



# Financial Audit Presentation Year Ended June 30, 2017



## 2017 FINANCIAL AUDIT City of Folly Beach

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### **OPINION**

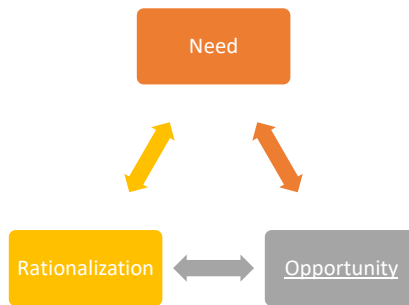
- The City's responsibility:
  - Maintain effective internal controls
    - There are limitations on internal controls.
    - Regular risk assessment is important, including assessing the risk of fraud.



## 2017 FINANCIAL AUDIT City of Folly Beach

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### The Risk of Fraud



**The Fraud Triangle**



## 2017 FINANCIAL AUDIT City of Folly Beach

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### **OPINION**

- The City's responsibility:
  - Financial Statements
    - Accuracy, completeness, and propriety of balances, amounts, and disclosures



## 2017 FINANCIAL AUDIT City of Folly Beach

- GF&H responsibility:
  - Opinion – reasonable assurance that financial statements are materially correct
    - Does not address the financial condition of the City
  - Purpose of the audit is not to detect fraud. We cannot take responsibility for finding fraud, if it existed.
- Issued unmodified opinion

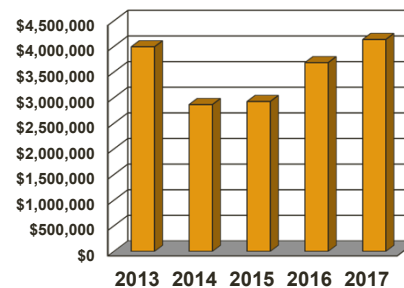


## 2017 FINANCIAL AUDIT City of Folly Beach

### • **General Fund**

- Total fund balance increased \$452k to \$4.1m
- Nonspendable fund balance of \$31k for prepaid items
- Restricted fund balance of \$62k for Victims Services
- Committed fund balance (including the City's reserve accounts) of \$941k for future capital outlay, claims and judgments, and other items
- Unassigned fund balance of \$3.1m

### GENERAL FUND



Total Fund Balance

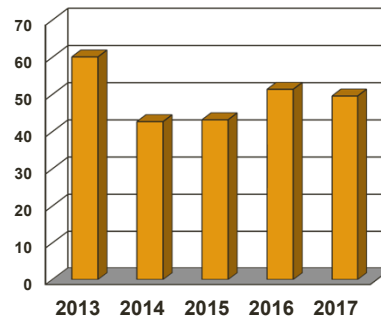


## 2017 FINANCIAL AUDIT City of Folly Beach

### • **General Fund**

- Unassigned fund balance is \$3.1m, which is 52.8% of 2018 budgeted expenditures
- GFOA recommends a minimum of 16.7% (two months), but we believe the City's should be higher – see next slide

### GENERAL FUND



Unassigned Fund Balance as a %  
of General Fund Expenditures



## 2017 FINANCIAL AUDIT City of Folly Beach

- **Major Reasons To Maintain An Adequate Fund Balance:**
  - Cash flow through second half of calendar year; property taxes and business licenses are cyclical
  - Significant emergencies and unanticipated expenditures or loss of revenues
  - Flexibility for discretionary funding needs (such as non-recurring capital expenditures)
  - Potential for better interest rates on debt issues (can save the City money).
  - To cover potential shortfalls from the state (a) due to budget cuts or (b) as a result of the change in legislation
  - Unique requirements for a beach coastal municipality.

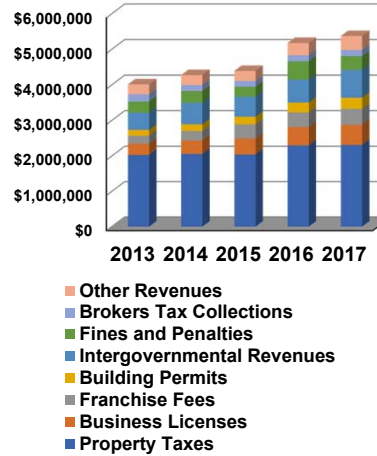


## 2017 FINANCIAL AUDIT City of Folly Beach

### General Fund Revenues:

- \$5.4 million for 2017:
  - \$2.3m from property taxes
  - \$570k in business licenses
  - \$446k in franchise fees
  - \$314k in building permits
  - \$781k in intergovernmental revenues
  - \$389k in fines and penalties
  - \$175k in brokers tax collections
  - \$390k for all other revenues
- \$195k (4%) increase from 2016:
  - \$128k increase in intergovernmental revenue due to FEMA reimbursements received from Hurricane Matthew
  - \$137k increases in licenses, permits and fees due to increases in business licenses and building permits
  - \$126k decrease in fines and penalties due to significant delinquent parking ticket collections in 2016

### GENERAL FUND REVENUES

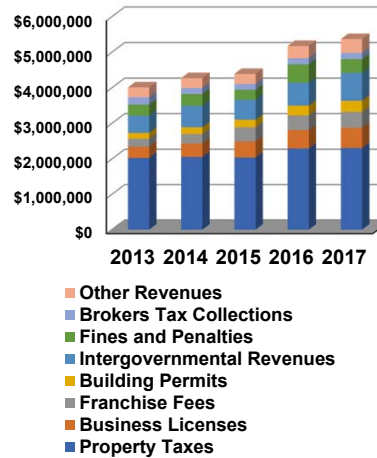


## 2017 FINANCIAL AUDIT City of Folly Beach

### General Fund Revenues:

- \$725k greater than budget:
  - \$120k greater than budget in business licenses
  - \$74k greater than budget in building permits
  - \$203k greater than budget in grants mainly due to the FEMA reimbursements
  - \$121k greater than budget in fines and penalties mainly due to continued delinquent collections

### GENERAL FUND REVENUES



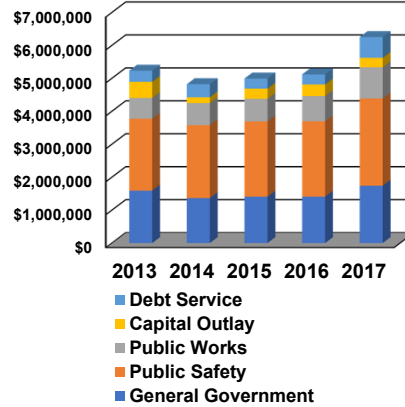


## 2017 FINANCIAL AUDIT City of Folly Beach

### General Fund Expenditures:

- \$6.3M for 2017:
  - \$1.7m in general government
  - \$2.6m in public safety
  - \$948k in public works
  - \$287k in capital outlay
  - \$631k in debt service
- \$1.1M (22%) increase from 2016:
  - Budgeted expenditures were under budget by approximately \$32k.
  - Increase in expenditures primarily related to several expenditures outside of the budget (including the refunding of the July 2010 GO Bonds, costs related to Hurricane Matthew, and the approved use of reserve funds), as detailed in the next slide.

### GENERAL FUND EXPENDITURES



## 2017 FINANCIAL AUDIT City of Folly Beach

### General Fund Expenditures vs Budget:

FY2017 Budget	\$ 5,497,000
Approved Use of Reserve Funds	277,000
Approved 2016 GO Refunding Bond Proceeds	341,000
	<b>\$ 6,115,000</b>
Total FY2017 Expenditures	6,253,000
Declared Emergency Expenditures - Hurricane Matthew (partially reimbursed through FEMA)	(175,000)
Expenditures of Grant Awards	(78,000)
<b>Net FY2017 Expenditures</b>	<b>\$ 6,000,000</b>



## 2017 FINANCIAL AUDIT City of Folly Beach

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### Enterprise Funds

- **Water Fund** net position increased \$132k to \$2.3M compared to an increase in net position of \$262k in the prior year:
  - Total Water Fund revenues increased by approximately \$48k or 4% primarily due to a slight increase in consumption.
  - Water operating expenses increased \$175k or 18% primarily due to a \$75k increase salaries and benefits and a \$59k increase in water purchases
  - Net cash position of 444 days as of June 30, 2017
- **Sewer Fund** net position increased \$144k to \$1.4M compared to an increase in net position of \$20k in the prior year:
  - Total Sewer Fund revenues increased approximately \$44k or 7% primarily due to a one-time write-off of old receivables during 2016.
  - Sewer operating expenses decreased \$80k or 12% due to a \$19k decrease in salaries and benefits and a \$53k decrease in non-cash pension expense
  - Net cash position of 466 days as of June 30, 2017



## 2017 FINANCIAL AUDIT City of Folly Beach

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### Other Funds

- **The State Accommodations Tax Fund** had an increase in fund balance of \$88k primarily due to a \$78k or 17% increase in revenues as a result of continued growth in the tourism industry.
- **The Local Accommodations Tax Fund** reports no fund balance; however, revenues increased \$205k or 21% due to continued growth in the tourism industry and additional awards from Charleston County.
- **The Local Hospitality Tax Fund** reports no fund balance; however, revenues increased \$43k or 6% due to continued growth in the tourism industry.
- **The Beach Preservation Fund** had an increase in fund balance of \$1.2M primarily due to \$1.3M in transfers in from the Local Accommodations and Hospitality Tax Funds partially offset by net expenditures of \$114k.
- **The Tourism Fund (TVPC)** had an increase in fund balance of \$37k primarily due to a \$36k or 18% increase in state accommodations tax revenues as a result of continued growth in the tourism industry.



## 2017 FINANCIAL AUDIT City of Folly Beach

### **Other Items of Note:**

- Total capital assets, net of accumulated depreciation were \$7.5 million at 6/30/17 – a decrease of \$72k from 6/30/16:
  - Additions of \$399k related to vehicle and equipment purchases, beach groin engineering, and the East Ashley main replacement project
  - Depreciation expense of \$465k: \$369k for Governmental Activities, \$55k for Water, and \$41k for Sewer
  - Net disposals of \$6k
- Contract commitments to Charleston Water System for water purchases and James Island Public Service District for sewer treatment and maintenance of lift stations
- Remaining contract commitments for 2 ongoing projects of approximately \$86k as of June 30, 2017.



## 2017 FINANCIAL AUDIT City of Folly Beach

### **Other Items of Note:**

- Total long-term obligations outstanding at 6/30/17 were \$986K – decrease of \$160k from 6/30/16:
  - \$857k in Governmental Activities
    - \$452k in General Obligation Refunding Bonds (issued in FY17 to refund the outstanding balance of the 2010 GO Bonds which were used to finance renovation of the public safety building)
    - \$244k in Lease Purchases (2 fire trucks and property for City park)
    - \$161k in compensated absences (earned but unused annual leave)
  - \$129k in Business-Type Activities
    - \$114k in Water Revenue Bonds (water tower)
    - \$15k in compensated absences (earned but unused annual leave)
- Total debt service payments for 2018 on outstanding debt are expected to be \$362k:
  - \$300k in the General Fund including \$284k in principal and \$16k in interest.
  - \$62k in the Water Fund including \$57k in principal and \$5k in interest
- Unused legal debt margin is \$5.3 million
- Net pension liability of \$5.1M at 6/30/17 – increase of \$496k.





## 2017 FINANCIAL AUDIT City of Folly Beach

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### **Auditing/Accounting Update:**

- Future Significant Changes in Auditing Principles:
  - None
- Future Significant Changes in Accounting Principles:
  - GASB #75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" will be implemented by the City in the year ended June 30, 2018 and will require the City to recognize the total unfunded actuarially accrued liability for postemployment benefit plans (retiree health insurance).



## 2017 FINANCIAL AUDIT City of Folly Beach

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### **Compliance**

- No Single Audit was required for fiscal year 2017 as the federal expenditures were less than \$750k
- No GAGAS findings to report.

### **Management Letter**

- Required communications to management and those charged with governance:
  - Segregation of Duties
- We also discussed a few oral recommendations with the Mayor, City Administrator, and Finance Director



## 2017 FINANCIAL AUDIT City of Folly Beach

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### **Summary**

- Unmodified opinion on the Financial Statements from GF&H
- Good financial condition as of June 30, 2017
- The City completed its Accounting Policies and Procedures Manual during FY2017 – great work!