

TOWN OF ESTILL, SOUTH CAROLINA

GOVERNMENT-WIDE FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2019

WITH
INDEPENDENT AUDITORS' REPORT

TOWN OF ESTILL, SOUTH CAROLINA

GOVERNMENT-WIDE FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	4
Financial Section – Basic Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
Statement of General Fund Revenues, Expenditures and Changes in General Fund Net Position - Budget to Actual	18
Statement of Net Position - Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Net Position of Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23
Notes to Financial Statements	25
Required Supplementary Information	
Schedule of Proportionate Share of the South Carolina Retirement Systems Net Pension Liabilities	47
Schedule of South Carolina Retirement Systems Contributions	48
Other Financial Information	
Schedule of Revenues, Expenses and Changes in Proprietary Funds Net Position – Budget to Actual	49
Schedule of Court Fines, Fees, Assessments, and Surcharges	50

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of Town Council
Town of Estill, South Carolina
Post Office Box 415
Estill, SC 29918

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Estill, South Carolina (the "Town"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town'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.

Auditors' 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. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Schedule of Revenues, Expenses and Changes in Proprietary Fund Net Position – Budget to Actual and the Schedule of Court Fines, Assessments, and Surcharges on pages 49 and 50 is other financial information and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Court Fines is the responsibility of management and were 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 Schedule of Court Fines is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Revenues, Expenses, and Changes in Proprietary Funds Net Position – Budget to Actual has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The Brittingham Group LLP

West Columbia, South Carolina
October 16, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Town Administrator of the Town of Estill submits to the readers of the Town's financial statements the overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2019.

FINANCIAL HIGHLIGHTS

The combined Governmental Activities and Business Type Activities assets of the Town of Estill exceeded its combined liabilities at the end of the fiscal year by \$8,846,347 (net position). The combined Governmental Activities and Business Type Activities revenues and other financial sources totaled \$3,929,173 and combined expenses totaled \$3,435,867. Accordingly, combined revenues exceeded expenses by \$493,306.

At the end of fiscal year 2019, the governmental funds restricted fund balance was \$46,105, the assigned fund balance was \$18,774 and the unassigned fund balance was \$644,297. Accordingly, \$644,297 was available for spending at the government's discretion from the unassigned fund balance. The total fund balance was \$663,280 for the General Fund, the Town's principal operating fund.

The Town of Estill Business Type Activities reported an increase in net position at the end of the fiscal year in the amount of \$465,785.

At the end of fiscal year 2019, the Town of Estill Business Type Activity reported unrestricted cash and cash equivalents of \$490,976 and restricted cash and cash equivalents of \$360,034.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as primer on the Town's basic financial statements. The Town's basic financial statements have three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with an overview of the Town of Estill finances, in a manner similar to businesses in the private sector business.

The Statement of Net Position presents information on all of the Town of Estill assets and liabilities, with the difference reported as net position. Over time, increases and decreases in the net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information detailing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years. (e.g. uncollected taxes and earned but unused compensated absences). A compensated absence is a work absence in which the employee will be paid. (e.g. sick leave, vacation leave and holiday leave).

The basic proprietary funds financial statements can be found on pages 20 - 24 of this report.

Notes to the financial statements. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are listed on pages 25 - 46 of this document.

Other information. In addition to the basic financial statements and accompanying notes, these reports also represent certain other financial information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The fiscal year 2019 financial statements are the 11th consecutive financials issued in compliance with Governmental Accounting Standards Board (GASB) Statement 34, and a continuance of this new era of financial reporting. Prior to the adoption of GASB 34, the Town was required to report fund and account groups separately, with no meaningful consolidated statements to accurately reflect the operation and net position of the Town as an entity. Under the GASB 34 model for fiscal year 2019, the government-wide statements are reported using an economic resource measurement focus and the accrual basis of accounting, as opposed to the cash basis of accounting. The accrual basis of accounting recognizes revenue before cash is received and recognizes expenses before cash is paid. The cash basis of accounting recognizes revenue as cash when it is received and recognizes expenses when cash is paid.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town of Estill assets exceeded liabilities by \$8,846,347 at the close of fiscal year 2019. Net position is reported in three categories:

Net investment in capital assets	\$ 8,715,962
Restricted	406,139
Unrestricted	(275,754)
	<u>\$ 8,846,347</u>

The largest portion of the Town's net position reflects its investment in capital assets (e.g. land, building, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital investments to provide services to citizen customers; consequently, these assets are not available for future expenditures. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following tables are summaries of revenues and expenses for fiscal years 2019 and 2018:

Town of Estill's Statement of Activities - June 2019

	Governmental Activities	Business-Type Activities	Total
Revenue:			
Charges for services	\$ 139,339	\$ 1,952,189	\$ 2,091,528
Capital grants and contributions	130,140	479,613	609,753
General revenues	1,227,814	78	1,227,892
Total revenue	<u>1,497,293</u>	<u>2,431,880</u>	<u>3,929,173</u>
Expenses:			
Administration	322,561	-	322,561
Public Works	175,973	-	175,973
Police	1,102,627	-	1,102,627
Fire	36,043	-	36,043
Interest on long-term debt	(1,606)	-	(1,606)
Combined water and sewer expenses	-	1,696,289	1,696,289
Refuse Fund	-	103,980	103,980
Total expenses	<u>1,635,598</u>	<u>1,800,269</u>	<u>3,435,867</u>
Increase (decrease) in net position before transfers	(138,305)	631,611	493,306
Transfers	165,826	(165,826)	-
Increase (decrease) in net position	<u>\$ 27,521</u>	<u>\$ 465,785</u>	<u>\$ 493,306</u>

Town of Estill's Statement of Activities - June 2018

	Governmental Activities	Business-Type Activities	Total
Revenue:			
Charges for services	\$ 70,327	\$ 2,000,494	\$ 2,070,821
Capital grants and contributions	225,000	420,195	645,195
General revenues	1,211,518	58	1,211,576
Total revenue	<u>1,506,845</u>	<u>2,420,747</u>	<u>3,927,592</u>
Expenses:			
Administration	257,869	-	257,869
Public Works	278,137	-	278,137
Police	986,150	-	986,150
Fire	40,772	-	40,772
Interest on long-term debt	3,139	-	3,139
Combined water and sewer expenses	-	1,789,474	1,789,474
Refuse Fund	-	181,514	181,514
Total expenses	<u>1,566,067</u>	<u>1,970,988</u>	<u>3,537,055</u>
Increase (decrease) in net position before transfers	(59,222)	449,759	390,537
Transfers	200,247	(200,247)	-
Increase (decrease) in net position	<u>\$ 141,025</u>	<u>\$ 249,512</u>	<u>\$ 390,537</u>

GENERAL FUND HIGHLIGHTS

Selected variances between fiscal years 2019 and 2018 General Fund actual revenues were as follows:

- \$ 69,012 Court fines 98.13% increase

Court fines increased by 98.13% due to an increased emphasis being made about collecting court fines throughout the year. Town management is evaluating police and court services offered and will be more cost-effective adjustments.

PROPRIETARY FUNDS HIGHLIGHTS

Selected variances between fiscal years 2019 and 2018 Proprietary Fund actual revenues were as follows:

- \$ 59,418 Capital grants and contributions 14.14% increase

The variance in Proprietary Fund revenues between fiscal years 2019 and 2018 is less significant on a year to year basis.

The 14.14% increase is due to CDBG grants to fund water and sewer system upgrades.

Capital Asset Administration. Governmental Activities had a total of \$113,189 in asset additions during fiscal year 2019. These asset additions were composed of equipment (\$22,913) and vehicles (\$90,276). Depreciation expense for Governmental Activities was \$114,530.

Business-Type Activities had a total of \$1,092,200 in asset additions during fiscal year 2019. These asset additions were composed of construction in process (\$420,800), utility plant (\$613,800), and vehicles (\$57,600). Depreciation expense for Business-Type Activities was \$504,998.

The charts below detail the net effect of all transactions noted above to capital assets between fiscal year 2018 and 2019:

Town of Estill's Capital Assets - Net of Accumulated Depreciation - 2019

	Governmental Activities	Business-Type Activities	Total
Land	\$ 399,530	\$ 453,375	\$ 852,905
Construction in process	225,000	472,801	697,801
Land improvements	193,822	-	193,822
Buildings	1,562,652	-	1,562,652
Equipment	359,590	430,723	790,313
Vehicles	759,282	210,723	970,005
Utility plant	-	17,005,539	17,005,539
Accumulated depreciation	(2,064,153)	(7,809,274)	(9,873,427)
	<u>\$ 1,435,723</u>	<u>\$ 10,763,887</u>	<u>\$ 12,199,610</u>

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the Town of Estill's finances. Questions concerning any of the information provided in this report or requests for additional information should be forwarded to:

Interim Town Administrator
Town of Estill
Post Office Box 415
Estill, South Carolina 29918.

TOWN OF ESTILL, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business Type Activities	Totals
Assets			
Cash and cash equivalents - unrestricted	\$ 413,245	\$ 490,976	\$ 904,221
Cash and cash equivalents - restricted	46,105	360,034	406,139
Receivables, net of allowance:			
Accounts, net	-	246,324	246,324
State revenue	265,263	-	265,263
Internal balances	10,300	-	10,300
Capital assets:			
Non-depreciable	624,530	926,176	1,550,706
Depreciable, net of accumulated depreciation	811,193	9,837,711	10,648,904
Total assets	2,170,636	11,861,221	14,031,857
Deferred outflows of resources			
Deferred pension outflows	238,135	126,985	365,120
Total assets and deferred outflows of resources	2,408,771	11,988,206	14,396,977
Liabilities			
Accounts payable	13,131	46,742	59,873
Other accrued liabilities	12,606	33,015	45,621
Internal balances	-	10,300	10,300
Customer deposits	-	93,965	93,965
Pension liabilities	918,228	721,014	1,639,242
Long-term liabilities:			
Due within one year	30,393	267,100	297,493
Due in more than one year	54,420	3,143,899	3,198,319
Total liabilities	1,028,778	4,316,035	5,344,813
Deferred inflows of resources			
Deferred pension inflows	68,237	137,580	205,817
Total liabilities and deferred inflows of resources	1,097,015	4,453,615	5,550,630
Net position			
Net investment in capital assets	1,350,910	7,365,052	8,715,962
Restricted net position - spendable	46,105	360,034	406,139
Unrestricted	(85,259)	(190,495)	(275,754)
Total net position	\$ 1,311,756	\$ 7,534,591	\$ 8,846,347

See accompanying notes.

TOWN OF ESTILL, SOUTH CAROLINA

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2019

	General	Special Revenue	Total Governmental Funds
Assets			
Cash and cash equivalents - unrestricted	\$ 394,471	\$ 18,774	\$ 413,245
State revenue, receivable	265,263	-	265,263
Due from water and sewer fund	27,082	-	27,082
Cash and cash equivalents - restricted	18,983	27,122	46,105
Total assets	705,799	45,896	751,695
Liabilities and fund balances			
Liabilities			
Accounts payable	13,131	-	13,131
Other accrued liabilities	12,606	-	12,606
Due to refuse fund	16,782	-	16,782
Total liabilities	42,519	-	42,519
Fund balances			
Restricted	18,983	27,122	46,105
Assigned	-	18,774	18,774
Unassigned	644,297	-	644,297
Total fund balances	663,280	45,896	709,176
Total liabilities and fund balances	\$ 705,799	\$ 45,896	\$ 751,695

Reconciliation to the statement of net position

Total fund balances - governmental funds \$ 709,176

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.

Capital assets, cost	\$ 3,499,876	
Accumulated depreciation	(2,064,153)	
		1,435,723

Long-term liabilities, including bonds payable, notes payable, Net pension liabilities, deferred inflows, deferred outflows and capital lease obligations, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet. Long-term liabilities consist of the following:

Deferred pension outflows	238,135
Deferred pension inflows	(68,237)
Net pension liabilities	(918,228)
Accrued interest payable	(1,848)
Compensated absences payable	(6,553)
Capital leases	(29,525)
Notes payable	(46,887)

Net position of governmental activities	\$ 1,311,756
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See accompanying notes.

TOWN OF ESTILL, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2019

Net change in fund balance - total governmental funds	\$ 44,237
Amounts reported for governmental activities in the Statement of Activities are different due to the following:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over the estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeded capital outlays in the period.	
Depreciation	\$ (114,530)
Capital outlays	<u>113,189</u>
Net change in capital assets	(1,341)
Proceeds from issuance of debt. Revenue is recorded in governmental funds and it increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	(56,813)
Net change in pension liability for the current year. This is an expenditure for governmental funds and it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	(15,223)
Repayment of a capital lease and note payable is an expenditure in the governmental funds, and it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	35,759
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	17,000
Interest on long-term debt is recorded as an expenditure in the governmental 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 interest accrues, regardless of when it is due.	2,353
In the Statement of Activities, compensated absences are reported by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used.	<u>1,549</u>
Change in net position of governmental activities	<u>\$ 27,521</u>

See accompanying notes.

TOWN OF ESTILL, SOUTH CAROLINA

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

(CONTINUED)

	Original Budget	Final Budget	Actual	Variance Positive / (Negative)
Street lights	-	-	65,588	(65,588)
Christmas decorations	-	-	-	-
Postage	3,000	3,000	4,111	(1,111)
Equipment rental	-	-	1,003	(1,003)
Debt service	51,909	51,909	98,158	(46,249)
Miscellaneous	24,123	24,123	42,191	(18,068)
Total expenditures	1,827,086	1,827,086	1,671,081	156,005
Excess (deficit) of revenue over (under) expenditures	(7,278)	(7,278)	(181,958)	(174,680)
Other financing resources	60,000	60,000	56,813	(3,187)
Transfers in	-	-	165,826	165,826
Change in fund balance	<u>\$ 52,722</u>	<u>\$ 52,722</u>	<u>\$ 40,681</u>	<u>\$ (12,041)</u>

See accompanying notes.

TOWN OF ESTILL, SOUTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

-CONTINUED-

	Water and Sewer	Refuse	Total
Deferred inflows of resources			
Deferred pension inflows	137,580	-	137,580
Total liabilities and deferred inflows of resources	4,463,101	7,296	4,470,397
Net position			
Net investment in capital assets	7,365,052	-	7,365,052
Restricted net position - spendable	360,034	-	360,034
Unrestricted - unfunded pension obligation	(731,609)	-	(731,609)
Unrestricted - other	446,688	94,426	541,114
Total net position	\$ 7,440,165	\$ 94,426	\$ 7,534,591

See accompanying notes.

TOWN OF ESTILL, SOUTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2019

	Water and Sewer	Refuse	Total
Cash flows from operating activities			
Receipts from customers	\$ 1,816,369	\$ 117,446	\$ 1,933,815
Payments to suppliers	(788,011)	(102,498)	(890,509)
Payments to employees	(322,977)	2,742	(320,235)
Net cash provided by operating activities	<u>705,381</u>	<u>17,690</u>	<u>723,071</u>
Cash flows from noncapital financing activities			
Transfers (to) General Fund	(165,466)	(360)	(165,826)
Interfund transfers	17,627	(27,627)	(10,000)
Net cash (used in) noncapital financing activities	<u>(147,839)</u>	<u>(27,987)</u>	<u>(175,826)</u>
Cash flows from capital and related financing activities			
Interest	51	27	78
Capital grant	479,613	-	479,613
Purchase of property and equipment	(1,092,200)	-	(1,092,200)
Principal paid on revenue bond maturities	(235,000)	-	(235,000)
Principal paid on capital leases	(9,537)	-	(9,537)
Interest on debt	(88,754)	-	(88,754)
Net cash provided by (used in) capital and related financing activities	<u>(945,827)</u>	<u>27</u>	<u>(945,800)</u>
Net decrease in cash and cash equivalents	(388,285)	(10,270)	(398,555)
Cash and cash equivalents, beginning	1,176,447	73,118	1,249,565
Cash and cash equivalents, ending	<u>\$ 788,162</u>	<u>\$ 62,848</u>	<u>\$ 851,010</u>
 Cash and cash equivalents	 \$ 428,128	 \$ 62,848	 \$ 490,976
Restricted cash	360,034	-	360,034
Total cash and cash equivalents	<u>\$ 788,162</u>	<u>\$ 62,848</u>	<u>\$ 851,010</u>

(CONTINUED)

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

1. Summary of Significant Accounting Policies

The Town of Estill, South Carolina (the "Town") was incorporated under the laws of the State of South Carolina for the incorporation of municipal governments and as amended by Act 283 of the 1975 Code (Home Rule Town Act). The Town operates under a Council-form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health, culture-recreation, public improvements, planning and zoning and general administrative services.

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government 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 Town's accounting policies are described below.

Basis of Presentation

Government-wide Financial Statements

The statement of net position and the statement of activities report information about all activities of the primary government. These statements distinguish between the Town's *governmental* and *business-type activities*. Taxes and other non-exchange transactions primarily finance the governmental activities whereas fees charged to external parties' finance, in whole or in part, the business-type activities. All of the Town's governmental funds are reported in the government-wide financial statements as governmental activities and all of its enterprise funds are reported as business-type activities. (See the *Fund Financial Statements* subsection which follows for more information about fund types.)

Statement of Activities

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include fees, fines, and charges paid by the recipients of goods, services, or privileges offered by the programs. The Town classifies as *general revenues* all revenues that are not program revenues, including all taxes and business license fees.

Fund Financial Statements

The fund financial statements provide information about the Town's funds, including its governmental funds and proprietary fund. The Town presents separate statements for each fund category-governmental and proprietary.

-CONTINUED-

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. **Summary of Significant Accounting Policies (continued)**

Accrual Basis

The Town uses the accrual basis of accounting in reporting its government-wide financial statements, as well as its proprietary fund financial statements. Under the accrual basis, the Town generally records revenues when earned and reasonably measurable and records expenses when a liability is incurred, regardless of the timing of related cash flows. Significant non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, and donations. The Town recognizes grants, donations and similar items as revenue as soon as it meets all eligibility requirements.

Modified Accrual Basis

The Town uses the modified accrual basis of accounting to report its governmental funds. Under the modified accrual basis, revenues, net of estimated uncollectible amounts, are recognized in the fiscal year when they become susceptible to accrual—that is, as soon as they become both measurable and available to finance current operations or to liquidate liabilities existing at fiscal year-end. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Principal revenue sources considered susceptible to accrual include taxes, grants, charges for goods and services, and interest earnings.

Under the modified accrual basis, expenditures generally are recorded when a liability is incurred, as under accrual accounting. An exception, however, is that principal and interest on general long-term debt, claims and judgments, and compensated absences, are recognized as expenditures only to the extent they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures (rather than as assets) in governmental funds.

The accounting policies of the Town conform to generally accepted accounting principles (GAAP) applicable to its activities as prescribed by the Governmental Accounting Standards Board (GASB), the recognized standard-setting body for GAAP for all state governmental entities. Proprietary fund activities are reported using the accrual basis method of accounting. If measurable, revenue is recognized when earned and expenses when incurred.

Transfers of financial resources among funds are recognized in all affected funds in the period in which the related interfund receivables and payables arise.

The Town has elected to treat all funds as major and present them in separate columns.

Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, Water and Sewer Enterprise Fund and the Refuse Enterprise Fund. All annual appropriations lapse at fiscal year-end.

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. **Summary of Significant Accounting Policies (continued)**

Depreciation of exhaustible capital assets has been provided using the straight-line method over the estimated useful lives as follows:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Utility plant in service	-	40 - 45 years
Equipment	3 - 10 years	5 - 10 years
Vehicles	5 - 10 years	4 - 5 years
Buildings	15 - 40 years	-

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Compensated Absences

The Town's policy allows employees to accumulate unused sick leave to a maximum of eighteen workweeks and vacation leave up to a maximum of six workweeks. Upon termination, any accumulated vacation leave, will be paid to the employee. There will be no payment for unused sick leave. Accordingly, sick pay is charged to expenditures when taken.

The estimated liability for vested vacation leave attributable to the Town's governmental and business-type activities is recorded as an expense and liability in the respective funds. The estimated liabilities include required salary-related payments.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

Unrestricted net position - All other net position that do not meet the definition of "restricted," or "invested in capital assets."

Fund balance is reported as assigned if the fund balance is constrained by the government's intent to use the funds for a specific purpose. The Town reports amounts as assigned if constrained through appropriations actions of the legislature. The removal of constraints for assigned funds occurs through the budgetary process.

Fund balance is reported as restricted fund balance if the fund balance is restricted for use by an outside party. The Town does not have any restricted fund balance.

Fund balance is reported as committed if amounts have been committed through the appropriations process. The Town does not have any committed funds.

Unassigned fund balance – All other fund balances that do not meet the definition of "restricted," "assigned," or "committed".

The Town's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position or fund balances are available. Within the unrestricted fund balance, committed resources would be first applied, when available, followed by assigned resources before unassigned resources are used.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used to determine depreciation expense, and the allowance for doubtful accounts among other accounts. Actual results could differ from those estimates.

2. Legal Compliance - Budgets

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for the General Fund, Water and Sewer Enterprise Fund, and Refuse Enterprise Fund.
2. The combined statement of revenues, expenditures and changes in fund balance-budget and actual for the General Fund presents comparisons of the legally adopted budget with actual data on a GAAP basis.
3. Unused appropriations lapse at the end of the year.

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases / Transfers	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 399,530	\$ -	\$ -	\$ 399,530
Construction in progress	225,000	-	-	225,000
Total capital assets, not being depreciated	624,530	-	-	624,530
Capital assets, being depreciated				
Buildings	1,562,652	-	-	1,562,652
Land improvements	193,822	-	-	193,822
Equipment	336,677	22,913	-	359,590
Vehicles	669,006	90,276	-	759,282
Total capital assets, being depreciated	2,762,157	113,189	-	2,875,346
Less accumulated depreciation for:				
Buildings	(942,433)	(38,349)	-	(980,782)
Land improvements	(138,264)	(16,125)	-	(154,389)
Equipment	(255,324)	(23,890)	-	(279,214)
Vehicles	(613,602)	(36,166)	-	(649,768)
Total accumulated depreciation	(1,949,623)	(114,530)	-	(2,064,153)
Total capital assets, being depreciated, net	812,534	(1,341)	-	811,193
Governmental activities capital assets, net	<u>\$ 1,437,064</u>	<u>\$ (1,341)</u>	<u>\$ -</u>	<u>\$ 1,435,723</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 453,375	\$ -	\$ -	\$ 453,375
Construction in progress	3,134,262	420,800	(3,082,261)	472,801
Total capital assets, not being depreciated	3,587,637	420,800	(3,082,261)	926,176
Capital assets, being depreciated				
Utility plant	13,309,478	613,800	3,082,261	17,005,539
Equipment	430,723	-	-	430,723
Vehicles	153,123	57,600	-	210,723
Total capital assets, being depreciated	13,893,324	671,400	3,082,261	17,646,985
Less accumulated depreciation for:				
Utility plant	(6,748,978)	(482,595)	-	(7,231,573)
Equipment	(408,840)	(16,515)	-	(425,355)
Vehicles	(146,458)	(5,888)	-	(152,346)
Total accumulated depreciation	(7,304,276)	(504,998)	-	(7,809,274)
Total capital assets, being depreciated, net	6,589,048	166,402	3,082,261	9,837,711
Business-type activities capital assets, net	<u>\$ 10,176,685</u>	<u>\$ 587,202</u>	<u>\$ -</u>	<u>\$ 10,763,887</u>

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

8. Long-Term Debt

Capital Leases

The Town has the following capital leases outstanding as of June 30, 2019:

Governmental activities

Capital lease dated September 1, 2015, in the original amount of \$6,492 payable in annual installments of \$1,824. This lease is collateralized by Motorola radios

1,824

Capital lease dated August 1, 2016, in the original amount of \$36,943 payable in annual installments of \$6,526. This lease is collateralized by Motorola radios

27,701

Total governmental activities

29,525

Business-type activities

Capital lease dated October 2014, in the original amount of \$65,175 payable in monthly installments of \$894. This lease is collateralized by a backhoe

23,835

Total business-type activities

23,835

Total capital leases

\$ 53,360

Debt service requirements to maturity for the capital lease is as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2020	\$ 2,437	\$ 16,644	\$ 19,081
2021	1,658	15,598	17,256
2022	1,017	9,088	10,105
2023	675	5,851	6,526
2024	347	6,179	6,526
	<u>\$ 6,134</u>	<u>\$ 53,360</u>	<u>\$ 59,494</u>

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

8. Long-Term Debt (continued)

The note for the purchase of equipment calls for monthly payments of \$504, with a term is four years and interest rate of 5.00%. The outstanding balance of this note was \$12,294 as of June 30, 2019 and the note matures in November of 2022.

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2020	\$ 1,528	\$ 15,284	\$ 16,812
2021	897	15,915	16,812
2022	546	11,730	12,276
2023	347	3,957	4,485
	<u>\$ 3,318</u>	<u>\$ 46,886</u>	<u>\$ 50,385</u>

Changes in long-term liabilities for the year ended June 30, 2019 are as follows:

	<u>Balances as of July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances as of June 30, 2019</u>	<u>Due within One Year</u>
Governmental activities:					
General obligation bonds	\$ 17,000	\$ -	\$ (17,000)	\$ -	\$ -
Capital lease	50,259	-	(20,734)	29,525	6,708
Note payable	5,100	56,813	(15,026)	46,887	15,284
Compensated absences	8,100	12,164	(8,100)	6,553	6,553
Accrued interest	4,201	1,848	(4,201)	1,848	1,848
Total governmental activities	<u>\$ 84,660</u>	<u>\$ 70,825</u>	<u>\$ (65,061)</u>	<u>\$ 84,813</u>	<u>\$ 30,393</u>
Business-type activities:					
Revenue bonds	\$ 3,610,000	\$ -	\$ (235,000)	\$ 3,375,000	\$ 245,000
Capital lease	33,372	-	(9,537)	23,835	9,936
Compensated absences	14,197	12,164	(14,197)	12,164	12,164
Total business-type activities	<u>\$ 3,657,569</u>	<u>\$ 12,164</u>	<u>\$ (258,734)</u>	<u>\$ 3,410,999</u>	<u>\$ 267,100</u>
Total activities	<u>\$ 3,742,229</u>	<u>\$ 82,989</u>	<u>\$ (323,795)</u>	<u>\$ 3,495,812</u>	<u>\$ 297,493</u>

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

9. Pension Plan (continued)

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

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

Effective July 1, 2018, employees participating in the SCRS were required to contribute 9.00% of all earnable compensation. The employer contribution rate for SCRS was 13.56%. Included in the total SCRS employer contribution rate is a base retirement contribution of 13.41% and 0.15% contribution rate for the incidental death program. The Town's contributions for the years ended June 30, 2019, 2018 and 2017 are as follows:

Year Ended June 30,	Incidental			Incidental		
	Base	Death	Total	Base	Death	Total
2019	14.26%	0.15%	14.41%	\$ 59,652	\$ 622	\$ 60,274
2018	13.41%	0.15%	13.56%	54,023	604	54,627
2017	11.41%	0.15%	11.56%	56,217	739	56,956

Police Officers Retirement System

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

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

9. Pension Plan (continued)

At June 30, 2019, the Town reported \$871,074 and \$768,168 for its proportionate share of the net pension liabilities of SCRS and PORS, respectively. The net pension liability of the SCRS defined benefit pension plan was determined based on the July 1, 2017 actuarial valuations, using most recent membership data, projected forward to June 30, 2018, and financial information of the pension trust funds as of June 30, 2017, using generally accepted actuarial procedures. The Town's portion of the net pension liability was based on the Town's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the Commission's SCRS proportion was 0.003888% and its PORS proportion was 0.02711%.

At June 30, 2019 the state reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

Deferred Outflows of Resources	SCRS	PORS
Differences between expected and actual experience	\$ 1,572	\$ 23,668
Assumption changes	34,559	50,649
Net difference between project and actual investment earnings	13,837	15,362
Differences between employer contributions and proportionate share	43,172	49,669
Contributions made from measurement date to June 30, 2019	60,274	72,358
Total deferred outflows of resources	<u>153,414</u>	<u>211,706</u>
Deferred Inflows of Resources		
Differences between expected and actual experience	5,126	-
Differences between employer contributions and proportionate share	161,087	39,604
Total deferred inflows of resources	<u>166,213</u>	<u>39,604</u>
Net deferred outflows/(inflows)	<u>\$ (12,799)</u>	<u>\$ 172,102</u>

Deferred outflows of \$60,274 and \$72,358 for SCRS and PORS, respectively, reported as resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Year ended June 30,	SCRS	PORS	Net
2020	\$ (11,252)	\$ (69,982)	\$ (81,234)
2021	18,124	(32,407)	(14,283)
2022	60,632	2,355	62,987
2023	5,569	290	5,859
	<u>\$ 73,073</u>	<u>\$ (99,744)</u>	<u>\$ (26,671)</u>

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

9. Pension Plan (continued)

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

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	47.0%		
Global Public Equity	33.0%	6.99%	2.31%
Private Equity	9.0%	8.73%	0.79%
Equity Options Strategies	5.0%	5.52%	0.28%
Real Assets	10.0%		
Real Estate (Private)	6.0%	3.54%	0.21%
Real Estate (REITs)	2.0%	5.46%	0.11%
Infrastructure	2.0%	5.09%	0.10%
Opportunistic	13.0%		
GTAA/Risk Parity	8.0%	3.75%	0.30%
Hedge Funds (non-PA)	2.0%	3.45%	0.07%
Other Opportunistic Strategies	3.0%	3.75%	0.11%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.05%	0.18%
Emerging Markets Debt	5.0%	3.94%	0.20%
Private Debt	7.0%	3.89%	0.27%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	0.94%	0.09%
Cash and Short Duration (Net)	2.0%	0.34%	0.01%
Total Expected Real Return	100%		5.03%
Inflation for Actuarial Puposos			2.25%
Total Expected Nominal Return			7.28%

The discount rate used to measure the total pension liability (TPL) was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the Systems' fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

TOWN OF ESTILL, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Risk Management (continued)

The Town participates in the South Carolina Insurance Reserve Fund, an insurance pool currently operating as a common tort liability and insurance program. The limit of the tort liability is \$600,000 per occurrence, while the limit for casualty insurance varies depending on the value of the property.

12. Commitments and Contingencies

The Town is currently operating its water and sewer system under a consent order from the South Carolina Department of Health and Environmental Control. This consent order found significant deficiencies in the Town's systems and requires certain repairs and upgrades to be made. In order to fund these repairs and upgrades, the Town has acquired a revenue bond and will continue to seek grants.

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

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

13. The Town's Financial Condition

The Town recognized a decrease in net position of \$138,805 in its Governmental Activities before transfers from Business-Type Activities. The Town has experienced similar losses in prior years as well. The primary source of these losses is from the Police Department. Police Department expenditures made up 67.41% of total Governmental Activities expenditures in the current fiscal year and made up similar percentages in prior years as well. Revenue produced from the Police Department only made up 9.31% of total Governmental Activities revenue in the current fiscal year and made up similar percentages in prior years as well. This resulted in a \$963,288 loss in net position from Police Department operations during the current year.

The Business-Type Activities had an increase in net position of \$465,785 after transfers to Governmental Activities. Business-Type Activities cannot continue to support the Town's Governmental Activities. In order to improve the Town's current financial condition, the Town needs to find ways to reduce Police Department spending, eliminate services, or increase unrestricted revenue.

REQUIRED SUPPLEMENTARY INFORMATION

OTHER FINANCIAL INFORMATION

TOWN OF ESTILL, SOUTH CAROLINA

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

LAST TEN FISCAL YEARS*

	2019	2018	2017	2016	2015	2014
South Carolina Retirement System						
Town's proportion of the net pension liability	0.0039%	0.0049%	0.0047%	0.0042%	0.0046%	0.0046%
Town's proportionate share of the net pension liability	\$ 871,074	\$ 1,106,446	\$ 1,009,467	\$ 803,379	\$ 783,359	\$ 816,108
Town's covered payroll	\$ 402,854	\$ 492,699	\$ 451,429	\$ 397,131	\$ 400,802	\$ 949,600
Town's proportionate share of the net pension liability as a percentage of its covered payroll	216.23%	224.57%	223.62%	202.30%	195.45%	85.94%
Plan fiduciary net position as a percentage of the total pension liability	54.10%	53.30%	52.91%	56.99%	59.92%	56.39%
South Carolina Police Officers Retirement System						
Town's proportion of the net pension liability	0.0271%	0.0278%	0.0299%	0.0258%	0.0206%	0.0206%
Town's proportionate share of the net pension liability	\$ 768,168	\$ 761,324	\$ 760,688	\$ 561,220	\$ 394,717	\$ 427,405
Town's covered payroll	\$ 375,240	\$ 379,530	\$ 376,625	\$ 325,087	\$ 247,991	\$ 434,286
Town's proportionate share of the net pension liability as a percentage of its covered payroll	204.71%	200.60%	201.97%	172.64%	159.17%	98.42%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	60.90%	60.40%	64.57%	67.55%	62.98%

* - The amounts presented for each fiscal year were determined as of July 1 of four years prior, using membership data as of the day, projected forward to June 30 of the previous year. Additionally, the Commission implemented GASB 68 during fiscal year 2015. As such, only fiscal years after 2014 have information available.

TOWN OF ESTILL, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2019

Account Description	Budget	Actual	Variance Positive / (Negative)
Operating revenue	\$ 1,988,675	\$ 1,952,189	\$ (36,486)
Operating expenses:			
Salaries and employee benefits	395,687	439,740	(44,053)
Electricity and utilities	166,000	94,099	71,901
Materials and supplies	141,120	121,125	19,995
Chemicals and laboratory analysis	11,300	17,606	(6,306)
Depreciation and amortization	-	504,998	(504,998)
Insurance	74,395	78,027	(3,632)
Gas, oil, tires and repairs	12,500	9,134	3,366
Contracted services	194,652	159,296	35,356
Training, lodging	700	425	275
Telephone	14,000	9,133	4,867
Office supplies	1,200	639	561
DHEC permits	13,800	13,740	60
Repairs and maintenance, engineering, and capital equipment	183,500	233,434	(49,934)
Miscellaneous	750,047	30,119	719,928
Total operating expenses	1,958,901	1,711,515	247,386
Operating income (loss)	29,774	240,674	210,900
Nonoperating revenue (expense)			
Interest income	65	78	13
Grant income	750,000	479,613	(270,387)
Grant expenses	(1,250,000)	-	1,250,000
Bond interest	-	(88,754)	(88,754)
Contingency reserve	(14,705)	-	14,705
Debt service	(90,252)	-	90,252
Total non-operating revenue (expense)	(604,892)	390,937	995,829
Net income (loss) before transfers	(575,118.00)	631,611	1,206,729
Transfers in (out)	19,200	(165,826)	(185,026)
Change in net position	\$ (555,918)	\$ 465,785	\$ 1,021,703

See independent auditors' report on other financial information