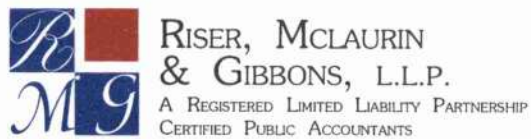


**CITY OF HANAHAN, SOUTH CAROLINA**  
**BASIC FINANCIAL STATEMENTS**  
**Year Ended June 30, 2018**



CITY OF HANAHAN, SOUTH CAROLINA  
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YEAR ENDED JUNE 30, 2018

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CITY OF HANAHAN, SOUTH CAROLINA  
PRINCIPAL OFFICIALS  
For the Year Ended June 30, 2018

MAYOR

Minnie Newman (through November 2018)  
Christie Rainwater (effective November 2018)

COUNCIL MEMBERS

J. Mike Dyson, Mayor Pro-Tem  
Jeff C. Chandler  
Joel E. Hodges  
T. Dan Owens  
Christie Rainwater (through November 2018)  
Michael Sally

CITY ADMINISTRATOR

John P. Cribb (through November 2018)  
Mike Cochran (effective November 2018)



RISER, MCLAURIN  
& GIBBONS, L.L.P.  
A REGISTERED LIMITED LIABILITY PARTNERSHIP  
CERTIFIED PUBLIC ACCOUNTANTS

1417 REMOUNT ROAD  
NORTH CHARLESTON, SC 29406-3306

MAILING ADDRESS  
P O Box 60250  
NORTH CHARLESTON, SC 29419-0250  
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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, 2018, 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of



the 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, 2018, 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 43-44 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 this 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 July 25, 2019, 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 solely 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 effectiveness of the City of Hanahan, South Carolina's 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.

July 25, 2019

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



CITY OF HANAHAN, SOUTH CAROLINA  
STATEMENT OF NET POSITION  
June 30, 2018

Exhibit A-1

	Governmental Activities
<b>ASSETS</b>	
Non-pooled cash and cash equivalents	\$ 2,030,732
Pooled cash and cash equivalents	8,215,730
Cash with fiscal agents	65,733
Taxes receivable, net	2,935,526
Due from other entities	547,741
Prepaid/other assets	130,660
Restricted assets:	
Non-pooled cash and cash equivalents	74,720
Pooled cash and cash equivalents	3,659,845
Capital assets (Note IV.E):	
Nondepreciable capital assets	2,027,319
Other capital assets, net of accumulated depreciation	11,949,522
Total capital assets	13,976,841
Total assets	31,637,528
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension	1,985,247
Total deferred outflows of resources	1,985,247
<b>LIABILITIES</b>	
Accounts payable	311,710
Accrued compensation and related liabilities	126,440
Net pension liability	8,910,242
Compensated absences:	
Expected to be paid within one year	135,128
Expected to be paid after one year	112,793
General obligation bonds payable:	
Portion due within one year	185,000
Portion due after one year	610,000
Capital lease obligation:	
Portion due within one year	20,277
Portion due after one year	42,443
Total liabilities	10,454,033
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension	161,469
Unavailable property tax revenues – current	2,850,000
Total deferred inflows of resources	3,011,469
<b>NET POSITION</b>	
Net investment in capital assets	13,181,841
Restricted for capital projects	2,813,257
Restricted for property tax rollback	859,816
Restricted for other specific purposes	61,493
Unrestricted	3,240,866
Total net position	\$ 20,157,273

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, 2018

Exhibit A-2

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue – Governmental Activities
		Charges for Services	Operating Grants	Capital Grants	
Governmental activities:					
General government	\$ 2,580,477	\$ 23,450	\$ 63,946	\$ 320,464	\$ (2,172,617)
Public safety:					
Police	2,877,081	828,592	4,039	10,963	(2,033,487)
Fire	2,143,477	382,241	-	261,784	(1,499,452)
Public works	984,052	12,691	-	-	(971,361)
Code enforcement	244,652	1,913,673	-	-	1,669,021
Recreation and parks	1,157,871	310,298	-	43,357	(804,216)
Depreciation	980,499	-	-	-	(980,499)
Interest on long-term debt	26,782	-	-	-	(26,782)
Total governmental activities	10,994,891	3,470,945	67,985	636,568	(6,819,393)
GENERAL REVENUES					
Property taxes					3,342,709
Intergovernmental revenues - local option sales tax					2,075,714
Intergovernmental revenues - other					757,177
Franchise fees					1,551,693
Miscellaneous revenues					134,114
Interest earnings					163,532
Total general revenues					8,024,939
Change in net position					1,205,546
Net position - beginning					18,951,727
Net position - ending					<u>\$20,157,273</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, 2018

Exhibit B-1

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>			
Non-pooled cash and cash equivalents	\$ 2,030,732	\$ -	\$ 2,030,732
Pooled cash and cash equivalents	5,012,086	2,405,616	7,417,702
Cash with fiscal agents	55,852	-	55,852
Cash with escrow agent	9,881	-	9,881
Property taxes receivable (net of allowance for uncollectible taxes)	2,935,526	-	2,935,526
Due from other entities	544,306	3,435	547,741
Due from other funds	2,023,060	128,417	2,151,477
Prepaid/other assets	130,660	-	130,660
Restricted assets:			
Non-pooled cash and cash equivalents	74,391	329	74,720
Pooled cash and cash equivalents	3,179,098	480,747	3,659,845
Total assets	<u>\$ 15,995,592</u>	<u>\$ 3,018,544</u>	<u>\$ 19,014,136</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 311,710	\$ -	\$ 311,710
Accrued compensation	126,440	-	126,440
Due to other funds	-	1,008,567	1,008,567
Total liabilities	<u>438,150</u>	<u>1,008,567</u>	<u>1,446,717</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable property tax revenues – current	2,850,000	-	2,850,000
Unavailable property tax revenues – delinquent	18,768	-	18,768
Total deferred inflows of resources	<u>2,868,768</u>	<u>-</u>	<u>2,868,768</u>
<b>FUND BALANCES</b>			
Nonspendable	130,660	-	130,660
Restricted for: capital projects/development	2,332,181	481,076	2,813,257
drug/police enforcement	61,493	-	61,493
Committed for property tax rollback	859,816	-	859,816
Unassigned	9,304,524	1,528,901	10,833,425
Total fund balances	<u>12,688,674</u>	<u>2,009,977</u>	<u>14,698,651</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 15,995,592</u>	<u>\$ 3,018,544</u>	

Amounts reported for governmental activities in the statement of net position (Exhibit A-1) are different because (see Note II for more detailed information):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	12,616,116
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.	18,768
Long-term liabilities, including general obligation bonds, capital lease obligations, and compensated absences are not due and payable in the current period, and therefore are not reported in the funds.	(8,192,105)
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 \$1,015,843 is included in governmental activities in the statement of net position.	<u>1,015,843</u>

Net position of governmental activities	<u>\$ 20,157,273</u>
---	----------------------

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

CITY OF HANAHAN, SOUTH CAROLINA  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018

Exhibit B-2

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 2,917,199	\$ 427,990	\$ 3,345,189
Intergovernmental revenues – local option			
sales tax	2,075,714	-	2,075,714
Intergovernmental revenues – other	757,177	-	757,177
Intergovernmental revenues – grants	112,448	592,105	704,553
Franchise fees	1,551,693	-	1,551,693
Licenses and permits	1,871,612	-	1,871,612
Court fines	518,319	-	518,319
Impact fees	-	24,875	24,875
Recreational program fees	256,657	-	256,657
911 revenues	242,035	-	242,035
EMS fees received	378,105	-	378,105
Miscellaneous revenues	271,395	-	271,395
Interest earnings	113,648	40,614	154,262
Total revenues	<u>\$ 11,066,002</u>	<u>\$ 1,085,584</u>	<u>\$ 12,151,586</u>
EXPENDITURES			
Current:			
General government	\$ 2,126,185	\$ 18,788	\$ 2,144,973
Public works	978,182	-	978,182
Police	2,864,134	-	2,864,134
Fire	2,135,431	-	2,135,431
Code enforcement	243,139	-	243,139
Recreation and parks	1,147,568	-	1,147,568
Grant expenditures	46,354	745,569	791,923
Debt Service:			
Principal payments	19,672	180,000	199,672
Interest payments	2,533	24,249	26,782
Capital outlay	613,408	274,593	888,001
Total expenditures	<u>10,176,606</u>	<u>1,243,199</u>	<u>11,419,805</u>
Excess of revenues over (under) expenditures	889,396	(157,615)	731,781
Other Financing Sources (Uses):			
Transfers (to) from other funds	(413,803)	206,953	(206,850)
	<u>(413,803)</u>	<u>206,953</u>	<u>(206,850)</u>
Net change in fund balances	475,593	49,338	524,931
Fund balances, beginning	12,213,081	1,960,639	14,173,720
Fund balances, ending	<u>\$ 12,688,674</u>	<u>\$ 2,009,977</u>	<u>\$ 14,698,651</u>

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



CITY OF HANAHAN, SOUTH CAROLINA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018

Exhibit B-3

Net change in fund balances – total governmental funds (from Exhibit B-2)	\$ 524,931
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 are 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.	
	935,324
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	
	(2,480)
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 \$26,156 is reported with governmental activities.	
	(26,156)
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
	(162,827)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
	<u>(63,246)</u>
Change in net position of governmental activities (see Exhibit (A-2))	<u>\$1,205,546</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  
For the Year Ended June 30, 2018

Exhibit C-1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,620,000	\$ 2,620,000	\$ 2,917,199	\$ 297,199
Intergovernmental revenues – local option				
sales tax	1,700,000	1,700,000	2,075,714	375,714
Intergovernmental revenues – other	740,322	750,322	757,177	6,855
Intergovernmental revenues – grants	137,000	202,644	112,448	(90,196)
Franchise fees	1,557,000	1,557,000	1,551,693	(5,307)
Licenses and permits	1,575,712	1,575,712	1,871,612	295,900
Court fines	513,500	513,500	518,319	4,819
Recreational program fees	261,500	267,000	256,657	(10,343)
911 revenues	240,000	240,000	242,035	2,035
EMS fees received	345,000	345,000	378,105	33,105
Miscellaneous revenues	225,723	264,011	271,395	7,384
Interest earnings	60,000	60,000	113,648	53,648
Total revenues	9,975,757	10,095,189	11,066,002	970,813
EXPENDITURES				
Current:				
General government	2,062,726	2,071,448	2,126,185	(54,737)
Public works	945,626	958,626	978,182	(19,556)
Police	3,015,635	3,018,295	2,864,134	154,161
Fire	2,269,273	2,319,123	2,135,431	183,692
Code enforcement	303,564	303,564	243,139	60,425
Recreation and parks	1,198,651	1,256,151	1,147,568	108,583
Grant expenditures	8,500	8,500	46,354	(37,854)
Debt Service:				
Principle payment	-	-	19,672	(19,672)
Interest payment	-	-	2,533	(2,533)
Capital outlay	220,300	220,300	613,408	(393,108)
Total expenditures	10,024,275	10,156,007	10,176,606	(20,599)
Excess of revenues over (under) expenditures	(48,518)	(60,818)	889,396	950,214
Other Financing Uses:				
Transfers to other funds	(25,000)	(25,000)	(413,803)	(388,803)
	(25,000)	(25,000)	(413,803)	(388,803)
Net change in fund balance	(73,518)	(85,818)	475,593	561,411
Fund balance - beginning	12,213,081	12,213,081	12,213,081	-
Fund balance – ending	\$12,139,563	\$12,127,263	\$ 12,688,674	\$ 561,411

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, 2018

Exhibit D-1

	<u>Internal Service Fund</u>
ASSETS	
Pooled cash and cash equivalents	\$ 798,028
Capital assets, net of accumulated depreciation	<u>1,360,725</u>
Total assets	<u>2,158,753</u>
LIABILITIES	
Due to other funds	<u>1,142,910</u>
Total liabilities	<u>1,142,910</u>
NET POSITION	
Net investment in capital assets	1,360,725
Unrestricted (Deficit)	<u>(344,882)</u>
Total net position	<u>\$ 1,015,843</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, 2018

Exhibit D-2

	<u>Internal Service Fund</u>
OPERATING REVENUES	
Internal service charges	\$ -
Total operating revenues	<u>-</u>
OPERATING EXPENSES	
Fleet operations	1,543
Depreciation	240,733
Total operating expenses	<u>242,276</u>
Operating income (loss)	<u>(242,276)</u>
NON-OPERATING REVENUES	
Investment income	9,270
Total non-operating revenues	<u>9,270</u>
Income (loss) before operating transfers	(233,006)
Transfers received from other funds	<u>206,850</u>
Change in net position	(26,156)
Total net position, beginning of year	<u>1,041,999</u>
Total net position, end of year	<u>\$ 1,015,843</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, 2018

Exhibit D-3

	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash paid by other funds for fleet expenditures	\$ 468,236
Net Cash Provided By (Used In) Operating Activities	<u>468,236</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(468,235)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(468,235)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash transfers received from other funds	<u>206,850</u>
Net Cash Provided By Noncapital Financing Activities	<u>206,850</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned on investments	<u>9,270</u>
Net Cash Provided By Investing Activities	<u>9,270</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	216,121
CASH AND CASH EQUIVALENTS, beginning of year	<u>581,907</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 798,028</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ (242,276)
Adjustments to reconcile operating income (loss) to net net cash provided by operating activities:	
Depreciation	240,733
Increase in amounts due to other funds	<u>469,779</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 468,236</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, 2018

**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, 2018.

**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.



## **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 regard 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

## **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, when applicable, 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.



## **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.

## **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, 2018. 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.



## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### *Inventories*

Inventories 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

### *Deferred Outflows/Inflows of Resources*

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so it will not be recognized as an outflow of resources (expense) until then. There are four items relating to the City's retirement plans that qualify for reporting in this category and are combined in the Statement of

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Position under the heading "Pension". The first item, experience differences, results from periodic studies by the actuary of the retirement plan, which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience differences are recorded as deferred outflows of resources and are amortized into pension expense over the expected remaining service lives of the plan members. The second item, differences between projected investment return on pension investments and actual return on those investments, is deferred and amortized against pension expense over a five-year period, resulting in recognition as a deferred outflow of resources. The third item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions. These changes are amortized against pension expense over the remaining lives of the plan members. Additionally, any contributions made by the City to the pension plan before year-end but subsequent to the measurement date of the City's net pension liability are reported as deferred outflows of resources.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to future period(s) and so it will not be recognized as an inflow of resources (revenue) until that time. Two items relating to the City's retirement plan qualify for reporting in the category and are combined in the Statement of Net Position under the heading "Pension". The first item, experience differences, results from periodic studies by the actuary of the retirement plan, which adjust the net pension liability for actual experience for certain trend information that was previously assumed. The second item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions. Both of these items are recorded as deferred inflows of resources and are amortized into pension expense over the expected remaining lives of the plan members. In addition, unavailable property tax revenues are also shown as deferred inflows of resources. These deferred amounts will be recognized as an inflow of resources in the period that the amounts become available.

### *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.



## **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 and capital lease expenditures), 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, 2018 fund balance related to prepaid insurance and gas/fuel inventory is considered nonspendable.



## **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, 2018 fund balance has been restricted for the City's capital projects and various police/drug enforcement programs.

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, 2018 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. There is no assigned fund balance at June 30, 2018.

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

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

activities are not financial resources and therefore are not reported in the funds.” The details of this \$12,616,116 difference are as follows:

Cost of nondepreciable capital assets	\$ 2,027,319
Cost of other capital assets	<u>18,382,055</u>
Subtotal	20,409,374
Less accumulated depreciation	<u>7,793,258</u>
Net adjustment to increase fund balances – total governmental funds to arrive at net position of governmental activities	<u>\$12,616,116</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 \$18,768 difference are as follows:

Property taxes receivable	<u>\$ 18,768</u>
Net adjustment to increase fund balances – total governmental funds to arrive at net position of governmental activities	<u>\$ 18,768</u>

Another element of that reconciliation explains that “long-term liabilities, including general obligation bonds, capital lease obligations, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$8,192,105 difference are as follows:

Net pension liability	\$ 8,910,242
Deferred outflows of resources – pension contributions	(680,214)
Deferred outflows of resources – pension	(1,305,033)
Deferred inflows of resources – pension	<u>161,469</u>
Net pension differences	7,086,464
General obligation bonds payable	795,000
Capital lease obligation	62,720
Accrued compensated absences	<u>247,921</u>
Net adjustment to decrease fund balances – total governmental funds to arrive at net position of governmental activities	<u>\$ 8,192,105</u>



**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 \$935,324 difference are as follows:

Capital outlay	\$ 888,001
Capital outlay included in grant expenditures	787,089
Depreciation expense	<u>(739,766)</u>
Net adjustment to increase net change in fund balances – total governmental funds to arrive at change in net position of governmental activities	<u>\$ 935,324</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 \$2,480 difference are as follows:

Unavailable property tax revenues, June 30, 2018	\$ 18,768
Unavailable property tax revenues, June 30, 2017	<u>(21,248)</u>
Net adjustment to decrease net change in fund balances – total governmental funds to arrive at change in net position of governmental activities	<u>\$ (2,480)</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.” The details of this \$162,827 difference are as follows:



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

Principal repayments of long-term debt	\$ 199,672
Net pension expense differences – current	<u>(362,499)</u>
Net adjustment to decrease net change in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (162,827)</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 \$63,246 difference are as follows:

Compensated absences	\$ (7,244)
Revenues recognized from reducing permit fees based on prior year agreement	42,061
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>(98,063)</u>
Net adjustment to decrease net change in fund balances – total governmental funds to arrive at change in net position of governmental activities	<u>\$ (63,246)</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.

### **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, 2018.



### **III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

#### **B. Excess of Expenditures Over Appropriations**

As of June 30, 2018, 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, 2018, the carrying amount of the City's deposits was \$2,114,883 and the bank balances totaled \$2,200,564. 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, 2018, none of the City's bank balance of \$2,200,564 was exposed to custodial credit risk as a result of it being uninsured and uncollateralized by the financial institution.

##### *Investments*

At June 30, 2018, the City had total investments of \$11,875,575 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.



#### 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.

#### 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, 2018, the City's investments consisted solely of funds invested in the South Carolina Local Government Investment Pool. These investments, which totaled \$11,875,575, 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 \$65,733, 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, 2018 follows:

Cash on hand	\$ 450
Carrying amount of non-pooled cash and cash equivalents	2,030,282
Carrying amount of pooled cash and cash equivalents	8,215,730
Carrying amount of cash with fiscal agents	65,733
Carrying amount of restricted non-pooled cash and cash equivalents	74,720
Carrying amount of restricted pooled cash and cash equivalents	<u>3,659,845</u>
Total carrying amount of cash and investments	<u>\$ 14,046,760</u>



#### 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 2018 levy for real and personal property is included in taxes receivable at June 30, 2018 since it has an enforceable lien date of January 1, 2018. Because it does not meet the criteria for being "available", the entire amount has been deferred at June 30, 2018.

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, 2018, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General Fund</u>
Taxes receivable	\$ 3,045,013
Less: Allowance for uncollectibles	<u>109,487</u>
Net taxes receivable	<u>\$ 2,935,526</u>

###### *Deferred Inflows of 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, 2018 consist of the following:

	<u>General Fund</u>
Unavailable 2018 property tax revenues - current	\$ 2,850,000 (a)
Unavailable 2017 property tax revenues - delinquent	<u>18,768 (b)</u>
Total deferred inflows of resources	<u>\$ 2,868,768</u>

(a) Consists of 2018 tax assessments having an enforceable lien date of January 1, 2018.

(b) Consists of all back taxes receivable (net of allowance for uncollectible amounts) not collected within sixty days of June 30, 2018.

#### **IV. DETAILED NOTES ON ALL FUNDS (Continued)**

##### **C. Due from Other Entities**

The balance at June 30, 2018 consists of amounts due from:

Federal / state / local government agencies	\$ 395,000
Utilities and insurance companies	57,114
Employees	4,106
Various other entities	<u>91,521</u>

Total due from other entities \$ 547,741

##### **D. Interfund Receivables and Payables**

The composition of interfund balances reflected in the fund financial statements at June 30, 2018, is as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General fund	\$ 2,023,060	\$ -
Fleet service fund	-	1,142,910
Capital projects fund	<u>128,417</u>	<u>1,008,567</u>
Total	<u>\$ 2,151,477</u>	<u>\$ 2,151,477</u>

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



### III. DETAILED NOTES ON ALL FUNDS (Continued)

#### E. Capital Assets

##### *Changes in Capital Assets*

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

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 999,676	\$ 316,244	\$ -	\$ 1,315,920
Construction in progress	521,534	708,555	(518,690)	711,399
Total capital assets not being depreciated	1,521,210	1,024,799	(518,690)	2,027,319
Capital assets being depreciated:				
Buildings and improvements	14,039,830	33,345	(29,219)	14,043,956
Machinery and equipment	1,103,378	119,251	(33,387)	1,189,242
Vehicles and related equipment	4,628,859	468,235	(25,725)	5,071,369
Office furnishings and equipment	599,071	48,971	(69,361)	578,681
Other assets	1,709,664	869,322	(8,810)	2,570,176
Total capital assets being depreciated	22,080,802	1,539,124	(166,502)	23,453,424
Less accumulated depreciation for:				
Buildings and improvements	(4,842,026)	(440,357)	28,830	(5,253,553)
Machinery and equipment	(721,179)	(100,351)	29,647	(791,883)
Vehicles and related equipment	(3,495,636)	(240,733)	25,725	(3,710,644)
Office furnishings and equipment	(250,233)	(91,135)	69,361	(272,007)
Other assets	(1,376,702)	(107,923)	8,810	(1,475,815)
Total accumulated depreciation	(10,685,776)	(980,499)	162,373	(11,503,902)
Total capital assets being depreciated, net	11,395,026	558,625	(4,129)	11,949,522
Total capital assets, net	\$ 12,916,236	\$ 1,583,424	\$ (522,819)	\$ 13,976,841

#### F. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 975,000	\$ -	\$ 180,000	\$ 795,000	\$ 185,000
Capital Lease Obligation	82,392	-	19,672	62,720	20,277
Compensated Absences	240,677	151,446	144,202	247,921	135,128
	\$ 1,298,069	\$ 151,446	\$ 343,874	\$ 1,105,641	\$ 340,405

#### 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, 2018 are as follows:

Fiscal Year Ending June 30	Bond Principal	Interest on Bonds	Total Principal and Interest
2019	\$ 185,000	\$ 19,249	\$ 204,249
2020	70,000	15,755	85,755
2021	70,000	13,837	83,837
2022	75,000	11,850	86,850
2023	75,000	9,796	84,796
2024-2027	320,000	17,947	337,947
	<u>\$ 795,000</u>	<u>\$ 88,434</u>	<u>\$ 883,434</u>

##### *Capital Lease*

During 2016, the City entered into a lease agreement as lessee for financing the acquisition of 40 sets of bunker gear for the fire department. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. At the inception of the lease, \$103,519 was deposited into an escrow account maintained by the leasing company. However, at June 30, 2018, there was a remaining balance in the escrow account of \$9,881, which was partially spent in 2018-19, with \$6,617 to be applied to the remaining lease principal balance.



#### IV. DETAILED NOTES ON ALL FUNDS (Continued)

The capital lease obligation outstanding at June 30, 2018, includes the following:

Lease dated April 1, 2016 payable to Community  
First National Bank in five annual payments of  
\$22,205 including interest at 3.074% beginning  
August 1, 2016; secured by bunker gear. \$ 62,720

Total capital lease obligation outstanding \$ 62,720

The annual debt service requirements to maturity on the capital lease obligation outstanding as of June 30, 2018 are reported in the governmental activities and are as follows:

Year Ended	Capital Lease Payable		
	Principal	Interest	Total
June 30, 2019	\$ 20,277	\$ 1,928	\$ 22,205
June 30, 2020	20,900	1,305	22,205
June 30, 2021	21,543	662	22,205
	<u>\$ 62,720</u>	<u>\$ 3,895</u>	<u>\$ 66,615</u>

Capital lease obligations incurred during the current year are reported in the General Fund. Future capital lease payments will be paid by the General Fund.

#### *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 \$135,128. Historically, the amount of compensated absences used by employees during the year has approximated the amount earned in a year.

#### V. OTHER INFORMATION

##### A. Risk Management

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

## V. OTHER INFORMATION (Continued)

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 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 June 30, 2018, the City had various construction commitments outstanding:

- Renaissance Grant Phase III (Charleston Farms) – this project has an estimated cost of \$725,141, with maximum CDGB funding of \$500,000 to partially offset the cost. Virtually all of these costs will be expended during 2018-19.



## **V. OTHER INFORMATION (Continued)**

- Downtown Revitalization Streetscape Project – a construction contract for \$1,879,300 was awarded in June 2018 for this project, utilizing TIF funds accumulated by the City, virtually all of which will be spent in 2018-19.
- Comprehensive Trails Phase II – a construction contract for \$215,800 was started in June 2018, with approximately one-half of the funds spent by June 30, 2018, utilizing existing City funds. The remainder will be expended in 2018-19.
- Comprehensive Trails Phase III – this project has an estimated total cost of \$645,800, with approximately \$516,000 of the funding coming from a federal grant and the remainder provided from City/County funding. Although planning began prior to June 30, 2018, virtually all of the costs will be expended during the 2018-19 fiscal year.

During the year ended June 30, 2018, the City also signed a capital lease agreement for the purchase of a new fire truck. A down payment of \$86,000 was paid in June 2018 so that construction of the truck could begin, with the remaining \$464,657 to be financed over five years, once the City takes possession of the truck. The \$86,000 down payment is included in the Proprietary Fund's capital assets balance at June 30, 2018. The first of five annual lease payments of \$100,454 will begin in October 2018.

### **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 \$18,000 for both the 457 plan and for the 401(k) plan with an additional \$6,000 catch-up provision for employees over age 50 with pre-tax contributions. The Roth 401(k) and Roth 457 plans offer employees the opportunity to contribute on an after-tax basis. Employee after-tax contributions for Roth 401(k) and Roth 457 participants must be combined with pre-tax contributions and cannot exceed these annual limits. The deferred compensation is not available to an employee until termination, retirement, disability, death, or approved hardship. The City has no obligation to make contributions to these plans and has made no contributions during the year.

### **D. Other Post-Employment Benefits**

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

**V. OTHER INFORMATION (Continued)**

**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 plans' 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.peba.sc.gov](http://www.peba.sc.gov).

An employee member of either the SCRS or PORS system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of either system with an effective date of membership on or after July 1, 2012, is a Class Three member.

*Benefits Provided*

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

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



## V. OTHER INFORMATION (Continued)

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

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

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

Disability benefits: Certain employees with at least five to eight 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 9% (SCRS) and 9.75% (PORS) of their annual covered salary and the City is required to contribute at an actuarially determined rate to maintain a thirty-year amortization period for the plans' unfunded liabilities. The SCRS FY2018 rate is 13.41% of annual covered payroll while the PORS FY2018 rate is 15.84% of covered payroll. The contribution requirements of plan members and the City 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, 2018, 2017, and 2016 were \$680,214, \$555,850, and \$513,902, respectively, which equal 100% of the required contributions for each year.

## V. OTHER INFORMATION (Continued)

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

At June 30, 2018, the City reported a liability of \$8,910,242 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, 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, 2017, the City's proportion was .016878% (SCRS) and .18655% (PORS) of the total plans' employer contributions for the year ended June 30, 2017.

For the year ended June 30, 2017, the City recognized pension expense of \$385,116 (SCRS) and \$631,065 (PORS). At June 30, 2018 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	\$ 16,938	\$ 45,573	\$ 62,511	\$ 2,106	\$ -	\$ 2,106
Net differences between projected and actual earnings on plan investments	106,064	182,116	288,180	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	125,690	121,176	246,866	34,377	124,986	159,363
Actuarial assumption changes	222,420	485,056	707,476	-	-	-
City contributions subsequent to the measurement date	259,415	420,799	680,214	-	-	-
Total	\$ 730,527	\$1,254,720	\$ 1,985,247	\$ 36,483	\$124,986	\$161,469

The \$680,214 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:



**V. OTHER INFORMATION (Continued)**

Year ending June 30,	SCRS	PORS	Total
2018	126,527	230,629	357,156
2019	208,041	305,272	513,313
2020	128,248	178,299	306,547
2021	(28,187)	(5,265)	(33,452)

Actuarial Assumptions

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. 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. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2015, and the next experience study is scheduled to be conducted after the June 30, 2020 annual valuation is complete.

The June 30, 2017 total pension liability, net pension liability, and sensitivity information were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2016, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2016. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ended June 30, 2016, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017 and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumption, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

## V. OTHER INFORMATION (Continued)

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary increases	3.0 to 12.5 percent, including inflation (SCRS) 3.5 to 9.5 percent, including inflation (PORS)
Investment rate of return	7.25 percent, net of Plan investment expense, including inflation

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30-year capital market assumptions. The actuarial long-term expected rates of return represent assumptions developed using an arithmetic building block approach, primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. 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 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.0 percent real rate of return and a 2.25 percent inflation component.



## V. OTHER INFORMATION (Continued)

The target asset allocation and best estimates of long-term expected portfolio real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
<b>Conservative Fixed Income</b>			
Cash and Short Duration (Net)	2.0 %	1.60 %	0.02 %
Core Fixed Income	10.0 %	.92 %	0.16 %
<b>Global Equity</b>			
Global Public Equity	31.0 %	6.72 %	2.07 %
Private Equity	9.0 %	9.60 %	0.86 %
Equity Options Strategies	5.0 %	5.91 %	0.30 %
<b>Opportunistic</b>			
GTAA/Risk Parity	10.0 %	4.16 %	0.42 %
Hedge Funds (Non-PA)	4.0 %	3.82 %	0.15 %
Other Opportunistic Strategies	3.0 %	4.16 %	0.12 %
<b>Diversified Credit</b>			
Mixed Credit	6.0 %	3.92 %	0.24 %
Emerging Markets Debt	5.0 %	5.01 %	0.25 %
Private Debt	7.0 %	4.37 %	0.31 %
<b>Real Assets</b>			
Real Estate (Private)	5.0 %	4.32 %	0.22 %
Real Estate (REITs)	2.0 %	6.33 %	0.13 %
Infrastructure	1.0 %	6.26 %	0.06 %
Total Expected Real Return	100.0 %		5.31 %
Inflation for Actuarial Purposes			2.25 %
Total Expected Nominal Return			7.56%

### Discount Rate

The discount rate used to measure the total pension liability was 7.25 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 on the actuarial determined rates based on provisions in the South Carolina State Code of Laws.

## V. OTHER INFORMATION (Continued)

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 City's proportionate share of the net pension liability of the participating employers calculated using the discount rate of 7.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.0 percent lower (6.25 percent) or 1.0 percent higher (8.25 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate						
System	1.00% Decrease (6.25%)		Current Discount Rate (7.25%)		1.00% Increase (8.25%)	
SCRS	\$	4,897,045	\$	3,799,509	\$	3,133,563
PORS		6,900,462		5,110,733		3,700,987

### Net Pension Liability

For the City's fiscal year ending June 30, 2018, the net pension liability for the South Carolina Retirement System (SCRS) and the Police Officers' Retirement System (PORS) is as follows:

	SCRS		PORS		Total	
Total Pension Liability	\$	8,142,696	\$	13,084,028	\$	21,226,724
Plan Fiduciary Net Position		4,343,187		7,973,295		12,316,482
Employers' Net Pension Liability	\$	3,799,509	\$	5,110,733	\$	8,910,242
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		53.3 %		60.9 %		58.02 %



**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 Four Fiscal Years

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
2017	.016878%	\$ 3,799,509	\$ 1,713,703	221.71%	53.34%
2016	.016539%	\$ 3,532,706	\$ 1,577,542	223.94%	52.91%
2015	.015735%	\$ 2,984,219	\$ 1,475,305	202.28%	56.99%
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 Four Fiscal Years

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
2017	.18655%	\$ 5,110,733	\$ 2,512,264	203.43%	60.94%
2016	.19378%	\$ 4,915,079	\$ 2,470,350	198.96%	60.44%
2015	.18882%	\$ 4,115,238	\$ 2,339,165	175.93%	64.57%
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 Four 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
2018	\$ 259,415	\$ 259,415	\$ -0-	\$ 1,913,090	13.56%
2017	198,104	198,104	-0-	1,713,703	11.56%
2016	174,476	174,476	-0-	1,577,542	11.06%
2015	160,808	160,808	-0-	1,475,305	10.90%

Schedule of the City's Contributions  
Police Officers' Retirement System Plan  
Last Four 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
2018	\$ 420,799	\$ 420,799	\$ -0-	\$ 2,591,130	16.24%
2017	357,746	357,746	-0-	2,512,264	14.24%
2016	339,426	339,426	-0-	2,470,350	13.74%
2015	313,682	313,682	-0-	2,339,165	13.41%

SUPPLEMENTARY  
INFORMATION

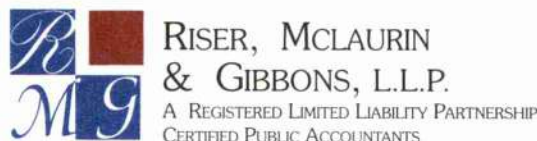


CITY OF HANAHAN, SOUTH CAROLINA  
SUPPLEMENTAL SCHEDULE OF FINES, ASSESSMENTS AND SURCHARGES  
GENERAL FUND  
Year Ended June 30, 2018

Court Fines	
Court fines collected	\$ 237,824
Court fines retained by the City	<u>(237,824)</u>
Court fines remitted to the State Treasurer	<u>\$ -</u>
Court Assessments	
Court assessments collected	\$ 262,955
Court assessments retained by the City	<u>(28,055)</u>
Court assessments remitted to the State Treasurer	<u>\$ 234,900</u>
Court Surcharges	
Court surcharges collected	\$ 64,982
Court surcharges retained by the City	<u>(5,352)</u>
Court surcharges remitted to the State Treasurer	<u>\$ 59,630</u>
Victims Services	
Court assessments allocated to Victim Services	\$ 28,055
Court surcharges allocated to Victim Services	<u>5,352</u>
Funds allocated to Victim Services	33,407
Victims Services funds expended during the year	<u>(49,147)</u>
Net Victims Services funds expended during the year	<u>\$ (15,740)</u>

See Independent Auditors' Report.

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GLENN D GIBBONS  
WILLIAM D RISER  
CATHY JEAN SINEATH  
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, 2018, 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 July 25, 2019.

**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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify



certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be a material weakness (2018-1 and 2018-2).

### **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*.

### **City of Hanahan's Response to Findings**

The City of Hanahan, South Carolina's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City of Hanahan, South Carolina's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

July 25, 2019

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

CITY OF HANAHAN, SOUTH CAROLINA  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2018

Summary of Auditors' Results

The following is considered to be a material weakness:

2018-1 During our audit of the City's records for the year ended June 30, 2018, we discovered an internal control issue that we consider to be a material weakness, primarily related to preparing monthly reconciliations of various City accounts and related comparison and adjustment of the General Ledger to reflect the actual reconciled balances. We found numerous instances where the City's June 30, 2018 year-end General Ledger balances were materially different than the actual reconciliations performed by City staff. Although it appears that most of the reconciliations were completed monthly in a timely manner, there was apparently little or no comparison of the General Ledger to ensure that it reflected the correct year-end reconciled balances. As a result, the City's General Ledger materially understated both its revenues and its expenditures as of June 30, 2018. There was a similar audit finding for the year ended June 30, 2017, which was insufficiently addressed during the current fiscal year, due in part to the lack of time to fully implement the recommendations.

For example, the City's operating checking account was reconciled at June 30, 2018 to the bank balance reflecting a balance of \$1,815,573, yet the General Ledger reflected a balance of \$720,933, a difference of \$1,094,640. The actual June 30, 2018 reconciled balance totaled \$1,729,862, after taking into consideration the outstanding checks. Upon investigation, we discovered several items making up this difference. One of these items was a \$1,188,738 deposit in transit recorded in the prior year, which was not reversed in the current year, resulting in the difference. In addition, there were several bank transfers between the operating account and various other bank accounts that were made, but they never were actually posted to the General Ledger. As a result, several adjusting entries were proposed to reflect the actual bank transfers and adjust the General Ledger balances to agree with the reconciled balances. In addition, there was an adjustment needed for \$167,113 that had been mistakenly posted in the General Ledger as an increase to Cash instead of to Accounts Receivable. We also discovered a \$106,516 deposit that was made into the bank account, which was never posted to the General Ledger even though there was a journal entry created by the City, which resulted in an understatement of state revenues. There was also a \$35,785 journal entry needed to correct the ending General Ledger balance to agree with the actual June 30, 2018 reconciled balance, which difference was never fully explained or identified. Besides the operating cash, many of the City's savings accounts also were not properly adjusted during the year to reflect the actual reconciled bank balances. Once the monthly bank accounts were reconciled and journal entries were developed by City staff, there was apparently no comparison of the resulting General Ledger balance with the reconciliation. Otherwise, there would have been additional entries made by the City prior to our receipt of the year-end trial balance. While some proposed adjustments affected only Balance Sheet accounts, they did not affect the net result for the year. However, net adjustments to the Cash accounts effectively understated various City revenues by approximately \$1,505,000 as of June 30, 2018.



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In addition, we discovered that the June 30, 2018 General Ledger balance of the health insurance payable reflected a debit balance of approximately \$153,600, when the actual year-end balance was a credit balance of \$9,000, a difference of \$162,600 that should have been charged to the various departmental health insurance expense accounts throughout the year. This effectively understated the City's health insurance expenditures for the year by the \$162,600. Similarly, there was also a difference in the City's retirement payable account where the General Ledger reflected a liability owed of \$121,000, but there was no actual liability at June 30, 2018 since it was paid in June, so a \$121,000 adjustment was necessary. Since this account effectively overstated the City's retirement expenditures, it partially offset the health insurance understatement. Nevertheless, the net difference of \$41,600 still resulted in a net understatement of the City's June 30, 2018 expenditures.

There were other significant year-end adjustments proposed that may likely have been unnecessary had there been a more thorough comparison of the various reconciled balances with the actual General Ledger balance. While we realize there may have been extenuating circumstances that occurred during the year, including the retirement of a long-time employee and a natural disaster, we believe the City should establish routine procedures to help during such times. We recommend that the City implement formal monthly closing procedures whereby various bank accounts and other accounts affected monthly (payroll withholding accounts, etc.) be reconciled in a timely manner. Once reconciled, these account balances should be compared directly to the General Ledger balances and then journal entries should be made, reviewed, and posted by City employees accordingly. Next, the General ledger should be checked and/or printed to verify that they reflect the proper reconciled balances. Ideally the review and approval processes should be performed by an employee that is knowledgeable but separate from the adjustment process. By implementing such procedures, the General Ledger will be accurate, and the figures reflected will be reliable so that management can make informed financial decisions with confidence that the City's records are correct.

Management's Response

The City Manager has acted swiftly and, with the input from the Auditor and Finance Director, established more automated procedures within the daily accounting functions while using existing software. These changes include the automation of the purchasing and payroll functions so that the timely recording of all the relevant accounting functions can be assured in the future. These procedures took effect midway through the FY 18/19 budget.

The Finance Director will shift from data entry processes, legacy functions from the modification of the treasurer's position, to a more managerial review process. This will allow for a more thorough examination of the general ledger monthly and help maintain the proper segregation of duties suggested by the auditor. The Finance Director will review any findings with the City Manager, Department Heads, and Department Representatives. The City will act swiftly to address this finding. We are steadfast that these new processes will help minimize and eliminate any future reporting risk incurred by the City.

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2018-2 During our audit we also became aware of the City entering into a contractual arrangement for Phase II of the Comprehensive Trails Project in Tanner Plantation without complying with its procurement policies. Although there was a standard contract signed on June 25, 2018 for this project, it appears that approximately one-half of the \$215,800 cost of the project was performed prior to the contract being signed. Apparently, management verbally authorized the construction contractor to begin work, without having a signed contract in place, and possibly without first obtaining City Council's formal approval in the minutes. While the May 8, 2018 minutes referenced management discussing this contract, there was no indication or documentation reflecting Council's approval. Further, it appears that management directed City staff to prepare the contract after the work had already begun on the project. In addition, it does not appear that bids were received for this project, which directly violates the City's procurement policy. The same contractor that was utilized to construct Phase I of this project was also used for Phase II, so there may have been some cost and time savings realized by the City. Nevertheless, we recommend that the City closely monitor all of its construction projects, as well as all expenditures, to ensure compliance with its procurement policies.

Management's Response

Regarding contractual agreements, the City did incur an oversight in the continuation of a project from phase I to phase II. This project was approved in three phases, with continuation of the same contractor. The oversight was rectified as soon as it was recognized to include a specific agreement to the second phase. The City has already ensured, all projects moving forward, have the proper agreements prior to any completion of work.