

**CITY OF LAKE CITY,
SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

CITY OF LAKE CITY, SOUTH CAROLINA

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Greene Finney, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of City Council
City of Lake City
Lake City, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake City, South Carolina (the "City"), as of and for the year ended June 30, 2019, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake City, South Carolina as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, pension schedules, and other postemployment benefit plan schedule, as listed in the table of contents, 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 the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2020 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.



Greene Finney, LLP
Mauldin, South Carolina
June 29, 2020

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

As management of the City of Lake City (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the City's financial performance as a whole. We would encourage readers to not only consider the information presented here, but also the information provided in the financial statements and notes to the financial statements to enhance their understanding of the City's overall financial performance.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by approximately \$23,544,000 (*net position*). Of this amount, approximately \$5,337,000 and \$18,207,000 were related to the City's governmental and business-type activities, respectively. In addition, the City's unrestricted net position (may be used to meet the government's ongoing obligations to citizens and creditors) was a deficit of approximately \$2,680,000 for its governmental activities (primarily due to the net pension and OPEB liabilities) and a surplus of approximately \$2,861,000 for its business-type activities.
- The City's total net position increased by approximately \$409,000 for its governmental activities and increased by approximately \$7,000 for its business-type activities from the reported prior year net position. Total revenues of approximately \$11,639,000 exceeded total expenses of approximately \$11,223,000 for the primary government.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$2,379,000, a decrease of approximately \$228,000 from the prior year's reported ending fund balance. Of this amount, \$0 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$0 for the year ended June 30, 2019.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of two parts –The *Financial Section* (which includes management's discussion and analysis, the financial statements, required supplementary information, and supplementary information) and the *Compliance Section*.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's financial statements comprise three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the financial statements, this report contains required and other supplementary information that will enhance the reader's understanding of the financial condition of the City.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-1 Major Features of the City's Government-Wide and Fund Financial Statements			
	Government-Wide Financial Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary	Activities the City operates similar to private businesses, in the City's case, the water and sewer operations
Required Financial Statements	<ul style="list-style-type: none"> Statement of Net Position Statement of Activities 	<ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> Statement of Net Position Statement of Revenues, Expenses, and Changes in Net Position Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of balance sheet information	All balance sheet types – both financial and capital, and short-term and long-term	Only assets and deferred outflows of resources (if any) expected to be used and liabilities and deferred inflows of resources that come due during the year or soon, thereafter; no capital assets included	All balance sheet types – both financial and capital, and short-term and long-term
Type of inflow/outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Financial Statements. The financial statements include two kinds of statements that present different views of the City. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

The government-wide financial statements are divided into two categories: governmental activities and business-type activities. The governmental activities include general government, public safety, streets and sanitation, economic and community development, and culture and recreation. Taxes, business licenses, building permits, and state and federal grant revenues finance most of these activities. The business-type activities are the City's water and sewer operations for which it charges its customers to provide.

The government-wide financial statements can be found as listed in the table of contents.

Fund Financial Statements. The fund financial statements provide a more detailed look at the City's most significant activities. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – *Governmental funds* are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow (in and out), and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* is described in a reconciliation that is a part of the fund financial statements.

The City maintains two (2) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the non-major Special Revenue Hospitality Tax Fund. The governmental fund financial statements can be found as listed in the table of contents.

Proprietary Funds – The City maintains one type of proprietary fund. *Enterprise Funds* are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City uses two enterprise funds to account for both its water and sewer operations. The proprietary fund financial statements can be found as listed in the table of contents.

Fiduciary Fund – The City is the trustee, or *fiduciary*, for assets that belong to others, such as the 1% funds retained in the fireman's fund. The City is responsible for ensuring that the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations. The City's fireman's fund is the only fiduciary fund.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as listed in the table of contents.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

Required Supplementary Information – In addition to the financial statements and accompanying notes, this report includes certain required supplementary information. Regarding the City's major governmental fund, the City adopts an annual budget for its General Fund, as required by General Statutes. The City also presents required supplementary information related to its participation in the cost-sharing multiple-employer State pension plans and the other postemployment benefit plan. Required supplementary information can be found as listed in the table of contents.

Supplementary Information – Supplementary information is presented immediately following the required supplementary information. These schedules can be found as listed in the table of contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the City's net position for 2019 compared to 2018:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and Other Assets	\$ 2,899,729	3,132,102	6,218,546	6,598,490	9,118,275	\$ 9,730,592
Capital Assets, Net	9,126,213	8,648,974	23,880,275	23,870,429	33,006,488	32,519,403
Total Assets	12,025,942	11,781,076	30,098,821	30,468,919	42,124,763	42,249,995
Deferred Outflows of Resources:						
Deferred OPEB Charges	40,482	48,992	10,111	13,601	50,593	62,593
Deferred Pension Charges	1,968,842	2,678,739	502,053	741,400	2,470,895	3,420,139
Total Deferred Outflows of Resources	2,009,324	2,727,731	512,164	755,001	2,521,488	3,482,732
Liabilities:						
Net Pension Liability	5,070,906	6,143,593	1,542,083	2,011,107	6,612,989	8,154,700
Net OPEB Liability	274,359	349,350	68,527	96,988	342,886	446,338
Long-Term Obligations	1,265,737	2,055,576	9,646,145	10,340,041	10,911,882	12,395,617
Other Liabilities	952,743	490,555	716,636	430,529	1,669,379	921,084
Total Liabilities	7,563,745	9,039,074	11,973,391	12,878,665	19,537,136	21,917,739
Deferred Inflows of Resources:						
Deferred OPEB Credits	47,485	-	11,860	-	59,345	-
Deferred Pension Credits	1,086,654	541,921	418,527	144,753	1,505,181	686,674
Total Deferred Inflows of Resources	1,134,139	541,921	430,387	144,753	1,564,526	686,674
Net Position:						
Net Investment						
in Capital Assets	7,503,114	6,678,333	14,319,623	14,106,321	21,822,737	20,784,654
Restricted	513,854	496,667	1,026,913	542,216	1,540,767	1,038,883
Unrestricted	(2,679,586)	(2,247,188)	2,860,671	3,551,965	181,085	1,304,777
Total Net Position	\$ 5,337,382	4,927,812	18,207,207	18,200,502	23,544,589	\$ 23,128,314

The City's total assets of approximately \$42,125,000 decreased approximately \$125,000 from the prior year. The decrease is primarily due to a decrease in current and other assets of approximately \$612,000 partially offset by an increase in capital assets of approximately \$487,000.

The City's total deferred outflows of resources of approximately \$2,521,000 decreased approximately \$961,000 primarily due to changes in the components of the City's proportionate share of the State's pension plans.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The City's total liabilities of approximately \$19,537,000 decreased approximately \$2,381,000 primarily due to a decrease in the City's proportionate share of the net pension liability in the State's pension plans of approximately \$1,542,000 and a decrease in long-term obligations of approximately \$1,484,000 partially offset by an increase in other liabilities of \$748,000.

The City's total deferred inflows of resources of approximately \$1,565,000 increased approximately \$878,000 primarily due to changes in the components of the City's proportionate share of the State's pension plans.

The City's total net position of approximately \$23,545,000 increased by approximately \$416,000 during the current fiscal year due to total revenues of approximately \$11,639,000 exceeding total expenses of approximately \$11,223,000.

The City's assets exceeded liabilities (net position) by approximately \$23,545,000 as of June 30, 2019. The largest portion of the City's net position of approximately \$21,823,000 (approximately 93% of total net position) reflects its investment in capital assets (i.e., land, buildings, furniture and equipment, infrastructure, etc.) less any related outstanding debt (including capital lease obligations) used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since generally the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of approximately \$1,541,000 (approximately 6% of total net position) represents resources that are subject to external restrictions on how they may be used. This portion of net position is restricted primarily for debt service and other programs which are restricted by the revenue source.

The remaining portion of the City's net position is unrestricted net position of approximately \$181,000 (approximately 1% of total net position), which may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the City's net position for fiscal year 2019 compared to 2018.

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,031,599	2,212,251	3,851,607	4,382,491	5,883,206	\$ 6,594,742
Operating Grants and Contributions	829,435	642,157	-	-	829,435	642,157
Capital Grants and Contributions	418,876	652,550	574,619	1,647,549	993,495	2,300,099
General Revenues:						
Taxes	3,829,584	3,473,060	-	-	3,829,584	3,473,060
Other	75,199	123,573	28,344	17,491	103,543	141,064
Total Revenues	<u>7,184,693</u>	<u>7,103,591</u>	<u>4,454,570</u>	<u>6,047,531</u>	<u>11,639,263</u>	<u>13,151,122</u>
Expenses:						
General Government	202,776	24,778	-	-	202,776	24,778
Public Safety	3,141,649	3,170,630	-	-	3,141,649	3,170,630
Streets and Sanitation	1,780,540	1,823,358	-	-	1,780,540	1,823,358
Economic Development	48,350	67,040	-	-	48,350	67,040
Culture and Recreation	1,129,351	1,269,514	-	-	1,129,351	1,269,514
Nondepartmental	439,635	744,436	-	-	439,635	744,436
Interest on Long-Term Obligations	82,822	63,904	-	-	82,822	63,904
Water and Sewer	-	-	4,397,865	4,851,998	4,397,865	4,851,998
Total Expenses	<u>6,825,123</u>	<u>7,163,660</u>	<u>4,397,865</u>	<u>4,851,998</u>	<u>11,222,988</u>	<u>12,015,658</u>
Increase in Net Position Before Transfers	359,570	(60,069)	56,705	1,195,533	416,275	1,135,464
Transfers	50,000	(14,400)	(50,000)	14,400	-	-
Change in Net Position	409,570	(74,469)	6,705	1,209,933	416,275	1,135,464
Net Position - Beginning of Year - Reported	<u>4,927,812</u>	<u>5,283,435</u>	<u>18,200,502</u>	<u>17,063,978</u>	<u>23,128,314</u>	<u>22,347,413</u>
Prior Period Adjustments	-	(281,154)	-	(73,409)	-	(354,563)
Net Position - Beginning of Year - Restated	<u>4,927,812</u>	<u>5,002,281</u>	<u>18,200,502</u>	<u>16,990,569</u>	<u>23,128,314</u>	<u>21,992,850</u>
Net Position - End of Year	<u>\$ 5,337,382</u>	<u>4,927,812</u>	<u>18,207,207</u>	<u>18,200,502</u>	<u>23,544,589</u>	<u>\$ 23,128,314</u>

Governmental Activities

Net position for governmental activities increased by approximately \$409,000 in the current year. Key changes in governmental activities revenues and expenses compared to the prior year were as follows:

Total governmental activities revenues increased by approximately \$81,000 from the prior year. Key changes in governmental revenues as compared to the prior year were as follows:

- Taxes increased approximately \$357,000 or 10% primarily due to increases in assessed values and millage rates compared to prior year.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities (Continued)

- Capital grants and contributions decreased by approximately \$234,000 or 36% due to decreased reimbursements from Florence County for projects which are being funded with the County's one percent sales and use tax.
- Operating grants and contributions increased by approximately \$187,000 or 29% as a result of local donations received during the year.

Total governmental activities expenses decreased by approximately \$339,000 or 5% from the prior year. Key changes in governmental expenses were primarily due to changes in the City's proportionate share of the State's pension plans.

Business-Type Activities

Net position for business-type activities (water and sewer services) increased by approximately \$7,000 in the current year. Key changes in business-type activities revenues and expenses compared to the prior year were as follows:

Total business-type activities revenues decreased by approximately \$1,593,000 or 26%. Key changes in business-type revenues as compared to the prior year were as follows:

- Capital grants and contributions decreased approximately \$1,073,000 primarily due to the completion of the several grant-funded capital projects.
- Charges for services decreased approximately \$531,000 primarily due to a CDBG community grant that provided for a well-dependent community to utilize City water resources over a multi-year period. That community returned to independent well usage during the current year.

Total business-type activities expenses decreased by approximately \$454,000 or 9% primarily due to significant sewer repairs performed in the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of approximately \$2,379,000, a decrease of approximately \$228,000 from the prior year fund balance. The decrease in fund balance was the result of expenditures of approximately \$7,485,000 exceeding revenues and net other financing sources of approximately \$7,257,000. The changes in revenues, expenditures, and other financing sources/uses are explained in further detail below.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Governmental Funds (Continued)

At June 30, 2019 the City had \$0 in unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending as it is legally restricted by an outside agency or has been committed or assigned by City Council as follows:

- Restricted for (1) Economic Development approximately \$40,000 is legally restricted by the revenue source, (2) Victims' Services of approximately \$14,000 is legally restricted by the revenue source, (3) Tourism Related Expenditures of approximately \$274,000 is legally restricted by the revenue source, and (4) for Public Safety of approximately \$185,000 is legally restricted by the revenue source.
- Committed for (1) Sanitation Operations of approximately \$203,000, (2) Insurance Deductibles of approximately \$2,000, (3) Unemployment of approximately \$37,000, (4) Litigation of approximately \$28,000, (5) Contingencies of approximately \$47,000, (6) Cart Replacement of approximately \$123,000, (7) Other of approximately \$8,000, (8) Future Capital Outlay of approximately \$251,000, (9) Public Safety of approximately \$5,000, and (10) future OPEB payments of approximately \$551,000.
- Assigned for FY 2020 budget appropriations of approximately \$597,000.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance was approximately \$2,165,000. As a measure of the General Fund's liquidity, it may be useful to compare total unassigned fund balance to total General Fund expenditures. Total unassigned fund balance of the General Fund was \$0 as of June 30, 2019.

Highlights for the General Fund were as follows:

- Total fund balance decreased by approximately \$47,000 due to expenditures of approximately \$7,448,000 exceeding revenues and other financing sources of approximately \$7,401,000.
- General Fund revenues were consistent with prior year. Revenues increased approximately \$76,000 or 1%.
- General Fund expenditures were also consistent with prior year. Expenditures decreased approximately \$145,000 or 1%.

The fund balance of the nonmajor Hospitality fund decreased by approximately \$181,000 from the prior year primarily as a result of an increase in transfers made to the General Fund to support tourism-related expenditures.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Net position of the Water and Sewer Enterprise Funds at the end of the fiscal year was approximately \$18,207,000, an increase of approximately \$7,000. Details of the activity in the Water and Sewer Enterprise Funds are provided above.

General Fund Budgetary Highlights

If budget amendments are made, they generally fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. There was one budget amendment during the year to reclassify budgeted reserve funds from the central government to public safety related to the hiring of the new public safety director. Any excess of expenditures was authorized by the passage of a resolution or ordinance by City Council.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

General Fund Budgetary Highlights (Continued)

Overall, the City's General Fund revenues and expenditures were consistent with the final budget. No significant budget amendments were made during the current year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets as of June 30, 2019 and 2018 amounted to approximately \$33,006,000 and \$32,519,000 (net of accumulated depreciation), respectively. This investment in capital assets includes land, buildings, improvements, park improvements, motor vehicles, machinery and equipment, and water/sewer systems.

The City's capital assets (net of depreciation) as of June 30, 2019 and 2018 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,713,427	3,713,427	122,427	122,427	3,835,854	\$ 3,835,854
Construction in Progress	-	1,025,669	121,026	1,859,027	121,026	2,884,696
Building and Improvements	917,893	1,016,625	2,696,012	2,780,682	3,613,905	3,797,307
Infrastructure	2,417,049	814,313	-	-	2,417,049	814,313
Utility Systems and Improvements	-	-	20,287,667	18,385,909	20,287,667	18,385,909
Machinery and Equipment	2,077,844	2,078,940	653,143	722,384	2,730,987	2,801,324
Total	<u>\$ 9,126,213</u>	<u>8,648,974</u>	<u>23,880,275</u>	<u>23,870,429</u>	<u>33,006,488</u>	<u>\$ 32,519,403</u>

The total increase in the City's investment in capital assets for the current fiscal year was approximately \$487,000. The increase in the City's total capital assets is due to capital asset additions of approximately \$2,334,000 exceeding depreciation expense of approximately \$1,825,000 and disposals of approximately \$22,000. The most significant additions related to the Blanding Street Park project which was completed during the year ended June 30, 2019.

Additional information on the City's capital assets can be found in Notes I.B and III.E in the notes to the financial statements.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt and Capital Leases

As of June 30, 2019 and 2018, the City had total outstanding debt (including capital leases) of approximately \$11,629,000 and \$12,277,000, respectively. Of the City's total debt, approximately \$580,000 was general obligation debt, which is backed by the full faith and credit of the City. The City's water and sewer revenues have been pledged for payment of the outstanding revenue bonds which totaled \$10,006,000 as of June 30, 2019. The City's total debt and capital leases as of June 30, 2019 and 2018 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Debt:						
GOB - Landfill	\$ 580,000	700,000	-	-	580,000	\$ 700,000
Revenue Bond - January 2013	-	-	3,715,577	3,786,662	3,715,577	3,786,662
Revenue Bond - March 2013	-	-	264,031	269,662	264,031	269,662
Revenue Bond - December 2016	-	-	6,026,000	6,250,000	6,026,000	6,250,000
Total Debt	<u>580,000</u>	<u>700,000</u>	<u>10,005,608</u>	<u>10,306,324</u>	<u>10,585,608</u>	<u>11,006,324</u>
Capital Leases:						
Street Sweeper	42,157	62,383	-	-	42,157	62,383
Two Fire Trucks	766,959	850,507	-	-	766,959	850,507
Four Police Cars	16,379	37,864	-	-	16,379	37,864
One Car and 30 Body Cameras	48,936	97,091	-	-	48,936	97,091
Equipment	168,668	222,796	-	-	168,668	222,796
Total Lease Purchase	<u>1,043,099</u>	<u>1,270,641</u>	<u>-</u>	<u>-</u>	<u>1,043,099</u>	<u>1,270,641</u>
Total	<u>\$ 1,623,099</u>	<u>1,970,641</u>	<u>10,005,608</u>	<u>10,306,324</u>	<u>11,628,707</u>	<u>\$ 12,276,965</u>

The total decrease in the City's debt and capital lease obligations for the current fiscal year was approximately \$648,000 due to regularly scheduled payments.

Additional information regarding the City's long-term obligations can be found in Note III.F in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES FOR THE CITY

The City of Lake City's Mayor and Council, appointed officials and all Department Heads took many factors into consideration when establishing the fiscal 2019-2020 budget. The City continues to experience significant growth in new businesses and expansions for existing business throughout the City. Lake City's economy has remained steady due to private investment and the work of public-private partnerships in the community. Even though State aid to political subdivisions is still not being funded adequately, City Administration is still committed to improving the efficiency and effectiveness of City services.

The General Fund budget for fiscal year 2019-2020 is \$7,147,000 or a 2.5% increase from the prior year. The Water Fund budget is \$1,613,000 and the Sewer Fund budget is \$2,734,000 for a total Water/Sewer Enterprise Fund budget of \$4,347,000. The combined budget appropriation for fiscal year 2018-2019 is \$11,494,000.

CITY OF LAKE CITY, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES FOR THE CITY (CONTINUED)

Property and sales taxes represent the largest source of revenue for the City's General Fund. Water and sewer fees represent the largest revenue source for the Water/Sewer Fund. The combined General Fund and Debt Service millage rate is 183.1, which is an increase of 1.7% and within the State requirement for annual millage adjustments. A water and sewer rate study has been started to evaluate whether the current rate structure is sustainable to meet the increasing operation and maintenance costs as well as substantial long-term water/sewer capital improvements. A Fee Schedule has been aggregated and future additional rate increases have also been considered.

REQUESTS FOR CITY INFORMATION

This financial report is designed to provide a general overview of the finances of the City of Lake City for all those with an interest in the government's financing. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Mayor Lovith Anderson, Jr. at P.O. Box 1329, 202 Kelley Street, Lake City, South Carolina 29560.

Basic Financial Statements

CITY OF LAKE CITY, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2019

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,213,475	4,017,896	\$ 5,231,371
Cash and Cash Equivalents - Restricted	749,493	833,785	1,583,278
Investments	-	750,382	750,382
Taxes Receivable, Net	142,117	-	142,117
Accounts Receivables, Net	76,462	784,871	861,333
Due from Other Governments	485,727	-	485,727
Internal Balances	217,842	(217,842)	-
Inventory	-	11,002	11,002
Prepaid Expenses	14,613	3,452	18,065
Assets Held for Sale	-	35,000	35,000
Total Current Assets	2,899,729	6,218,546	9,118,275
Non-Current Assets:			
Capital Assets:			
Non-Depreciable	3,713,427	243,453	3,956,880
Depreciable, Net	5,412,786	23,636,822	29,049,608
Total Non-Current Assets	9,126,213	23,880,275	33,006,488
TOTAL ASSETS	12,025,942	30,098,821	42,124,763
DEFERRED OUTFLOWS OF RESOURCES			
Deferred OPEB Charges	40,482	10,111	50,593
Deferred Pension Charges	1,968,842	502,053	2,470,895
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,009,324	512,164	2,521,488
LIABILITIES			
Current Liabilities:			
Accounts Payable	249,860	197,353	447,213
Accrued Interest	34,395	7,116	41,511
Other Accrued Liabilities	196,104	75,653	271,757
Unearned Revenue	-	37,595	37,595
Current Portion of Compensated Absences	115,022	39,456	154,478
Current Portion of Debt	357,362	359,463	716,825
Total Current Liabilities	952,743	716,636	1,669,379
Non-Current Liabilities:			
Net Pension Liability	5,070,906	1,542,083	6,612,989
Net OPEB Liability	274,359	68,527	342,886
Debt, Less Current Portion	1,265,737	9,646,145	10,911,882
Total Non-Current Liabilities	6,611,002	11,256,755	17,867,757
TOTAL LIABILITIES	7,563,745	11,973,391	19,537,136
DEFERRED INFLOWS OF RESOURCES			
Deferred Other Postemployment Benefit ("OPEB") Credits	47,485	11,860	59,345
Deferred Pension Credits	1,086,654	418,527	1,505,181
TOTAL DEFERRED INFLOWS OF RESOURCES	1,134,139	430,387	1,564,526
NET POSITION			
Net Investment in Capital Assets	7,503,114	14,319,623	21,822,737
Restricted For:			
Debt Service	-	1,026,913	1,026,913
Economic Development	40,412	-	40,412
Victims' Services	13,879	-	13,879
Tourism Related Expenditures	274,376	-	274,376
Public Safety	185,187	-	185,187
Unrestricted	(2,679,586)	2,860,671	181,085
TOTAL NET POSITION	5,327,382	18,207,207	\$ 23,544,589

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

See accompanying independent auditor's report.

CITY OF LAKE CITY, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
General Government	\$ 202,776	1,131,357	100,489	418,876	1,447,946	-	\$ 1,447,946
Public Safety	3,141,649	161,657	570,914	-	(2,409,078)	-	(2,409,078)
Streets and Sanitation	1,780,540	703,651	-	-	(1,076,889)	-	(1,076,889)
Economic and Community Development	48,350	-	-	-	(48,350)	-	(48,350)
Culture and Recreation	1,129,351	34,934	158,032	-	(936,385)	-	(936,385)
Nondepartmental	439,635	-	-	-	(439,635)	-	(439,635)
Interest Expense	82,822	-	-	-	(82,822)	-	(82,822)
TOTAL GOVERNMENTAL ACTIVITIES	6,825,123	2,031,599	829,435	418,876	(3,545,213)	-	(3,545,213)
Business-Type Activities:							
Water	1,799,925	1,318,821	-	467,492	-	(13,612)	(13,612)
Sewer	2,597,940	2,532,786	-	107,127	-	41,973	41,973
TOTAL BUSINESS-TYPE ACTIVITIES	4,397,865	3,851,607	-	574,619	-	28,361	28,361
TOTAL - PRIMARY GOVERNMENT	\$ 11,222,988	5,883,206	829,435	993,495	(3,545,213)	28,361	\$ (3,516,852)
General Revenues:							
Taxes:							
Property Taxes Levied for General Purposes					\$ 1,651,394	-	\$ 1,651,394
Local Option Sales Taxes					1,122,153	-	1,122,153
Hospitality Taxes					199,986	-	199,986
Accommodation Taxes					35,409	-	35,409
Franchise Taxes					580,841	-	580,841
Other Taxes					239,801	-	239,801
Investment Income					5,257	28,344	33,601
Gain on Disposal of Capital Assets					6,119	-	6,119
Miscellaneous					63,823	-	63,823
Transfers In (Out)					50,000	(50,000)	-
Total General Revenues					3,954,783	(21,656)	3,933,127
CHANGE IN NET POSITION					409,570	6,705	416,275
NET POSITION, Beginning of Year					4,927,812	18,200,502	23,128,314
NET POSITION, End of Year					\$ 5,337,382	18,207,207	\$ 23,544,589

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF LAKE CITY, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2019

	GENERAL FUND	NONMAJOR HOSPITALITY FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Cash Equivalents	\$ 1,213,475	-	\$ 1,213,475
Cash and Cash Equivalents, Restricted	362,632	386,861	749,493
Taxes Receivable, Net	104,095	38,022	142,117
Accounts Receivable, Net	76,462	-	76,462
Due From:			
County Treasurer	195,145	-	195,145
Other Governments	290,582	-	290,582
Other Funds	427,891	-	427,891
Prepays	14,613	-	14,613
TOTAL ASSETS	\$ 2,684,895	424,883	\$ 3,109,778
LIABILITIES			
Accounts Payable	\$ 249,860	-	\$ 249,860
Other Accrued Liabilities	196,104	-	196,104
Due To Other Funds	-	210,049	210,049
TOTAL LIABILITIES	445,964	210,049	656,013
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	74,353	-	74,353
TOTAL DEFERRED INFLOWS OF RESOURCES	74,353	-	74,353
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	520,317	210,049	730,366
FUND BALANCES			
Nonspendable:			
Prepays	14,613	-	14,613
Restricted:			
Economic Development	40,412	-	40,412
Victims' Services	13,879	-	13,879
Tourism Related Expenditures	59,542	214,834	274,376
Public Safety	185,187	-	185,187
Committed:			
Sanitation Operations	202,672	-	202,672
Insurance Deductibles	2,132	-	2,132
Unemployment	36,705	-	36,705
Litigation	27,519	-	27,519
Contingencies	46,589	-	46,589
Cart Replacement	122,892	-	122,892
Other	8,169	-	8,169
Future Capital Outlay	251,376	-	251,376
Public Safety	4,770	-	4,770
OPEB	550,797	-	550,797
Assigned:			
FY 2020 Budget Appropriation	597,324	-	597,324
TOTAL FUND BALANCES	2,164,578	214,834	2,379,412
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,684,895	424,883	\$ 3,109,778

The notes to the financial statements are an integral part of this statement.
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See accompanying independent auditor's report.

CITY OF LAKE CITY, SOUTH CAROLINA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	2,379,412
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Amounts reported for the governmental activities in the Statement of Net Position
are different because of the following:

Property taxes receivable will be collected but are not available soon enough to pay for the current period's expenditures and; therefore, are considered unavailable in the governmental funds.	74,353
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Capital assets used in governmental activities are not financial resources and; therefore, are not reported as assets in governmental funds. The cost of the assets was \$16,323,753 and the accumulated depreciation was \$7,197,540.	9,126,213
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Accrued interest payable is reported for governmental activities, but it is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.	(34,395)
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The City's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State pension plans are not recorded in the governmental funds but are recorded in the Statement of Net Position.	(4,188,718)
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The City's net OPEB liability and deferred outflows of resources related to its OPEB Plan are not recorded in the governmental funds but are recorded in the Statement of Net Position.	(281,362)
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Long-term obligations, including debt, capital leases and compensated absences, are not due or payable in the current period and therefore are not reported in the governmental funds. Long-term obligations consisted of:

Long-Term Debt (including Capital Leases)	(1,623,099)
Compensated Absences	(115,022)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	5,337,382
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The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF LAKE CITY, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2019

	GENERAL FUND	NONMAJOR HOSPITALITY FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property Taxes	\$ 1,651,807	-	\$ 1,651,807
Other Taxes	-	199,986	199,986
Franchise Fees	580,841	-	580,841
Licenses and Permits	1,131,357	-	1,131,357
Intergovernmental	1,397,363	-	1,397,363
Sanitation Fees	703,651	-	703,651
Fines and Forfeitures	161,657	-	161,657
Investment Earnings	5,257	-	5,257
Recreation Fees	34,934	-	34,934
Grants	1,248,311	-	1,248,311
Miscellaneous	63,823	-	63,823
TOTAL REVENUES ALL SOURCES	6,979,001	199,986	7,178,987
EXPENDITURES			
Current:			
General Government	440,076	-	440,076
Public Safety	2,840,554	-	2,840,554
Streets and Sanitation	1,683,171	-	1,683,171
Economic and Community Development	48,350	-	48,350
Culture and Recreation	494,303	36,767	531,070
Nondepartmental	439,635	-	439,635
Capital Outlay	1,065,616	-	1,065,616
Debt Service:			
Principal	347,542	-	347,542
Interest	88,694	-	88,694
TOTAL EXPENDITURES	7,447,941	36,767	7,484,708
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(468,940)	163,219	(305,721)
OTHER FINANCING SOURCES (USES)			
Proceeds from the Sale of Assets	28,085	-	28,085
Transfers In	394,000	-	394,000
Transfers Out	-	(344,000)	(344,000)
TOTAL OTHER FINANCING SOURCES (USES)	422,085	(344,000)	78,085
NET CHANGES IN FUND BALANCES	(46,855)	(180,781)	(227,636)
FUND BALANCE, Beginning of Year	2,211,433	395,615	2,607,048
FUND BALANCES, End of Year	\$ 2,164,578	214,834	\$ 2,379,412

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

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CITY OF LAKE CITY, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2019

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	(227,636)
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Amounts reported for the governmental activities in the Statement of Activities
are different because of the following:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the change in unavailable revenues related to property taxes for the year.	(413)
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Bond principal payments and capital lease payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	347,542
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Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and payable and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due and payable. This amount represents the change in accrued interest from the prior year.	5,872
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(30,087)
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Changes in the City's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources for the current year are not reported in the governmental funds but are reported in the Statement of Activities.	(181,943)
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Changes in the City's net OPEB liability and deferred outflows of resources for the current year are not reported in the governmental funds but are reported in the Statement of Activities.	18,996
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In the Statement of Activities, the loss on the disposal of fixed assets is reported, whereas in the governmental funds, proceeds from the disposal of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the assets disposed	(21,966)
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Governmental funds report capital asset additions as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which current year capital asset additions of \$1,108,721 exceeded depreciation expense of \$609,516.	499,205
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TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	409,570
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The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF LAKE CITY, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

JUNE 30, 2019

	WATER	SEWER	TOTAL
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,607,408	2,410,488	\$ 4,017,896
Cash and Cash Equivalents, Restricted	499,670	334,115	833,785
Investments	375,191	375,191	750,382
Due From:			
Other Funds	119,700	138,448	258,148
Accounts Receivable	287,755	497,116	784,871
Inventory	5,501	5,501	11,002
Prepaid Expenses	1,726	1,726	3,452
Assets Held for Sale	-	35,000	35,000
Total Current Assets	2,896,951	3,797,585	6,694,536
Noncurrent Assets:			
Capital Assets:			
Non-Depreciable	134,326	109,127	243,453
Depreciable, Net	14,480,380	9,156,442	23,636,822
Total Noncurrent Assets	14,614,706	9,265,569	23,880,275
TOTAL ASSETS	17,511,657	13,063,154	30,574,811
DEFERRED OUTFLOWS OF RESOURCES			
Deferred OPEB Charges	3,228	6,883	10,111
Deferred Pension Charges	159,881	342,172	502,053
TOTAL DEFERRED OUTFLOWS OF RESOURCES	163,109	349,055	512,164
LIABILITIES			
Current Liabilities:			
Accounts Payable	32,223	165,130	197,353
Accrued Interest	5,095	2,021	7,116
Accrued Liabilities	44,940	30,713	75,653
Unearned Revenue	37,595	-	37,595
Due To:			
Other Funds	356,290	119,700	475,990
Accrued Compensated Absences, Due Within One Year	13,197	26,259	39,456
Bonds Payable, Due Within One Year	269,433	90,030	359,463
Total Current Liabilities	758,773	433,853	1,192,626
Noncurrent Liabilities:			
Net Pension Liability	492,296	1,049,787	1,542,083
Net OPEB Liability	21,876	46,651	68,527
Bonds Payable, Net of Current Portion	7,730,112	1,916,033	9,646,145
Total Noncurrent Liabilities	8,244,284	3,012,471	11,256,755
TOTAL LIABILITIES	9,003,057	3,446,324	12,449,381
DEFERRED INFLOWS OF RESOURCES			
Deferred OPEB Credits	3,786	8,074	11,860
Deferred Pension Credits	133,611	284,916	418,527
TOTAL DEFERRED INFLOWS OF RESOURCES	137,397	292,990	430,387
NET POSITION			
Net Investment in Capital Assets	7,060,117	7,259,506	14,319,623
Restricted for Debt Service	681,792	345,121	1,026,913
Unrestricted	792,403	2,068,268	2,860,671
TOTAL NET POSITION	8,534,312	9,672,895	\$ 18,207,207

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF LAKE CITY, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

YEAR ENDED JUNE 30, 2019

	WATER	SEWER	TOTAL
OPERATING REVENUES			
Water and Sewer Charges	\$ 1,103,203	2,406,676	\$ 3,509,879
Water and Sewer Tap Fees	26,593	8,050	34,643
Penalties and Other Revenue	189,025	118,060	307,085
TOTAL OPERATING REVENUES	1,318,821	2,532,786	3,851,607
OPERATING EXPENSES			
Salaries	457,237	744,340	1,201,577
Benefits	114,359	238,332	352,691
Non-Cash Pension Expense	46,143	(2,046)	44,097
Depreciation	595,941	619,245	1,215,186
Insurance	18,999	35,513	54,512
Other Operating Expenses	95,531	402,142	497,673
Professional Fees	32,306	29,651	61,957
Repairs and Maintenance	59,027	188,085	247,112
Supplies and Materials	35,866	22,003	57,869
Utilities	127,980	264,455	392,435
TOTAL OPERATING EXPENSES	1,583,389	2,541,720	4,125,109
OPERATING INCOME (LOSS)	(264,568)	(8,934)	(273,502)
NON-OPERATING REVENUE (EXPENSES)			
Grant Income	467,492	107,127	574,619
Investment Income	21,334	7,010	28,344
Interest Expense	(216,536)	(56,220)	(272,756)
TOTAL NON-OPERATING REVENUE (EXPENSES)	272,290	57,917	330,207
INCOME (LOSS) BEFORE TRANSFERS	7,722	48,983	56,705
Transfers Out	(50,000)	-	(50,000)
CHANGE IN NET POSITION	(42,278)	48,983	6,705
NET POSITION, Beginning of Year	8,576,590	9,623,912	18,200,502
NET POSITION, End of Year	\$ 8,534,312	9,672,895	\$ 18,207,207

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF LAKE CITY, SOUTH CAROLINA

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
WATER AND SEWER FUNDS**

YEAR ENDED JUNE 30, 2019

	WATER	SEWER	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 1,740,656	2,709,391	\$ 4,450,047
Cash Payments to Suppliers for Goods and Services	(438,500)	(1,018,415)	(1,456,915)
Cash Payments to Employees for Services	(571,946)	(1,200,289)	(1,772,235)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>730,210</u>	<u>490,687</u>	<u>1,220,897</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers and Advances Between Funds	(31,252)	199,094	167,842
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(31,252)</u>	<u>199,094</u>	<u>167,842</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Grants and Contributions	467,492	107,127	574,619
Acquisition and Construction of Capital Assets	(815,138)	(409,894)	(1,225,032)
Principal Paid on Bonds and Notes Payable	(227,884)	(72,832)	(300,716)
Interest Paid on Bonds and Notes Payable	(217,462)	(62,885)	(280,347)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(792,992)</u>	<u>(438,484)</u>	<u>(1,231,476)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	21,334	7,010	28,344
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>21,334</u>	<u>7,010</u>	<u>28,344</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS INCLUDING RESTRICTED CASH	(72,700)	258,307	185,607
CASH AND CASH EQUIVALENTS, Including Restricted Cash, Beginning of Year	<u>2,179,778</u>	<u>2,486,296</u>	<u>4,666,074</u>
CASH AND CASH EQUIVALENTS, Including Restricted Cash, End of Year	\$ 2,107,078	2,744,603	\$ 4,851,681
Reconciliation of Operating Income to Net Cash from Operating Activities:			
Operating Income (Loss)	\$ (264,568)	(8,934)	\$ (273,502)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Depreciation Expense	595,941	619,245	1,215,186
Non-Cash Pension Expense	46,143	(2,046)	44,097
Non-Cash OPEB Expense	(2,429)	(10,682)	(13,111)
Change Due to (Increase) Decrease in Operating Assets:			
Accounts Receivable	396,532	176,605	573,137
Prepaid Expenses	(1,726)	(1,726)	(3,452)
Change Due to Increase (Decrease) in Operating Liabilities:			
Accounts Payable	(93,171)	(74,840)	(168,011)
Accrued Liabilities	26,106	(210,595)	(184,489)
Unearned Revenue	25,303	-	25,303
Accrued Compensated Absences	2,079	3,660	5,739
Net Cash Provided By (Used In) Operating Activities	<u>\$ 730,210</u>	<u>490,687</u>	<u>\$ 1,220,897</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF LAKE CITY, SOUTH CAROLINA

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND

JUNE 30, 2019

	AGENCY FUND
ASSETS	
Cash and Cash Equivalents	\$ 18,882
TOTAL ASSETS	\$ 18,882
LIABILITIES	
Held for the Benefit of Firemen	\$ 18,549
Accounts Payable	333
TOTAL LIABILITIES	\$ 18,882

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

The City of Lake City, South Carolina (the “City”) embraces an area of approximately 15 miles. The City operates under a Mayor-Council form of government. The mayor and six members of council (the “Council”) establish policy for the City. The City’s major operations, as provided by its charter, include public safety (police and fire), streets and sanitation, economic and community development, culture and recreation, water and sewer services, and general administrative services.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

As required by GAAP, the financial statements must present the City’s financial information with its component units. The primary criterion for determining inclusion or exclusion of a legally separate entity (component unit) is financial accountability, which is presumed to exist if the City both appoints a voting majority of the entity’s governing body, and either 1) the City is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the City. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the City. In order to be considered fiscally independent, an entity must have the authority to do all of the following: (a) determine its budget without the City having the authority to approve or modify that budget; (b) levy taxes or set rates or charges without approval by the City; and (c) issue bonded debt without approval by the City. Finally, an entity could be a component unit even if it did not meet all the conditions described above if excluding it would cause the City’s financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are in substance, part of the government’s operations and data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the financial statements to emphasize they are legally separate from the City. Based on the criteria above, the City does not have any component units.

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

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the City (the “Primary Government”). The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

Governmental fund types are those through which most governmental functions of the City are financed. The City's expendable financial resources and related assets and liabilities (except for those accounted for in the Proprietary Funds) are accounted for through governmental funds. Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City's governmental fund types are as follows:

The **General Fund, a major fund** and a budgeted fund, is the general operating fund of the City and accounts for all revenues and expenditures of the City except those required to be accounted for in other funds. All general tax revenues and other receipts that (a) are not allocated by law or contractual agreement to other funds or (b) that have not been restricted, committed, or assigned to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources (that are expected to continue to comprise a substantial portion of the inflows of the fund) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The City has the following Special Revenue Fund:

The **Local Hospitality Tax Fund, a non-major fund** and an unbudgeted fund, is used to account for and report the financial resources received and disbursed related to the tax imposed on food and beverage sales within the City that is restricted exclusively for (1) tourism-related buildings; (2) tourism-related cultural, recreational or historical facilities; (3) beach access and renourishment; (4) highways, roads, streets, and bridges providing access to tourist destinations; (5) advertisements and promotions related to tourism development; or (6) water and sewer infrastructure to serve tourism-related demand.

Proprietary Fund Types are accounted for based on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds are made up of two classes: enterprise funds and internal service funds. The City does not have any internal service funds and has two enterprise funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of proprietary funds are primarily charges for services and fees. Operating expenses for enterprise funds include the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items. Proprietary Fund types include the following funds:

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City has two major Enterprise Funds:

The **Water Enterprise Fund** is used to account for water services provided to the residents of the City, including some surrounding areas. This is a budgeted fund.

The **Sewer Enterprise Fund** is used to account for sewer services provided to the residents of the City, including some surrounding areas. This is a budgeted fund.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fiduciary Fund types are accounted for based on the flow of economic resources measurement focus and use of the accrual basis of accounting and are used to account for expendable assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds and include Trust Funds and Agency Funds. Fiduciary Fund Types include the following:

The Agency Fund, an unbudgeted fund, accounts for the receipt and disbursement of monies to and from the fire department related to 1% funds received from the State Firefighter's Association. These funds have no equity (assets are equal to liabilities) and do not include revenues and expenditures for general operation of the City. This accounting reflects the agency relationship of the City with the 1% funds received by the fire department.

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

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

Investments

The City's investment policies are designed to operate within existing statutes (which are identical for all funds, fund types, and component units within the State of South Carolina) that authorize the City to invest in the following:

- (a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
- (b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity (Continued)

1. Cash, Cash Equivalents, and Investments (Continued)

Investments (Continued)

- (e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of 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 federal government.
- (f) Repurchase agreements when collateralized by securities as set forth in this section.
- (g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The City's cash and investment objectives are preservation of capital, liquidity, and yield. The City reports cash and investments at fair value, which is discussed in Note I.C.10 below, with the exception of amounts invested in the SCLGIP.

SCLGIP investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. In accordance with GASB Statement No. 31 *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"* and GASB Statement No. 72 *"Fair Value Measurement and Application"*, investments are carried at fair value determined annually based upon (a) quoted market prices for identical or similar investments or (b) observable inputs other than quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by Pool participants at any time and may be withdrawn upon 24 hours' notice. Financial statements for the Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211-1960.

Restricted cash and cash equivalents include amounts legally restricted by bond covenants and funding sources. The City's investments during the past year consisted of SCLGIP investments and securities as described in (b) above.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity (Continued)

2. *Receivables and Payables*

During the course of its operations, the City has numerous transactions occurring between funds. These transactions include expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. To the extent that certain transactions between funds had not been paid or received as of the year-end, balances of interfund amounts or payables have been recorded.

All trade and property tax receivables are shown net of an allowance for uncollectibles (if any).

3. *Inventories and Prepaid Items*

Inventories and prepaid items are reported under the consumption method (if material) as they are recorded as expenditures as they are used (consumed). Inventories (if any) are valued at cost (first-in, first-out). Inventories and prepaid items in the governmental funds are offset by non-spendable fund balance to reflect that portion of fund balance that is not spendable in form.

4. *Capital Assets*

General capital assets are those assets not specifically related to activities reported in the Proprietary Funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position, but are not reported in the fund financial statements. Capital assets utilized by the Proprietary Funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective fund financial statements.

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at estimated acquisition value (as estimated by the City) at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The City maintains a minimum capitalization threshold of an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years for all capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity (Continued)

4. *Capital Assets (Continued)*

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Description	City	Corporation
Computer Equipment	3 Years	N/A
Vehicles	3-5 Years	N/A
Equipment	5-15 Years	5-7 Years
System Infrastructure	7-15 Years	N/A
Public Domain Infrastructure	10-25 Years	N/A
Buildings and Improvements	25-40 Years	15 Years
Utility System	40-50 Years	N/A
Rental Buildings	N/A	27.5 Years

5. *Compensated Absences*

Individuals accumulate general leave, which constitutes vacation, at various rates depending on their years of service. Employees terminated or retiring are paid for accumulated general leave based on the hourly rate of pay earned at the time of termination or retirement. The employees are allowed to accumulate the number of hours earned based on the number of years the employee has been employed with the City. Any accumulation above that amount as of June 30th of any fiscal year shall be transferred to sick leave. Individuals accumulate sick leave at a rate of eight hours per month of service with no limit on the maximum number of days accumulated. Sick leave may be used in the event of sickness, injury, or medical appointments of the employee or his/her immediate family. Employees terminated or retiring are not paid for accumulated sick leave.

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "*Accounting for Compensated Absences*." The entire compensated absence liability and expense are reported in the government-wide financial statements. The portion of the liability that is applicable to the City's water and sewer activities is also reported in the City's Proprietary Funds. The governmental funds will also recognize compensated absences for terminations and retirements (matured liabilities) that occurred prior to year end that are expected to be paid within a short time subsequent to year end, if they are material.

6. *Accrued Liabilities and Long-Term Obligations*

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. The portion applicable to the Proprietary Funds is also recorded in the Proprietary Fund financial statements. All current payables and accrued liabilities from governmental funds are reported in the governmental fund financial statements.

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities on the Statement of Net Position. When applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bond issuance costs are recorded as expenses in the period the debt is issued. Bonds payable are reported net of the applicable bond premiums or discounts, if applicable.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity (Continued)

6. *Accrued Liabilities and Long-Term Obligations (Continued)*

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

7. *Deferred Outflows and Inflows of Resources*

In addition to assets, the Statement of Net Position and the Balance Sheet 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 City currently has two types of deferred outflows of resources: (1) The City reports deferred pension charges in its Statement(s) of Net Position in connection with its participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. (2) The City reports deferred other postemployment benefits ("OPEB") charges in its Statement(s) of Net Position in connection with the City's OPEB plan. The deferred pension and OPEB charges are either (a) recognized in the subsequent period as a reduction of the net pension/OPEB liability (which includes contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension/OPEB expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position and the Balance Sheet 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 City currently has three types of deferred inflows of resources: (1) The City reports unavailable revenue for property taxes only in the governmental funds Balance Sheet; it is deferred and recognized as an inflow of resources (revenues) in the period the amounts become available. (2) The City also reports deferred pension credits in its Statements of Net Position in connection with its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System. (3) The City reports deferred OPEB credits in its Statements of Net Position in connection with its OPEB plan. The deferred pension credits are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

8. *Fund Balance*

The City implemented GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" ("GASB #54") in fiscal year 2011. The objective of GASB #54 was to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and clarify the existing governmental fund type definitions. GASB #54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The City classifies governmental fund balances as follows:

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity (Continued)

8. *Fund Balance (Continued)*

Nonspendable – includes amounts that inherently cannot be spent either because they are not in spendable form (i.e. prepaids, inventories, etc.) or because of legal or contractual requirements (i.e. principal on an endowment, etc.).

Restricted – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action made by the highest level of decision-making authority (City Council) before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed amounts for the City consist of amounts approved by a majority vote of the City Council.

Assigned – includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed and that such assignments are made before the report issuance date. The City Council is the only party that has the authority to assign fund balance.

Unassigned – includes amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts of restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The City generally requires restricted amounts to be spent first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, the City generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

9. *Net Position*

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the Statements of Net Position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity (Continued)

10. Fair Value

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

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

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

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

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

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

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

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

11. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources (if any) and liabilities and deferred inflows of resources (if any) and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

12. Pensions and Other Postemployment Benefits

In government-wide financial statements, pensions and other postemployment benefits ("OPEB") are required to be recognized and disclosed using the accrual basis of accounting (see Note IV.B and Note IV.C and the required supplementary information immediately following the notes to the financial statements for more information), regardless of the amounts recognized as pension and OPEB expenditures on the modified accrual basis of accounting.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity (Continued)

12. Pensions and Other Postemployment Benefits (Continued)

The City recognizes net pension and net OPEB liabilities (assets) for each plan for which it participates, which represents the excess of the total pension and OPEB liabilities over the fiduciary net position of the qualified plan, or the City's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the City's fiscal year-end. Changes in the net pension and OPEB liabilities during the period are recorded as pension and OPEB expenses, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension and OPEB liabilities that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified plan and recorded as a component of pension and OPEB expense beginning with the period in which they are incurred. Any projected earnings on qualified pension and OPEB plan investments are recognized as a component of pension and OPEB expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension and OPEB expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

13. Comparative Data

Comparative data (i.e. presentation of prior year totals by fund type) has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City uses the following procedures in establishing the budgetary data reflected in the financial statements:

Budgets are adopted on a GAAP basis. During the spring, the City's Administration, with other department input, develops a preliminary budget model for operational and capital expenditures, and develops revenue projections as a proposed means of financing the proposed expenditures.

Upon receipt of the budget estimates, the Council holds a first reading of the budget ordinance. Information about the budget ordinance is then published in the local newspaper. The ordinance sets the limit at the fund level, for which expenditures may not exceed appropriations. After two readings of the budget, the City Council legally adopts the budget through the passage of the ordinance.

Budget accountability rests primarily with the operating departments of the City. In accomplishing the programs and objectives for which the budget was authorized, department directors are responsible for ensuring that their respective expenditures do not exceed the prescribed funding levels.

For each assigned function, a department is obligated to stay within budget for its area. The City Mayor has the authority to transfer funds across departments. Such transfers are entered on the City's records. A contingent amount equal to five percent of all departmental budgeted expenditures is placed under the control of the City Manager to be used at his discretion if necessary. If a department requires a change to the budget of more than ten percent of its original budget the Council must approve the adjustment. All unused expenditure appropriations lapse at year-end. However, City Council must approve any revisions that alter the total expenditures of any fund.

Budgeted amounts are as originally adopted, or as amended by City Council.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. The City does not have a formal policy for custodial credit risk, but follows the investment policy statutes of the State of South Carolina. As of June 30, 2019, none of the City's bank balances of approximately \$6,812,000 (with a carrying value of approximately \$6,613,000) were subject to custodial credit risk.

Investments

As of June 30, 2019, the City had the following investments:

Investment Type	Fair Value Level ⁽¹⁾	Credit Rating ^	Fair Value	Investment Maturity in Years
				< 1 yr
SC Local Government Investment Pool	N/A ⁽²⁾	NR, NR	\$ 291,003	\$ 291,003
US Treasury Securities	Level 1	AAAm, Aaa-mf	679,933	679,933
Total			<u>\$ 970,936</u>	<u>\$ 970,936</u>

^ If available, credit ratings are for Standard & Poor's and Moody's Investors Service.

⁽¹⁾ See Note I.C.10 for details of the City's fair value hierarchy.

⁽²⁾ Investments that have a net asset value are not subject to the fair value hierarchy.

NR – Not rated.

Interest Rate Risk: The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not currently have a formal investment policy that limits its exposure to custodial credit risk for investments.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City does not have a have formal investment policy that limits its exposure to credit risk for investments.

Concentration of Credit Risk for Investments: The City places no limit on the amount the City may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

A. Deposits and Investments (Continued)

Reconciliation to the Financial Statements

The following table reconciles deposits and investments within the notes to the financial statements to the amounts in the financial statements:

Financial Statements	
Statement of Net Position:	
Cash and Cash Equivalents	\$ 5,231,371
Cash and Cash Equivalents - Restricted	1,583,278
Investments	750,382
Statement of Assets and Liabilities - Agency Fund:	
Cash and Cash Equivalents	18,882
Total	<u>\$ 7,583,913</u>
Notes to the Financial Statements	
Deposits	\$ 6,612,977
Investments	970,936
Total	<u>\$ 7,583,913</u>

B. Property Taxes and Other Receivables

Receivables as of June 30, 2019 for the City's individual major funds, including the applicable allowance for uncollectible amounts, are as follows:

	General Fund	Water Fund	Sewer Fund	Total
Receivables:				
Taxes Receivable	\$ 138,793	-	-	\$ 138,793
Accounts Receivable	92,520	343,960	585,437	1,021,917
Due From:				
County Treasurer	195,145	-	-	195,145
Other Governments	290,582	-	-	290,582
Gross Receivables	<u>717,040</u>	<u>343,960</u>	<u>585,437</u>	<u>1,646,437</u>
Less Allowance For:				
Taxes Receivable	(34,698)	-	-	(34,698)
Accounts Receivable	(16,058)	(56,205)	(88,321)	(160,584)
Net Receivables	<u>\$ 666,284</u>	<u>287,755</u>	<u>497,116</u>	<u>\$ 1,451,155</u>

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

B. Property Taxes and Other Receivables (Continued)

Property Taxes

The City's fiscal year 2019 real and business personal property taxes (which were for tax year 2018) were levied on October 1, 2018 and were due beginning on this date based on the assessed valuation as of January 1, 2018. Property taxes were considered late on January 16, 2019. Motor vehicle property tax is levied and collected on a portion of taxable vehicles monthly. Penalties and charges are assessed if taxes are not paid by the following dates:

January 16 through February 1	- 3% penalty for tax due
February 2 through March 15	- 10% penalty for tax due
March 16 - Lien Date	- 15% penalty for tax due plus \$15 for a delinquent execution charge
Unpaid Taxes After One Year	- Property is sold by the County Tax Collector at the annual tax sale held the first Monday in November each year.

Assessed values are established by the Florence County Tax Assessor and the South Carolina Tax Commission. The City's operating tax rate for the 2018 property tax year was 170.0 mills. City property taxes are billed and collected by Florence County under a joint billing and collection agreement.

C. Unearned and Unavailable Revenue

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned (unearned revenue).

At June 30, 2019, the General Fund had approximately \$74,000 in revenue related to property taxes that was not available (unavailable revenue – property taxes). Unearned revenues of approximately \$38,000 in the Water Fund represent customer prepayments for services to be provided.

D. Interfund Receivables, Payables, and Transfers

Interfund balances at June 30, 2019, consisted of the following:

Fund	Receivables	Payables
General Fund	\$ 427,891	\$ -
Nonmajor Governmental Funds	-	210,049
Water Fund	119,700	356,290
Sewer Fund	138,448	119,700
Total	\$ 686,039	\$ 686,039

Interfund balances generally result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. The General Fund receivable is the result of expenditures that were initially paid for by the General Fund on behalf of other funds. The Water Fund receivable is the result of expenditures improperly recorded in the Water Fund during the year. The Sewer Fund receivable is the result of Florence County sales tax revenues received for reimbursement of the Sewer Pump Station project which were initially recorded in the Water Fund. These balances were repaid subsequent to June 30, 2019.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Interfund Receivables, Payables, and Transfers (Continued)

Transfers between funds for the year ended June 30, 2019, consisted of the following:

Fund	Transfers In	Transfers Out
General Fund	\$ 394,000	\$ -
Nonmajor Governmental Funds	-	344,000
Water Fund	-	50,000
Total	<u>\$ 394,000</u>	<u>\$ 394,000</u>

The Hospitality Tax Fund transferred funds to the General Fund to partially offset tourism related expenditures. The Water Fund transferred funds to the General Fund to partially offset administrative expenditures.

E. Capital Assets

Capital asset activity for the City's governmental activities for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 3,713,427	-	-	-	\$ 3,713,427
Construction In Progress	1,025,669	636,339	-	(1,662,008)	-
Total Capital Assets, Non-Depreciable	<u>4,739,096</u>	<u>636,339</u>	<u>-</u>	<u>(1,662,008)</u>	<u>3,713,427</u>
Capital Assets, Depreciable:					
Buildings	2,992,687	-	-	-	2,992,687
Infrastructure	1,816,093	29,320	-	1,662,008	3,507,421
Machinery	5,700,704	443,062	33,548	-	6,110,218
Total Capital Assets, Depreciable	<u>10,509,484</u>	<u>472,382</u>	<u>33,548</u>	<u>1,662,008</u>	<u>12,610,326</u>
Less: Accumulated Depreciation for:					
Buildings	1,976,062	98,732	-	-	2,074,794
Infrastructure	1,001,780	88,592	-	-	1,090,372
Machinery	3,621,764	422,192	11,582	-	4,032,374
Total Accumulated Depreciation	<u>6,599,606</u>	<u>609,516</u>	<u>11,582</u>	<u>-</u>	<u>7,197,540</u>
Total Capital Assets, Depreciable, Net	<u>3,909,878</u>	<u>(137,134)</u>	<u>21,966</u>	<u>1,662,008</u>	<u>5,412,786</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,648,974</u>	<u>499,205</u>	<u>21,966</u>	<u>-</u>	<u>\$ 9,126,213</u>

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Capital Assets (Continued)

Depreciation expense for the City's governmental activities was charged to functions/programs as follows:

Functions/Programs	Depreciation Expense
Governmental Activities:	
General Government	\$ 195,752
Public Safety	211,685
Streets and Sanitation	80,659
Culture and Recreation	121,420
Total - Governmental Activities	<u>\$ 609,516</u>

Capital asset activity for the City's business-type activities for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Non-Depreciable					
Land	\$ 122,427	-	-	-	\$ 122,427
Construction in Progress	1,859,027	214,418	-	(1,952,419)	121,026
Total Capital Assets, Non-Depreciable	<u>1,981,454</u>	<u>214,418</u>	<u>-</u>	<u>(1,952,419)</u>	<u>243,453</u>
Capital Assets, Depreciable					
Buildings	3,406,593	-	-	-	3,406,593
Utility Systems and Improvements	36,216,657	948,223	-	1,952,419	39,117,299
Machinery and Equipment	2,839,545	62,391	-	-	2,901,936
Total Capital Assets, Depreciable	<u>42,462,795</u>	<u>1,010,614</u>	<u>-</u>	<u>1,952,419</u>	<u>45,425,828</u>
Less: Accumulated Depreciation for:					
Buildings	625,911	84,670	-	-	710,581
Utility Systems and Improvements	17,830,748	998,884	-	-	18,829,632
Machinery and Equipment	2,117,161	131,632	-	-	2,248,793
Total Accumulated Depreciation	<u>20,573,820</u>	<u>1,215,186</u>	<u>-</u>	<u>-</u>	<u>21,789,006</u>
Total Capital Assets, Depreciable, Net	<u>21,888,975</u>	<u>(204,572)</u>	<u>-</u>	<u>1,952,419</u>	<u>23,636,822</u>
Business-Type Activities Capital Assets, Net	<u>\$ 23,870,429</u>	<u>9,846</u>	<u>-</u>	<u>-</u>	<u>\$ 23,880,275</u>

CITY OF LAKE CITY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Capital Assets (Continued)

Depreciation expense for the City’s business-type activities was charged to functions/programs as follows:

Functions/Programs	Depreciation Expense
Business-Type Activities:	
Water	\$ 595,941
Sewer	619,245
Total - Business-Type Activities	<u>\$ 1,215,186</u>

F. Long-Term Obligations

The City issues bonds to provide funds for the acquisition and construction of major capital facilities as well as the acquisition of machinery, equipment, and vehicles. General Obligation Bonds (“GOB”) are direct obligations and pledge the full faith and credit of the City. Revenue Bonds (“RB”) are obligations of the City that are secured by revenue from a specific source. Capital Lease (“CL”) obligations are special obligations of the City payable from the general revenues of the City. All of the City’s debt issuances are direct placement (“DB”). The full faith, credit and taxing powers of the City are not pledged for the payment of revenue bonds, bank loans, or capital lease obligations nor the interest thereon.

Details on the City’s outstanding debt issues and capital lease obligations as of June 30, 2019 are as follows:

	Principal Outstanding at Year End
<u>General Obligation Bonds - DB</u>	
The City issued a general obligation bond on October 4, 2007. The proceeds were used to construct a landfill. The bond was issued as a single written bond in fully registered form. The bond bears interest at the rate of 3.73% per annum calculated on the basis of a 360 day year. Payments are due annually on October 4th beginning on October 4, 2008 and ending on October 4, 2022.	<u>\$ 580,000</u>

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

F. Long-Term Obligations (Continued)

	Principal Outstanding at Year End
<u>Revenue Bonds - DB</u>	
The City issued \$3,521,597 in Waterworks and Sewer System Improvement Bonds on January 1, 2013 and made additional draws in subsequent years, including \$118,699 during the current year. Payments in the amount of \$13,733, including interest at a rate of 2.5%, are due monthly through January 1, 2053.	\$ 3,715,577
The City issued \$281,314 in Waterworks and Sewer System Improvement Bonds on March 21, 2013. Payments in the amount of \$886, including interest at a rate of 1.875%, are due monthly through March 21, 2053.	264,031
The City issued \$6,487,000 in Waterworks and Sewer System Refunding and Improvement Revenue Bonds on December 15, 2016. Principal payments including interest payments at a rate of 2.80%, are due monthly through June 1, 2036.	6,026,000
Total Revenue Bonds	\$ 10,005,608
<u>Capital Leases - DB</u>	
On August 25, 2010, the City entered into a lease/purchase agreement for the acquisition of a street sweeper. Annual installments in the amount of \$21,961 began on August 25, 2011 and end on August 25, 2020. Interest is being charged at approximately 2.78%. The asset is being depreciated and is included in the depreciation expense for the governmental activities.	\$ 42,157
On October 6, 2014, the City entered into a lease/purchase agreement in the amount of \$1,200,000 for the acquisition of two fire trucks. The first payment was due September 9, 2014 in the amount of \$113,395. Annual payments in the amount of \$109,488 began September 9, 2015 with the final payment being made September 9, 2027. Interest is being charged at 3.05%.	766,959
On January 27, 2015, the City entered into a lease/purchase agreement in the amount of \$105,000 for the acquisition of four police cars. Quarterly payments in the amount of \$5,510 began on April 27, 2015 and end on April 27, 2020. Interest is being charged at 1.86%.	16,379
On June 12, 2015, the City entered into a lease/purchase agreement in the amount of \$237,000 for the acquisition of one Ford Focus and 30 body cameras. Annual payments in the amount of \$49,728 began on June 12, 2016 and end on June 12, 2020. Interest is being charged at 1.62%.	48,936
On June 12, 2017, the City entered into a lease/purchase agreement in the amount of \$276,500 for the acquisition of various equipment. Annual payments in the amount of \$58,384 began on June 1, 2018 and end on June 1, 2022. Interest is being charged at 1.91%.	168,668
Total Capital Lease Obligations	\$ 1,043,099

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

F. Long-Term Obligations (Continued)

Presented below is a summary of changes in long-term obligations for the year ended June 30, 2019 for the City's governmental activities:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
GO Bonds - DB:					
Landfill	\$ 700,000	-	120,000	580,000	\$ 130,000
Total GO Bonds	700,000	-	120,000	580,000	130,000
Capital Leases - DB:					
Street Sweeper	62,383	-	20,226	42,157	20,789
Two Fire Trucks	850,507	-	83,548	766,959	86,096
Four Police Cars	37,864	-	21,485	16,379	16,379
One Car and 30 Body Cameras	97,091	-	48,155	48,936	48,936
Equipment	222,796	-	54,128	168,668	55,162
Total Capital Leases	1,270,641	-	227,542	1,043,099	227,362
Accrued Compensated Absences	84,935	103,401	73,314	115,022	115,022
Total Governmental Activities	\$ 2,055,576	103,401	420,856	1,738,121	\$ 472,384

Presented below is a summary of changes in long-term obligations for the year ended June 30, 2019 for the City's business-type activities:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Revenue Bonds - DB:					
January 2013	\$ 3,786,662	-	71,085	3,715,577	\$ 72,733
March 2013	269,662	-	5,631	264,031	5,730
December 2016	6,250,000	-	224,000	6,026,000	281,000
Total Revenue Bonds	10,306,324	-	300,716	10,005,608	359,463
Accrued Compensated Absences	33,717	51,025	45,286	39,456	39,456
Total Business-Type Activities	\$ 10,340,041	51,025	346,002	10,045,064	\$ 398,919

Interest paid on the debt issued by the City is exempt from federal income tax. The City sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The City had no arbitrage liability at June 30, 2019.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

F. Long-Term Obligations (Continued)

Article X, Section 15 of the South Carolina Constitution of 1895, as amended, provides that no Town or City shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or City voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of June 30, 2019, the City had approximately \$580,000 of bonded debt subject to the 8% limit of approximately \$1,137,000 resulting in an unused legal debt margin of approximately \$557,000.

Presented below are the debt service requirements to maturity for the governmental and business-type activities:

Year Ending June 30,	Governmental Activities		Business-Type Activities		Totals
	Principal	Interest	Principal	Interest	
2020	\$ 357,362	50,366	359,463	265,693	\$ 1,032,884
2021	306,305	40,313	370,411	255,877	972,906
2022	298,718	30,717	380,407	245,761	955,603
2023	254,217	21,240	390,453	235,371	901,281
2024	97,091	12,398	400,550	224,706	734,745
2025-2029	309,405	19,063	2,174,082	953,250	3,455,800
2030-2034	-	-	2,490,934	639,362	3,130,296
2035-2039	-	-	1,460,768	317,856	1,778,624
2040-2044	-	-	673,634	203,506	877,140
2045-2049	-	-	761,723	115,417	877,140
2050-2053	-	-	543,183	22,357	565,540
Totals	\$ 1,623,098	174,097	10,005,608	3,479,156	\$ 15,281,959

There are limitations, restrictions, and covenants contained in the various bond indentures and ordinances. As of June 30, 2019, the City is in compliance with all significant restrictions and covenants.

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The City obtains its general risk insurance through the SC Insurance Reserve Fund. There were no significant reductions in coverage in the past fiscal year and settled claims in excess of insurance coverage for the last three years were immaterial.

The City insured itself from losses related to worker's compensation through the State Accident Fund. There were no significant reductions in coverage in the past fiscal year and settled claims in excess of insurance coverage for the last three years were immaterial.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

Participation in Public Entity Risk Pools for Property and Casualty Insurance (Continued)

The City is also subject to risks of loss from providing health, accident, and other medical benefits to employees and their dependents. The City offers health insurance coverage to its employees through Blue Cross Blue Shield of South Carolina. There were no significant reductions in coverage in the past fiscal year and settled claims in excess of insurance coverage for the last three years were immaterial.

For each of the insurance programs and public entity risk pools in which it participates, the City has effectively transferred all risk with no liability for unfunded claims.

B. Retirement Plans

The City participates in the State of South Carolina's retirement plans, which are administered by the South Carolina Public Employee Benefit Authority ("PEBA"). The PEBA, created on July 1, 2012 and governed by an 11-member Board of Directors ("PEBA Board"), is the state agency responsible for the administration and management of the various retirement systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, the PEBA is responsible for administering the South Carolina Retirement Systems' ("Systems") five defined benefit pension plans. The Retirement Funding and Administration Act of 2017, which became effective July 1, 2017, increased the employer and employee contribution rates, established a ceiling on the SCRS and PORS employee contribution rates, lowered the assumed rate of return, required a scheduled reduction of the funding periods, and addressed various governance issues including the assignment of the PEBA Board as custodian of the retirement trust funds and assignment of the Retirement Systems Investment Commission ("RSIC") and PEBA as co-trustees of the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

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

Plan Description

The South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

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

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Membership

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

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

Plan Benefits

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

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

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

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Benefits (Continued)

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

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

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. If the scheduled employee and employer contributions provided in statute, or the rates last adopted by the PEBA Board, are insufficient to maintain the period set in statute, the PEBA Board shall increase employer contribution rates as necessary.

After June 30, 2027, if the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than eighty-five percent, then the PEBA Board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than eighty-five percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than eighty-five percent, then effective on the following July first, and annually thereafter as necessary, the PEBA Board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than eighty-five percent.

The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for the SCRS and the PORS, respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for the SCRS and 21.24 percent for the PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization period.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Contributions (Continued)

As noted earlier, both employees and the City are required to contribute to the Plans at rates established and as amended by the PEBA. The City's contributions are actuarially determined but are communicated to and paid by the City as a percentage of the employees' annual eligible compensation. Required employer and employee contribution rates for the past three years are generally as follows:

	SCRS Rates			PORS Rates		
	2017	2018	2019	2017	2018	2019
Employer Contribution Rate: [^]						
Retirement	11.41%	13.41%	14.41%	13.84%	15.84%	16.84%
Incidental Death Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.20%	0.20%	0.20%
	<u>11.56%</u>	<u>13.56%</u>	<u>14.56%</u>	<u>14.24%</u>	<u>16.24%</u>	<u>17.24%</u>
Employee Contribution Rate	<u>8.66%</u>	<u>9.00%</u>	<u>9.00%</u>	<u>9.24%</u>	<u>9.75%</u>	<u>9.75%</u>

[^] Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

The required contributions and percentages of amounts contributed to the Plans for the past three years were as follows:

Period Ended	SCRS Contributions		PORS Contributions	
	Required	% Contributed	Required	% Contributed
June 30, 2019	\$ 266,886	100%	\$ 243,795	100%
June 30, 2018	235,592	100%	226,591	100%
June 30, 2017	\$ 199,402	100%	\$ 178,485	100%

General Assembly ("State") funded 1 percent of the SCRS and PORS contribution increases for the year ended June 30, 2018. The State's budget appropriated these funds directly to the PEBA for the South Carolina Retirement System Trust Fund and the Police Officers Retirement System Trust Fund. The amount of funds appropriated by the State (nonemployer contributing entity) for the year ended June 30, 2018 (measurement date) to the City were approximately \$14,000 and \$9,000 for the SCRS and PORS, respectively. The City recognized contributions (on-behalf benefits) from the State of approximately \$14,000 and \$9,000 for the SCRS and PORS, respectively, for the year ended June 30, 2019. These contributions by the State are recognized as intergovernmental revenues and pension expenditures in the City's governmental fund financial statements.

Eligible payrolls covered under the Plans for the past three years were as follows:

Period Ended	SCRS Payroll	PORS Payroll	Total Payroll
June 30, 2019	\$ 1,833,006	1,414,125	\$ 3,247,131
June 30, 2018	1,737,409	1,395,264	3,132,673
June 30, 2017	\$ 1,724,934	1,267,450	\$ 2,992,384

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Actuarial Assumptions and Methods

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2015.

The June 30, 2018 total pension liability ("TPL"), net pension liability ("NPL"), and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), and are based on an actuarial valuation performed as of July 1, 2017. The TPL was rolled-forward from the valuation date to the Plans' fiscal year end, June 30, 2018, using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2018 for the SCRS and PORS.

	SCRS	PORS
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Investment Rate of Return*	7.25%	7.25%
Projected Salary Increases*	3.0% to 12.5% (varies by service)	3.5% to 9.5% (varies by service)
Benefit Adjustments	Lesser of 1% or \$500 annually	Lesser of 1% or \$500 annually

* Includes inflation at 2.25%.

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

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 30 year capital market assumptions. 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 2018 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 following table. 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.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	47.0%		
Global Public Equity	33.0%	6.99%	2.31%
Private Equity	9.0%	8.73%	0.79%
Equity Options Strategies	5.0%	5.52%	0.28%
Real Assets	10.0%		
Real Estate (Private)	6.0%	3.54%	0.21%
Real Estate (REITs)	2.0%	5.46%	0.11%
Infrastructure	2.0%	5.09%	0.10%
Opportunistic	13.0%		
GTAA/Risk Parity	8.0%	3.75%	0.30%
Hedge Funds (non-PA)	2.0%	3.45%	0.07%
Other Opportunistic Strategies	3.0%	3.75%	0.11%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.05%	0.18%
Emerging Markets Debt	5.0%	3.94%	0.20%
Private Debt	7.0%	3.89%	0.27%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	0.94%	0.09%
Cash and Short Duration (Net)	2.0%	0.34%	0.01%
Total Expected Real Return	100.0%		5.03%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.28%

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

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

The NPL is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of the June 30, 2018 measurement date, for the SCRS and PORS, are presented in the following table:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 48,821,730,067	26,414,916,370	\$ 22,406,813,697	54.1%
PORS	\$ 7,403,972,673	4,570,430,247	\$ 2,833,542,426	61.7%

The TPL is calculated by the Systems' actuary, and each Plans' fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the Plans' funding requirements.

At June 30, 2019, the City reported liabilities of approximately \$3,757,000 and \$2,856,000 for its proportionate share of the NPL for the SCRS and PORS, respectively. The NPL were measured as of June 30, 2018, and the TPL for the Plans used to calculate the NPL were determined based on the most recent actuarial valuation report of July 1, 2017 that was projected forward to the measurement date. The City's proportion of the NPL were based on a projection of the City's long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2018 measurement date, the City's SCRS proportion was 0.016766 percent, which was a decrease of 0.005314 percent from its proportion measured as of June 30, 2017. At the June 30, 2018 measurement date, the City's PORS proportion was 0.100803 percent, which was a decrease of 0.01543 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of approximately \$298,000 and \$439,000 for the SCRS and PORS, respectively. At June 30, 2019, the City reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

CITY OF LAKE CITY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	\$ 6,781	\$ 22,107
Change in Assumptions	149,045	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	59,675	-
Changes in Proportion and Differences Between the Employer's Contributions and Proportionate Share of Contributions	784,147	997,472
Employer Contributions Subsequent to the Measurement Date	266,886	-
Total SCRS	<u>1,266,534</u>	<u>1,019,579</u>
PORS		
Differences Between Expected and Actual Experience	88,007	-
Change in Assumptions	188,329	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	57,119	-
Changes in Proportion and Differences Between the Employer's Contributions and Proportionate Share of Contributions	627,111	485,602
Employer Contributions Subsequent to the Measurement Date	243,795	-
Total PORS	<u>1,204,361</u>	<u>485,602</u>
Total SCRS and PORS	<u>\$ 2,470,895</u>	<u>\$ 1,505,181</u>

Approximately \$253,000 and \$235,000 that were reported as deferred outflows of resources related to the City's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the NPL in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS and PORS will increase (decrease) pension expense as follows:

Year Ended June 30,	SCRS	PORS	Total
2020	\$ 100,373	233,808	\$ 334,181
2021	188,265	194,254	382,519
2022	(281,010)	72,341	(208,669)
2023	(27,559)	(25,439)	(52,998)
Total	<u>\$ (19,931)</u>	<u>474,964</u>	<u>\$ 455,033</u>

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Discount Rate

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in the 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, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Sensitivity Analysis

The following table presents the sensitivity of the City's proportionate share of the NPL of the Plans to changes in the discount rate, calculated using the discount rate of 7.25 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.25 percent) or 1% point higher (8.25 percent) than the current rate:

System	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
City's proportionate share of the net pension liability of the SCRS	\$ 4,800,359	3,756,695	\$ 3,010,576
City's proportionate share of the net pension liability of the PORS	3,850,642	2,856,294	2,041,840
Total	<u>\$ 8,651,001</u>	<u>6,612,989</u>	<u>\$ 5,052,416</u>

Plans Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plans administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS and PORS. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

Payable to Plans

The City reported a payable of approximately \$65,000 to the PEBA as of June 30, 2019, representing required employer and employee contributions for the month of June 2019 for the SCRS and PORS. This amount is included in Other Accrued Liabilities on the financial statements and was paid in July 2019.

C. Other Postemployment Benefit Plan

Plan Description

The City administers the retiree medical plan, a single-employer defined benefit other postemployment benefit plan ("OPEB Plan"). This plan provides healthcare insurance for eligible retirees and their spouses under the Medicare eligible age through the City's group health insurance plan which covers both active and retired members. Section 2-198 of the Code of Ordinances of the City grants the authority to establish and amend the benefit terms of the OPEB Plan to the Mayor and City Council. No assets are accumulated in a trust as defined by GAAP. The OPEB Plan does not issue a stand-alone financial report.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

C. Other Postemployment Benefit Plan (Continued)

Plan Membership

As of June 30, 2019, the last actuarial valuation, the following employees were covered by the OPEB Plan’s benefit terms:

Inactive Members or Beneficiaries Currently Receiving Benefit Payments	4
Active Members	<u>28</u>
Total Membership	<u><u>32</u></u>

Plan Benefits and Contributions

Section 6-2 of the Code of Ordinances of the City grants the authority to establish and amend the contribution requirements of the OPEB Plan to the Mayor and City Council. The City will pay 100% of premiums for retirees and will not cover spouses. Employees employed prior to July 1, 2010 who have been employed by the City of Lake City continuously for a period of twenty-five years and meet the other requirements of the retiree health plan are eligible to participate. During the year ended June 30, 2019, the City made contributions of approximately \$40,000, or an average of 1.2% of covered payroll. Employees are not required to contribute to the OPEB Plan.

Actuarial Assumptions and Method

Actuarial valuations of the OPEB Plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, inflation, healthcare cost trend rates, and future salary changes. Amounts determined regarding the net OPEB liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan (the plan as understood by the employer and its members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following table provides a summary of the significant actuarial assumptions and methods used in the latest actuarial valuation for the OPEB Plan.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

C. Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions and Method (Continued)

Actuarial Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation	2.25%
Discount Rate	3.87%
Healthcare Cost Trend Rate	The medical trend rates are based on the rates used for the 6/30/2018 Actuarial Valuation of the South Carolina Retiree Health Care Plan
Payroll Growth	3.00%
Coverage Elections	
	It is assumed that 100% of eligible retirees will elect to receive coverage upon retirement, 100% of male spouses, and 100% of female spouses will elect to continue coverage upon retirement. The retiree is responsible for paying the entire premium for spousal coverage
Active Participation/Marriage	50% of active employees are assumed to be married at retirement. Female spouses are assumed to be 3 years younger than their husbands
	The 2018 Public Retirees of South Carolina Mortality Table for Males and the 2018 Public Retirees of South Carolina Mortality Table for Females, projected using the AA projection table from the year 2018 and with multipliers based on plan experience
Mortality Table	
Termination Rates	The rates used for the July 1, 2018 SCRS Valuation
Per Capita Claims Costs	Per Capita Claims Costs include Medical, Dental and Vision insurance and were developed using the Society of Actuaries health care aging curve

The actuarial assumptions used above were based on the results of an actuarial experience study for the period July 1, 2018. The discount rate used for the June 30, 2018 measurement date was increased from the discount rate of 3.58% used for the June 30, 2017 measurement date.

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

C. Other Postemployment Benefit Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

The City's net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016 that was rolled forward to the measurement date.

	Total OPEB Liability
Balances as of June 30, 2018	\$ 446,338
Changes for the year:	
Service Cost	6,803
Interest	14,874
Difference Between Expected and Actual Experience	(66,327)
Changes in Assumptions	2,904
Benefit Payments	(45,365)
Implicit rate subsidy fulfillment	(16,341)
Net Changes	(103,452)
Balances as of June 30, 2019	\$ 342,886

For the year ended June 30, 2019, the City recognized OPEB expense of approximately \$214,000. At June 30, 2019, the City reported deferred outflows of resources (deferred OPEB charges) and deferred inflows of resources (deferred OPEB credits) related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 59,345
Net Difference Between Projected/Actual Earnings on OPEB Plan Investments		
Changes of Assumptions	10,983	-
Employer Contributions Subsequent to the Measurement Date	39,610	-
Total	\$ 50,593	\$ 59,345

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

C. Other Postemployment Benefit Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

Approximately \$40,000 that was reported as deferred outflows of resources related to the City's contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources decrease OPEB expense as follows:

Year Ended June 30, 2019	Deferred Outflows of Resources	Deferred Outflows of Resources
2019	\$ 1,197	\$ 6,982
2020	1,197	6,982
2021	1,197	6,982
2022	1,197	6,982
2023	1,197	6,982
Thereafter	4,998	24,435
Total	<u>\$ 10,983</u>	<u>\$ 59,345</u>

Discount Rate

The discount rate used to measure the total OPEB liability was 3.87%. This discount rate represents the municipal bond index rate based on the City not participating in a qualified trust.

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

The following table presents the sensitivity of the City's net OPEB liability to changes in the discount rate, calculated using the discount rate of 3.87%, as well as what it would be if it were calculated using a discount rate that is 1% point lower (2.87%) or 1% point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Net OPEB Liability	\$ 361,402	342,886	\$ 324,357

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following table presents the sensitivity of the City's net OPEB liability to changes in the healthcare cost trend rate, calculated using the healthcare cost trend rate of 9.50% decreasing to 5.50%, as well as what it would be if it were calculated using a healthcare cost trend rate that is 1% point lower (8.50% decreasing to 4.50%) or 1% point higher (10.50% decreasing to 6.50%) than the current rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 315,786	342,886	\$ 373,890

CITY OF LAKE CITY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

D. Commitments and Contingencies

The City receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the City at June 30, 2019.

The City is periodically the subject of litigation by a variety of plaintiffs. The City's management believes that such amounts claimed by these plaintiffs, net of the applicable insurance coverage, are immaterial.

In April 2016 the City entered into a five-year contract with American Waste Systems effective July 1, 2016 to provide refuse and recyclable goods collection and disposal services to residents and businesses located in the City. The City will pay the contractor various rates for residential solid waste and recyclable services as well as commercial services.

The City had approximately \$609,000 in remaining contract commitments related to ongoing capital projects as of June 30, 2019.

In March 2019, the City entered into an agreement with the U.S. Department of Agriculture to accept a grant and loan package totaling \$7,994,000 as a source of funding to upgrade the City's aging Wastewater Treatment Plant facility. The package includes \$3,054,000 grant funds and a loan of \$4,940,000. The debt will be revenue bonds and repayment serviced from the City Sewer Revenues. As of June 30, 2019 the City had not started work or entered into the loan/bond agreements.

E. Subsequent Events

In September of 2019 the City entered into a Lease agreement with XYLEM to lease various equipment related to water and sewer operations for approximately \$285,000 paid in monthly installments of approximately \$12,000 for three years.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of these financial statements. Management is actively monitoring the impact from this health crisis on its financial condition, liquidity, operations, workforce and constituents.

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board, but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule
 - General Fund
- Pension Schedules
 - Schedule of the City of Lake City's Proportionate Share of the Net Pension Liability – South Carolina Retirement System
 - Schedule of the City of Lake City's Contributions – South Carolina Retirement System
 - Schedule of the City of Lake City's Proportionate Share of the Net Pension Liability – Police Officers Retirement System
 - Schedule of the City of Lake City's Contributions – Police Officers Retirement System
- Other Postemployment Benefit ("OPEB") Plan Schedule
 - Schedule of Changes in the City's Net OPEB Liability and Related Ratios

CITY OF LAKE CITY, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2019

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Property Taxes	\$ 1,857,352	1,857,352	1,651,807	\$ (205,545)
Franchise Fees	529,000	529,000	580,841	51,841
Licenses and Permits	1,072,500	1,072,500	1,131,357	58,857
Intergovernmental	1,240,271	1,240,271	1,397,363	157,092
Sanitation Fees	826,000	826,000	703,651	(122,349)
Fines and Forfeitures	110,500	110,500	161,657	51,157
Investment Earnings	5,000	5,000	5,257	257
Recreation Fees	53,500	53,500	34,934	(18,566)
Grants	1,388,821	1,388,821	1,248,311	(140,510)
Miscellaneous	14,500	14,500	63,823	49,323
TOTAL REVENUES ALL SOURCES	7,097,444	7,097,444	6,979,001	(118,443)
EXPENDITURES				
Current:				
General Government	692,934	692,934	440,076	(252,858)
Public Safety	2,972,347	2,972,347	2,840,554	(131,793)
Streets and Sanitation	1,635,800	1,635,800	1,683,171	47,371
Economic and Community Development	67,000	67,000	48,350	(18,650)
Culture and Recreation	551,088	551,088	494,303	(56,785)
Nondepartmental	381,000	381,000	439,635	58,635
Capital Outlay	711,075	711,075	1,065,616	354,541
Debt Service:				
Principal	412,293	412,293	347,542	(64,751)
Interest	55,032	55,032	88,694	33,662
TOTAL EXPENDITURES	7,478,569	7,478,569	7,447,941	(30,628)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(381,125)	(381,125)	(468,940)	(87,815)
OTHER FINANCING SOURCES (USES)				
Proceeds from the Sale of Assets	8,000	8,000	28,085	20,085
Transfers In	165,000	165,000	394,000	229,000
Transfers Out	(14,400)	(14,400)	-	14,400
TOTAL OTHER FINANCING SOURCES (USES)	158,600	158,600	422,085	263,485
NET CHANGES IN FUND BALANCES	(222,525)	(222,525)	(46,855)	175,670
FUND BALANCE, Beginning of Year	2,211,433	2,211,433	2,211,433	-
FUND BALANCES, End of Year	\$ 1,988,908	1,988,908	2,164,578	\$ 175,670

Note: This schedule has been presented on the modified accrual of accounting, which is consistent with accounting principles generally accepted in the United States of America.

CITY OF LAKE CITY, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY OF LAKE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SOUTH CAROLINA RETIREMENT SYSTEM**

LAST SIX FISCAL YEARS

	Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
City of Lake City's Proportion of the Net Pension Liability	0.016766%	0.022080%	0.014121%	0.017539%	0.018113%	0.018113%
City of Lake City's Proportionate Share of the Net Pension Liability	\$ 3,756,695	4,970,563	3,016,225	3,326,356	3,118,458	\$ 3,248,826
City of Lake City's Covered Payroll	\$ 1,737,409	1,724,934	1,891,600	1,635,705	1,643,929	\$ 1,503,264
City of Lake City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.22%	288.16%	159.45%	203.36%	189.70%	216.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.105%	53.338%	52.906%	56.992%	59.919%	56.388%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year.

The City implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.

The FY2017 net pension liability is lower than it should be while the FY2018 net pension liability is higher than it should be due to the South Carolina Public Employee Benefit Authority not receiving all of the FY2017 contributions and support from the City in time to include the allocation of net pension balances. Since the net pension balances in total were not significantly off, no adjustment or correction was deemed necessary.

The discount rate was lowered from 7.50% to 7.25% for the year ended June 30, 2018.

CITY OF LAKE CITY, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY OF LAKE CITY'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM**

LAST SIX FISCAL YEARS

	Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 266,886	235,592	199,402	209,211	178,292	\$ 171,791
Contributions in Relation to the Contractually Required Contribution						
Contributions from the City	252,959	221,665	199,402	209,211	178,292	171,791
Contributions from the State	13,927	13,927	-	-	-	-
Contribution Deficiency (Excess)	\$ -	-	-	-	-	\$ -
City of Lake City's Covered Payroll	\$ 1,833,006	1,737,409	1,724,934	1,891,600	1,635,705	\$ 1,643,929
Contributions as a Percentage of Covered Payroll	14.56%	13.56%	11.56%	11.06%	10.90%	10.45%

Notes to Schedule:

The City implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.

CITY OF LAKE CITY, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY OF LAKE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
POLICE OFFICERS RETIREMENT SYSTEM**

LAST SIX FISCAL YEARS

	Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
City of Lake City's Proportion of the Net Pension Liability	0.10080%	0.11623%	0.06814%	0.09540%	0.08641%	0.08641%
City of Lake City's Proportionate Share of the Net Pension Liability	\$ 2,856,294	3,184,137	1,728,405	2,079,131	1,654,199	\$ 1,791,193
City of Lake City's Covered Payroll	\$ 1,395,264	1,267,450	1,177,756	1,189,123	1,039,728	\$ 970,724
City of Lake City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	204.71%	251.22%	146.75%	174.85%	159.10%	184.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.73%	60.94%	60.44%	64.57%	67.55%	62.98%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year.

The City implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.

The FY2017 net pension liability is lower than it should be while the FY2018 net pension liability is higher than it should be due to the South Carolina Public Employee Benefit Authority not receiving all of the FY2017 contributions and support from the City in time to include the allocation of net pension balances. Since the net pension balances in total were not significantly off, no adjustment or correction was deemed necessary.

The discount rate was lowered from 7.50% to 7.25% for the year ended June 30, 2018.

CITY OF LAKE CITY, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY OF LAKE CITY'S CONTRIBUTIONS
POLICE OFFICERS RETIREMENT SYSTEM**

LAST SIX FISCAL YEARS

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 243,795	226,591	178,485	161,424	159,461
					\$ 129,342
Contributions in Relation to the Contractually Required Contribution					
Contributions from the City	234,881	217,677	178,485	161,424	159,461
Contributions from the State	8,914	8,914	-	-	-
Contribution Deficiency (Excess)	\$ -	-	-	-	\$ -
City of Lake City's Covered Payroll	\$ 1,414,125	1,395,264	1,267,450	1,177,756	1,189,123
Contributions as a Percentage of Covered Payroll	17.24%	16.24%	14.08%	13.71%	13.41%
					12.44%

Notes to Schedule:

The City implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.

CITY OF LAKE CITY, SOUTH CAROLINA**REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN SCHEDULE****SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS****LAST TWO FISCAL YEARS**

	Year Ended	
	June 30, 2019	June 30, 2018
Total OPEB Liability:		
Service Cost	\$ 6,803	\$ 6,023
Interest	14,874	17,573
Changes of Benefit Terms	(66,327)	-
Changes of Assumptions	2,904	10,167
Benefit Payments, Including Refunds of Member Contributions	(61,706)	(53,485)
Net Change in Total OPEB Liability	(103,452)	(19,722)
Total OPEB Liability - Beginning of Year	446,338	466,060
Total OPEB Liability - End of Year (a)	<u>\$ 342,886</u>	<u>\$ 446,338</u>
Covered-Employee Payroll	\$ 3,122,607	\$ 3,069,356
Net OPEB Liability as a Percentage of Covered-Employee Payroll	10.98%	14.54%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year (measurement date).

The City adopted GASB #75 during the year ended June 30, 2018. Information is not available for prior years.

Supplementary Information

CITY OF LAKE CITY, SOUTH CAROLINA

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2019

	WATER FUND		
	BUDGET	ACTUAL	VARIANCE
OPERATING REVENUES			
Water and Sewer Charges	\$ 1,263,500	1,103,203	\$ (160,297)
Water and Sewer Tap Fees	20,000	26,593	6,593
Penalties and Other Revenue	182,500	189,025	6,525
TOTAL OPERATING REVENUES	1,466,000	1,318,821	(147,179)
OPERATING EXPENSES			
Salaries	449,162	457,237	8,075
Benefits	106,481	114,359	7,878
Non-Cash Pension Expense	-	46,143	46,143
Depreciation	-	595,941	595,941
Insurance	27,000	18,999	(8,001)
Other Operating Expenses	177,108	95,531	(81,577)
Professional Fees	39,700	32,306	(7,394)
Repairs and Maintenance	101,185	59,027	(42,158)
Supplies and Materials	29,150	35,866	6,716
Utilities	95,000	127,980	32,980
TOTAL OPERATING EXPENSES	1,024,786	1,583,389	558,603
OPERATING INCOME (LOSS)	441,214	(264,568)	(705,782)
NONOPERATING REVENUE (EXPENSES)			
Grant Income	-	467,492	467,492
Investment Income	-	21,334	21,334
Interest Expense	(385,214)	(216,536)	168,678
TOTAL NONOPERATING REVENUE (EXPENSES)	(385,214)	272,290	657,504
INCOME (LOSS) BEFORE TRANSFERS	56,000	7,722	(48,278)
Transfers In	(6,000)	-	6,000
Transfers Out	(50,000)	(50,000)	-
CHANGE IN NET POSITION	-	(42,278)	(42,278)
NET POSITION, Beginning of Year	8,576,590	8,576,590	-
NET POSITION, End of Year	\$ 8,576,590	8,534,312	\$ (42,278)

(Continued)

CITY OF LAKE CITY, SOUTH CAROLINA

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2019

	SEWER FUND		
	BUDGET	ACTUAL	VARIANCE
OPERATING REVENUES			
Water and Sewer Charges	\$ 2,555,375	2,406,676	\$ (148,699)
Water and Sewer Tap Fees	10,000	8,050	(1,950)
Penalties and Other Revenue	93,000	118,060	25,060
TOTAL OPERATING REVENUES	2,658,375	2,532,786	(125,589)
OPERATING EXPENSES			
Salaries	800,243	744,340	(55,903)
Benefits	292,387	238,332	(54,055)
Non-Cash Pension Expense	-	(2,046)	(2,046)
Depreciation	-	619,245	619,245
Insurance	40,000	35,513	(4,487)
Other Operating Expenses	655,563	402,142	(253,421)
Professional Fees	53,045	29,651	(23,394)
Repairs and Maintenance	333,300	188,085	(145,215)
Supplies and Materials	28,600	22,003	(6,597)
Utilities	293,000	264,455	(28,545)
TOTAL OPERATING EXPENSES	2,496,138	2,541,720	45,582
OPERATING INCOME (LOSS)	162,237	(8,934)	(171,171)
NONOPERATING REVENUE (EXPENSES)			
Grant Income	-	107,127	107,127
Investment Income	500	7,010	6,510
Interest Expense	(146,737)	(56,220)	90,517
TOTAL NONOPERATING REVENUE (EXPENSES)	(146,237)	57,917	204,154
INCOME (LOSS) BEFORE TRANSFERS	16,000	48,983	32,983
Transfers In	(6,000)	-	6,000
Transfers Out	(10,000)	-	10,000
CHANGE IN NET POSITION	-	48,983	48,983
NET POSITION, Beginning of Year	9,623,912	9,623,912	-
NET POSITION, End of Year	\$ 9,623,912	9,672,895	\$ 48,983

CITY OF LAKE CITY, SOUTH CAROLINA

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - CURRENT AND PRIOR YEAR
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2019

	JUNE 30, 2019	JUNE 30, 2018
OPERATING REVENUES		
Water and Sewer Charges	\$ 3,509,879	\$ 3,899,959
Water and Sewer Tap Fees	34,643	44,992
Penalties and Other Revenue	307,085	437,540
TOTAL OPERATING REVENUES	3,851,607	4,382,491
OPERATING EXPENSES		
Salaries	1,201,577	1,136,168
Benefits	352,691	331,059
Non-Cash Pension Expense	44,097	233,674
Depreciation	1,215,186	1,000,541
Insurance	54,512	62,677
Other Operating Expenses	497,673	630,732
Professional Fees	61,957	98,180
Repairs and Maintenance	247,112	578,921
Supplies and Materials	57,869	76,097
Utilities	392,435	421,697
TOTAL OPERATING EXPENSES	4,125,109	4,569,746
OPERATING INCOME (LOSS)	(273,502)	(187,255)
NONOPERATING REVENUE (EXPENSES)		
Grant Income	574,619	1,647,549
Investment Income	28,344	17,491
Interest Expense	(272,756)	(282,252)
TOTAL NONOPERATING REVENUE (EXPENSES)	330,207	1,382,788
INCOME (LOSS) BEFORE TRANSFERS	56,705	1,195,533
Transfers In	-	14,400
Transfers Out	(50,000)	-
CHANGE IN NET POSITION	6,705	1,209,933
NET POSITION, Beginning of Year - As Previously Reported	18,200,502	17,063,978
Prior Period Adjustments - See Note I.B	-	(73,409)
NET POSITION, Beginning of Year - Restated	18,200,502	16,990,569
NET POSITION, End of Year	\$ 18,207,207	\$ 18,200,502

CITY OF LAKE CITY, SOUTH CAROLINA

UNIFORM SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES (PER ACT 96)

YEAR ENDED JUNE 30, 2019

FOR THE STATE TREASURER'S OFFICE:

COUNTY / MUNICIPAL FUNDS COLLECTED BY CLERK OF COURT	<u>General Sessions</u>	<u>Magistrate Court</u>	<u>Municipal Court</u>	<u>Total</u>
Court Fines and Assessments:				
Court fines and assessments collected			\$ 87,205	\$ 87,205
Court fines and assessments remitted to State Treasurer			(44,658)	(44,658)
Total Court Fines and Assessments retained			42,547	42,547
Surcharges and Assessments retained for victim services:				
Surcharges collected and retained			3,621	3,621
Assessments retained			4,275	4,275
Total Surcharges and Assessments retained for victim services			\$ 7,896	\$ 7,896

FOR THE DEPARTMENT OF CRIME VICTIM COMPENSATION (DCVC)

VICTIM SERVICE FUNDS COLLECTED	Municipal	County	Total
Carryforward from Previous Year – Beginning Balance	\$ 13,878	-	\$ 13,878
Victim Service Revenue:			
Victim Service Fines Retained by City/County Treasurer			-
Victim Service Assessments Retained by City/County Treasurer	4,275		4,275
Victim Service Surcharges Retained by City/County Treasurer	3,621		3,621
Interest Earned	-		-
Grant Funds Received			
Grant from:			
General Funds Transferred to Victim Service Fund			
Contribution Received from Victim Service Contracts:			
(1) Town of			
(2) Town of			
(3) City of			
Total Funds Allocated to Victim Service Fund + Beginning Balance (A)	\$ 21,774		\$ 21,774
Expenditures for Victim Service Program:	<u>Municipal</u>	<u>County</u>	<u>Total</u>
Salaries and Benefits	\$ -		\$ -
Operating Expenditures	-		-
Victim Service Contract(s):			
(1) Entity's Name			
(2) Entity's Name			
Victim Service Donation(s):			
(1) Domestic Violence Shelter:			
(2) Rape Crisis Center:			
(3) Other local direct crime victims service agency:	(7,895)		(7,895)
Transferred to General Fund			
Total Expenditures from Victim Service Fund/Program (B)	\$ (7,895)		\$ (7,895)
Total Victim Service Funds Retained by Municipal/County Treasurer (A-B)	13,879		13,879
Less: Prior Year Fund Deficit Repayment			
Carryforward Funds – End of Year	\$ 13,879		\$ 13,879

Compliance Section



Greene Finney, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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*

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of City Council
City of Lake City
Lake City, South Carolina

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake City, South Carolina (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 29, 2020.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as 2019-001, that we consider to be a significant deficiency.

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*.

The City's Responses to the Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Greene Finney, LLP". The script is cursive and fluid, with the letters "G", "F", and "L" being particularly prominent.

Greene Finney, LLP
Mauldin, South Carolina
June 29, 2020

CITY OF LAKE CITY, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2019

2019-001: BANK RECONCILIATION PROCESS

Condition:	For the year ended June 30, 2019, the City did not properly reconcile pooled bank accounts to the general ledger in a timely manner. Though it appears that bank reconciliations were being reviewed during the year, the review was not sufficient to identify errors in the reconciliations.
Criteria:	In order to ensure the City maintains accurate, complete and timely financial information, the City should ensure processes and procedures are properly designed and operating effectively to ensure all transactions are properly and timely recorded and all balance sheet accounts are reviewed and reconciled on a regular basis. Bank reconciliations should be performed monthly and reviewed by someone independent of the preparer. Any required journal entries identified during the reconciliation process should be posted to the general ledger prior to completing the reconciliation. Additionally, transfers between bank accounts should be made in a timely manner and should not be recorded in the general ledger until the bank transaction has occurred
Cause/Context:	The general ledger balances reported on the bank reconciliations initially provided for two of the City's pooled bank accounts did not agree to the trial balance for the month ended June 30, 2019. Additionally, certain reconciling items were improperly reported. These errors were not detected or corrected during the review process.
Effect:	Errors and irregularities could occur and not be detected in a timely manner.
Recommendation:	We recommend the City properly prepare reconciliations for all bank accounts in a timely manner and that those reconciliations be reviewed by someone independent of the preparer. The review should be performed after all monthly closing entries are posted to the general ledger in order to ensure the reconciliations are reporting final balances.
Response:	The City has improved its bank reconciliation process for the year ended June 30, 2020. Monthly reconciliations are prepared by the Deputy Finance Director and reviewed by the Finance Director to ensure the reconciliations are performed accurately.