INFORMATION (Continued)

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 two trail grants: (1) a comprehensive trails grant with an estimated total cost of \$322,023, with a required 20% match of \$96,606, of which \$66,400 is being provided by the Berkeley County transportation committee, and (2) a separate \$125,000 trails grant with a 20% required match of \$25,000. Of these total contracts, approximately \$92,671 and \$21,290, respectively, had been completed as of June 30, 2015. Both projects are expected to be completed during the year ending June 30, 2016.

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

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

V. OTHER INFORMATION (Continued)

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 regular employees of the City must participate in either the South Carolina Retirement System (SCRS) or the Police Officers Retirement System (PORS). Both the SCRS and PORS 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 plan's provisions are established under Title 9 of the South Carolina Code of Laws. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the PEBA 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.

Benefits Provided

The SCRS and PORS provide retirement, disability, group life insurance benefits, survivor, and death benefits to plan members or beneficiaries.

SCRS Class II – Any employee who has attained age 65 or 28 years of credited service, with at least 5 years of earned service, is entitled to receive annual retirement benefits calculated at 1.82% of average final compensation (AFC) multiplied by the number of years of credited service. AFC is defined as 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.

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

V. OTHER INFORMATION (Continued)

SCRS Class III – Any employee who has attained age 65 or meets the rule of 90 requirement, meaning that the member's age plus the years of service must add up to a total of at least 90, with at least 8 years of earned service, is entitled to receive annual retirement benefits calculated at 1.82% of AFC multiplied by the number of years of credited service. AFC is defined as the average annual earnable compensation during 12 consecutive quarters and does not include any amount for termination pay.

PORS Class I – Any employee who has attained age 55 or 25 years of credited service, with at least 5 years of earned service, is entitled to receive annual retirement benefits calculated at \$10.97 per month for each year of service.

PORS Class II – Any employee who has attained age 55 or 25 years of credited service, with at least 5 years of earned service, is entitled to receive annual retirement benefits calculated at 2.14% of AFC multiplied by the number of years of credited service. AFC is defined as 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.

PORS Class III – Any employee who has attained age 55 or 27 years of credited service, with at least 8 years of earned service, is entitled to receive annual retirements calculated at 2.14% of AFC multiplied by the number of years of credited service. AFC is defined as the average annual earnable compensation during 20 consecutive quarters and does not include any amount for termination pay.

Other details: A SCRS Class II employee who retires after attaining age 55 with at least 25 years of service is entitled to early retirement benefits reduced by 4% for each year of service under 28. A SCRS Class II employee who retires after attaining age 60 with at least 25 years of service is entitled to early retirement benefits reduced by 5% for each year of service under age 65. A SCRS Class III employee who retires after attaining age 60 with at least 25 years of service is entitled to early retirement benefits reduced by 5% for each year of service under age 65. PORS employees are ineligible for early retirement benefits.

Disability benefits: Certain employees with at least 5-8 years of service, depending on the retirement system and class, who are not yet eligible to retire and who have a total or permanent disability, may qualify for various disability benefits, based on the date of disability.

Contributions

Plan members are required to contribute 8% (SCRS) and 8.41% (PORS) of their annual covered salary and the City is required to contribute at an actuarially

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

V. OTHER INFORMATION (Continued)

determined rate to maintain a thirty-year amortization period for the plans' unfunded liabilities. The SCRS FY2015 rate is 10.75% of annual covered payroll while the PORS FY2015 rate is 13.01% of covered payroll. The contribution requirements of plan members and the District are established under authority of Title 9 of the South Carolina Code of Laws. The City's combined contributions to SCRS and PORS for the years ended June 30, 2015, 2014, and 2013 were \$474,490, \$437,355, and \$409,494, respectively, which equal 100% of the required contributions for each year.

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

At June 30, 2015, the City reported a liability of \$6,289,108 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2013, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's proportion was .016411% (SCRS) and .18092% (PORS) of the total plans' employer contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the City recognized pension expense of \$198,031 (SCRS) and \$303,029 (PORS). At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

| | Deferred Outflows of Resources | | | Deferred Inflows of Resources | | |
|---|-----------------------------------|-------------------|-------------------|----------------------------------|-------------------|-------------------|
| | SCRS | PORS | Total | SCRS | PORS | Total |
| Differences between expected and actual results | \$ 55,297 | \$ 68,460 | \$ 123,757 | \$ - | \$ - | \$ - |
| Net differences between projected and actual earnings on plan investments | - | - | - | 178,653 | 300,580 | 479,233 |
| City contributions subsequent to the measurement date | 160,808 | 313,682 | 474,490 | - | - | - |
| Total | \$ 216,105 | \$ 382,142 | \$ 598,247 | \$ 178,653 | \$ 300,580 | \$ 479,233 |

The \$474,490 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

V. OTHER INFORMATION (Continued)

reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| Year ending June 30, | SCRS | PORS | Total |
|----------------------|----------|----------|-----------|
| 2016 | (34,787) | (76,223) | (111,010) |
| 2017 | (34,787) | (76,223) | (111,010) |
| 2018 | (53,781) | (79,675) | (133,456) |

Actuarial Assumptions

The total pension liability in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.75 percent |
| Salary increases | 3.5 percent, including inflation (SCRS) 4.0 percent, including inflation (PORS) |
| Investment rate of return | 7.5 percent, net of Plan investment expense, including inflation |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2010. State law requires that an actuarial experience study be completed at least once in each 5-year period, so the next experience study will be conducted after the June 30, 2015 annual valuation is complete. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consult for the Retirement System Investment Commission (hereafter RSIC) using a building block approach, reflecting

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

V. OTHER INFORMATION (Continued)

observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table below. For actuarial purposes, the 7.5 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

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

| Asset Class | Target Asset Allocation | Long-Term Expected Portfolio Real Rate of Return |
|----------------------------------|-------------------------|--|
| Cash | 2.0 % | 0.01 |
| Short Duration | 3.0 % | 0.02 |
| Domestic Fixed Income | 13.0 % | 0.26 |
| Global Fixed Income | 9.0 % | 0.27 |
| Global Public Equity | 31.0 % | 2.42 |
| Global Tactical Asset Allocation | 10.0 % | 0.51 |
| Hedge Funds (Low Beta) | 8.0 % | 0.32 |
| Private Debt | 7.0 % | 0.71 |
| Private Equity | 9.0 % | 0.92 |
| Real Estate (Broad Market) | 5.0 % | 0.29 |
| Commodities | 3.0 % | 0.15 |
| Total Expected Real Return | 100.0 % | 5.88 |
| Inflation for Actuarial Purposes | | 2.75 |
| Total Expected Nominal Return | | 8.63 |

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based

CITY OF HANAHAN, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
Continued

V. OTHER INFORMATION (Continued)

on the actuarially determined rates based on provisions in the SC State Code of Laws. Based on those assumptions, each system's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.0 percent lower (6.5 percent) or 1.0 percent higher (8.5 percent) than the current rate.

| Sensitivity of the Net Pension Liability to Changes in the Discount Rate | | | |
|--|--------------------------|---------------------------------|--------------------------|
| System | 1.00% Decrease (6.5%) | Current Discount Rate (7.5%) | 1.00% Increase (8.5%) |
| SCRS | \$ 22,279,455,340 | \$ 17,216,684,770 | \$ 12,992,881,787 |
| PORS | 2,675,362,636 | 1,914,427,438 | 1,284,816,794 |

**REQUIRED
SUPPLEMENTARY
INFORMATION**

CITY OF HANAHAN
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the City's Proportionate Share of the Net Pension Liability
South Carolina Retirement System Plan
Last Fiscal Year

| Year Ended June 30 | City's proportion of the net pension liability | City's proportionate share of the net pension liability | City's covered employee payroll | City's share of the net pension liability as a percentage of its covered employee payroll | Plan fiduciary net position as a percentage of the total pension liability |
|-----------------------|--|--|---------------------------------------|--|--|
| 2014 | .016411% | \$ 2,825,430 | \$ 1,516,945 | 186.26% | 59.92% |

Schedule of the City's Proportionate Share of the Net Pension Liability
Police Officers' Retirement System Plan
Last Fiscal Year

| Year Ended June 30 | City's proportion of the net pension liability | City's proportionate share of the net pension liability | City's covered employee payroll | City's share of the net pension liability as a percentage of its covered employee payroll | Plan fiduciary net position as a percentage of the total pension liability |
|-----------------------|--|--|---------------------------------------|--|--|
| 2014 | .18092% | \$ 3,463,678 | \$ 2,153,890 | 160.81% | 67.55% |

CITY OF HANAHAN
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the City's Contributions
South Carolina Retirement System Plan
Last Three Fiscal Years

| Year Ended June 30 | Contractually required contribution | Contributions relative to contractually required contribution | Contribution deficiency (excess) | City's covered employee payroll | Contributions as a percentage of covered- employee payroll |
|-----------------------|---|---|--|---------------------------------------|---|
| 2015 | \$ 160,808 | \$ 160,808 | \$ -0- | \$ 1,475,305 | 10.90% |
| 2014 | 160,796 | 160,796 | -0- | 1,516,945 | 10.60% |
| 2013 | 157,764 | 157,764 | -0- | 1,488,343 | 10.60% |

Schedule of the City's Contributions
Police Officers' Retirement System Plan
Last Three Fiscal Years

| Year Ended June 30 | Contractually required contribution | Contributions relative to contractually required contribution | Contribution deficiency (excess) | City's covered employee payroll | Contributions as a percentage of covered- employee payroll |
|-----------------------|---|---|--|---------------------------------------|---|
| 2015 | \$ 313,682 | \$ 313,682 | \$ -0- | \$ 2,339,165 | 13.41% |
| 2014 | 276,559 | 276,559 | -0- | 2,153,890 | 12.84% |
| 2013 | 251,730 | 251,730 | -0- | 2,046,584 | 12.30% |

SUPPLEMENTARY

INFORMATION

CITY OF HANAHAN, SOUTH CAROLINA
SUPPLEMENTAL SCHEDULE OF FINES, ASSESSMENTS AND SURCHARGES
GENERAL FUND
Year Ended June 30, 2015

| | |
|---|--------------------|
| Court Fines | |
| Court fines collected | \$ 226,533 |
| Court fines retained by the City | <u>(226,533)</u> |
| Court fines remitted to the State Treasurer | <u>\$ -</u> |
| Court Assessments | |
| Court assessments collected | \$ 256,013 |
| Court assessments retained by the City | <u>(26,608)</u> |
| Court assessments remitted to the State Treasurer | <u>\$ 229,405</u> |
| Court Surcharges | |
| Court surcharges collected | \$ 65,272 |
| Court surcharges retained by the City | <u>(8,908)</u> |
| Court surcharges remitted to the State Treasurer | <u>\$ 56,364</u> |
| Victims Services | |
| Court assessments allocated to Victim Services | \$ 26,608 |
| Court surcharges allocated to Victim Services | <u>8,908</u> |
| Funds allocated to Victim Services | 35,516 |
| Victims Services funds expended during the year | <u>(52,451)</u> |
| Net Victims Services funds expended during the year | <u>\$ (16,935)</u> |

See Independent Auditors' Report.



RISER, MCLAURIN
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A REGISTERED LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS

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CHARLES W CARPENTER
TYLER K. GIBBONS

HAROLD D RISER
(1921-1993)

**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**

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, 2015, 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 January 29, 2016.

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 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 from 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.

January 29, 2016

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