

CITY OF FOREST ACRES, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2018

WITH

INDEPENDENT AUDITORS' REPORT

CITY OF FOREST ACRES, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
5209 North Trenholm Road
City of Forest Acres, South Carolina 29206

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Forest Acres (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in *Note 10* to the financial statements, in 2018 the Fund adopted new accounting guidance, *GASB Statement No. 75, Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Proportionate Share of the South Carolina Retirement Systems Net Pension Liabilities on page 33, the Schedule of South Carolina Retirement Systems Contributions on page 34, and the Schedule of Changes in the City's Total OPEB Liability and Related Ratios on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted 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.

Other 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 Schedule of Court Fines, Fees, Assessments and Surcharges on page 36 is other financial information and is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other financial information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements 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 December 6, 2018 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

The Brittingham Group LLP

West Columbia, South Carolina
December 6, 2018

CITY OF FOREST ACRES, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 5,022,563
Investments	5,413,502
Receivables, net of allowance	
Accounts receivable	126,724
Intergovernmental	211,617
Capital assets, not being depreciated	1,380,149
Capital assets, net of accumulated depreciation	2,479,561
Total assets	<u>14,634,116</u>
Deferred outflows of resources	
Pension expenses and contributions	1,228,615
Total deferred outflows of resources	<u>1,228,615</u>
Total assets and deferred outflows of resources	<u>15,862,731</u>
Liabilities	
Accounts payable	150,910
Accrued expenses	28,766
Accrued salaries and compensated absences	535,224
Capital lease payable:	
Due within one year	308,736
Net OPEB liability	5,265,045
Net pension liability	6,367,241
Total liabilities	<u>12,655,922</u>
Deferred inflows of resources	
Related to pensions	441,791
Related to OPEB	36,512
Total deferred inflows of resources	<u>478,303</u>
Total liabilities and deferred inflows of resources	<u>13,134,225</u>
Net position	
Net investment in capital assets	3,550,974
Restricted for:	
Hospitality programs	3,090,583
Police special operations	4,192
Unrestricted - unfunded pension liability	(5,580,417)
Unrestricted- unfunded OPEB liability	(5,301,557)
Unrestricted - other	6,964,731
Total net position	<u>\$ 2,728,506</u>

See accompanying notes.

CITY OF FOREST ACRES, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Governmental Activities</u>
Governmental activities			
General government	\$ 1,682,838	\$ 3,762,399	\$ 2,079,561
Public safety	3,374,147	202,219	(3,171,928)
Public works	1,642,489	6,528	(1,635,961)
Hospitality program	488,103	-	(488,103)
Total governmental activities	<u>\$ 7,187,577</u>	<u>\$ 3,971,146</u>	<u>(3,216,431)</u>
General revenues and transfers			
General revenues:			
Property taxes			1,448,037
Local option sales taxes			1,549,506
Hospitality taxes			955,117
Intergovernmental taxes			263,711
Loss on sale of capital assets			(74,620)
Miscellaneous			187,191
Total general revenues			<u>4,328,942</u>
Change in net position			1,112,511
Net Position, beginning of year, restated			<u>1,615,995</u>
Net Position, end of year			<u>\$ 2,728,506</u>

See accompanying notes.

CITY OF FOREST ACRES, SOUTH CAROLINA

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>General</u>	<u>Hospitality Program</u>	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 4,144,065	\$ 874,306	\$ 4,192	\$ 5,022,563
Investments	3,307,681	2,105,821	-	5,413,502
Receivables:				
Intergovernmental	211,617	-	-	211,617
Accounts	126,724	-	-	126,724
Due from other funds	-	106,264	-	106,264
Total assets	<u>\$ 7,790,087</u>	<u>\$ 3,086,391</u>	<u>\$ 4,192</u>	<u>\$ 10,880,670</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 150,910	\$ -	\$ -	\$ 150,910
Accrued expenses	28,766	-	-	28,766
Accrued salaries	96,779	-	-	96,779
Due to other funds	106,264	-	-	106,264
Total liabilities	<u>382,719</u>	<u>-</u>	<u>-</u>	<u>382,719</u>
Fund balances:				
Restricted	-	3,086,391	-	3,086,391
Assigned	-	-	4,192	4,192
Unassigned	7,407,368	-	-	7,407,368
Total fund balances	<u>7,407,368</u>	<u>3,086,391</u>	<u>4,192</u>	<u>10,497,951</u>
Total liabilities and fund balances	<u>\$ 7,790,087</u>	<u>\$ 3,086,391</u>	<u>\$ 4,192</u>	<u>\$ 10,880,670</u>

See accompanying notes.

CITY OF FOREST ACRES, SOUTH CAROLINA

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION

JUNE 30, 2018

Fund balances - total governmental funds		\$ 10,497,951
<p>Amounts reported for governmental activities in the Statement of Net Position are different due to the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Capital assets, cost	\$ 6,735,439	
Accumulated depreciation	<u>(2,875,729)</u>	3,859,710
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet.</p>		
Compensated absences payable	(438,445)	
Capital leases payable	<u>(308,736)</u>	(747,181)
<p>Some liabilities, including net pension and net OPEB obligations, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet. Long-term liabilities consist of the following:</p>		
OPEB obligation	(6,367,241)	
Net pension liability	<u>(5,265,045)</u>	(11,632,286)
<p>Deferred outflows and inflows or resources related to pension and OPEB are applicable to future periods and therefore are not reported in the funds.</p>		
Deferred outflows of resources related to pensions	1,228,615	
Deferred inflows of resources related to pensions	(441,791)	
Deferred inflows of resources related to OPEB	<u>(36,512)</u>	<u>750,312</u>
Net position of governmental activities		<u><u>\$ 2,728,506</u></u>

See accompanying notes.

CITY OF FOREST ACRES, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	General	Hospitality Program	Non-Major Governmental Fund	Total Governmental Funds
Revenues				
Taxes	\$ 2,997,543	\$ 955,117	\$ -	\$ 3,952,660
Licenses and permits	3,762,399	-	-	3,762,399
Intergovernmental	263,711	-	-	263,711
Charges for services	6,528	-	-	6,528
Fines and forfeits	202,219	-	-	202,219
Other	155,078	32,112	1	187,191
Total revenues	<u>7,387,478</u>	<u>987,229</u>	<u>1</u>	<u>8,374,708</u>
Expenditures				
City Council	133,049	-	-	133,049
Legal	74,136	-	-	74,136
Municipal Court	297,158	-	-	297,158
Administration	609,069	-	-	609,069
Public buildings	93,869	-	-	93,869
Code enforcement	286,504	-	-	286,504
Police	2,961,828	-	110	2,961,938
Victims advocate	71,975	-	-	71,975
Streets	186,104	-	-	186,104
Sanitation	1,236,825	-	-	1,236,825
Recycling	132,249	-	-	132,249
Debt service:				
Principal	304,985	-	-	304,985
Interest	7,549	-	-	7,549
Hospitality and tourism	-	488,103	-	488,103
Total expenditures	<u>6,395,300</u>	<u>488,103</u>	<u>110</u>	<u>6,883,513</u>
Excess(deficit) of revenues over(under) expenditures	<u>992,178</u>	<u>499,126</u>	<u>(109)</u>	<u>1,491,195</u>
Other financing sources				
Transfers	<u>119,179</u>	<u>(119,179)</u>	<u>-</u>	<u>-</u>
Net change in fund balance	1,111,357	379,947	(109)	1,491,195
Fund balance, beginning of year	6,296,011	2,706,444	4,301	9,006,756
Fund balance, end of year	<u>\$ 7,407,368</u>	<u>\$ 3,086,391</u>	<u>\$ 4,192</u>	<u>\$ 10,497,951</u>

See accompanying notes.

CITY OF FOREST ACRES, SOUTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Net change in fund balance - total governmental funds \$ 1,491,195

Amounts reported for governmental activities in the Statement of Activities
are different due to the following:

Principal portion of capital lease payments 304,985

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over the estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeded depreciation expense in the period.

Acquisition of capital assets	\$ 311,888	
Depreciation	(435,602)	
Loss on disposal of capital assets	(74,620)	
Net change in capital assets		(198,334)

Governmental funds report the City's pension and OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.

Change in net pension liability	(306,978)
Change in deferred inflows - pension	23,920
Change in deferred outflows - pension	188,931
Changes in net OPEB liability	(356,386)
Changes in deferred inflows - OPEB	(36,512)

Expenses reported for governmental activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.

Change in accrual for compensated absences	<u>1,690</u>
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Change in net position of governmental activities	<u><u>\$ 1,112,511</u></u>
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CITY OF FOREST ACRES, SOUTH CAROLINA

STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND
NET POSITION - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes	\$ 2,784,000	\$ 2,784,000	\$ 2,997,543	\$ 213,543
Licenses and Permits	3,505,860	3,505,860	3,762,399	256,539
Intergovernmental	284,000	284,000	263,711	(20,289)
Charges for Services	4,000	4,000.00	6,528	2,528
Fines and Forfeits	210,500	210,500	202,219	(8,281)
Other	332,595	332,595	155,078	(177,517)
Total revenues	<u>7,120,955</u>	<u>7,120,955</u>	<u>7,387,478</u>	<u>266,523</u>
Expenditures				
City Council	129,292	129,292	133,049	(3,757)
Legal	79,797	79,797	74,136	5,661
Municipal Court	320,771	320,771	297,158	23,613
Administration	595,086	595,086	609,069	(13,983)
Public Buildings	150,000	150,000	93,869	56,131
Code Enforcement	345,124	345,124	286,504	58,620
Police	3,191,774	3,191,774	2,961,828	229,946
Victims Advocate	75,703	75,703	71,975	3,728
Streets	297,732	297,732	186,104	111,628
Sanitation	1,385,600	1,385,600	1,236,825	148,775
Recycling	616,175	616,175	132,249	483,926
Debt Service:				
Principal	-	-	304,985	(304,985)
Interest	-	-	7,549	(7,549)
Total expenditures	<u>7,187,054</u>	<u>7,187,054</u>	<u>6,395,300</u>	<u>791,754</u>
Excess (deficit) of revenues over (under) expenditures	<u>(66,099)</u>	<u>(66,099)</u>	<u>992,178</u>	<u>1,058,277</u>
Other financing sources				
Transfers in	<u>270,000</u>	<u>270,000</u>	<u>119,179</u>	<u>(150,821)</u>
	<u>270,000</u>	<u>270,000</u>	<u>119,179</u>	<u>(150,821)</u>
Net change in fund balance	<u>\$ 203,901</u>	<u>\$ 203,901</u>	1,111,357	<u>\$ 907,456</u>
Fund balance, beginning of year			<u>6,296,011</u>	
Fund balance, end of year			<u>\$ 7,407,368</u>	

See accompanying notes.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. Summary of Significant Accounting Policies

Reporting Entity

The City of Forest Acres is a municipal corporation of the State of South Carolina, located in Richland County, and as such, possesses all the general powers granted by the Constitution and laws of South Carolina municipal corporations.

The City operates under the council-administrator form of government. The city council is composed of five members, one of whom is the mayor. The council is the legislative body of the City and has the major responsibility of determining the policies and direction of the municipal government.

The City Administrator is appointed by council and serves as the chief administrative officer of the City. As such, he administers the daily operation of the City through appointed department heads.

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion in or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

Based upon the application of the criteria, the financial statements contain only the funds and account groups of the City. There are no separate governmental units or agencies meeting any of the above criteria for inclusion in the reporting entity.

The financial statements of the City of Forest Acres, South Carolina have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to government units.

(CONTINUED)

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

Government-wide Financial Statements - The Government-wide financial statements consist of a Statement of Net Position and the Statement of Activities and reports information on all the non-fiduciary activities of the government as a whole. Governmental activities are generally those activities financed by taxes and intergovernmental revenues. These activities are usually reported in governmental funds.

The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. At June 30, 2018, there were no component units of the City.

The Statement of Net Position reports all financial and capital resources of the City and reports the difference between assets and liabilities as “net position”, not fund balance or equity. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues and reflects the “net (expenses) revenues” of the City’s individual functions before applying ‘general’ revenues.

Direct expenses are those that are clearly identifiable with a specific function. Program revenues are derived directly from the program itself or from parties outside the reporting government’s taxpayers or citizenry, as a whole, and thus reduce the net cost of the function to be financed from the government’s general revenues. They include (1) charges to customers who purchase, use or directly benefit from goods and services provided by a given function, (2) operating grants and contributions and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. All revenues are ‘general’ revenues unless they are required to be reported as program revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds. The focus of governmental fund financial statements is on ‘major’ funds. Major individual governmental funds are reported as separate columns in the fund financial statements, with ‘non-major’ funds being aggregated and displayed in a single column.

Governmental Funds

The City reports the General Fund and then Hospitality Program as the “major” governmental funds.

Because of the basis of accounting and reporting differences, summary reconciliation to the Government-Wide financial statements are presented at the end of each applicable fund financial statement.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

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

Special Revenue Funds - Special revenue funds are used to account for revenue derived from specific sources (other than expendable trusts or major capital projects) earmarked to finance specific functions of City government.

Measurement Focus and Basis of Accounting

Government-Wide financial statements use 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

As a general rule, the effect of interfund activity has been eliminated from the Government-Wide financial statements. Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Budgets and Budgetary Accounting

An annual appropriated budget is adopted for the general fund only. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is legally enacted through passage of an ordinance by the Mayor and Council.
3. The City Administrator is authorized to administer the budget. Only the mayor and Council can amend the budget once it has been adopted.
4. The level at which expenditures may not legally exceed budget is at the function level, within the individual funds. Such appropriation transfers and amendments are incorporated into the minutes of their meetings.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

5. A formal budget is adopted and employed as a management control device during the year for the general fund. Effective budgetary control is also achieved through the various grants of individual budgets as required by the grantors and terms of debt covenants.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles, which is the same basis whereby actual revenues and expenditures are recorded.
7. The budget at the end of the year represents the budget adopted and amended by the Mayor and Council. All operations and maintenance appropriations lapse at year-end. However, capital outlay financial plans are adopted for all capital type projects.
8. During the year ended June 30, 2018, the City Mayor and Council approved the General Fund budget as follows:

Fund	Original Budget	Supplemental Appropriation	Final Budget
General	\$ 7,187,054	\$ -	\$ 7,187,054

During the year ended June 30, 2018, expenditures exceeded appropriations as follows:

	Excess of Expenditures Over Appropriations
City Council	\$ 3,757
Administration	13,983

The above expenditures were properly authorized but were recognized at too late a date to revise the budget within the fiscal year. The primary reason for the excess in expenditures for Administration is due to unforeseen capital expenditures that occurred during the fiscal year.

9. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting-under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation-is utilized in the governmental fund. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. At June 30, 2018, all commitments lapsed, and no encumbrances were recognized.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

Cash and Investments

The City is authorized to invest in obligations of the U.S. Government and agencies thereof, general obligations of the State of South Carolina or any of its political subdivisions, banks and savings and loan associations to the extent they are secured by the Federal Deposit Insurance Corporation. The City can hold cash in certificates of deposit where the certificates are collaterally secured by the preceding securities held in a third-party arrangement.

Cash includes amounts in demand deposits and cash on hand. Investments are stated at cost or amortized cost, which approximates fair value, and consist mainly of certificates of deposit, debt instruments of federal agencies and securities held under repurchase agreements.

Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Capital Assets

Governmental funds: Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements. All capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

Depreciation has been provided over the estimated useful lives for all these assets using the straight-line method. A summary of the estimated useful lives is as follows:

Buildings, Structures and Improvements	5-50 years
Vehicles and Equipment	3-15 years

Compensated Absences

It is the City's policy to allow employees to accumulate unused vacation and sick leave benefits up to certain hours. Sick pay benefits are paid at 1/3 the employee's pay rate and are limited by a certain number of hours. Accumulated unused vacation and sick pay are payable upon termination if the employee leaves the City in good standing.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

The accrued vacation and sick pay benefits at June 30, 2018, have been charged to the following:

Governmental Activities	\$ 438,445
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The change in accrued vacation benefits was a net decrease of \$1,690 from June 30, 2017.

Long-Term Debt

In the Government-Wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, Statement of Net Position. Long-term debt represents outstanding portions due on long-term contracts. Liabilities arising from interfund activities do not constitute general long-term liabilities.

Net Position and Fund Balances

Fund balance reporting for the fund level financial statements of the City are reported using the following categories:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It may also include the long-term amount of loans and notes receivable, as well as property acquired for resale.

Restricted Fund Balance

Restricted fund balance includes amounts that are either restricted externally by creditors, grantors, contributors, laws or regulations of other governments, or restricted by law through constitutional provisions or enabling legislation.

Committed Fund Balance

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority. These committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The City recognizes committed fund balances that have been approved for specific purposes by City Council before the fiscal year end.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

Assigned Fund Balance

Assigned fund balance includes amounts that are constrained by the City's intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the City's highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the City's highest level of authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that have not been assigned to other funds and have not been restricted, committed, or assigned for specific purposes within the general fund.

Based on the City's policies regarding fund balance classifications as noted above, the City considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by City Council or donors has been made. After these fund balances have been depleted, unassigned fund balance will be considered to have been spent.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government had \$1,228,615 in deferred outflows at June 30, 2018.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government had \$478,303 in deferred inflows at June 30, 2018.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

2. Deposits and Investments

As of June 30, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Credit Rating</u>
Certificates of deposits	\$ 756,352	On-Demand	FDIC Insured/ Collateralized
State Treasurer's Investment Pool	\$ 4,657,150	On-Demand	Unrated

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to short periods of time.

Credit risk. State statute and City policy limit the City's investments to obligations of the United States and agencies thereof; general obligations of the State of South Carolina or any of its political units provided such obligations are rated as an "A" or better by Moody's Investors Service, Inc. and Standard and Poor's Corporation or their respective successors; interest bearing accounts in savings and loan associations to the extent that the same are insured by an agency of the Federal government; certificates of deposit where the certificates are collaterally secured by securities of the type described above, held by a third party as escrow agent or custodian, of a fair value not less than the amount of the certificates of deposit so secured, including interest, provided, however, such collateral shall not be required to the extent the same are insured by an agency of the United States Government; or deposit accounts with banking institutions insured and secured in the same manner.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments (continued)

Statutes also allow the State Treasurer to assist local governments in investing funds. The State Treasurer also provides oversight for the State Treasurer's Local Government Investment Pool (LGIP), of which, the fair value of the City's investments are the same as the value of the pooled shares. Permitted investments for the LGIP are (1) obligations of the United States, its agencies and instrumentalities; (2) obligations of corporations, states, and political subdivisions which bear an investment grade rating at a minimum of two rating agencies; (3) certificates of deposit, if the certificates are secured collaterally by securities of the types described in (1) and (2) of this paragraph and held by a third party as escrow agent or custodian and are of a market value not less than the amount of the certificates of deposit so secured, including interest; except that this collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government; (4) obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank; (5) repurchase agreements, if collateralized by securities of the types described in items (1) and (2) of this paragraph and held by a third party as escrow agent or custodian and of a market value not less than the amount of the repurchase agreement so collateralized, including interest; and (6) guaranteed investment contracts issued by a domestic or foreign insurance company or other financial institution, whose long-term unsecured debt rating bears the two highest ratings of at least two nationally recognized rating services.

The statutes provide that all authorized investments shall have maturities consistent with the time or times when the invested monies will be needed in cash. The City is under no contractual agreements which further restrict investment alternatives.

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. It is the policy of the City to obtain adequate collateralization on all deposits that exceed FDIC insurance coverage.

3. Property Taxes

Property taxes are levied on real and personal properties owned on the preceding December 31 of each City fiscal year ended June 30. Liens attach to the property at the time the taxes are levied. These taxes are due without penalty through January 15. Penalties are added to taxes depending on the date paid as follows:

- January 16 through February 1 - 3% of tax
- February 2 through March 16 - 10% of tax
- March 17 and thereafter - 15% of tax plus collection cost

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Property Taxes (continued)

Current year real and personal taxes go into execution on March 17. The levy date for motor vehicle taxes is the first day of the month in which the motor vehicle license expires. These taxes are due by the last day of the same month. Property tax revenues are recognized when due or past due and collectible within the current period or soon enough thereafter (defined as sixty days) to pay liabilities of the current period. The County in which the City is located, Richland County, bills and collects property taxes for the City. Richland County remits the portion of taxes it collects for the City to the City on a monthly basis.

4. Changes in Capital Assets

A summary of changes in general fixed assets is as follows:

	Balances			Balances
	July 1, 2017	Additions	Deletions	June 30, 2018
Capital assets not being depreciated:				
Land	\$ 1,380,149	\$ -	\$ -	\$ 1,380,149
Capital assets being depreciated:				
Buildings	1,744,283	-	-	1,744,283
Improvements other than buildings	382,948	-	-	382,948
Vehicles and equipment	3,188,607	311,888	272,436	3,228,059
	<u>5,315,838</u>	<u>311,888</u>	<u>272,436</u>	<u>5,355,290</u>
Accumulated depreciation:				
Buildings	525,951	43,514	-	569,465
Improvements other than Buildings	154,513	26,842	-	181,355
Vehicles and equipment	1,957,479	365,246	197,816	2,124,909
	<u>2,637,943</u>	<u>435,602</u>	<u>197,816</u>	<u>2,875,729</u>
Capital assets being depreciated, net	<u>2,677,895</u>	<u>(123,714)</u>	<u>74,620</u>	<u>2,479,561</u>
Total capital assets, net	<u>\$ 4,058,044</u>	<u>\$ (123,714)</u>	<u>\$ 74,620</u>	<u>\$ 3,859,710</u>

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

4. Changes in Capital Assets (continued)

Depreciation was charged to governmental functions as follows:

General government	\$ 80,240
Public safety	126,528
Public works	<u>228,834</u>
Total depreciation	<u>\$ 435,602</u>

5. Pension Plan

South Carolina Retirement System

The majority of employees of the City are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members.

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full-service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2013 are considered Class III members and are eligible for a full-service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job-related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member.

For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018.

Effective July 1, 2017, employees participating in the SCRS were required to contribute 9.00% of all earnable compensation. The employer contribution rate for SCRS was 13.56%. Included in the total SCRS employer contribution rate is a base retirement contribution of 13.41%, and 0.15% for the incidental death program. The City's actual contributions to the SCRS for the years ended June 30, 2018, 2017, and 2016 were approximately \$218,955, \$182,853, and \$174,741, respectively, and equaled the base required retirement contribution rate 13.41% for 2018, 11.41% for 2017, and 11.06% for 2016.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave.

For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2017, employees participating in the PORS were required to contribute 9.75% of all earnable compensation. The employer contribution rate for PORS was 16.24%. Included in the total PORS employer contribution rate is a base retirement contribution of 15.84% and 0.20% for the incidental death program and .20% for the accidental death program. The City's actual contributions to the PORS for the years ended June 30, 2018, 2017, and 2016 were approximately \$230,718, \$198,897, and \$174,741, respectively, and equaled the base retirement required contribution rate.

The amounts paid by the Town for pension, incidental death benefit program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

At June 30, 2018, the City reported \$3,525,768 and \$2,841,473 as its proportionate share of the net pension liabilities of SCRS and PORS, respectively. The net pension liability defined of the SCRS and PORS defined benefit pension plan were determined based on the July 1, 2017 actuarial valuations, using membership data as of July 1, 2017, projected forward to June 30, 2018, and financial information of the pension trust funds as of June 30, 2017, using generally accepted actuarial procedures. The City's portion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the City's SCRS proportion was 0.015662% and PORS proportion was 0.10372%. For the year ended June 30, 2018 the City recognized pension expenses of \$23,226 for SCRS and \$62,796 for PORS.

At June 30, 2018 the state reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

Deferred Outflows of Resources	SCRS	PORS
Differences between expected and actual experience	\$ 15,718	\$ 25,337
Assumption changes	206,396	269,677
Net difference between project and actual investment earnings	98,423	101,251
Differences between employer contributions and proportionate share	-	70,244
Contributions made from measurement date to June 30, 2018	<u>216,533</u>	<u>225,036</u>
Total deferred outflows of resources	<u>537,070</u>	<u>691,545</u>
Deferred Inflows of Resources		
Differences between expected and actual experience	1,954	-
Differences between employer contributions and proportionate share	<u>354,306</u>	<u>85,531</u>
Total deferred inflows of resources	<u>356,260</u>	<u>85,531</u>
Net deferred outflows/(inflows)	<u>\$ 180,810</u>	<u>\$ 606,014</u>

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

Deferred outflows of \$216,533 and \$225,036 for SCRS and PORS, respectively, reported as resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year ended June 30,</u>	<u>SCRS</u>	<u>PORS</u>	<u>Net</u>
2018	\$ 61,363	\$ (101,422)	\$ (40,059)
2019	(8,577)	(148,399)	(156,976)
2020	(47,357)	(112,335)	(159,692)
2021	30,294	(18,820)	11,474
	<u>\$ 35,723</u>	<u>\$ (380,976)</u>	<u>\$ (345,253)</u>

The total pension liabilities in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	<u>SCRS</u>	<u>PORS</u>
Actuarial Cost Method	Entry Age	Entry Age
Actuarial Assumptions:		
Investment Rate or Return	7.25%	7.25%
Projected Salary Increases	3.0% to 12.5%	3.5% to 9.5%
Inflation Rate	2.25%	2.25%
Benefit Adjustments	Lesser of 1% or \$500	Lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

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

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital markets outlook at the end of the third quarter 2015. The long-term expected rate of returns 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 2017 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 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.60%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	92.00%	0.02%
Total Expected Real Return	100%		5.32%
Inflation for Actuarial Puposes			2.25%
Total Expected Nominal Return			7.57%

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plans (Continued)

The discount rate used to measure the total pension liability (TPL) was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the Systems' fiduciary net position was projected to be available to make all the 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 TPL.

The following table represents the Town's proportionate share of the net SCRS and PORS pension liabilities calculated using the discount rate of 7.25 percent, as well as what the Town's respective net pension liabilities would be if it were calculated using a discount rate of 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

<u>Plan</u>	<u>1% Decrease 6.25%</u>	<u>Current Rate 7.25%</u>	<u>1% Increase 8.25%</u>
SCRS	\$ 4,544,231	\$ 3,525,768	\$ 2,907,801
PORS	3,836,454	2,841,473	2,057,641
	<u>\$ 8,380,685</u>	<u>\$ 6,367,241</u>	<u>\$ 4,965,442</u>

6. Deferred Compensation Plan

The City offers its employees a state-sponsored deferred compensation plan (created in accordance with the Internal Revenue Code Section 457) available through the South Carolina State Treasurer's Office.

The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. In effect, the employee temporarily loses access to the resources in exchange for the right to defer federal taxes. Employees cannot withdraw the deferred compensation until termination, retirement, death, disability or an approved hardship.

7. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, and errors and omissions. The City purchases coverage from a commercial insurance company to protect against such losses. The City has had no claims in the last three years that exceeded coverage.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

8. Interfund Required Disclosures

Individual fund interfund receivable and/or payable balance (shown as "Due to or Due from other Funds") as of June 30, 2018:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$106,264
Hospitality Tax Fund	<u>106,264</u>	<u>-</u>
Total	<u>\$ 106,264</u>	<u>\$106,264</u>

9. Contingencies

The City is occasionally involved in legal proceedings (predominately civil suits) and claims with various parties, which arose, in the normal course of business.

Although any litigation has an element of uncertainty, it is management's opinion that the outcome of litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the City. No provision has been made in these financial statements for losses, if any, which might result from litigation pending, threatened or the combination thereof because there is no evidence to indicate that a loss expenditure and liability should be recorded at year-end.

10. Post-Employment Benefits Other than Pensions

By Federal law (Public Law 99-272, Title X), the City is required to offer a continuation of health care coverage at group rates to employees and their dependents whose coverage would otherwise end. Dependent on the circumstances of the employee's coverage loss, the employee or dependent can extend the health care plan benefits for 18 months to three years. The plan costs are paid by the employee or dependents based on 100% (Cobra) premium rates.

Plan Description

On July 1, 2009, the City initiated a defined benefit postemployment healthcare plan (the Plan) which provides medical and dental insurance to eligible retirees. As of July 1, 1992, all active and retired employees with health insurance contribute an approved amount to offset the cost of medical coverage. Any employee hired on or prior to May 1, 2006 is grandfathered after 15 years of service while any employee hired after May 1, 2006 will not be eligible to participate. Retirees have the option of continuing their dependent coverage while being employed by the City. No new members can be enrolled upon retirement. For dependent coverage, the retiree is responsible for the total cost.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

10. Post-Employment Benefits Other than Pensions (continued)

Each year, the Plan is approved by the City Council with the contribution requirements of the City and plan members are established and amended by the City. These contributions are neither guaranteed nor mandatory. The City has retained the right to unilaterally modify its payments toward retiree health care benefits.

The following table summarizes the membership of the Plan as of June 30, 2018, the valuation date:

	Number
Inactive Employees or Beneficiaries Currently Receiving Benefits	13
Inactive Members Entitled to But Not Yet Receiving Benefits	0
Active Employees	69
Total Membership	82

Funding Policy

The City has elected not to fund the plan at this time and will utilize a pay-as-you-go policy. For current retirees the City makes a percentage of the healthcare contributions based on the parameter explained above in the Plan Description.

Change in OPEB Liability

Changes in OPEB liability from June 30, 2017 to June 30, 2018 is shown in the following table:

	Total OPEB Liability
Balance as of June 30, 2017, as restated	\$ 4,908,659
Changes for the year:	
Service Cost at the end of the year*	150,733
Interest on OPEB liability and Cash Flows	205,653
Change in benefit terms	0
Difference between expected and actual experience	0
Changes of assumptions or other inputs	0
Benefit payments and implicit subsidy credit	0
Other	0
Net Changes	<u>356,386</u>
Balance as of June 30, 2018	<u>\$ 5,265,045</u>

*The service cost includes interest for the year.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

10. Post-Employment Benefits Other than Pensions (continued)

Actuarial Methods and Assumptions

The City's OPEB liability of \$5,265,045 was measured as of June 30, 2018 and the OPEB liability was determined by a biennial actuarial valuation of the Plan, as of June 30, 2018, using the following key actuarial assumptions and other inputs:

Valuation date:	June 30, 2018
Normal Inflation:	2.50%
Real Wage Growth - SCRS:	0.50%
Wage Inflation - SCRS:	2.50%
Salary Increases, Including Wage Inflation - SCRS:	3.00%
Municipal Bond Index Rate: Current	4.00%
Health Care Trend Rate: Pre-Medicare	\$5.00 for both Medicare and Pre-Medicare
Discount Rate:	Based upon the yield to worst S&P 500 Taxable Municipal Bond Index
Mortality:	None Pre 65, 1983 GAM 50% Male 50% Female Post 65
Demographic:	Not based on any actuarial study. Gains and losses to date appear to be reasonable. This group does not have a large enough population to do a meaningful study on any of these factors.
Per Capital Cost, Trends, Participation and Plan Elections	Based upon analysis of recent actual plan costs and retiree plan enrollment done concurrently with the valuation.

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

10. Post-Employment Benefits Other than Pensions (continued)

Sensitivity Analysis:

The following table presents the OPEB liability of the Plan, calculated using current health care cost trend rates, as well as what the Plan's OPEB liability would be if it were calculated using health care cost trend rates that are 1.00 percent lower or 1.00 percent higher than the current rates:

Health Care Cost Trend Rate Sensitivity			
Plan	1% Decrease	Discount Rate	1% Increase
OPEB Liability	\$ 6,194,312	\$ 5,265,045	\$ 4,534,737

The following table presents the OPEB liability of the Plan, calculated using the discount rate of 3.56 percent, as well as what the Plan's OPEB liability would be if it were calculated using a Discount Rate that is 1.00 percent lower (2.56 percent) or 1.00 percent higher (4.56 percent) than the current rate:

Discount Rate Sensitivity			
Plan	1% Decrease (2.56%)	Healthcare Trend Rates Rate (3.56%)	1% Increase (4.56%)
OPEB Liability	\$ 4,517,396	\$ 5,265,045	\$ 6,187,921

For the year ended June 30, 2018, the City recognized OPEB expense in the amount of \$76,094 and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ (36,512)
Changes of assumptions or other inputs	0	0
Total	\$ 0	\$ (36,512)

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

10. Post-Employment Benefits Other than Pensions (continued)

Amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB benefits will be recognized in OPEB Expense as follows:

Measurement Period Ended	
June 30, 2018	
2019	\$ (3,514)
2020	(3,514)
2021	(3,514)
2022	(3,514)
2023	(3,514)
Thereafter	<u>(18,942)</u>
Total	<u><u>\$ (36,512)</u></u>

11. Long-Term Debt

Capital Lease

The City has the following capital lease outstanding as of June 30, 2018:

Capital lease dated 2016, in the original amount of \$915,000 payable in annual installments of \$312,534. This lease was used to finance the purchase of several vehicles and pieces of equipment.

The debt service requirement to maturity for this capital lease is as follows:

Year ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30,</u>			
2019	<u>\$ 308,736</u>	<u>\$ 3,797</u>	<u>\$ 312,533</u>
	<u>\$ 308,736</u>	<u>\$ 3,797</u>	<u>\$ 312,533</u>

Changes in long-term debt for the year ended June 30, 2018 are as follows:

	<u>July 1,</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,</u>	<u>Amount Due</u>
	<u>2017</u>			<u>2018</u>	<u>in one year</u>
Capital lease obligation	\$ 613,721	\$ -	\$ 304,985	\$ 308,736	\$ 308,736
Compensated absences	440,135	438,445	440,135	438,445	438,445
	<u>\$ 1,053,856</u>	<u>\$ 438,445</u>	<u>\$ 745,120</u>	<u>\$ 747,181</u>	<u>\$ 747,181</u>

CITY OF FOREST ACRES, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

12. Restatement

The City implemented provisions of GASB 75 *Postemployment Benefits Other Than Pensions* during the current year. The implementation requires the Town to restate its beginning net position for the Governmental Activities.

	Governmental Activities
Audited net position as of June 30, 2017	\$ 5,066,783
Difference in OPEB liability	<u>(3,450,788)</u>
Restated net position as of June 30, 2017	<u>\$ 1,615,995</u>

13. Subsequent Events

The City has evaluated all events subsequent to the Statement of Net Position date of June 30, 2018, through December 6, 2018, which is the date the financial statements were available to be issued and have determined there are no subsequent events requiring note disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FOREST ACRES, SOUTH CAROLINA

SCHEDULE OF PROPORTIONATE SHARE OF THE SOUTH CAROLINA RETIREMENT SYSTEMS NET PENSION LIABILITIES

LAST TEN FISCAL YEARS*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
South Carolina Retirement System					
City's proportion of the net pension liability	0.0157%	0.0165%	0.0187%	0.0191%	0.0191%
City's proportionate share of the net pension liability	\$ 3,525,768	\$ 3,532,920	\$ 3,538,200	\$ 3,293,035	\$ 3,430,701
City's covered payroll	\$ 1,581,772	\$ 1,575,900	\$ 1,749,202	\$ 1,742,308	\$ 1,742,308
City's proportionate share of the net pension liability as a percentage of its covered payroll	222.90%	224.18%	202.28%	189.00%	196.91%
Plan fiduciary net position as a percentage of the total pension liability	53.34%	52.91%	56.99%	59.92%	56.39%
South Carolina Police Officers Retirement System					
City's proportion of the net pension liability	0.1037%	0.0996%	0.1056%	0.1073%	0.1073%
City's proportionate share of the net pension liability	\$ 2,841,473	\$ 2,527,343	\$ 2,300,524	\$ 2,056,333	\$ 2,225,170
City's covered payroll	\$ 1,396,746	\$ 1,262,552	\$ 1,307,656	\$ 1,291,057	\$ 1,291,057
City's proportionate share of the net pension liability as a percentage of its covered payroll	203.44%	200.18%	175.93%	159.28%	172.35%
Plan fiduciary net position as a percentage of the total pension liability	60.94%	60.44%	64.57%	67.55%	62.98%

* - The amounts presented for each fiscal year were determined as of July 1 of two years prior, using membership data as of the day, projected forward to June 30 of the previous year. Additionally, the City implemented GASB 68 during fiscal year 2015. As such, only the last five years of information is available.

CITY OF FOREST ACRES, SOUTH CAROLINA

SCHEDULE OF PROPORTIONATE SHARE OF THE SOUTH CAROLINA RETIREMENT SYSTEMS CONTRIBUTIONS

LAST TEN FISCAL YEARS *

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
South Carolina Retirement System					
Contractually required contributions	\$ 216,533	\$ 180,480	\$ 174,741	\$ 190,663	\$ 184,685
Contributions in relation to the contractually required contribution	(216,533)	(180,480)	(174,741)	(190,663)	(184,685)
Contribution deficiency/(excess)	<u>\$ -</u>				
City covered payroll	\$ 1,614,713	\$ 1,581,712	\$ 1,575,900	\$ 1,749,202	\$ 1,742,308
Contributions as a percentage of covered payroll	13.41%	11.41%	11.09%	10.90%	10.60%
South Carolina Police Officers Retirement System					
Contractually required contributions	\$ 225,036	\$ 193,310	\$ 170,878	\$ 175,357	\$ 165,772
Contributions in relation to the contractually required contribution	(225,036)	(193,310)	(170,878)	(175,357)	(165,772)
Contribution deficiency/(excess)	<u>\$ -</u>				
City covered payroll	\$ 1,420,680	\$ 1,396,746	\$ 1,262,552	\$ 1,307,656	\$ 1,291,057
Contributions as a percentage of covered payroll	15.84%	13.84%	13.53%	13.41%	12.84%

* - The amounts presented for each fiscal year were determined as of July 1 of two years prior, using membership data as of the day, projected forward to June 30 of the previous year. Additionally, the City implemented GASB 68 during fiscal year 2015. As such, only the last five years of information is available.

CITY OF FOREST ACRES, SOUTH CAROLINA

SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS

LAST TEN FISCAL YEARS*

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 150,733
Interest	205,653
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions or other inputs	-
Benefit payments and implicit study credit	-
Other	-
Net change in Total OPEB Liability	356,386
Total OPEB Liability - beginning	<u>4,908,659</u>
Total OPEB Liability - ending	<u>\$ 5,265,045</u>
Covered-employee payroll	\$ 3,127,743
Total OPEB Liability as a percentage of covered payroll	168.33%

* - The amounts presented for each fiscal year were determined as of July 1 of two years prior, using membership data as of the day, projected forward to June 30 of the previous year. Additionally, the City implemented GASB 75 during fiscal year 2018. As such, only years subsequent to fiscal year 2017 have information available.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FOREST ACRES, SOUTH CAROLINA

SCHEDULE OF COURT FINES, FEES, ASSESSMENTS, AND SURCHARGES

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

For the Month of:

	July	August	September	October	November	December	January	February	March	April	May	June	Total
<i>Court Fines</i>													
Court Fines Collected	\$ 4,898	\$ 6,201	\$ 7,911	\$ 6,525	\$ 5,264	\$ 5,225	\$ 5,365	\$ 6,527	\$ 6,792	\$ 6,925	\$ 5,783	\$ 9,010	\$ 76,426
Court Fines Retained	4,898	6,201	7,911	6,525	5,264	5,225	5,365	6,527	6,792	6,925	5,783	9,010	76,426
Court Fines Remitted to State Treasurer	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Court Assessments</i>													
Court Assessments Collected	5,462	6,380	8,041	7,574	6,069	6,333	5,577	7,454	7,907	7,468	6,357	10,539	85,161
Court Assessments Retained by City	593	715	897	829	673	671	622	826	849	825	687	1,155	9,342
Court Assessments Remitted to State Treasurer	4,869	5,665	7,144	6,745	5,396	5,662	4,955	6,628	7,058	6,643	5,670	9,384	75,819
<i>Court Surcharges</i>													
Court Surcharges Collected	2,004	2,658	3,431	2,881	2,647	2,729	2,434	2,900	2,562	2,806	2,685	3,148	32,885
Court Surcharges Retained by City	102	112	252	116	191	100	141	110	151	73	108	259	1,715
Court Surcharges Remitted to State Treasurer	1,902	2,546	3,179	2,765	2,456	2,629	2,293	2,790	2,411	2,733	2,577	2,889	31,170
<i>Victim Services</i>													
Court Assessments Allocated to Victim Services	593	715	897	829	673	671	622	826	849	825	687	1,155	9,342
Court Surcharges Allocated to Victim Services	102	112	252	116	191	100	141	110	151	73	108	259	1,715
Funds Allocated to Victim Services	695	827	1,149	945	864	771	763	936	1,000	898	795	1,414	11,057
Funds Allocated to Victim Services	695	827	1,149	945	864	771	763	936	1,000	898	795	1,414	11,057
Victim Services Expenditures	695	827	1,149	945	864	771	763	936	1,000	898	795	1,414	11,057
Expenditures in Excess (Deficit) of Available Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Victim's Fund carryover balance from FYE 2017													-
Victim's Fund ending balance for FYE 2018													\$ -

THE BRITTINGHAM GROUP, L.L.P.

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

To the Mayor and Council
5209 North Trenholm Road
City of Forest Acres, South Carolina 29206

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, each major fund, and the aggregate remaining fund information of City of Forest Acres, South Carolina (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 6, 2018.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City'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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

The Brittingham Group LLP

West Columbia, South Carolina

December 6, 2018