



Financial Audit Presentation Year Ended June 30, 2018



2018 FINANCIAL AUDIT City of Folly Beach

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.
 - Financial Statements
 - Accuracy, completeness, and propriety of balances, amounts, and disclosures



2018 FINANCIAL AUDIT City of Folly Beach

- Greene Finney, LLP's ("GFLLP") 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. GFLLP cannot take responsibility for finding fraud, if it existed
- Issued unmodified opinion

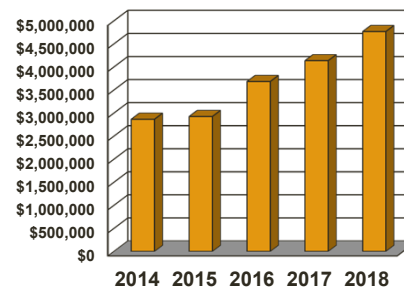


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• **General Fund**

- Total fund balance increased \$632k to \$4.8m
- Nonspendable fund balance of \$57k for prepaid items
- Restricted fund balance of \$53k for Victims Services
- Committed fund balance (including the City's reserve accounts) of \$1.2m for future capital outlay, claims and judgments, and other items
- Unassigned fund balance of \$3.5m

GENERAL FUND



Total Fund Balance

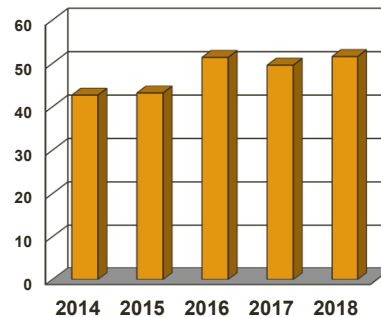


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• General Fund

- Unassigned fund balance is \$3.5m, which is 51.6% of 2019 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



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- 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.

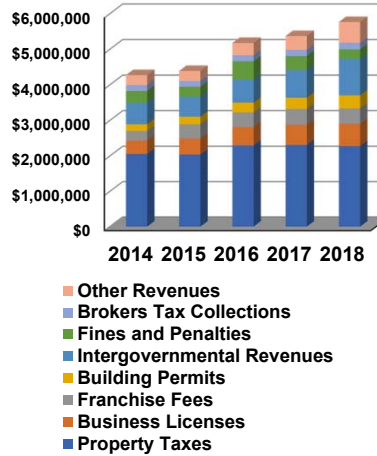


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General Fund Revenues:

- \$5.8 million for 2018:
 - \$2.3m from property taxes
 - \$626k in business licenses
 - \$433k in franchise fees
 - \$366k in building permits
 - \$1.0m in intergovernmental revenues
 - \$268k in fines and penalties
 - \$186k in brokers tax collections
 - \$584k for all other revenues
- \$395k (7%) increase from 2017:
 - \$238k increase in intergovernmental revenue due to FEMA reimbursements received from Hurricane Matthew and the federal grant for City Hall upgrades
 - \$162k increases in licenses, permits and fees due to increases in business licenses, building permits, and rental registration fees

GENERAL FUND REVENUES

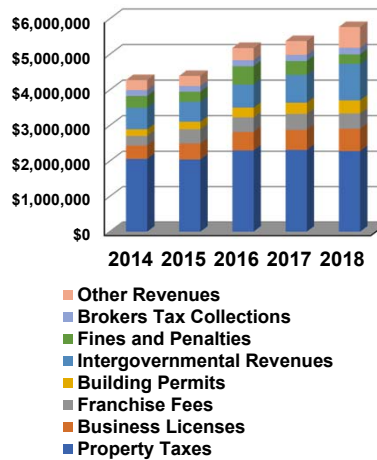


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General Fund Revenues:

- \$836k greater than budget:
 - \$126k greater than budget in business licenses
 - \$106k greater than budget in building permits
 - \$350k greater than budget in grants mainly due to the FEMA reimbursements and the federal grant for City hall upgrades
 - \$127k greater than budget in paid parking program revenues due to the expansion of the program
 - \$99k greater than budget in miscellaneous revenues due to insurance proceeds related to police cruisers and the community center

GENERAL FUND REVENUES

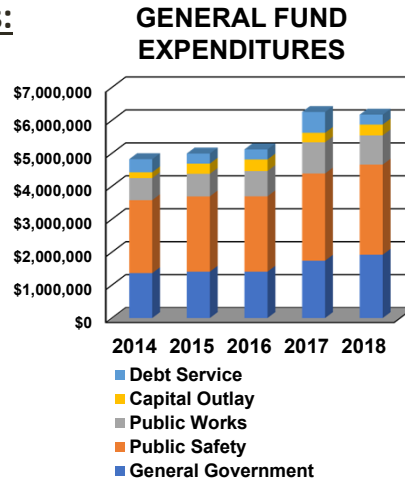




2018 FINANCIAL AUDIT City of Folly Beach

General Fund Expenditures:

- \$6.2M for 2018:
 - \$1.9m in general government
 - \$2.7m in public safety
 - \$887k in public works
 - \$328k in capital outlay
 - \$300k in debt service
- \$80k (1%) decrease from 2017:
 - \$329k decrease in debt service principal expenditures due to the refunding of the 2010 bonds in the prior year.
 - \$181k increase in general government expenditures due to expenditures for the financial software and Hurricane Irma response.



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General Fund Expenditures vs Budget:

Total FY2018 Expenditures	\$ 6,173,072
FY2018 Budget	(5,871,027)
Approved Use of Reserve Funds	(116,205)
Declared Emergency Expenditures - Hurricane Irma (partially reimbursed through FEMA)	(166,586)
Expenditures of Grant Awards	(141,510)
Net Variance (Under Budget)	<u>\$ (122,256)</u>



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City of Folly Beach

Enterprise Funds

- **Water Fund** net position decreased \$106k to \$2.2M compared to an increase in net position of \$132k in the prior year:
 - Total Water Fund revenues decreased by approximately \$31k or 2% primarily due to a slight decrease in consumption.
 - Water operating expenses increased \$127k or 11% primarily due to a \$107k increase in non-cash pension expense and a \$23k increase in repairs and maintenance.
 - Net cash position of 418 days as of June 30, 2018.
- **Sewer Fund** net position increased \$239k to \$1.7M compared to an increase in net position of \$144k in the prior year:
 - Total Sewer Fund revenues increased approximately \$88k or 12% primarily due to a rate increase and increases in impact fees.
 - Sewer operating expenses decreased \$6k or 1%.
 - Net cash position of 630 days as of June 30, 2018.



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City of Folly Beach

Other Funds

- **The State Accommodations Tax Fund** had an increase in fund balance of \$42k primarily due to a \$38k or 7% 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 \$75k or 6% due to continued growth in the tourism industry.
- **The Local Hospitality Tax Fund** reports no fund balance; however, revenues increased \$17k or 2% due to continued growth in the tourism industry.
- **The Beach Preservation Fund** had a decrease in fund balance of \$27k primarily due to \$1.4M in revenue and \$1.3M in transfers in from the State and Local Accommodations and Hospitality Tax Funds offset by expenditures of \$2.7M.
- **The Tourism Fund (TVPC)** had an increase in fund balance of \$16k primarily due to an \$18k or 7% increase in state accommodations tax revenues as a result of continued growth in the tourism industry.



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City of Folly Beach

Pension Accounting

- Relates to the City's proportionate shares of the net pension liabilities and deferred outflows/inflows of resources related to the City's participation in the South Carolina Retirement System and the SC Police Officers Retirement System ("Plans").
- No impact to the City's governmental funds.
- Impacts the City's proprietary and government-wide financial statements:
 - Total Net Pension Liability ("NPL") of the Plans of \$5.8M on the City's Statement of Net Position for 2018.
 - Increase in the NPL of \$667k from 2017, due to poor experience, change in assumptions, investment returns, etc. in these Plans.
 - House Bill 3726 which was approved in April 2017 will increase employer and employee contribution rates significantly from July 1, 2017 through July 1, 2022 and has also lowered the assumed annual rate of return on investments from 7.50% to 7.25%.



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Other Items of Note:

- Total capital assets, net of accumulated depreciation were \$9.8m at 6/30/18 – an increase of \$2.4m from 6/30/17:
 - Additions of \$2.6m related to beach groins, \$262k in building improvements, \$185k in vehicle and equipment purchases.
 - Depreciation expense of \$558k: \$462k for Governmental Activities, \$59k for Water, and \$37k for Sewer
 - Net disposals of \$90k
- Contract commitments to Charleston Water System for water purchases and James Island Public Service District for sewer treatment and maintenance of lift stations



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Other Items of Note:

- Total long-term obligations outstanding at 6/30/18 were \$669k – decrease of \$317k from 6/30/17:
 - \$593k in Governmental Activities
 - \$342k 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)
 - \$70k in Lease Purchase (2 fire trucks)
 - \$181k in compensated absences (earned but unused annual leave)
 - \$76k in Business-Type Activities
 - \$57k in Water Revenue Bonds (water tower)
 - \$19k in compensated absences (earned but unused annual leave)
- Total debt service payments for 2019 on outstanding debt are expected to be \$248k:
 - \$189k in the General Fund including \$182k in principal and \$7k in interest.
 - \$59k in the Water Fund including \$57k in principal and \$2k in interest
- Unused legal debt margin is \$5.5 million. State law limits the issuance of GO Bonds by local governments to 8% of assessed values.



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Auditing/Accounting Update:

- Future Significant Changes in Auditing Principles:
 - None
- Future Significant Changes in Accounting Principles:
 - GASB #87 “Leases” provides new guidance on reporting leases as generally all leases will report an intangible right-to-use lease asset and lease liability (similar to capital lease accounting). The City will need to implement for the year ended June 30, 2021.



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Compliance

- No Single Audit was required for fiscal year 2018 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.



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Summary

- Unmodified opinion on the Financial Statements from Greene Finney, LLP
- Good financial condition as of June 30, 2018