

CITY OF HANAHAN, SOUTH CAROLINA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2023

CITY OF HANAHAN, SOUTH CAROLINA

ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the **City of Hanahan, South Carolina** (the "City"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City as of June 30, 2023, and the respective changes in financial position, and the budgetary comparison information for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Proportionate Share of the Net Pension Liability and Related Ratios – South Carolina Retirement System, the Schedule of Contributions – South Carolina Retirement System, the Schedule of Proportionate Share of the Net Pension Liability and Related Ratios – Police Officers' Retirement System, and the Schedule of Contributions – Police Officers' Retirement System, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America 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, 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Uniform Schedule of Court Fines, Assessments and Surcharges (per ACT 96), as listed in the table of contents as required by the State of South Carolina, and the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 Uniform Schedule of Court Fines, Assessments and Surcharges and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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'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.

Mauldin & Jenkins, LLC

Savannah, Georgia
January 12, 2024

BASIC FINANCIAL STATEMENTS

CITY OF HANAHAN, SOUTH CAROLINA

STATEMENT OF NET POSITION JUNE 30, 2023

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 19,588,785
Investments	5,312,868
Taxes receivable, net	4,648,846
Accounts receivable	1,066,187
Inventory	11,564
Capital assets:	
Non-depreciable	18,262,276
Depreciable, net of accumulated depreciation	13,849,518
Total assets	<u>62,740,044</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension	<u>2,316,592</u>
Total deferred outflows of resources	<u>2,316,592</u>
LIABILITIES	
Accounts payable	1,013,750
Accrued expenses	553,224
Unearned revenues	20,550
Current maturities of long-term debt	1,050,151
Long-term liabilities:	
General obligation bonds	12,383,306
Financed purchases	541,914
Net pension liability - due in more than one year	11,811,003
Total liabilities	<u>27,373,898</u>
DEFERRED INFLOWS OF RESOURCES	
Pension	279,633
Grants	4,308,410
Property taxes billed or received in advance	<u>4,496,338</u>
Total deferred inflows of resources	<u>9,084,381</u>
NET POSITION	
Net investment in capital assets	21,378,345
Restricted for:	
Capital projects	5,182,283
Other specific purposes	50,964
Unrestricted	1,986,765
Total net position	<u><u>\$ 28,598,357</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF HANAHAN, SOUTH CAROLINA

STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
General government	\$ 4,393,547	\$ 3,103,794	\$ 4,419,032	\$ -	\$ 3,129,279
Public safety	6,793,240	517,241	320,849	-	(5,955,150)
Public works	1,462,783	100,419	152,049	-	(1,210,315)
Recreation and parks	2,369,171	564,784	-	160,000	(1,644,387)
Interest	257,403	-	-	-	(257,403)
Total governmental activities	<u>\$ 15,276,144</u>	<u>\$ 4,286,238</u>	<u>\$ 4,891,930</u>	<u>\$ 160,000</u>	<u>(5,937,976)</u>
General revenues:					
					9,794,783
Taxes					627,423
Miscellaneous					697,471
Interest					11,119,677
Total general revenues					5,181,701
Change in net position					23,416,656
Net position, beginning of year					<u>\$ 28,598,357</u>
Net position, end of year					

The accompanying notes are an integral part of these financial statements.

CITY OF HANAHAN, SOUTH CAROLINA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2023

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 13,464,987	\$ 6,123,798	\$ 19,588,785
Investments	3,454,291	1,858,577	5,312,868
Taxes receivable, net	4,648,846	-	4,648,846
Accounts receivable	1,066,187	-	1,066,187
Due (to) from other funds	(155,317)	155,317	-
Inventory	11,564	-	11,564
Total assets	<u>\$ 22,490,558</u>	<u>\$ 8,137,692</u>	<u>\$ 30,628,250</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,013,750	\$ -	\$ 1,013,750
Accrued liabilities	419,250	-	419,250
Unearned revenues	20,550	-	20,550
Total liabilities	<u>1,453,550</u>	<u>-</u>	<u>1,453,550</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable grant revenues	4,308,410	-	4,308,410
Unavailable property tax revenues received in advance	4,496,338	-	4,496,338
Total deferred inflows of resources	<u>8,804,748</u>	<u>-</u>	<u>8,804,748</u>
FUND BALANCES			
Non-spendable	11,564	-	11,564
Restricted for:			
Capital projects and development	120	8,137,692	8,137,812
Drug and police enforcement	50,964	-	50,964
Unassigned	12,169,612	-	12,169,612
Total fund balances	<u>12,232,260</u>	<u>8,137,692</u>	<u>20,369,952</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 22,490,558</u>	<u>\$ 8,137,692</u>	<u>\$ 30,628,250</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HANAHAN, SOUTH CAROLINA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2023

Amounts reported for governmental activities in the Statement of Activities are different because:

Fund balances, end of year		\$	20,369,952
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			32,111,794
Deferred outflows of resources related to the recording of the net pension liability are recognized as expense over time and, therefore, are not reported in the funds.			2,316,592
Deferred inflows of resources related to the recording of the net pension liability do not consume current financial resources and are, therefore, not reported in the funds.			(279,633)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
General obligation bonds payable	\$	(12,976,579)	
Capital leases payable		(712,399)	
Net pension liability		(11,811,003)	
Compensated absences		(286,393)	
Accrued interest payable		(133,974)	
			<u>(25,920,348)</u>
		\$	<u>28,598,357</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HANAHAN, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 4,509,723	\$ 1,108,630	\$ 5,618,353
Local option sales tax	2,558,788	-	2,558,788
Intergovernmental revenues - other	1,005,890	-	1,005,890
Intergovernmental revenues - grants	3,720,319	165,721	3,886,040
Franchise fees	1,622,726	-	1,622,726
Licenses and permits	2,580,067	-	2,580,067
Court fines, assessments and surcharges	525,252	-	525,252
Impact fees	-	100,419	100,419
Recreational program fees	564,784	-	564,784
911 revenues	167,565	-	167,565
EMS fees received	348,151	-	348,151
Contributions	-	160,000	160,000
Miscellaneous revenues	85,499	541,924	627,423
Interest	476,972	220,499	697,471
Total revenues	<u>18,165,736</u>	<u>2,297,193</u>	<u>20,462,929</u>
Expenditures			
Current:			
General government	3,963,179	-	3,963,179
Public works	1,401,445	-	1,401,445
Public safety	5,652,706	-	5,652,706
Recreation and parks	1,800,770	-	1,800,770
Debt service:			
Principal payments	107,563	596,946	704,509
Interest payments	11,682	397,271	408,953
Capital outlay	704,307	6,055,363	6,759,670
Total expenditures	<u>13,641,652</u>	<u>7,049,580</u>	<u>20,691,232</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,524,084</u>	<u>(4,752,387)</u>	<u>(228,303)</u>
Other financing sources (uses)			
Sale of capital assets	-	19,147	19,147
Transfers in	-	2,287,060	2,287,060
Transfers out	(2,287,060)	-	(2,287,060)
Total other financing sources (uses)	<u>(2,287,060)</u>	<u>2,306,207</u>	<u>19,147</u>
Net change in fund balances	2,237,024	(2,446,180)	(209,156)
Fund balances, beginning of year	<u>9,995,236</u>	<u>10,583,872</u>	<u>20,579,108</u>
Fund balances, end of year	<u>\$ 12,232,260</u>	<u>\$ 8,137,692</u>	<u>\$ 20,369,952</u>

The accompanying notes are an integral part of these financial statements.

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 FISCAL YEAR ENDED JUNE 30, 2023

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$	(209,156)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Total capital outlay	\$	6,201,744	
Total depreciation expense		<u>(1,363,071)</u>	
			4,838,673

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.	(21,041)
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Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(5,084)
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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 any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized for governmental activities. The net effect of these differences in the treatment of long-term debt and related items are as follows:

Premium amortization	\$	141,193	
Principal retirement of bonds		440,000	
Principal retirement of financed purchases		<u>264,509</u>	
			845,702

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.

Net pension liability	\$	(279,868)	
Accrued interest		10,357	
Compensated absences		<u>2,118</u>	
			<u>(267,393)</u>

Change in net position of governmental activities.	\$	<u><u>5,181,701</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HANAHAN, SOUTH CAROLINA

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GAAP BASIS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 4,194,800	\$ 4,194,800	\$ 4,509,723	\$ 314,923
Local option sales tax	2,354,929	2,354,929	2,558,788	203,859
Intergovernmental revenues - other	972,376	972,376	1,005,890	33,514
Intergovernmental revenues - grants	6,491,138	6,491,138	3,720,319	(2,770,819)
Franchise fees	1,628,500	1,628,500	1,622,726	(5,774)
Licenses and permits	2,125,000	2,125,000	2,580,067	455,067
Court fines, assessments and surcharges	565,000	565,000	525,252	(39,748)
Recreational program fees	445,965	445,965	564,784	118,819
911 revenues	286,993	286,993	167,565	(119,428)
EMS fees received	315,000	315,000	348,151	33,151
Miscellaneous revenues	40,000	40,000	85,499	45,499
Interest	13,500	13,500	476,972	463,472
Total revenues	<u>19,433,201</u>	<u>19,433,201</u>	<u>18,165,736</u>	<u>(1,267,465)</u>
Expenditures				
Current:				
General government	4,236,425	4,236,425	3,963,179	273,246
Public works	1,404,604	1,404,604	1,401,445	3,159
Public safety	6,595,272	6,595,272	5,652,706	942,566
Recreation and parks	1,911,235	1,911,235	1,800,770	110,465
Current:				
Principal payments	107,563	107,563	107,563	-
Interest payments	11,682	11,682	11,682	-
Capital outlay	4,628,119	4,628,119	704,307	3,923,812
Total expenditures	<u>18,894,900</u>	<u>18,894,900</u>	<u>13,641,652</u>	<u>5,253,248</u>
Excess of revenues over expenditures	<u>538,301</u>	<u>538,301</u>	<u>4,524,084</u>	<u>3,985,783</u>
Other financing sources (uses)				
Transfers in	341,605	341,605	-	(341,605)
Transfers out	-	-	(2,287,060)	(2,287,060)
Total other financing sources	<u>341,605</u>	<u>341,605</u>	<u>(2,287,060)</u>	<u>(2,628,665)</u>
Net change in fund balance	879,906	879,906	2,237,024	1,357,118
Fund balances, beginning of year	<u>9,995,236</u>	<u>9,995,236</u>	<u>9,995,236</u>	<u>-</u>
Fund balances, end of year	<u>\$ 10,875,142</u>	<u>\$ 10,875,142</u>	<u>\$ 12,232,260</u>	<u>\$ 1,357,118</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HANAHAN, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Hanahan, South Carolina (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City was incorporated on 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.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity (except for interfund services provided and used between functions) has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City has no business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, includes grants and donations. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide financial statements are prepared using a different measurement focus from the manner in which governmental fund financial statements are prepared (see further detail below). Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. All revenues (including franchise fees, intergovernmental revenues, licenses, etc.) are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period, with the exception of grant related revenues. Grant related revenues are considered to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due and payable, if applicable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column, if applicable.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used as an aid to management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The following major funds are used by the City:

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. The City's routine purchases of capitalizable items are budgeted and reported in the General Fund as appropriate.

C. Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and investments in the South Carolina Local Government Investment Pool ("SCLGIP") to be cash equivalents. Securities with an initial maturity of more than three months (from when initially purchased) that are not purchased from the SCLGIP are reported as investments.

The City's restricted accounts are established to account for assets restricted for specific purposes, typically by outside parties or legal agreement. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

D. Investments

State of South Carolina statutes authorize the entity to invest in the following:

1. Obligations of the United States of America and agencies thereof;
2. General obligations of the State of South Carolina or any of its political units;
3. Savings and loan associations deposits to the extent insured by the Federal Deposit Insurance Corporation;
4. No load open and closed-end portfolios of certain investment companies with issues of the United States of America government; and
5. Certificates of deposit and repurchase agreements collateralized by securities of the type described in 1. and 2. above held by a third-party as escrow agent or custodian, or a market value not less than the amount of the certificate of deposit so secured, including interest.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Restricted Assets

Certain assets are classified as restricted assets on the Statement of Net Position because their use is limited by debt agreements or earmarked for specific purposes. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

F. Prepaid Items

Prepaid balances are for payments made by the City in the current year to obtain services in the subsequent fiscal year. The City uses the consumption method to account for these items. The portion of fund balance shown as non-spendable for prepaid items has been recognized to signify that a portion of fund balances is not available for other subsequent expenditures.

G. Capital Assets

The City's property, plant, and equipment of all funds are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at acquisition value. 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 costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Property, plant and equipment of the primary government, are depreciated using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Years</u>
Building and structural components	10 – 50
Equipment	5 – 10
Road and drainage improvements	20
Recreation and parks facilities	20 – 25
Fire trucks	20
Police cars	5
Garbage trucks	10
Other vehicles	3 – 5

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund balance is reported in the governmental funds financial statements and generally represents the difference between current assets and current liabilities. Fund balance classifications represent a hierarchy based primarily on the extent to which the City is bound to honor constraints on specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- **Non-spendable** – Fund balances are classified as non-spendable when amounts cannot be spent because they are either: i) in non-spendable form, or ii) they are legally or contractually required to be maintained intact. The City includes items that are not expected to be converted to cash such as inventories and prepaid amounts.
- **Restricted** – Fund balances are reported as restricted when their use is restricted for specific purposes including: i) constraints on funds externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or ii) constraints imposed by law through constitutional provisions or enabling legislation.
- **Committed** – Fund balances are reported as committed if their use is for a specific purpose as approved by formal action of the Council (majority vote). Amounts committed cannot be used for any other purpose unless the Council removes or changes the specific use by approving such action through resolution at a Council meeting. Budget resolutions are considered a plan for specific use.
- **Assigned** – Fund balances are reported as assigned when constrained by the City’s intent to use the funds for specific purposes that are neither restricted nor committed. Assigned fund balance includes: i) all remaining amounts (except negative balances) reported in governmental funds, other than the General Fund, that are not classified as non-spendable, restricted or committed, ii) amounts in the General Fund intended for a specific use identified by either the Mayor or Treasurer, and iii) amounts appropriated to eliminate a projected budget deficit in the subsequent year.
- **Unassigned** – Fund balances are reported as unassigned when the balances do not meet any of the above four criterion for classification. The City reports positive unassigned fund balance in only the General Fund. Negative unassigned fund balances may be reported in all governmental funds.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Fund Equity (Continued)

For purposes of fund balance disbursement, unless otherwise approved by the Council, the City will expend restricted fund balance when an expenditure is incurred for which both restricted and unrestricted fund balance is available. Next, the City will expend committed fund balance when an expenditure is paid for which unrestricted fund balance is available. The City would next disburse fund balance assigned for purposes of the fund before disbursing other assigned fund balance amounts. In the General Fund, the City would disburse unassigned fund balance prior to disbursing fund balance assigned for financial policy reserve levels or amounts assigned to eliminate the subsequent year's budget deficit.

Equity is classified as net position and displayed in three components in the government-wide financial statements.

Net investment in capital assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position consists of net position with constraints placed on the use either by: 1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets".

I. Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Deferred Inflows/Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has five items that qualify for reporting in this category. These five items relate to the City's pension plan and are reported in the government-wide Statement of Net Position: 1) experience losses result from periodic studies by the City's actuary, 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 losses are recorded as deferred outflows of resources and are amortized into pension expense over the expected remaining service lives of the plan members; 2) changes in actuarial assumptions adjust the net pension liabilities and are amortized into pension expense over the expected remaining service lives of plan members; 3) the changes in the City's proportionate share of the collective net pension liability and differences between actual employer contributions and proportionate share of the total plan employer contributions are specific to cost-sharing multiple employer defined benefit pension plans and represent the current period amortized portions of these deferred outflows; 4) the differences between projected investment return on pension investments and actual return on those investments are deferred and amortized against pension expense over a five-year period and 5) 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 and the governmental funds Balance Sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items that qualify for reporting in this category. Two of these items relate to the City's pension plan and are reported in the government-wide Statement of Net Position: 1) certain experience gains are deferred and amortized against expense over a five-year period, resulting in recognition as deferred inflows of resources; and 2) the changes in the City's proportionate share of the collective net pension liability and differences between actual employer contributions and proportionate share of the total plan employer contributions are specific to cost-sharing multiple employer defined benefit pension plans and represent the current period amortized portions of these deferred inflows. The third item relates to the City's property taxes and grants. Accordingly, the item, unavailable property tax revenues and unavailable grant revenues, is reported only in the Governmental Funds Balance Sheet, and property tax revenues and grant revenues received in advance is reported on the Governmental Funds Balance Sheet and the Statement of Net Position. These amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Taxes Receivable

The Berkeley County Treasurer collects property taxes for all 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, 2023. 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.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

In the last quarter 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Budgetary Data (Continued)

The annual budget is adopted on a basis consistent with GAAP for the General Fund and the Capital Projects Fund, except that principal bond proceeds received are reflected as other financing sources.

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, 2023.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CASH AND INVESTMENTS

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. The City follows the South Carolina Code of Laws Section 6-5-15 as its policy for custodial credit risk which states that to the extent that these deposits exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation ("FDIC"), the bank or savings and loan association at the time of deposit must: 1) furnish an indemnity bond in a responsible surety company authorized to do business in this State; or 2) pledge as collateral: a) obligations of the United States; b) obligations fully guaranteed both as to principal and interest by the United States; c) general obligations of this State or any political subdivision of this State; or d) obligations of the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation; or provide an irrevocable letter of credit issued by the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation, in which the local entity is named as beneficiary and the letter of credit otherwise meets the criteria established and prescribed by the local entity. As of June 30, 2023, none of the City's bank balances were subject to custodial credit risk.

Investments: The City's investments are in accordance with South Carolina Code of Laws Section 6-5-10.

These state statutes authorize investments in the following:

1. Obligations of the United States and agencies thereof;
2. General obligations of the State of South Carolina or any of its political units;
3. Savings and loan association deposits to the extent insured by the FDIC;
4. Certificates of deposit and repurchase agreements collateralized by securities of the type described in: 1. and 2. above held by a third-party as escrow agent or custodian, of a market value not less than the amount of certificates of deposit and repurchase agreements so secured, including interest; and
5. No load open and closed-end portfolios of certain investment companies with issues of the U.S. Government.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

Investments (Continued): South Carolina Local Government Investment Pool ("LGIP" or "Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any City Treasurer or any governing body of a political subdivision of the State, may be deposited. In accordance with GASB Statement No. 31 *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"* and GASB Statement No. 72 *"Fair Value Measurement and Application"*, investments are carried at fair value determined annually based upon: a) quoted market prices for identical or similar investments, or b) observable inputs other than 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. Funds may be deposited by Pool participants at any time and may be withdrawn upon 24 hours' notice. Financial statements for the Pool may be obtained by writing:

Office of State Treasurer
Local Government Investment Pool
P.O. Box 11778
Columbia, South Carolina 29211-1960

Interest Rate Risk: The City's investment policy limits the weighted average maturity of investments to less than five years.

Credit Risk for Investments: Credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy for credit risk states that the risk shall be mitigated by investing in safe institutions, but does not have strict guidelines regarding credit ratings. The City follows the investment policy statutes of the State of South Carolina related to credit risk for investments.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

Credit Risk for Investments (Continued): Deposits and investments are reconciled between the financial statements and note disclosure as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 19,588,785
Investments	<u>5,312,868</u>
Total cash and investments	<u><u>\$ 24,901,653</u></u>
Cash deposited with financial institutions	\$ 5,834,392
Fixed income securities	25,200
South Carolina Local Government Investment Pool	<u>19,042,061</u>
	<u><u>\$ 24,901,653</u></u>

As of June 30, 2023, the City had the following investments in fixed income securities:

Investment	Level 1	Level 2	Level 3	Fair Value
Fixed income securities:				
U.S. treasury bonds	\$ 5,312,868	\$ -	\$ -	\$ 5,312,868
Total fixed income securities	<u><u>\$ 5,312,868</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,312,868</u></u>

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The City has no investments classified in Level 2 or 3.

Fair Value. The fair value measurement and disclosure framework provides for a three-tier fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City can access at the measurement date.

Level 2 – Inputs to the valuation methodology, other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly, include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

Fair Value (Continued).

Level 3 – Inputs to the valuation methodology that are unobservable for an asset or liability include:

- Fair value is often based on developed models in which there are few, if any, observable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable values or reflective of future fair values. The City believes that the valuation methods used are appropriate and consistent with GAAP. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no significant changes from the prior year in the methodologies used to measure fair value.

NOTE 4. ACCOUNTS RECEIVABLE

Receivables as of June 30, 2023, the General Fund had total taxes receivable of \$4,758,322 with an allowance of \$109,476, which nets to \$4,648,846. The General Fund also had accounts receivable of \$1,066,187 which consists of amounts due from outside parties not related to property taxes.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2023 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 4,466,617	\$ -	\$ -	\$ 37,421	\$ 4,504,038
Construction in progress	8,535,590	5,488,248	-	(265,600)	13,758,238
Total	<u>13,002,207</u>	<u>5,488,248</u>	<u>-</u>	<u>(228,179)</u>	<u>18,262,276</u>
Capital assets, being depreciated:					
Buildings and improvements	14,776,907	-	(5,747)	316,769	15,087,929
Machinery and equipment	1,640,835	34,764	(31,447)	-	1,644,152
Vehicles and related equipment	6,879,474	678,732	(315,114)	-	7,243,092
Office furnishings and equipment	567,863	-	(52,049)	-	515,814
Other assets	4,383,194	-	(6,993)	(88,590)	4,287,611
Total	<u>28,248,273</u>	<u>713,496</u>	<u>(411,350)</u>	<u>228,179</u>	<u>28,778,598</u>
Less accumulated depreciation:					
Buildings and improvements	(6,819,092)	(508,595)	2,682	-	(7,325,005)
Machinery and equipment	(889,432)	(139,398)	25,335	-	(1,003,495)
Vehicles and related equipment	(3,901,161)	(392,796)	309,788	-	(3,984,169)
Office furnishings and equipment	(398,253)	(51,554)	45,511	-	(404,296)
Other assets	(1,948,380)	(270,728)	6,993	-	(2,212,115)
Total	<u>(13,956,318)</u>	<u>(1,363,071)</u>	<u>390,309</u>	<u>-</u>	<u>(14,929,080)</u>
Total capital assets, being depreciated, net	<u>14,291,955</u>	<u>(649,575)</u>	<u>(21,041)</u>	<u>228,179</u>	<u>13,849,518</u>
Governmental activities capital assets, net	<u>\$ 27,294,162</u>	<u>\$ 4,838,673</u>	<u>\$ (21,041)</u>	<u>\$ -</u>	<u>\$ 32,111,794</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
General government	\$ 312,143
Public safety	421,189
Public works	61,338
Recreation and parks	568,401
Total depreciation expense	<u>\$ 1,363,071</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the fiscal year ended June 30, 2023 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 12,305,000	\$ -	\$ (440,000)	\$ 11,865,000	\$ 460,000
Bond premiums	1,252,772	-	(141,193)	1,111,579	133,273
Financed purchases	976,908	-	(264,509)	712,399	170,485
Compensated absences	288,511	236,176	(238,294)	286,393	286,393
Net pension liability	10,256,800	3,440,139	(1,885,936)	11,811,003	-
Total long-term liabilities	<u>\$ 25,079,991</u>	<u>\$ 3,676,315</u>	<u>\$ (2,969,932)</u>	<u>\$ 25,786,374</u>	<u>\$ 1,050,151</u>

The compensated absences and net pension liabilities are paid from the General Fund. All other long-term liability payments are paid from either the General Fund or the Capital Projects Fund.

General Obligation Bonds: On March 23, 2021, the City issued Series 2021 General Obligations Bonds in the total amount of \$15,312,292, which includes a premium of \$1,412,292 in order to obtain funds for the acquisition, construction, equipping, and furnishing of park and recreational facilities. Principal payments are due annually for the Series 2021 General Obligation Bonds beginning March 1, 2022. Interest is due March 1 and September 1 of each year, at an average annual rate of 1.75%.

Annual debt service requirements to maturity for General Obligation ("GO") Bonds as of June 30, 2023 are as follows:

Year ending June 30,	Principal	Interest	Total
2024	\$ 460,000	\$ 370,200	\$ 830,200
2025	485,000	347,200	832,200
2026	510,000	322,950	832,950
2027	535,000	297,450	832,450
2028	565,000	270,700	835,700
2029 – 2033	3,245,000	920,400	4,165,400
2034 – 2038	3,675,000	462,500	4,137,500
2039 – 2041	2,390,000	96,300	2,486,300
Total	<u>\$ 11,865,000</u>	<u>\$ 3,087,700</u>	<u>\$ 14,952,700</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LONG-TERM LIABILITIES (CONTINUED)

Financed Purchases: In September 2018, the City entered a financed purchase agreement in the total amount of \$464,657 for the purpose of acquiring a new 2018 fire truck. The City paid an \$86,000 down payment on the truck in June 2018 so assembly of the truck could begin. The agreement is payable in five annual installments of principal and interest of \$100,454, including interest at 3.96% per annum, due on October 10th each year. The fire truck serves as collateral. This finance purchase was paid off during the current fiscal year.

In July 2020, the City entered a financed purchase agreement in the total amount of \$258,483 for the purpose of acquiring solar lighting. The agreement is payable in twelve annual installments of principal and interest of \$25,107, including interest at 2.44% per annum, due on July 30th each year. The outstanding principal balance at June 30, 2023 was \$220,423.

In August 2020, the City entered a financed purchase agreement in the total amount of \$291,611 for the purpose of acquiring a camera system. The agreement is payable in five annual installments of principal and interest of \$60,492, including interest at 1.23% per annum, due on August 1st each year. The outstanding principal balance at June 30, 2023 was \$177,101.

In November 2020, the City entered a financed purchase agreement in the total amount of \$291,611 for the purpose of acquiring two garbage trucks. The agreement is payable in five annual installments of principal and interest of \$63,971, including interest at 1.50% per annum, due on November 9th each year. The outstanding principal balance at June 30, 2023 was \$186,295.

In September 2021, the City entered a financed purchase agreement in the total amount of \$159,278 for the purpose of acquiring bunker gear. The agreement is payable in four annual installments of principal and interest of \$33,645, including interest at 1.50% per annum, due on September 22nd each year. The outstanding principal balance at June 30, 2022 was \$128,560.

The financed purchases outstanding at June 30, 2023 includes the following:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 170,485	\$ 12,730	\$ 183,215
2025	173,180	10,035	183,215
2026	175,919	7,295	183,214
2027	54,243	4,510	58,753
2028	21,726	3,381	25,107
2029 – 2033	116,846	8,691	125,537
Total	<u>\$ 712,399</u>	<u>\$ 46,642</u>	<u>\$ 759,041</u>

Financed purchase obligations incurred during the current year are reported in the General Fund and the Capital Projects Fund. Future payments will be paid by either the General Fund or the Capital Projects Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. RISK MANAGEMENT

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

The City is also subject to risks of loss from providing health, life, accident, and other medical benefits to employees, retirees, and their dependents. The City has enrolled substantially all its employees in health and life insurance plans administered by a commercial insurance company. In addition, the City ensures the risk of job-related injury or illness to its employees through a workers' compensation insurance public entity risk pool operating for the City's benefit, paying an annual premium for its workers compensation 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 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.

NOTE 8. CONTINGENT LIABILITIES

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.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS

Overview

The South Carolina Public Employee Benefit Authority ("PEBA"), created July 1, 2012, is the state agency responsible for the administration and management of the various retirement systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the South Carolina Deferred Compensation Program, as well as the state's employee insurance programs (the "Systems"). As such, PEBA is responsible for administering the South Carolina Retirement Systems' ("SCRS") five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission ("Commission" as the governing body, "RSIC" as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

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

PEBA issues an Annual Comprehensive Financial Report ("ACFR") containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The ACFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and, therefore, retirement trust fund financial information is also included in the ACFR of the state.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Plan Description

The South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts and participating charter schools, public higher education institutions, other participating local subdivisions of government and first-term individuals elected to the South Carolina General Assembly.

The South Carolina Police Officers' Retirement System ("PORS"), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

Membership

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the Code of Laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. 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 the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or \$500 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 1% or \$500 every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability ("UAAL") over a period that does not exceed the number of years scheduled in state statute. The Retirement Funding and Administration Act of 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00% for SCRS and 9.75% for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by 2-percentage-points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. The General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. In accordance with the legislative funding schedule, employer contribution rates will continue to increase by 1-percentage-point each year until reaching 18.56 percent for SCRS and 21.24 percent for PORS but may be increased further, if the scheduled contributions are not sufficient to meet the funding periods set for the applicable year. The board shall increase the employer contribution rates as necessary to meet the amortization period set in statute.

Pension reform legislation modified statute such that the employer contribution rates for SCRS and PORS to be further increased, not to exceed one-half of one percent in any one year if necessary, in order to improve the funding of the plans. The statute set rates intended to reduce the unfunded liability of SCRS and PORS to the maximum amortization period of 20 years from 30 years over a ten-year schedule, as determined by the annual actuarial valuations of the plan. Finally, under the revised statute, the contribution rates for SCRS and PORS may not be decreased until the plans are at least 85 percent funded.

Required employee contribution rates for the fiscal year ended June 30, 2023 are as follows:

South Carolina Retirement System

9.00% of earnable compensation from January 1st through June 30th
9.00% of earnable compensation from July 1st through December 31st

Required employer contribution rates for the fiscal year ended June 30, 2023 are as follows:

South Carolina Retirement System

17.41% of earnable compensation from January 1st through June 30th
17.41% of earnable compensation from July 1st through December 31st
Employer incidental death benefit: 0.15% of earnable compensation

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Contributions (Continued)

Required employee contribution rates for the fiscal year ended June 30, 2023 are as follows:

Police Officers' Retirement System

9.75% of earnable compensation from January 1st through June 30th

9.75% of earnable compensation from July 1st through December 31st

Required employer contribution rates for the fiscal year ended June 30, 2023 are as follows:

Police Officers' Retirement System

19.84% of earnable compensation from January 1st through June 30th

19.84% of earnable compensation from July 1st through December 31st

Employer incidental death benefit: 0.20% of earnable compensation

Employer accidental death program: 0.20% of earnable compensation

Net Pension Liability

The net pension liability ("NPL") is calculated separately for each system and represents that particular Systems' total pension liability determined in accordance with GASB No. 67 less that Systems' fiduciary net position. NPL totals, as of the June 30, 2022 measurement date, for SCRS and PORS, are presented in the following table:

System	Total Pension Liability	Plan Fiduciary Net Position	Employer's Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Pension	Town's Proportionate Share of the Collective Net Pension Liability
SCRS	\$ 11,309,586	\$ 6,453,232	\$ 4,856,354	57.1%	0.020033%
PORS	\$ 20,726,585	\$ 13,771,936	\$ 6,954,649	66.4%	0.231901%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Net Pension Liability (Continued)

At June 30, 2023, the City reported liabilities of \$4,856,354 and \$6,954,649 for its proportionate share of the net pension liabilities for the SCRS and PORS, respectively. The net pension liabilities were measured as of June 30, 2022, and the total pension liabilities for the plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report of July 1, 2021 that was projected forward to the measurement date. The City's proportion of the net pension liabilities were based on a projection of the City's long-term share of contributions to the plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2022 measurement date, the City's SCRS proportion was 0.020033%, which was a decrease of 0.000707% from its proportion measured as of June 30, 2021. At the June 30, 2022 measurement date, the City's PORS proportion was 0.231901%, which was an increase of 0.007703% from its proportion measured as of June 30, 2021.

Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan 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 regarding the net pension liability 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. An experience report on the Systems was most recently issued for the period ended June 30, 2019.

The June 30, 2022 total pension liability, net pension liability, and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), and are based on an actuarial valuation performed as of July 1, 2021. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year-end, June 30, 2022, using generally accepted actuarial principles. There was no legislation enacted during the 2022 legislative session that had a material change in the benefit provisions for any of the systems.

The following table provides a summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2022:

	SCRS	PORS
Actuarial cost method	Entry Age Normal	Entry Age Normal
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases	3.0% to 11.0% (varies by service)	3.5% to 10.5% (varies by service)
Includes inflation at	2.25%	2.25%
Benefit adjustments	Lesser of 1% or \$500 annually	Lesser of 1% or \$500 annually

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Actuarial Assumptions and Methods (Continued)

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table ("2020 PRSC"), was developed using the Retirement Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

Former Job Class	Males	Females
General Employees and Members of the General Assembly	2020 PRSC Males multiplied by 97%	2020 PRSC Females multiplied by 107%
Public Safety and Firefighters	2020 PRSC Males multiplied by 127%	2020 PRSC Females multiplied by 107%

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The 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 returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2022 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.00% assumed annual investment rate of return used in the calculation of the TPL includes a 4.75% real rate of return and a 2.25% inflation component.

Allocation / Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Public Equity	46.0%	6.79%	3.12%
Bonds	26.0%	-0.35%	-0.09%
Private Equity	9.0%	8.75%	0.79%
Private Debt	7.0%	6.00%	0.42%
Real Assets:	12.0%		
Real Estate	9.0%	4.12%	0.37%
Infrastructure	3.0%	5.88%	0.18%
	100%		
		Total expected real return	4.79%
		Inflation for actuarial purposes	2.25%
		Total expected nominal return	7.04%

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, the City'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.

The following table presents the sensitivity of the City's proportionate share of the net pension liability of the plans to changes in the discount rate, calculated using the discount rate of 7.00%, as well as what it would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

Sensitivity of the Net Position Liability to Changes in the Discount Rate

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
City's portion - SCRS	\$ 6,226,445	\$ 4,856,354	\$ 3,717,301
City's portion - PORS	\$ 9,697,839	\$ 6,954,649	\$ 4,709,089

Pension Expense

For the year ended June 30, 2023, the City recognized its proportionate share of collective pension expense of \$478,205 and \$946,454 for the SCRS and PORS, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SCRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,193	\$ 21,164
Changes of assumptions	155,755	-
Net difference between projected and actual earnings on pension plan investments	7,490	-
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions	74,951	120,987
Employer contributions subsequent to the measurement date	461,706	-
Total	<u>\$ 742,095</u>	<u>\$ 142,151</u>

PORS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 116,685	\$ 137,482
Changes of assumptions	289,603	-
Net difference between projected and actual earnings on pension plan investments	21,002	-
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions	427,457	-
Employer contributions subsequent to the measurement date	719,750	-
Total	<u>\$ 1,574,497</u>	<u>\$ 137,482</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 9. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The amounts of \$461,706 and \$719,750 that were reported as deferred outflows of resources related to the City's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>SCRS</u>
2024	\$ 135,497
2025	24,455
2026	(148,366)
2027	126,652
<u>Year ending June 30,</u>	<u>PORS</u>
2024	\$ 366,659
2025	262,350
2026	(182,070)
2027	270,326

Aggregate Amounts

Aggregate amounts for all pension plans are as follows:

	<u>SCRS</u>	<u>PORS</u>	<u>Total</u>
Net pension liability	\$ 4,856,354	\$ 6,954,649	\$ 11,811,003
Deferred outflows	742,095	1,574,497	2,316,592
Deferred inflows	142,151	137,482	279,633
Pension expense	478,205	946,454	1,424,659

Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plan administered by the PEBA is available in the separately issued ACFR containing financial statements and required supplementary information for the SCRS and PORS. The ACFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to:

PEBA
202 Arbor Lake Drive
Columbia, South Carolina 29223

NOTES TO FINANCIAL STATEMENTS

NOTE 10. 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 \$19,500 for both the 457 plan and for the 401(k) plan with an additional \$6,500 catch-up provision for employees over age 50 with pre-tax contributions. The Roth 401(k) and Roth 457 plans offer employees the opportunity to contribute on an after-tax basis. Employee after-tax contributions for Roth 401(k) and Roth 457 participants must be combined with pre-tax contributions and cannot exceed these annual limits. The deferred compensation is not available to an employee until termination, retirement, disability, death, or approved hardship. The City has no obligation to make contributions to these plans and made no contributions during the year.

NOTE 11. 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.

NOTE 12. CONSTRUCTION COMMITMENTS

The City had several incomplete construction projects at year-end. As of June 30, 2023, the City had outstanding construction commitments of \$3,871,195.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HANAHAN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS SOUTH CAROLINA RETIREMENT SYSTEM FOR THE YEAR ENDED JUNE 30,

South Carolina Retirement System					
Plan Year Ended June 30,	City's proportion of the net pension liability	City's proportionate share of the net pension liability	City's covered payroll	City's share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2022	0.020033%	\$ 4,856,354	\$ 2,385,424	203.6%	57.1%
2021	0.020740%	4,488,383	2,345,099	191.4%	60.7%
2020	0.020670%	5,281,676	2,306,074	229.0%	50.7%
2019	0.019474%	4,446,747	2,056,412	216.2%	54.4%
2018	0.018461%	4,136,558	1,913,090	216.2%	54.1%
2017	0.016878%	3,799,509	1,713,703	221.7%	53.3%
2016	0.016539%	3,532,706	1,577,542	223.9%	52.9%
2015	0.015735%	2,984,219	1,475,305	202.3%	57.0%

Note: The assumptions used in the preparation of the above schedule is disclosed in Note 9 to the financial statements.

The above schedule will present 10 years of information once it is accumulated.

CITY OF HANAHAN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS SOUTH CAROLINA RETIREMENT SYSTEM FOR THE YEAR ENDED JUNE 30,

South Carolina Retirement System						
Fiscal Year Ended June 30,	Actuarially required contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	City's covered payroll	Contributions as a percentage of covered payroll	
2023	\$ 461,706	\$ 461,706	\$ -	\$ 2,629,306	17.56%	
2022	395,026	395,026	-	2,385,424	16.56%	
2021	364,897	364,897	-	2,345,099	15.56%	
2020	358,825	358,825	-	2,306,074	15.56%	
2019	299,414	299,414	-	2,056,412	14.56%	
2018	259,415	259,415	-	1,913,090	13.56%	
2017	198,104	198,104	-	1,713,703	11.56%	
2016	174,476	174,476	-	1,577,542	11.06%	

Note: The above schedule will present 10 years of information once it is accumulated.

CITY OF HANAHAN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS POLICE OFFICERS' RETIREMENT SYSTEM FOR THE YEAR ENDED JUNE 30,

Police Officers' Retirement System					
Plan Year Ended June 30,	City's proportion of the net pension liability	City's proportionate share of the net pension liability	City's covered payroll	City's share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2022	0.231901%	\$ 6,954,649	\$ 3,643,692	190.9%	66.4%
2021	0.224198%	5,768,417	3,371,640	171.1%	70.4%
2020	0.210927%	6,994,803	3,186,371	219.5%	58.8%
2019	0.205050%	5,876,544	2,974,133	197.6%	62.7%
2018	0.187200%	5,304,393	2,591,130	204.7%	61.7%
2017	0.186550%	5,110,733	2,512,264	203.4%	60.9%
2016	0.193780%	4,915,079	2,470,350	199.0%	60.4%

Note: The above schedule will present 10 years of information once it is accumulated.

The assumptions used in the preparation of the above schedule is disclosed in Note 9 to the financial statements.

CITY OF HANAHAN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS POLICE OFFICERS' RETIREMENT SYSTEM FOR THE YEAR ENDED JUNE 30,

Police Officers' Retirement System					
Fiscal Year Ended June 30,	Actuarially required contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	City's covered payroll	Contributions as a percentage of covered payroll
2023	\$ 719,750	\$ 719,750	\$ -	\$ 3,556,075	20.24%
2022	701,046	701,046	-	3,643,692	19.24%
2021	614,987	614,987	-	3,371,640	18.24%
2020	581,194	581,194	-	3,186,371	18.24%
2019	512,741	512,741	-	2,974,133	17.24%
2018	420,799	420,799	-	2,591,130	16.24%

Note: The above schedule will present 10 years of information once it is accumulated.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HANAHAN, SOUTH CAROLINA

UNIFORM SCHEDULE OF COURT FINES, ASSESSMENTS AND SURCHARGES (PER ACT 96) FOR THE FISCAL YEAR ENDED JUNE 30, 2023

FOR THE STATE TREASURER'S OFFICE:

COUNTY/MUNICIPAL FUNDS COLLECTED BY CLERK OF COURT	<u>General Sessions</u>	<u>Magistrate Court</u>	<u>Municipal Court</u>	<u>Total</u>
Court Fines and Assessments:				
Court fines and assessments collected	N/A	N/A	\$ 641,611	\$ 641,611
Court fines and assessments remitted to State Treasurer	N/A	N/A	220,436	220,436
Total Court Fines and Assessments retained	N/A	N/A	\$ 421,175	\$ 421,175
Surcharges and Assessments retained for victim services:				
Surcharges collected and retained	N/A	N/A	\$ 3,569	\$ 3,569
Assessments retained	N/A	N/A	21,230	21,230
Total Surcharges and Assessments retained for victim services	N/A	N/A	\$ 24,799	\$ 24,799

FOR THE DEPARTMENT OF CRIME VICTIM COMPENSATION (DCVC)

VICTIM SERVICE FUNDS COLLECTED	<u>Municipal</u>	<u>County</u>	<u>Total</u>
Carryforward from Previous Year – Beginning Balance	\$ 2,739	N/A	\$ 2,739
<u>Victim Service Revenue:</u>			
Victim Service Fines Retained by City/County Treasurer	-	N/A	-
Victim Service Assessments Retained by City/County Treasurer	21,230	N/A	21,230
Victim Service Surcharges Retained by City/County Treasurer	3,569	N/A	3,569
Interest Earned	-	N/A	-
Grant Funds Received			
Grant from:	-	N/A	-
General Funds Transferred to Victim Service Fund	-	N/A	-
Contribution Received from Victim Service Contracts:			
(1) Town of	-	N/A	-
(2) Town of	-	N/A	-
(3) City of	-	N/A	-
Total Funds Allocated to Victim Service Fund + Beginning Balance (A)	\$ 27,538	N/A	\$ 27,538

(Continued)

CITY OF HANAHAN, SOUTH CAROLINA

UNIFORM SCHEDULE OF COURT FINES, ASSESSMENTS AND SURCHARGES (PER ACT 96) FOR THE FISCAL YEAR ENDED JUNE 30, 2023

FOR THE STATE TREASURER'S OFFICE (CONTINUED)

<u>Expenditures for Victim Service Program:</u>	<u>Municipal</u>	<u>County</u>	<u>Total</u>
Salaries and Benefits	\$ -	N/A	\$ -
Operating Expenditures	26,410	N/A	26,410
Victim Service Contract(s):			
(1) Entity's Name	-	N/A	-
(2) Entity's Name	-	N/A	-
Victim Service Donation(s):			
(1) Domestic Violence Shelter	-	N/A	-
(2) Rape Crisis Center	-	N/A	-
(3) Other local direct crime victims service agency	-	N/A	-
Transferred to General Fund	-	N/A	-
Total Expenditures from Victim Service Fund/Program (B)	26,410	N/A	26,410
Total Victim Service Funds Retained by Municipal/County Treasurer (A-B)	1,128	N/A	1,128
Less: Prior Year Fund Deficit Repayment	-	N/A	-
Carryforward Funds – End of Year	\$ 1,128	N/A	\$ 1,128

COMPLIANCE SECTION



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

**Honorable Mayor and Members
of the City Council
City of Hanahan, South Carolina
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 and each major fund of the City of Hanahan, South Carolina (the "City") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 12, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City of Hanahan, South Carolina's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Savannah, Georgia

January 12, 2024



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Hanahan, South Carolina's (the "City") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal program for the year ended June 30, 2023. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Savannah, Georgia
January 12, 2024

CITY OF HANAHAN, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Federal Grantor/ Pass-Through Program Title	Assistance Listing Number	Grant ID Number	Federal Expenditures	Passed-Through to Subrecipients
U.S. Department of the Treasury				
Direct				
Coronavirus State and Local Fiscal Recovery Funds	21.027	SC0195	\$ 3,456,652	\$ -
Total U.S. Department of the Treasury			<u>3,456,652</u>	<u>-</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,456,652</u></u>	<u><u>\$ -</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF HANAHAN, SOUTH CAROLINA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Hanahan, South Carolina (the "City") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 2 CFR Part 200, OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2. NON-CASH ASSISTANCE AND LOANS

There were no federal awards expended in the form of non-cash assistance during the year. There were also no loans or loan guarantees outstanding at year-end.

NOTE 3. DE MINIMIS INDIRECT COST RATE

The City did not use the 10% de minimis indirect cost rate.

NOTE 4. SUBRECIPIENTS

The City did not pass through any grant funds to subrecipients for the year ended June 30, 2023.

CITY OF HANAHAN, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP.

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

___ Yes X No

Significant deficiencies identified not considered to be material weaknesses?

___ Yes X No

Noncompliance material to financial statements noted?

___ Yes X No

Federal Awards

Internal control over major programs:

Material weaknesses identified?

___ Yes X No

Significant deficiencies identified not considered to be material weaknesses?

___ Yes X No

Type of auditor's report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

___ Yes X No

Identification of major program:

AL Number

21.027

Name of Federal Program or Cluster

U.S. Department of the Treasury

Coronavirus State and Local

Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs?

\$750,000

Auditee qualified as a low-risk auditee?

___ Yes X No

CITY OF HANAHAN, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

None reported.

SECTION III FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV SCHEDULE OF PRIOR YEAR FINDINGS

None reported.