

**CITY OF LIBERTY,
SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

CITY OF LIBERTY, SOUTH CAROLINA

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CITY OF LIBERTY, SOUTH CAROLINA

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CITY OF LIBERTY, SOUTH CAROLINA
LISTING OF PRINCIPAL OFFICIALS
YEAR ENDED JUNE 30, 2018

Established

1876

MAYOR

Brian Petersen

CITY COUNCIL MEMBERS

Chris Carroll

Brad Dover

Joshua Harrison

Archie Newberry

Lavant Padgett

Chuck Powell

CITY ADMINISTRATOR

Shirley Hughes



Greene Finney, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of City Council
City of Liberty
Liberty, 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 Liberty, South Carolina (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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 Liberty, South Carolina, as of June 30, 2018, 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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Emphasis of Matter Regarding Deficit Fund Balance in the General Fund

As discussed in Note IV.F in the notes to the financial statements, the City's General Fund has a deficit fund balance of approximately \$65,000 as of June 30, 2018; the City experienced a decrease in the deficit of approximately \$195,000 for the year ended June 30, 2018. Although the City has approximately \$547,000 in unrestricted cash, it also owes the Water and Sewer Fund \$700,000 as of June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule for the General Fund and the pension plan schedules, 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The 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 October 15, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
October 15, 2018

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CITY OF LIBERTY, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2018

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 547,458	456,977	\$ 1,004,435
Restricted Cash and Cash Equivalents	204,163	22,549	226,712
Receivables, Net			
Taxes	48,424	-	48,424
Accounts and Other	180,340	181,819	362,159
Internal Balances	(700,000)	700,000	-
Capital Assets:			
Non-Depreciable	114,669	6,414	121,083
Depreciable, Net	1,309,530	3,768,306	5,077,836
TOTAL ASSETS	1,704,584	5,136,065	6,840,649
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	840,466	-	840,466
LIABILITIES			
Accounts Payable	64,195	117,266	181,461
Accrued Salaries and Fringe Benefits	22,635	-	22,635
Accrued Interest Payable	405	3,430	3,835
Accrued Liabilities	400	-	400
Customer Deposits	-	17,405	17,405
Non-Current Liabilities:			
Net Pension Liability	3,094,044	-	3,094,044
Long-Term Obligations - Due Within One Year	76,165	75,991	152,156
Long-Term Obligations - Due in More Than One Year	76,039	90,290	166,329
TOTAL LIABILITIES	3,333,883	304,382	3,638,265
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	241,301	-	241,301
NET POSITION			
Net Investment in Capital Assets	1,342,329	3,608,439	4,950,768
Restricted For:			
Recreation and Tourism	166,740	-	166,740
Victims' Assistance	30,381	-	30,381
Local Law Enforcement	13,320	-	13,320
Sewer Maintenance Projects	-	272,146	272,146
Debt Service	-	19,119	19,119
Unrestricted	(2,582,904)	931,979	(1,650,925)
TOTAL NET POSITION	\$ (1,030,134)	4,831,683	\$ 3,801,549

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

CITY OF LIBERTY, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
General Government	\$ 536,192	415,256	-	-	(120,936)	-	\$ (120,936)
Police	1,030,771	165,627	3,818	-	(861,326)	-	(861,326)
Public Works	962,760	166,593	-	-	(796,167)	-	(796,167)
Recreation	312,687	51,280	-	-	(261,407)	-	(261,407)
Interest and Other Charges	2,058	-	-	-	(2,058)	-	(2,058)
Total Governmental Activities	2,844,468	798,756	3,818	-	(2,041,894)	-	(2,041,894)
Business-Type Activities:							
Water	418,466	608,179	-	-	-	189,713	189,713
Sewer	665,127	846,256	-	-	-	181,129	181,129
Total Business-Type Activities	1,083,593	1,454,435	-	-	-	370,842	370,842
TOTAL - PRIMARY GOVERNMENT	\$ 3,928,061	2,253,191	3,818	-	(2,041,894)	370,842	(1,671,052)
General Revenues:							
Taxes:							
Property Taxes					266,007	-	266,007
Hospitality Taxes					95,960	-	95,960
Local Option Sales Tax					370,432	-	370,432
Franchise Fees					267,657	-	267,657
State-Shared Revenues					144,056	-	144,056
Fines					112,510	-	112,510
Miscellaneous Revenue					30,250	2,585	32,835
Special Item - Adjustment of Net Pension Liability,							
Compensated Absences and Related Items					-	353,985	353,985
Transfers					244,376	(244,376)	-
Total General Revenues					1,531,248	112,194	1,643,442
CHANGE IN NET POSITION					(510,646)	483,036	(27,610)
NET POSITION, Beginning of Year					(519,488)	4,348,647	3,829,159
NET POSITION, End of Year					(1,030,134)	4,831,683	\$ 3,801,549

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

CITY OF LIBERTY, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	GENERAL FUND	NONMAJOR SPECIAL REVENUE FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Cash Equivalents	\$ 547,458	-	\$ 547,458
Restricted Cash and Cash Equivalents	-	204,163	204,163
Receivables, Net			
Taxes	48,424	-	48,424
Accounts and Other	168,619	11,721	180,340
TOTAL ASSETS	764,501	215,884	980,385
LIABILITIES			
Accounts Payable	58,752	5,443	64,195
Accrued Salaries and Fringe Benefits	22,635	-	22,635
Accrued Liabilities	400	-	400
Due to Other Funds	700,000	-	700,000
TOTAL LIABILITIES	781,787	5,443	787,230
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	47,336	-	47,336
TOTAL DEFERRED INFLOWS OF RESOURCES	47,336	-	47,336
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	829,123	5,443	834,566
FUND BALANCES			
Restricted for:			
Recreation and Tourism	-	166,740	166,740
Victims' Assistance	-	30,381	30,381
Local Law Enforcement	-	13,320	13,320
Unassigned	(64,622)	-	(64,622)
TOTAL FUND BALANCES	(64,622)	210,441	145,819
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 764,501	215,884	\$ 980,385

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

CITY OF LIBERTY, SOUTH CAROLINA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 145,819**

Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:

Property taxes due from Pickens County in the Statement of Net Position will be collected but are not available soon enough to pay for the current period's expenditures and therefore are reflected as unavailable in the governmental funds. 47,336

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets was \$4,278,553 and the accumulated depreciation was \$2,854,354. 1,424,199

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 retirement plans are not recorded in the governmental funds but are recorded in the Statement of Net Position. (2,494,879)

Accrued interest on debt in governmental accounting is not due and payable in the current period and therefore has not been reported as a liability in the governmental funds. (405)

Long-term liabilities are not due or payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities consisted of the following:

Long-Term Obligations (Debt and Lease Purchase Obligations)	(81,870)	
Compensated Absences (Annual Leave)	(70,334)	(152,204)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ (1,030,134)**

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

CITY OF LIBERTY, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2018

	GENERAL FUND	NONMAJOR SPECIAL REVENUE FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes	\$ 647,032	95,960	\$ 742,992
Licenses and Permits	404,256	-	404,256
Franchise Fees	267,657	-	267,657
Fines and Forfeitures	95,961	16,549	112,510
Charges for Services	394,500	-	394,500
Shared Revenues	144,056	-	144,056
Miscellaneous	30,250	3,818	34,068
TOTAL REVENUES	1,983,712	116,327	2,100,039
EXPENDITURES			
Current:			
General Government	418,234	53,478	471,712
Police	856,386	23,766	880,152
Public Works	471,674	-	471,674
Recreation	240,874	515	241,389
Debt Service:			
Principal	43,609	-	43,609
Interest	2,329	-	2,329
TOTAL EXPENDITURES	2,033,106	77,759	2,110,865
EXCESS OF REVENUES OVER EXPENDITURES	(49,394)	38,568	(10,826)
OTHER FINANCING SOURCES (USES)			
Transfers In	244,376	2,675	247,051
Transfers Out	-	(2,675)	(2,675)
TOTAL OTHER FINANCING SOURCES (USES)	244,376	-	244,376
CHANGES IN FUND BALANCES	194,982	38,568	233,550
FUND BALANCES, Beginning of Year	(259,604)	171,873	(87,731)
FUND BALANCES, End of Year	\$ (64,622)	210,441	\$ 145,819

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

CITY OF LIBERTY, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2018

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 233,550**

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 governmental funds. This amount represents the change in unavailable revenues for the year. (10,593)

Repayment of principal on debt (including lease purchase obligations) is recognized as an expenditures or other financing source in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 43,609

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, 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. This amount is the net change in accrued interest for the year. 271

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. (14,626)

Changes in the City's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources for the current year related to its participation in the State retirement plans are not reported in the governmental funds but are reported in the Statement of Activities. (583,602)

The 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 capital asset additions of \$14,150 were exceeded by depreciation expense of \$193,405 in the current year. (179,255)

TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (510,646)**

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

CITY OF LIBERTY, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUND

JUNE 30, 2018

	WATER AND SEWER FUND
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 456,977
Restricted Cash and Cash Equivalents	22,549
Accounts Receivables	181,819
Total Current Assets	<u>661,345</u>
Noncurrent Assets	
Due From Other Funds	700,000
Capital Assets:	
Non-Depreciable	6,414
Depreciable Capital Assets, Net	3,768,306
Total Noncurrent Assets	<u>4,474,720</u>
TOTAL ASSETS	<u>5,136,065</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	117,266
Accrued Interest Payable	3,430
Customer Deposits	17,405
Bonds Payable - Current Portion	75,991
Total Current Liabilities	<u>214,092</u>
Noncurrent Liabilities	
Bonds Payable, Less Current Portion	90,290
Total Non-Current Liabilities	<u>90,290</u>
TOTAL LIABILITIES	<u>304,382</u>
NET POSITION	
Net Investment in Capital Assets	3,608,439
Restricted for Sewer Maintenance Projects	272,146
Restricted for Debt Service	19,119
Unrestricted	931,979
TOTAL NET POSITION	<u>\$ 4,831,683</u>

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

CITY OF LIBERTY, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	<u>WATER AND SEWER FUND</u>
OPERATING REVENUES	
Charges for Services:	
Water Fees	\$ 608,179
Sewer Fees	846,256
Miscellaneous	2,585
TOTAL OPERATING REVENUES	<u>1,457,020</u>
OPERATING EXPENSES	
Water Department	114,401
Water Purchases	241,725
Sewer Department	71,550
Sewer Treatment Fees	497,930
Depreciation	149,892
TOTAL OPERATING EXPENSES	<u>1,075,498</u>
OPERATING INCOME	<u>381,522</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Expense	(8,095)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(8,095)</u>
INCOME BEFORE SPECIAL ITEM AND TRANSFERS	373,427
Special Item - Adjustment of Net Pension Liability, Compensated Absences and Related Items	353,985
Transfers Out	(244,376)
CHANGE IN NET POSITION	<u>483,036</u>
NET POSITION, Beginning of Year	<u>4,348,647</u>
NET POSITION, End of Year	<u>\$ 4,831,683</u>

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

CITY OF LIBERTY, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	<u>WATER AND SEWER FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 1,471,146
Cash Payments for Goods and Services	(855,002)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>616,144</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers (to) from Other Funds for Noncapital Purposes	(84,599)
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(84,599)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Debt	(75,229)
Interest Payments on Debt	(8,681)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(83,910)</u>
NET INCREASE (DECREASE) IN RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS	447,635
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, Beginning of Year	<u>31,891</u>
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 479,526</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:	
Operating Income (Loss)	\$ 381,522
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:	
Depreciation Expense	149,892
Change in Balance Sheet Accounts that Impacted Operating Activities:	
Accounts Receivables	11,341
Accounts Payable	70,604
Customer Deposits	2,785
Net Cash Provided by Operating Activities	<u>\$ 616,144</u>

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

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

The City of Liberty ("City") was incorporated in 1876. Section 47-26 of the 1962 Code of Laws, as amended (Home Rule Act), requires that municipalities adopt a specific form of government. The City operates under a Mayor - Council Form of government. The City Council may enact ordinances, levy taxes, adopt a budget and set compensation, in addition to other legislative duties. The Mayor is elected at large and six council members are elected from four wards plus two elected at large to serve four-year staggered terms. The City Council appoints a City Administrator who serves as the chief executive officer of the City and is responsible to the Council for proper administration of all affairs of the City.

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 present the City's financial information with any of its component units, as applicable. 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 and there is a potential that the entity could either provide specific financial benefits to, or to impose specific financial burdens 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. An entity has a financial benefit or burden relationship with the City if, for example, any one of the following conditions exists: (a) the City is legally entitled to or can otherwise access the entity's resources, (b) the City is legally obligated or has otherwise assumed the obligation to finance the deficits or, or provide financial support to, the entity, or (c) the City is obligated in some manner for the debt of the entity. Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the City's financial statements to be misleading.

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 in the fund financial statements. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City. Based on the criteria above, the City does not have any component units.

Major Operations

The City's operations include general and administrative services, public safety (police), public works (streets and sanitation), recreation, water and sewer services.

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 activities of the City (the "Primary Government"). For the most part, the effect of interfund activity has been removed from these financial 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 the 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 financial statements and the governmental fund financial statements.

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. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, hospitality taxes, charges for services, fines and forfeitures, business licenses and permits, franchise fees, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be measurable and susceptible to accrual and so have been recognized as revenues of the current fiscal period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period with the exception of certain reimbursement expenditure grants for which a twelve-month availability period is generally used.

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. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. Proceeds of long-term debt, lease purchase obligations, 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 to aid 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 fund types and major funds are used by the City.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental Fund Types are those through which most governmental functions of the City are financed. The City's expendable financial resources (except for those accounted for in the Proprietary Fund) are accounted for through governmental funds. The governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. The City's governmental funds and its major funds 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 governmental revenues and expenditures of the City, except those required to be accounted for in another fund. 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.

The **Special Revenue Funds, non-major 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, committed or assigned to expenditures for specified purposes other than debt service. None of these funds have a legally adopted budget and any remaining fund balance is generally restricted for the purpose of the specific revenue sources. The City has the following nonmajor special revenue funds:

Hospitality Tax Fund	Police Department Donations Fund
Victims' Assistance Fund	Police Adventure Camp Fund
Drug Seizures Fund	Recreation Scholarships Fund
K-9 Donations Fund (closed during the year ended June 30, 2018)	

Proprietary Fund Types are accounted for based on the economic resources measurement focus and use of 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 has one enterprise fund; it does not have any internal service funds.

A proprietary fund distinguishes 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 enterprise funds are primarily charges for services and fees. Operating expenses for the enterprise fund includes the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting these general definitions are reported as non-operating revenues and expenses. The City's only proprietary fund is as follows:

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 the following Enterprise Fund:

The **Water and Sewer Fund, a major fund** and a budgeted fund, is used to account for the City's water and sewer operations.

Fiduciary Fund Types include trust funds and agency funds. Agency funds are used to account for assets held by an entity on behalf of individuals, other governments, and/or other funds. Trust funds are accounted in essentially the same manner as proprietary funds. The City does not have any fiduciary funds.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Cash, Cash Equivalents, and Investments

The City considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased to be cash equivalents. Securities with an initial maturity of more than three months (from when initially purchased) are reported as investments.

The City's operating cash and investment policy is designed to operate within existing statutes (which are identical for all non-fiduciary funds, fund types and component units within the State of South Carolina). The statutes of the State of South Carolina 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
- (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 its cash and investments at fair value which is normally determined by quoted market prices.

The City currently or in the past year did not have any investments.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. *Restricted Assets*

The City established certain accounts for assets that are restricted for specific purposes, typically by outside parties or legal agreement. The major types of restrictions were those imposed by the revenue source (i.e., hospitality taxes, victims' assistance, drug seizures and bond indentures).

3. *Receivables and Payables*

During the course of its operations, the City has numerous transactions occurring between funds. The accompanying financial statements generally reflect such transactions as transfers in (out). To the extent that certain transactions between funds had not been paid or received as of year-end, balances of interfund amounts or payables have been recorded.

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts (if material). Other receivables are comprised of amounts due from other governments, other entities and individuals for a variety of types of fees, charges and services, including franchise fees, hospitality fees, water, sewer, and other fees and charges.

4. *Prepays and Inventories*

Prepays and inventories are reported under the consumption method as they are recorded as an expenditure at the time individual prepaid or inventory items are consumed. Inventories are valued at cost (first-in, first-out). Prepays and inventories in the governmental funds are offset by a fund balance constraint (nonspendable) to reflect that portion of fund balance does not represent available expendable resources.

5. *Capital Assets*

General capital assets are those assets not specifically related to activities reported in the Water and Sewer Fund. 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 Water and Sewer Fund are reported both in the business-type activities column of the Government-Wide Statement of Net Position and in the fund financial statements.

The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) or groupings of similar items with individual costs is less than \$5,000, but when purchased together the total is greater than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if not purchased or constructed. Donated capital assets are recorded at estimated fair market value (as estimated by the City) at the date of donation. Interest costs related to Water and Sewer construction is capitalized as part of the capitalized value of the asset constructed (if material). Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds.

Capital assets are depreciated on the straight-line method generally using the following estimated useful lives:

Buildings and Improvements	10 - 40 years
Water and Sewer Utility Systems	5 - 40 years
Machinery and Equipment	3 - 20 years
Vehicles	5 - 15 years

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. *Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused vacation leave and sick leave. Unused vacation leave is accumulated in varying amounts based on years and will be paid out upon separation of service in accordance with City policies. Unused sick leave will not be paid out upon separation of service.

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 is reported on the government-wide financial statements. The portion applicable to the water and sewer fund is also recorded in the proprietary fund. The governmental funds will also recognize a liability for compensated absences if they have matured, for example, as a result of employee resignation or retirement prior to fiscal year end (if material).

7. *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 water and sewer fund is also recorded in the proprietary fund financial statements. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method (as it approximates the effective interest method). Debt is reported net of applicable bond premiums and discounts. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses when incurred.

In the governmental fund financial statements, bond premiums, discounts, and bond issuance costs are recognized immediately. The face amount of debt, lease purchases, or capital leases issued is reported as other financing sources. Premiums received on issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

In general, payables and accrued liabilities that will be paid from the governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current financial resources. However, claims and judgments, debt, lease purchases, capital leases, compensated absences, and other related long-term liabilities that will eventually be paid from the governmental funds are not reported as a liability in the fund financial statements until due and payable.

8. *Deferred Outflows/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 one type of deferred outflows of resources. The City reports *deferred pension charges* in its Statements of Net Position in connection with its participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. These *deferred pension charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension 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.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. *Deferred Outflows/Inflows of Resources (Continued)*

The City currently has two types of deferred inflows of resources: (1) The City reports *unavailable revenues* only in the governmental funds Balance Sheet; they are deferred and recognized as inflows of resources (i.e., property tax 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 ("Plans"). These *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.

9. *Fund Balance*

In accordance with GAAP, the City classifies its governmental fund balances as follows:

Nonspendable – includes amounts that inherently cannot be spent either because it is 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.

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. City Council is the only one who has the authority to make assignments of fund balance for the City.

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 that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The City generally uses 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the Statement of Net Position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consist 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 yet been expended 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. The City considers the fees received for major sewer maintenance projects, less expenditures for these projects, as restricted net position as these fees were restricted by City resolution for that purpose. The amount restricted for major sewer maintenance projects was approximately \$272,000 as of June 30, 2018.

11. Pensions

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note IV.B and the required supplementary information immediately following the notes to the financial statements for more information), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The City recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension 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 liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability 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 pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

12. 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, which 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Fair Value (Continued)

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 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.

13. 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 and liabilities and deferred inflows of resources 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGETARY INFORMATION

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

As set forth in the City Charter, the City Council adopts an annual budget for the General Fund and the Water and Sewer Fund. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by that fund. The budget for the Water and Sewer Fund is adopted under a basis consistent with generally accepted accounting principles, except that amortization is not considered. Additionally, cash outlay for debt principal and capital assets funded by operations are budgeted, but treated differently in accordance with generally accepted accounting principles. After joint workshops with the City Council, the City Administrator submits to the City Council a proposed operating budget covering the General Fund and the Water and Sewer Fund for the fiscal year commencing the following July 1. These workshops and hearings are open to the public. The operating budget includes proposed expenditures and the means for financing them. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of an ordinance. Appropriations lapse at the end of each fiscal year.

The Mayor is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund or transfer amounts between departments must be approved by the City Council. The presented budgeted amounts are as originally adopted or as last amended by the City Council. There was one amendment to the budget for the year ended June 30, 2018.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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 deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of June 30, 2018, none of the City's bank balances of approximately \$1,214,000 (with a carrying value of approximately \$1,231,000) were exposed to custodial credit risk.

Investments

As of June 30, 2018, the City did not have any investments.

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 have an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina.

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 an investment policy for credit risk but follows the investment policy statutes of the State of South Carolina.

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.

B. Receivables and Unavailable Revenues

Property Taxes and Unavailable Revenues

Property taxes receivable represent current real and personal property as well as delinquent real and personal property taxes, less an allowance for amounts estimated to be uncollectible (if material). All property taxes receivable at year end, except those collected within 60 days, are recorded as unavailable tax revenue and thus not recognized as revenue until collected in the governmental funds.

Property taxes are assessed and collected by Pickens County (the "County"). The County levies its real property taxes each October based upon assessed valuations on January 1st of each year. Assessed values are established by the County Assessor, the County Auditor, and the South Carolina Department of Revenue and Taxation at various rates of 4 percent to 10.5 percent of the estimated market value. Real property and all personal property taxes other than vehicle property taxes attach as an enforceable lien on property as of January 16th. Taxes are levied and billed in October on all property other than vehicles and are payable without penalty until January 15th of the following year. Penalties are assessed on unpaid taxes on the following dates:

January 16 th	3%
February 2 nd	an additional 7%
March 17 th	an additional 5%

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

B. Receivables and Unavailable Revenues (Continued)

Property Taxes and Unavailable Revenues (Continued)

After proper notification, the law requires "exclusive possession" of property necessary to satisfy the delinquent taxes. Properties with unpaid taxes are sold at a public auction during the month of October. Vehicle property taxes attach a lien and are levied throughout the year depending on when the vehicles' license tags expire. The lien and collection date for motor vehicle taxes is the last day of the month in which the motor vehicle license expires.

The City's fiscal year 2018 real and business personal property taxes (which was for tax year 2017) were levied in October 2017 based on a millage rate of 79.7 mills (79.7 mills in the prior year) and were due beginning on that date. The City's assessed value of real and personal property was approximately \$9.6 million. Amounts collected by the County but not yet remitted to the City at year end are included in Other Receivables in the balance sheet and statement of net position.

The City has recorded uncollected property taxes of approximately \$48,000 at June 30, 2018, which is net of an allowance for uncollectible taxes of approximately \$32,000. The City recognized outstanding delinquent property taxes of approximately \$1,000 as revenue in the current year because the amount was collected within 60 days after year end. The remaining delinquent property tax receivable of approximately \$47,000 has been recorded as unavailable revenue on the governmental funds balance sheet.

Accounts and Other Receivables

The City has the following other receivables as of June 30, 2018: (a) franchise fees and hospitality taxes totaling approximately \$50,000; (b) intergovernmental revenues from the State of South Carolina for local option sales taxes of approximately \$31,000; (c) amounts due from Pickens County for dispatch revenues and property taxes totaling approximately \$30,000; (d) amounts due from the School District of Pickens County for school resource officer fees of approximately \$42,000; (e) amounts due from water and sewer customers of approximately \$182,000; and (f) approximately \$27,000 for other fees and miscellaneous items.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

C. Interfund Receivables, Payables, and Transfers

Interfund balances at June 30, 2018, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
<u>Governmental Funds:</u>		
General Fund	\$ -	\$ 700,000
<u>Enterprise Fund:</u>		
Water and Sewer Fund	700,000	-
Totals	<u>\$ 700,000</u>	<u>\$ 700,000</u>

The outstanding balance between funds result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Amount to be paid between funds are accounted for in the interfund receivable/payable accounts. The amount that the General Fund owes to the Water and Sewer Fund is related to the General fund being unable to pay for all of its operations in prior years, as the City used cash from the Water and Sewer Fund.

This amount will not be repaid within one year and thus is reflected as a Noncurrent Asset on the Water and Sewer Fund's Balance Sheet as of June 30, 2018. The General Fund was able to reduce this balance by approximately \$160,000 during the year ended June 30, 2018. The City anticipates being able to repay this balance over the next several years, as more fully discussed in Note IV.F.

Interfund transfers for the year ended June 30, 2018 consisted of the following:

Fund	Transfers In	Transfers Out
<u>Governmental Funds:</u>		
General Fund	\$ 244,376	\$ -
Police Department Donations Fund	2,675	-
K-9 Donations Fund	-	2,675
<u>Enterprise Fund:</u>		
Water and Sewer Fund	-	244,376
Totals	<u>\$ 247,051</u>	<u>\$ 247,051</u>

The Water and Sewer Fund transferred approximately \$244,000 to the General Fund to cover a portion of the time and costs expended by General Fund employees on behalf of Water and Sewer activities. The K-9 Donations Fund transferred approximately \$3,000 to the Police Department Donations Fund, and the City closed out the K-9 Donations Fund as of June 30, 2018.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

D. Capital Assets

Capital asset activity for the City's governmental activities for the year ended June 30, 2018, was as follows:

	Adjusted Beginning Balance	Increases	Transfers to Other Governments	Ending Balance
Governmental Activities:				
Capital Assets, Non-Depreciable:				
Land	\$ 114,669	-	-	\$ 114,669
Total Capital Assets, Non-Depreciable	114,669	-	-	114,669
Capital Assets, Depreciable:				
Buildings and Improvements	1,448,538	-	-	1,448,538
Infrastructure	1,724,316	-	-	1,724,316
Vehicles, Furniture and Equipment	976,880	14,150	-	991,030
Total Capital Assets, Depreciable	4,149,734	14,150	-	4,163,884
Less: Accumulated Depreciation for:				
Buildings and Improvements	1,066,964	45,777	-	1,112,741
Infrastructure	752,007	75,700	-	827,707
Vehicles, Furniture and Equipment	841,978	71,928	-	913,906
Total Accumulated Depreciation	2,660,949	193,405	-	2,854,354
Total Capital Assets, Depreciable, Net	1,488,785	(179,255)	-	1,309,530
Governmental Activities Capital Assets, Net	\$ 1,603,454	(179,255)	-	\$ 1,424,199

Depreciation expense for governmental activities was charged to functions/programs as follows:

Functions/Programs	Expense
Administration	\$ 34,089
Police	14,776
Public Works	100,946
Recreation	43,594
Total - Governmental Activities	\$ 193,405

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

D. Capital Assets (Continued)

Capital asset activity for the City's business-type activities for the year ended June 30, 2018, was as follows:

	Adjusted Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets, Non-Depreciable:				
Land	\$ 6,414	-	-	\$ 6,414
Total Capital Assets, Non-Depreciable	6,414	-	-	6,414
Capital Assets, Depreciable:				
Vehicles, Furniture and Equipment	383,875	-	-	383,875
Water Infrastructure	2,135,676	-	-	2,135,676
Sewer Infrastructure	4,069,626	-	-	4,069,626
Total Capital Assets, Depreciable	6,589,177	-	-	6,589,177
Less: Accumulated Depreciation for:				
Vehicles, Furniture and Equipment	383,875	-	-	383,875
Water Infrastructure	691,961	56,742	-	748,703
Sewer Infrastructure	1,595,143	93,150	-	1,688,293
Total Accumulated Depreciation	2,670,979	149,892	-	2,820,871
Total Capital Assets, Depreciable, Net	3,918,198	(149,892)	-	3,768,306
Business-Type Activities Capital Assets, Net	\$ 3,924,612	(149,892)	-	\$ 3,774,720

Depreciation expense for business-type activities was charged to functions as follows:

Functions/Programs	Expense
Water	\$ 56,742
Sewer	93,150
Total - Business-Type Activities	\$ 149,892

E. Long-Term Obligations

The City may issue bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds ("GOB") are direct obligations and pledge the full faith and credit of the City and are subject to the 8% debt limit requirement if not issued under a bond referendum. Revenue Bonds ("RB") are obligations of the City that are secured by revenue from a specific source. Lease Purchase ("LP") obligations of the City are generally collateralized by the property underlying the obligation and are payable from the general revenues of the City. The full faith, credit, and taxing powers of the City are not pledged for the payment of RB and LP obligations nor the interest thereon.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

E. Long-Term Obligations (Continued)

Details on the City's outstanding debt obligations as of June 30, 2018 are as follows:

Balance at
June 30, 2018

Bonds

\$362,500 Water System Improvement Revenue Bonds, Series 1983. Proceeds from the Bonds were used to fund water system improvements. Bonds are due in annual installments of \$21,305, which includes interest at 5% through maturity in November 2023. Revenues from the water system are pledged to repay this indebtedness. \$ 106,281

\$180,000 General Obligation Bond, Series 2016. Proceeds from the Bonds were used to fund sewer system improvements. Bonds are due in annual installments of \$60,000 plus interest at 2.17% through maturity in June 2019. 60,000

Lease Purchases

The City has entered into two lease purchases with local banks to finance the acquisition of vehicles for its police and public works. Total amounts financed were \$172,787. The interest rates on these agreements are 1.50% and 2.04%, with annual payments (including interest) totaling \$24,006. These agreements mature in 2019 and 2022. 81,870

Presented below is a summary of changes in long-term obligations for the City for the year ended June 30, 2018:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Lease Purchases	\$ 125,481	-	43,611	81,870	\$ 22,391
Compensated Absences	55,708	57,218	42,592	70,334	53,774
Total Governmental Activities	<u>\$ 181,189</u>	<u>57,218</u>	<u>86,203</u>	<u>152,204</u>	<u>\$ 76,165</u>
Business-Type Activities:					
Bonded Indebtedness:					
Series 1983 Water System Bonds	\$ 121,510	-	15,229	106,281	\$ 15,991
Series 2016 General Obligation Bonds	120,000	-	60,000	60,000	60,000
Total Bonded Indebtedness	241,510	-	75,229	166,281	75,991
Compensated Absences	11,867	-	11,867	-	-
Total Business-Type Activities	<u>\$ 253,377</u>	<u>-</u>	<u>87,096</u>	<u>166,281</u>	<u>\$ 75,991</u>

Resources from the General Fund have been used to liquidate the City's governmental activities long-term obligations. Resources from the Water and Sewer Fund have been used to liquidate the City's business-type activities long-term obligations.

CITY OF LIBERTY, SOUTH CAROLINA**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)****E. Long-Term Obligations (Continued)**

Presented below is a summary of debt service requirements to maturity by year as of June 30, 2018:

Year Ended June 30,	Govenmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2019	\$ 22,391	1,615	75,991	6,616	\$ 106,613
2020	19,427	1,213	16,791	4,514	41,945
2021	19,824	817	17,630	3,675	41,946
2022	20,228	413	18,511	2,793	41,945
2023	-	-	19,437	1,868	21,305
2024	-	-	17,921	3,384	21,305
Totals	\$ 81,870	4,058	166,281	22,850	\$ 275,059

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or Town 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 Town 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, 2018, the City had \$60,000 in bonded debt subject to the 8% limit resulting in an unused legal debt margin of approximately \$706,000.

IV. OTHER INFORMATION**A. Risk Management**

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. For all of these risks, the City is a member of the South Carolina Municipal Insurance Reserve Fund ("SCMIRF"), a public entity risk pool operating as a common risk management and insurance program for local governments for general risk. The City pays premiums to SCMIRF for this coverage. SCMIRF's net position from its most recently issued audited financial statements at December 31, 2018, totaled approximately \$12,207,000. The City did not have any significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

The City has also joined together with other municipalities in the state to form the South Carolina Municipal Insurance Trust ("SCMIT"), a public entity risk pool operating as a common risk management and insurance program for workers' compensation. The City pays premiums to SCMIT for this coverage. The Trust uses reinsurance agreements to reduce its exposure to large workers' compensation losses. SCMIT's net position from its most recently issued audited financial statements at December 31, 2016, totaled approximately \$55,464,000. The City did not have any significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

The City provides a health insurance program for its eligible employees. The City pays a monthly premium to the insurer for its health coverage (insured plan) with the insurer being responsible for claims. The City does not provide any health insurance or other postemployment benefits to its retirees.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

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"), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors ("PEBA Board"), appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission ("RSIC") as co-trustees of the Retirement Trust Funds.

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.

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 firemen of the state and its political subdivisions.

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.

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Membership (Continued)

- 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.

- 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.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the percentage rate in the SCRS and PORS (“Plans”) employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the PEBA Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the PEBA Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the PEBA Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; this increase is not limited to one-half of one percent per year.

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 ninety 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 ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS and PORS employer and employee contribution rates respectively. 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 ninety 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 90 percent.

The Retirement System Funding and Administration Act of 2017 increases employer contribution rates to 13.56 percent for the SCRS and 16.24 percent for the PORS, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and increases and 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 schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

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 as follows:

	SCRS Rates			PORS Rates		
	2016	2017	2018	2016	2017	2018
Employer Contribution Rate: [^]						
Retirement	10.91%	11.41%	13.41%	13.34%	13.84%	15.84%
Incidental Death Benefit	0.15%	0.15%	15.00%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.20%	0.20%	0.20%
	<u>11.06%</u>	<u>11.56%</u>	<u>28.41%</u>	<u>13.74%</u>	<u>14.24%</u>	<u>16.24%</u>
Employee Rate	<u>8.16%</u>	<u>8.66%</u>	<u>9.00%</u>	<u>8.74%</u>	<u>9.24%</u>	<u>9.75%</u>

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

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Contributions (Continued)

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

Year Ended June 30,	SCRS Contributions		PORS Contributions	
	Required	% Contributed	Required	% Contributed
2018	\$ 76,610	100%	\$ 78,476	100%
2017	64,456	100%	118,225	100%
2016	\$ 54,376	100%	\$ 128,784	100%

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

Year Ended June 30,	SCRS Payroll	PORS Payroll	Total Payroll
2018	\$ 564,971	483,227	\$ 1,048,198
2017	557,581	830,234	1,387,815
2016	\$ 491,645	937,292	\$ 1,428,937

Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015.

The June 30, 2017, total pension liability, net pension liability, and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017 and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2015, valuations 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%.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Actuarial Assumptions and Methods (Continued)

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2015 valuations for the SCRS and PORS are as follows:

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 and	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

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 represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Long-term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.07%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Commodities	1.0%	6.26%	0.06%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Fund (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	100.0%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

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

The net pension liability (“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 June 30, 2017, 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	\$ 48,244,437,494	25,732,829,268	\$ 22,511,608,226	53.3%
PORS	\$ 7,013,684,001	4,274,123,178	\$ 2,739,560,823	60.9%

The total pension liability is calculated by the Systems’ actuary, and each Plan’s fiduciary net position is reported in the Systems’ financial statements. The net pension liability 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.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

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

At June 30, 2018, the City reported liabilities of approximately \$1,244,000 and \$1,850,000 for its proportionate share of the net pension liabilities for the SCRS and PORS (“Plans”), respectively. The net pension liabilities were measured as of June 30, 2017, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report as of July 1, 2016 that was projected forward to the measurement date. The City’s proportion of the net pension liabilities were based on a projection of the City’s long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2017 measurement date, the City’s SCRS proportion was .005526 percent, which was an increase of 0.000816 from its proportion measured as of June 30, 2016. At the June 30, 2017 measurement date, the City’s PORS proportion was .06753 percent, which was a decrease of 0.00912 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of approximately \$162,000 and \$246,000 for the SCRS and PORS, respectively. At June 30, 2017, 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:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	\$ 5,546	\$ 690
Changes in Assumptions	72,822	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	34,726	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	161,292	83,131
City Contributions Subsequent to the Measurement Date	76,610	-
Total SCRS	<u>350,996</u>	<u>83,821</u>
PORS		
Differences Between Expected and Actual Experience	16,497	-
Changes in Assumptions	175,587	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	65,925	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	152,985	157,480
City Contributions Subsequent to the Measurement Date	78,476	-
Total PORS	<u>489,470</u>	<u>157,480</u>
Total SCRS and PORS	<u>\$ 840,466</u>	<u>\$ 241,301</u>

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

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

Approximately \$77,000 and \$78,000 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 net pension liabilities in the year ended June 30, 2017. 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
2019	\$ 69,727	93,328	\$ 163,055
2020	58,042	120,045	178,087
2021	69,579	59,515	129,094
2022	(6,780)	(19,374)	(26,154)
Total	<u>\$ 190,565</u>	<u>253,514</u>	<u>\$ 444,082</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, 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 total pension liability.

The following table presents the sensitivity of the City's proportionate share of the net pension liability of the Plans to changes in the discount rate, calculated using the discount rate of 7.25 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	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
The City's proportionate share of the net pension liability of the SCRS	\$ 1,603,334	1,243,991	\$ 1,025,955
The City's proportionate share of the net pension liability of the PORS	2,497,923	1,850,053	1,339,734
Total Pension Liability	<u>\$ 4,101,257</u>	<u>3,094,044</u>	<u>\$ 2,365,689</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.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Payable to Plans

The City reported payables of approximately \$18,000 to the PEBA as of June 30, 2018, representing required employer and employee contributions for the month of June 2018 for the SCRS and PORS. These amounts are included in Accounts Payable on the financial statements and were paid in July 2018.

Significant Change Since the Measurement Date

As discussed above, the Plans' measurement date is June 30, 2017. Subsequent to this date, the City executed an agreement with Pickens County, transferring all of its firefighting activities and operations within the City, including its vehicles, equipment and employees, to Pickens County. As a result of this agreement, the City's PORS payroll and contributions were significantly lower in the year ended June 30, 2018. The results of this agreement are also expected to have a favorable material impact on the City's net pension liability and related deferred inflows / outflows of resources. However, the PEBA will not recognize the impact of this change until its measurement date of June 30, 2018. Accordingly, the City will not recognize the impact of this change on its net pension liability and related deferred inflows / outflows of resources until its fiscal year ended June 30, 2019, due to the one year time lag between the PEBA's measurement date and the City's fiscal year end date, as required by GASB 68. The net impact of this change cannot be determined by the City at this time.

Special Item

During the year ended June 30, 2018, management decided to move all employees that were formerly being accounted for in the Water and Sewer Enterprise Fund to the Public Works function in the General Fund, effective July 1, 2017. The General Fund began charging the Enterprise Fund for the portion of the time and costs expended by certain employees on behalf of Water and Sewer activities, accounting for this charge as an interfund transfer. This decision had no net impact on City operations or cash flows. Accordingly, as there are no more employees for the Enterprise Fund, the City no longer is required to report any net pension liabilities and related deferred outflows or inflows of resources for the Enterprise Fund. The net balance of approximately \$354,000 as of June 30, 2017, plus approximately \$11,000 for compensated absences, was adjusted in 2018 and is reflected on the Statement of Revenues, Expenses and Changes in Net Position as a special item. As of June 30, 2018, all net pension liabilities and related deferred outflows / inflows of resources and pension expenses for the City are now reported as governmental activities in the government-wide financial statements.

C. Contingent Liabilities and Commitments

Litigation

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.

Grants

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, 2018.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

C. Contingent Liabilities and Commitments (Continued)

Water and Wastewater Agreements

The City entered into an agreement with Pickens County Water Authority (the “Authority”) in 2006 to purchase water at a base rate of \$3,000 per month plus the cost of water that is purchased from the Greenville Water System. The agreement with the Authority extends through the maturity of the Authority’s Waterworks System Revenue Bonds, Series 1999, which was refinanced in 2013 and matures in 2023. The City incurred a total of approximately \$242,000 for water purchase charges in the year ended June 30, 2018.

The City, along with the Town of Central, South Carolina, entered into a wastewater treatment agreement with Pickens County in 2005, whereas Pickens County will perform all wastewater treatment services for both the City and the Town of Central’s sewer customers. Each participant is required to pay its respective Operations and Maintenance Charges and Capital Charges on a monthly basis throughout the life of the agreement. These charges are defined and established in the agreement. The agreement shall extend for as long as the system is capable of providing to the participants their reserved capacities, as defined in the agreement. The City incurred a total of approximately \$333,000 for these services and charges in the year ended June 30, 2018.

D. Concentrations of Credit Risk

The Water and Sewer Fund grants credit to customers in Liberty, South Carolina. Accounts receivable are financial instruments that potentially subject the City to credit risk. The City generally only requires security deposits for its water and sewer customers who are renting their facilities. The City generally terminates services for accounts unpaid after 30 days for its water and sewer customers.

E. Segment Information

As previously noted, the City’s water and sewer operations are accounted for and reported in the City’s Enterprise Fund. The Water Department operates the City’s water supply system, and the Sewer Department operates the City’s sewage system.

GASB Statement No. 34, “*Basic Financial Statement - and Management’s Discussion and Analysis - for State and Local Governments*”, requires governments to present segment information if (1) a segment is identifiable, (2) if it has revenue-supported debt outstanding, and (3) is subject to an externally imposed requirement to maintain separate accounts. Under the terms of its Water System Improvement Revenue Bonds, Series 1983, the City’s water revenues are pledged to repay this indebtedness. See Note III.E for more details on this indebtedness.

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

E. Segment Information (Continued)

Accordingly, condensed segment information for the City's water and sewer operations as of and for the year ended June 30, 2018 are presented below:

Condensed Statement of Net Position

	Water Department	Sewer Department	Total
Assets			
Current Assets	\$ 327,468	333,877	\$ 661,345
Noncurrent Assets	1,740,651	2,734,069	4,474,720
Total Assets	2,068,119	3,067,946	5,136,065
Liabilities			
Current Liabilities	90,307	123,785	214,092
Noncurrent Liabilities	90,290	-	90,290
Total Liabilities	180,597	123,785	304,382
Net Position			
Net Investment in Capital Assets	1,284,370	2,324,069	3,608,439
Restricted	-	291,265	291,265
Unrestricted	603,152	328,827	931,979
Total Net Position	\$ 1,887,522	\$ 2,944,161	\$ 4,831,683

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

E. Segment Information (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Water Department	Sewer Department	Total
Operating Revenues			
Water Fees	\$ 608,179	-	\$ 608,179
Sewer Fees	-	846,256	846,256
Miscellaneous	1,293	1,292	2,585
Total Operating Revenues	609,472	847,548	1,457,020
Operating Expenses			
Other Operating Expenses	356,125	569,481	925,606
Depreciation	56,742	93,150	149,892
Total Operating Expenses	412,867	662,631	1,075,498
Operating Income (Loss)	196,605	184,917	381,522
Nonoperating Revenues (Expenses)			
Interest Expense	(5,599)	(2,496)	(8,095)
Total Nonoperating Revenues (Expenses)	(5,599)	(2,496)	(8,095)
Income (Loss) before Special Item and Transfers	191,006	182,421	373,427
Special Item - Adjustment of Net Pension Liability, Compensated Absences and Related Items	159,238	194,747	353,985
Transfers Out	(122,188)	(122,188)	(244,376)
Changes in Net Position	228,056	254,980	483,036
Net Position, Beginning of Year	1,659,466	2,689,181	4,348,647
Net Position, End of Year	\$ 1,887,522	2,944,161	\$ 4,831,683

CITY OF LIBERTY, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

E. Segment Information (Continued)

Condensed Statement of Cash Flows

	Water Department	Sewer Department	Total
Net Cash Provided by Operating Activities	\$ 295,712	320,432	\$ 616,144
Net Cash Provided By (Used In) Non-Capital Financing Activities	(66,064)	(18,535)	(84,599)
Net Cash (Used In) Capital and Related Financing Activities	(21,305)	(62,605)	(83,910)
Net Increase in Restricted and Unrestricted Cash and Cash Equivalents	<u>208,343</u>	<u>239,292</u>	<u>447,635</u>
Restricted and Unrestricted Cash and Cash Equivalents, Beginning of Year	20,396	11,495	31,891
Restricted and Unrestricted Cash and Cash Equivalents, End of Year	<u><u>\$ 228,739</u></u>	<u><u>250,787</u></u>	<u><u>\$ 479,526</u></u>

F. Deficit Fund Balance for the General Fund

The General Fund has a fund balance deficit of approximately \$65,000 as of June 30, 2018, which is a decrease in the deficit (an increase in fund balance) of approximately \$195,000 for the year ended June 30, 2018. This is a reversal from the negative trend in the previous years, as the City experienced decreases of approximately \$50,000 and \$194,000 for the years ended June 30, 2017 and 2016, respectively. The General Fund is reporting approximately \$547,000 in unrestricted cash as of June 30, 2018, which was an increase of approximately \$35,000 from the prior year. However, the General Fund still owes the Water and Sewer Fund \$700,000, which is a decrease of approximately \$160,000 from the prior year.

The City appears to have adequate net assets and total cash on hand to fund operations for at least the next twelve months if the City continues similar practices as they have for the year ended June 30, 2018. In addition, the City has budgeted a fund balance increase of approximately \$116,000 for fiscal 2019.

The City's plans to continue to improve its financial condition include the following:

- (1) As part of its fiscal 2019 General Fund budget, the City has allocated approximately \$116,000 to cover the deficit as of June 30, 2018. The General Fund is projected to have a positive balance at June 30, 2019.
- (2) At the end of fiscal 2019, the City anticipates being in a position to reduce the General Fund payable to the Water and Sewer Fund by \$100,000. Going forward, the General Fund will make annual payments to the Water and Sewer Fund until the outstanding payable has been repaid in full.

CITY OF LIBERTY, 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, 2018

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH REVISED BUDGET
	ORIGINAL	REVISED		
REVENUES				
Taxes	\$ 722,000	722,000	647,032	\$ (74,968)
Licenses and Permits	348,350	348,350	404,256	55,906
Franchise Fees	291,500	291,500	267,657	(23,843)
Fines and Forfeitures	185,000	185,000	95,961	(89,039)
Charges for Services	363,010	363,010	394,500	31,490
Shared Revenues	141,500	141,500	144,056	2,556
Miscellaneous	13,500	13,500	30,250	16,750
TOTAL REVENUES	2,064,860	2,064,860	1,983,712	(81,148)
EXPENDITURES				
Current:				
General Government	472,486	492,486	418,234	74,252
Police	834,429	834,429	856,386	(21,957)
Public Works	229,182	468,686	471,674	(2,988)
Recreation	272,269	272,269	240,874	31,395
Debt Service				
Principal	43,785	43,785	43,609	176
Interest and Other Charges	2,329	2,329	2,329	-
TOTAL EXPENDITURES	1,854,480	2,113,984	2,033,106	80,878
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	210,380	(49,124)	(49,394)	(270)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	259,504	244,376	(15,128)
TOTAL OTHER FINANCING SOURCES (USES)	-	259,504	244,376	(15,128)
CHANGES IN FUND BALANCE	210,380	210,380	194,982	(15,398)
FUND BALANCE, Beginning of Year	(259,604)	(259,604)	(259,604)	-
FUND BALANCE, End of Year	\$ (49,224)	(49,224)	(64,622)	\$ (15,398)

Note: The budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

CITY OF LIBERTY, SOUTH CAROLINA**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SOUTH CAROLINA RETIREMENT SYSTEM****LAST FOUR FISCAL YEARS**

Note - Only four years of data were available; thus, only four years were presented.

	Year Ended June 30,			
	2018	2017	2016	2015
City's Proportion of the Net Pension Liability (Asset)	0.552600%	0.004710%	0.005582%	0.004752%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 1,243,991	1,006,049	1,058,653	\$ 818,137
City's Covered Payroll	\$ 557,581	491,645	522,945	\$ 431,424
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	223.10%	204.63%	202.44%	189.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	53.34%	52.91%	56.99%	59.92%

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 2015 is not available.

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

CITY OF LIBERTY, SOUTH CAROLINA**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF THE CITY'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM****LAST FOUR FISCAL YEARS**

	Year Ended June 30,			
	2018	2017	2016	2015
Contractually Required Contribution	\$ 76,610	64,456	54,376	\$ 57,001
Contributions in Relation to the Contractually Required Contribution:	76,610	64,456	54,376	57,001
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
City's Covered Payroll	\$ 564,971	557,581	491,645	\$ 522,945
Contributions as a Percentage of Covered Payroll:	13.56%	11.56%	11.06%	10.90%

Notes to Schedule:

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

The contractually required contribution rate was increased from 11.56% to 13.56% of eligible payroll for the year ended June 30, 2018.

CITY OF LIBERTY, SOUTH CAROLINA**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
POLICE OFFICERS RETIREMENT SYSTEM****LAST FOUR FISCAL YEARS**

Note - Only four years of data were available; thus, only four years were presented.

	Year Ended June 30,			
	2018	2017	2016	2015
City's Proportion of the Net Pension Liability (Asset)	0.06753%	0.07665%	0.06603%	0.06284%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 1,850,053	1,944,208	1,439,209	\$ 1,202,930
City's Covered Payroll	\$ 830,234	937,292	808,213	\$ 755,749
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	222.84%	207.43%	178.07%	159.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.94%	60.44%	64.57%	67.55%

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 2015 is not available.

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

CITY OF LIBERTY, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	Year Ended June 30,			
	2018	2017	2016	2015
Contractually Required Contribution	\$ 78,476	118,225	128,784	\$ 109,249
Contributions in Relation to the Contractually Required Contribution:	78,476	118,225	128,784	109,249
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
City's Covered Payroll	\$ 483,227	830,234	937,292	\$ 800,744
Contributions as a Percentage of Covered Payroll:	16.24%	14.24%	13.74%	13.64%

Notes to Schedule:

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

The contractually required contribution rate was increased from 14.24% to 16.24% of eligible payroll for the year ended June 30, 2018.

CITY OF LIBERTY, SOUTH CAROLINA

SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
REVISED BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2018

	REVISED BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes:			
Property Taxes	\$ 355,000	276,600	\$ (78,400)
Local Option Sales Tax	367,000	370,432	3,432
Total Taxes	<u>722,000</u>	<u>647,032</u>	<u>(74,968)</u>
Licenses and Permits:			
Business Licenses	93,250	105,715	12,465
MASC Insurance Business Licenses	247,000	290,289	43,289
Building and Other Permits	8,100	8,252	152
Total Licenses and Permits	<u>348,350</u>	<u>404,256</u>	<u>55,906</u>
Charges for Services:			
Sanitation Fees	150,500	166,593	16,093
Recreation Department	52,200	51,280	(920)
School Resource Officer	109,750	124,377	14,627
Pickens Dispatch	40,000	41,250	1,250
Cell Tower Rent	10,560	11,000	440
Total Charges for Services	<u>363,010</u>	<u>394,500</u>	<u>31,490</u>
Franchise Fees:			
Electricity	205,000	203,822	(1,178)
Fort Hill Natural Gas	73,000	53,294	(19,706)
Northland	13,500	10,541	(2,959)
Total Franchise Fees	<u>291,500</u>	<u>267,657</u>	<u>(23,843)</u>
Fines and Forfeitures:			
Court Fines	185,000	95,961	(89,039)
Total Fines and Forfeitures	<u>185,000</u>	<u>95,961</u>	<u>(89,039)</u>
Shared Revenues:			
Homestead Exemption	50,500	51,407	907
Manufacturer's Tax Exemption	8,500	6,351	(2,149)
Aid to Subdivisions	72,000	73,835	1,835
Merchant Inventory	6,500	6,648	148
Housing Authority in Lieu of Taxes	4,000	5,815	1,815
Total Shared Revenues	<u>\$ 141,500</u>	<u>144,056</u>	<u>\$ 2,556</u>

(Continued)

CITY OF LIBERTY, SOUTH CAROLINA

SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
REVISED BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2018

	REVISED BUDGET	ACTUAL	VARIANCE
Miscellaneous:			
Miscellaneous	13,500	30,250	16,750
Total Miscellaneous	13,500	30,250	16,750
TOTAL REVENUES	2,064,860	1,983,712	(81,148)
EXPENDITURES			
General Government:			
Salaries	121,140	118,666	2,474
Employee Benefits	111,896	36,039	75,857
Operating Expenditures	259,450	263,529	(4,079)
	492,486	418,234	74,252
Police:			
Salaries	598,498	583,028	15,470
Employee Benefits	140,331	178,640	(38,309)
Operating Expenditures	95,600	94,718	882
	834,429	856,386	(21,957)
Public Works:			
Salaries	276,244	258,932	17,312
Employee Benefits	64,842	91,590	(26,748)
Operating Expenditures	127,600	121,152	6,448
	468,686	471,674	(2,988)
Recreation:			
Salaries	124,741	101,950	22,791
Employee Benefits	29,758	40,716	(10,958)
Operating Expenditures	117,770	98,208	19,562
	\$ 272,269	240,874	\$ 31,395
Debt Service:			
Principal	\$ 43,785	43,609	\$ 176
Interest and Other Charges	2,329	2,329	-
	46,114	45,938	176
TOTAL EXPENDITURES	2,113,984	2,033,106	80,878
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(49,124)	(49,394)	(270)

(Continued)

CITY OF LIBERTY, SOUTH CAROLINA

SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
REVISED BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2018

	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	259,504	244,376	(15,128)
TOTAL OTHER FINANCING SOURCES (USES)	<u>259,504</u>	<u>244,376</u>	<u>(15,128)</u>
CHANGES IN FUND BALANCE	210,380	194,982	(15,398)
FUND BALANCE, Beginning of Year	<u>(259,604)</u>	<u>(259,604)</u>	<u>-</u>
FUND BALANCE, End of Year	<u><u>\$ (49,224)</u></u>	<u><u>(64,622)</u></u>	<u><u>\$ (15,398)</u></u>

CITY OF LIBERTY, SOUTH CAROLINA

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2018

	HOSPITALITY TAX FUND	VICTIMS' ASSISTANCE FUND	DRUG SEIZURES FUND
ASSETS			
Restricted Cash and Cash Equivalents	\$ 155,034	30,474	8,071
Receivables	8,303	-	3,418
TOTAL ASSETS	163,337	30,474	11,489
LIABILITIES			
Accounts Payable	98	93	5,252
TOTAL LIABILITIES	98	93	5,252
FUND BALANCES			
Restricted:			
Recreation and Tourism	163,239	-	-
Victims' Assistance	-	30,381	-
Local Law Enforcement	-	-	6,237
TOTAL FUND BALANCES	163,239	30,381	6,237
TOTAL LIABILITIES AND FUND BALANCES	\$ 163,337	30,474	11,489

K-9 DONATIONS FUND	POLICE DEPARTMENT DONATIONS FUND	POLICE ADVENTURE CAMP FUND	RECREATION SCHOLARSHIPS FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
-	3,848	3,235	3,501	\$ 204,163
-	-	-	-	11,721
-	3,848	3,235	3,501	215,884
-	-	-	-	5,443
-	-	-	-	5,443
-	-	-	3,501	166,740
-	-	-	-	30,381
-	3,848	3,235	-	13,320
-	3,848	3,235	3,501	210,441
-	3,848	3,235	3,501	\$ 215,884

CITY OF LIBERTY, SOUTH CAROLINA

SUPPLEMENTARY INFORMATION

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR SPECIAL REVENUE FUNDS**

YEAR ENDED JUNE 30, 2018

	HOSPITALITY TAX FUND	VICTIMS' ASSISTANCE FUND	DRUG SEIZURES FUND
REVENUES			
Taxes:			
Hospitality Taxes	\$ 95,960	-	-
Fines and Forfeitures	-	12,631	3,918
Donations	-	-	-
TOTAL REVENUES	95,960	12,631	3,918
EXPENDITURES			
Current:			
General Government	53,478	-	-
Police	-	14,480	9,040
Recreation	-	-	-
TOTAL EXPENDITURES	53,478	14,480	9,040
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	42,482	(1,849)	(5,122)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
CHANGES IN FUND BALANCES	42,482	(1,849)	(5,122)
FUND BALANCES, Beginning of Year	120,757	32,230	11,359
FUND BALANCES, End of Year	\$ 163,239	30,381	6,237

K-9 DONATIONS FUND	POLICE DEPARTMENT DONATIONS FUND	POLICE ADVENTURE CAMP FUND	RECREATION SCHOLARSHIPS FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
-	-	-	-	\$ 95,960
-	-	-	-	16,549
-	1,000	49	2,769	3,818
-	1,000	49	2,769	116,327
-	-	-	-	53,478
246	-	-	-	23,766
-	-	-	515	515
246	-	-	515	77,759
(246)	1,000	49	2,254	38,568
-	2,675	-	-	2,675
(2,675)	-	-	-	(2,675)
(2,675)	2,675	-	-	-
(2,921)	3,675	49	2,254	38,568
2,921	173	3,186	1,247	171,873
-	3,848	3,235	3,501	\$ 210,441

CITY OF LIBERTY, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2018

FOR THE STATE TREASURER'S OFFICE:

COUNTY / MUNICIPAL FUNDS COLLECTED BY CLERK OF COURT	General Sessions	Magistrate Court	Municipal Court	Total
Court Fines and Assessments:				
Court fines and assessments collected			208,875	208,875
Court fines and assessments remitted to State Treasurer			(100,171)	(100,171)
Total Court Fines and Assessments retained			108,704	108,704
Surcharges and Assessments retained for victim services:				
Surcharges collected and retained			3,959	3,959
Assessments retained			8,672	8,672
Total Surcharges and Assessments retained for victim services			12,631	12,631

FOR THE DEPARTMENT OF CRIME VICTIM COMPENSATION (DCVC)

VICTIM SERVICE FUNDS COLLECTED	Municipal	County	Total
Carryforward from Previous Year – Beginning Balance	32,230		32,230
Victim Service Revenue:			
Victim Service Fines Retained by City/County Treasurer			
Victim Service Assessments Retained by City/County Treasurer	8,672		8,672
Victim Service Surcharges Retained by City/County Treasurer	3,959		3,959
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)	44,861		44,861
Expenditures for Victim Service Program:	Municipal	County	Total
Salaries and Benefits	5,000		5,000
Operating Expenditures	9,480		9,480
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:			
Transferred to General Fund			
Total Expenditures from Victim Service Fund/Program (B)	14,480		14,480
Total Victim Service Funds Retained by Municipal/County Treasurer (A-B)	30,381		30,381
Less: Prior Year Fund Deficit Repayment			
Carryforward Funds – End of Year	30,381		30,381



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 Liberty
Liberty, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, South Carolina (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as 2018-001 that we consider to be a material weakness.

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*.

City's Response 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.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
October 15, 2018

CITY OF LIBERTY, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2018

2018-001: ANALYSIS OF WATER PURCHASED VS. WATER LOST / CONSUMED / BILLED TO CUSTOMERS

Condition and Context: We noted a large discrepancy between the gallons of water the City purchased from Pickens County Water Authority and the gallons of water the City billed its customers; this difference is approximately 37% for the year ended June 20, 2018. We would expect a small amount of water to be lost due to leakage; however, this shortfall is excessive. This difference may be caused by very old pipes and meters, which have not been replaced or upgraded on a systematic basis, but there could be other causes of which we are not aware. We noted this same condition in our audit for the year ended June 30, 2017.

Criteria: The City should be monitoring this area in order to ensure that they are appropriately billing its customers for all of the water the City is purchasing.

Cause: The City has looked into this condition, but they have not been able to accurately determine or quantify the causes. The City also does not have the resources to perform the necessary repairs and upgrades to the system.

Effect: The City may be losing water to leaks in its water pipes and may also be underbilling its customers for the gallons of water its customers are using due to old meters, and thus not appropriately financing its water operations.

Recommendation: We recommend that the City continue to investigate the difference between the gallons purchased and gallons billed in order to determine whether they are billing all customers appropriately for water usage. If there are significant leaks in the water lines, they should be investigated and reviewed for possible repair and rehabilitation.

Response: The City will continue looking into this issue to determine where such losses may be occurring.