

**TOWN OF MCBEE, SOUTH CAROLINA**

**ANNUAL FINANCIAL REPORT  
For the Year Ended June 30, 2018**

**TOWN OF MCBEE, SOUTH CAROLINA  
ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended June 30, 2018**

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**ANNUAL FINANCIAL REPORT**  
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Town Council  
Town of McBee  
McBee, 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 Town of McBee, South Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of McBee, South Carolina'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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of McBee, 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.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the schedule of the Town's proportionate share of the net pension liability, and the schedule of Town contributions on pages 42-44 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 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 the 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 to 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of McBee, South Carolina's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 2, 2018, on our consideration of the Town of McBee, South Carolina's internal control over financial reporting and on our test 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 the 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 Town of McBee, South Carolina's internal control over financial reporting and compliance.

*Sheheen, Hancock & Godwin, LLP*

Sheheen, Hancock and Godwin, LLP  
Camden, South Carolina

**TOWN OF McBEE, SOUTH CAROLINA**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 684,287	\$ 229,970	\$ 914,257
Receivables			
Property Taxes, Net	2,507	-	2,507
Vehicle Taxes	374	-	374
Other	63,728	-	63,728
Intergovernmental	16,016	-	16,016
Garbage Fees	5,538	-	5,538
Franchise Fee	5,253	-	5,253
Water Fees	-	35,606	35,606
Internal Balances	278	(278)	-
Restricted Cash - Non-Current	-	109,248	109,248
Capital Assets:			
Land	95,954	11,600	107,554
Buildings and Improvements	787,534	-	787,534
Equipment	155,652	-	155,652
Vehicles	16,106	-	16,106
Infrastructure	924,392	-	924,392
Idle Property	400,000	286,400	686,400
Water System	-	3,623,352	3,623,352
Less: Accumulated Depreciation	(864,316)	(1,150,568)	(2,014,884)
Total Capital Assets, Net of Depreciation	<u>1,515,322</u>	<u>2,770,784</u>	<u>4,286,106</u>
<b>Deferred Outflows of Resources</b>			
Prepaid Pension Cost	<u>64,059</u>	<u>24,444</u>	<u>88,503</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>2,357,362</u>	<u>3,169,774</u>	<u>5,527,136</u>
<b>Liabilities</b>			
Accounts Payable and Accrued Liabilities	35,988	186,572	222,560
Customer Deposits	-	19,220	19,220
Due to Other Governments - State Assessment	106,064	-	106,064
Long-Term Liabilities:			
Due Within One Year:			
Bonds	-	28,682	28,682
Due in More Than One Year:			
Due to Customer	-	46,502	46,502
Net Pension Liability	195,650	58,295	253,945
Bonds	-	1,409,895	1,409,895
<b>Total Liabilities</b>	<u>337,702</u>	<u>1,749,166</u>	<u>2,086,868</u>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue -Pension	<u>15,740</u>	<u>145</u>	<u>15,885</u>
<b>Total Deferred Inflows of Resources</b>	<u>15,740</u>	<u>145</u>	<u>15,885</u>
<b>Net Position</b>			
Net Investment in Capital Assets	1,515,322	1,332,207	2,847,529
Restricted for:			
Bond Cushion Fund	-	92,986	92,986
Depreciation and Contingency Fund	-	16,262	16,262
Unrestricted	<u>488,598</u>	<u>(20,992)</u>	<u>467,606</u>
<b>Total Net Position</b>	<u>\$ 2,003,920</u>	<u>\$ 1,420,463</u>	<u>\$ 3,424,383</u>

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

**TOWN OF McBEE, SOUTH CAROLINA  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2018**

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>						
General Government	\$ 216,644	\$ 11,560	\$ -	\$ (205,084)	\$ -	\$ (205,084)
Public Safety	174,117	112,055	-	(62,062)	-	(62,062)
Recreation	66,803	10,398	16,089	(40,316)	-	(40,316)
Streets and Sanitation	136,723	66,297	-	(27,862)	-	(27,862)
Scout Hut	2,603	-	-	(3,298)	-	(3,298)
Capital Outlay	417	-	-	(417)	-	(417)
<b>Total Governmental Activities</b>	<b>597,307</b>	<b>200,310</b>	<b>16,089</b>	<b>(380,908)</b>	<b>-</b>	<b>(380,908)</b>
<b>Business-Type Activities</b>						
Utility Fund	430,415	356,038	-	-	(74,377)	(74,377)
<b>Total Business-Type Activities</b>	<b>430,415</b>	<b>356,038</b>	<b>-</b>	<b>-</b>	<b>(74,377)</b>	<b>(74,377)</b>
<b>Total</b>	<b>\$ 1,027,722</b>	<b>\$ 556,348</b>	<b>\$ 16,089</b>	<b>(380,908)</b>	<b>(74,377)</b>	<b>(455,285)</b>
<b>General Revenues:</b>						
Taxes				367,699	-	367,699
Intergovernmental				24,190	-	24,190
Franchise Fees				65,570	-	65,570
Interest Income				2	566	568
Miscellaneous				7,586	17,981	25,567
Transfers - Utility Fund				(64,041)	64,041	-
<b>Total General Revenues</b>				<b>401,006</b>	<b>82,588</b>	<b>483,594</b>
<b>Change in Net Position</b>				<b>20,098</b>	<b>8,211</b>	<b>28,309</b>
<b>Net Position, Beginning of Year</b>				<b>1,983,822</b>	<b>1,412,252</b>	<b>3,396,074</b>
<b>Net Position, End of Year</b>				<b>\$ 2,003,920</b>	<b>\$ 1,420,463</b>	<b>\$ 3,424,383</b>

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



**TOWN OF McBEE, SOUTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018**

	<u>General</u>	<u>Recreation Department</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 659,278	\$ 25,009	\$ 684,287
Receivables:			
Property Taxes, Net	2,507	-	2,507
Vehicle Taxes	374	-	374
Intergovernmental	16,016	-	16,016
Garbage Fees	5,538	-	5,538
Franchise Fee Receivable	5,253	-	5,253
Other Receivable	63,728	-	63,728
Due from Utility Fund	<u>278</u>	<u>-</u>	<u>278</u>
<b>Total Assets</b>	<u>\$ 752,972</u>	<u>\$ 25,009</u>	<u>\$ 777,981</u>
<b>Liabilities</b>			
Accounts Payable and Accrued Liabilities	\$ 35,988	\$ -	\$ 35,988
Due to Other Governments	<u>106,064</u>	<u>-</u>	<u>106,064</u>
<b>Total Liabilities</b>	<u>142,052</u>	<u>-</u>	<u>142,052</u>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenues - Property Taxes	<u>1,624</u>	<u>-</u>	<u>1,624</u>
<b>Total Deferred Inflows of Resources</b>	<u>1,624</u>	<u>-</u>	<u>1,624</u>
<b>Fund Balances</b>			
Committed for Recreation Complex	-	25,009	25,009
Unassigned	<u>609,296</u>	<u>-</u>	<u>609,296</u>
<b>Total Fund Balances</b>	<u>609,296</u>	<u>25,009</u>	<u>634,305</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 752,972</u>	<u>\$ 25,009</u>	<u>\$ 777,981</u>

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

**TOWN OF McBEE, SOUTH CAROLINA**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**THE STATEMENT OF NET POSITION**  
**June 30, 2018**

<b>Total Fund Balances - Governmental Funds (Exhibit C)</b>	<b>\$ 634,305</b>
Amounts reported for governmental activities in the statement of net position are different because:	
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 is \$2,379,638, and the accumulated depreciation is \$864,316.	1,515,322
Receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds:	
Property Taxes	1,624
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Pension liability	(195,650)
Deferred outflows and inflows or resources related to pension are applicable to future periods and therefore, are not reported in the funds	
Deferred outflows of resources related to pension (from pension schedule)	64,059
Deferred inflows of resources related to pensions (from pension schedule)	<u>(15,740)</u>
<b>Total Net Position - Governmental Activities (Exhibit A)</b>	<b><u>\$ 2,003,920</u></b>

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

**TOWN OF McBEE, SOUTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2018**

	General	Recreation Department	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 367,739	\$ -	\$ 367,739
Fines, Fees, Licenses and Permits	265,880	-	265,880
Intergovernmental	24,189	-	24,189
Grants	16,089	-	16,089
Other	7,591	-	7,591
<b>Total Revenues</b>	<u>681,488</u>	<u>-</u>	<u>681,488</u>
<b>Expenditures</b>			
<b>Current:</b>			
General Government	177,445	-	177,445
Public Safety	149,562	-	149,562
Recreation	70,683	-	70,683
Streets and Sanitation	116,985	-	116,985
Scout Hut	2,603	-	2,603
Capital Outlay	507	-	507
<b>Total Expenditures</b>	<u>517,785</u>	<u>-</u>	<u>517,785</u>
<b>Excess of Revenues over Expenditures</b>	<u>163,703</u>	<u>-</u>	<u>163,703</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In (Out)	(64,041)	-	(64,041)
<b>Other Financing Sources (Uses)</b>	<u>(64,041)</u>	<u>-</u>	<u>(64,041)</u>
<b>Net Change in Fund Balances</b>	99,662	-	99,662
<b>Fund Balances, Beginning of Year</b>	<u>509,634</u>	<u>25,009</u>	<u>534,643</u>
<b>Fund Balances, End of Year</b>	<u>\$ 609,296</u>	<u>\$ 25,009</u>	<u>\$ 634,305</u>

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

**TOWN OF McBEE, SOUTH CAROLINA  
RECONCILIATION OF THE  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2018**

**Total Net Change In Fund Balances - Governmental Funds (Exhibit E)** \$ 99,662

Amounts reported for governmental activities in the statement of activities are different because of the following:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation of \$82,757 exceeds capital outlay expense of \$13,300 for the period. (69,457)

Some revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds:  
Property taxes (41)

Governmental funds report town pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Town pension contributions	\$	9,157	
Cost of benefits earned net of employee contributions (pension expense from benefit schedule)		(19,223)	(10,066)

**Change in Net Position of Governmental Activities (Exhibit B)** \$ 20,098

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

**TOWN OF McBEE, SOUTH CAROLINA**  
**STATEMENT OF NET POSITION – PROPRIETARY FUND**  
**June 30, 2018**

	<b>Enterprise Fund</b> <b><u>Utility</u></b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 229,970
Accounts Receivable-Water	<u>35,606</u>
Total Current Assets	<u>265,576</u>
Non-Current Assets:	
Restricted Cash	109,248
Capital Assets	
Land	11,600
Water System	3,623,352
Idle Property	286,400
Less: Accumulated Depreciation	<u>(1,150,568)</u>
Total Non-Current Assets	<u>2,880,032</u>
<b>Deferred Outflows of Resources</b>	
Prepaid Pension Cost	<u>24,444</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 3,170,052</u></b>

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

**TOWN OF McBEE, SOUTH CAROLINA**  
**STATEMENT OF NET POSITION – PROPRIETARY FUND**  
**June 30, 2018**  
**(Continued)**

**Liabilities**

## Current Liabilities:

Accounts Payable and Accrued Liabilities	\$ 186,572
Due to General Fund	278
Current Portion of Revenue Bonds	28,682
Customer Deposits	<u>19,220</u>

Total Current Liabilities 234,752

## Non-Current Liabilities:

Net Pension Liability	58,295
Due to Customer	46,502
Revenue Bonds	<u>1,409,895</u>

Total Non- Current Liabilities 1,514,692

Total Liabilities 1,749,444

**Deferred Inflows of Resources**

Unavailable Revenue - Pension	<u>145</u>
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**Net Position**

Net Investment in Capital Assets	1,332,207
Restricted for:	
Bond Cushion Fund	92,986
Depreciation and Contingency Fund	16,262
Unrestricted	<u>(20,992)</u>

Total Net Position \$ 1,420,463

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

**TOWN OF McBEE, SOUTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**For the Fiscal Year Ended June 30, 2018**

	<u>Enterprise Fund</u> <u>Utility</u>
<b>Operating Revenues</b>	
Water Charges	\$ 348,104
Penalties	3,434
Taps and Reconnections	4,450
Other	<u>50</u>
<b>Total Operating Revenues</b>	<u>356,038</u>
<b>Operating Expenses</b>	
Advertising - Public Notices	324
Bad Debt	1,877
Bank Charges	1,853
Computer Software	4,640
Contractor Service	76,210
Depreciation	96,485
Insurance	6,980
Meter Repairs and Installation	3,994
Office Supplies	258
Payroll Taxes	1,397
Postage	247
Professional Fees	39,532
Repairs and Maintenance	4,163
Retirement Expense	8,428
Salaries and Wages	21,960
Tools and Equipment	215
Utilities	7,891
Water Purchases	84,794
Water Testing Fees	<u>3,941</u>
<b>Total Operating Expenses</b>	<u>365,189</u>
<b>Operating Income (Loss)</b>	<u>(9,151)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Interest Revenue	566
Interest Expense	(65,226)
Insurance Reimbursement	17,981
Transfer from General Fund	<u>64,041</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>17,362</u>
<b>Change in Net Position</b>	8,211
<b>Total Net Position, Beginning of Year</b>	<u>1,412,252</u>
<b>Total Net Position, End of Year</b>	<u>\$ 1,420,463</u>

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

**TOWN OF McBEE, SOUTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Fiscal Year Ended June 30, 2018**

	<u>Enterprise Fund</u> <u>Utility</u>
<b>Cash Flows From Operating Activities:</b>	
Cash Received From Customers	\$ 354,879
Cash Paid to Suppliers for Goods and Services	(257,817)
Cash Paid to Employees for Services	(21,960)
Customer Deposits Received	1,850
Customer Deposits Returned	<u>(823)</u>
Net Cash Provided By Operating Activities	<u>76,129</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>	
Insurance Proceeds	17,981
Transfer to General Fund	<u>64,041</u>
Net Cash Provided By Non-Capital Financing Activities	<u>82,022</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Payments on Due to Customer	(2,053)
Principal Payments on Revenue Bonds	(27,426)
Interest Payments on Revenue Bonds	<u>(65,226)</u>
Net Cash (Used) By Capital and Related Financing Activities	<u>(94,706)</u>
<b>Cash Flows From Investing Activities:</b>	
Interest Received	<u>565</u>
Net Cash Provided by Investing Activities	<u>565</u>
<b>Net Increase in Cash</b>	<b>64,010</b>
Cash and Cash Equivalents, Beginning of Year	<u>275,208</u>
Cash and Cash Equivalents, End of Year	<u>\$ 339,218</u>

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



**TOWN OF McBEE, SOUTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Fiscal Year Ended June 30, 2018**  
**(Continued)**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY  
OPERATING ACTIVITIES**

Operating Income (Loss)	\$ <u>(9,151)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	96,485
(Increase) in Receivables	(1,159)
(Increase) in Deferred Outflows	(10,820)
(Decrease) in Accounts Payable and Accrued Expenses	(16,621)
Increase in Customer Deposits	1,027
Increase in Net Pension Liability	16,630
(Decrease) in Deferred Inflows	<u>(262)</u>
Net Adjustments	<u>85,280</u>
Net Cash Provided by Operating Activities	\$ <u>76,129</u>

**RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS**

Current Assets - Cash and Cash Equivalents	\$ 229,970
Noncurrent Assets - Restricted Cash	<u>109,248</u>
Total Cash and Cash Equivalents	<u>\$ 339,218</u>

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

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

**Note 1. Summary of Significant Accounting Policies**

The Town of McBee is a municipal corporation of the State of South Carolina located in Chesterfield County, and as such, possesses all the general powers granted by the Constitution and laws of South Carolina to municipal corporations.

The financial statements of the Town of McBee 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. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Following are the more significant of the Town's accounting policies.

**A. Reporting Entity**

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Town holds the corporate powers of the organization
- the Town appoints voting majority of the organization's board
- the Town is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Town
- there is a fiscal dependency by the organization on the Town

Based on the aforementioned criteria, the Town of McBee has no component units.

**B. Basis of Presentation**

The Town's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

*Government-wide Financial Statements:*

The statement of net position and the statement of activities display information about the Town as a whole. These statements include the financial activities of the Town, except for fiduciary funds. The statements distinguish between those activities of the Town that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Program revenues include charges paid by the recipients of goods or services offered by the program and grant and contributions

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Business-type activities are financed in whole or in part by fees charged to the external parties for goods or services.

The statement of activities presents a comparison between direct and program revenues for the different 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. The Town does not allocate indirect cost.

*Fund Financial Statements:*

Fund financial statements of the Town are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category of type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the Town are described below:

**Governmental Funds**

Governmental funds are those through which most governmental functions of the Town are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balances. The General Fund and Recreation Department Capital Project Fund are the Town's only major governmental funds.

*General Fund*

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in the General Fund. Operational expenditures for general administration and the traditional services provided by the Town are paid through the General Fund.

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

*Capital Project Funds*

Capital Project Funds account for the acquisition of fixed assets or construction of major capital projects not being financed by the Town's proprietary fund. Capital grants restricted for capital acquisitions or construction, other than those associated with proprietary funds, are also accounted for in a capital projects fund. The Town has one capital projects fund, which is being financed with a capital grant.

**Proprietary Fund**

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The following is the Town's proprietary fund:

*Enterprise Fund*

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on the net income measurement similar to the private sector. The Utility Fund is the Town's only enterprise fund and is used to account for the financial transactions related to the water service provided to the residents of the Town.

**C. Measurement Focus and Basis of Accounting**

*Measurement Focus*

*Government-Wide Financial Statements*

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net position.

*Fund Financial Statements*

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases and decreases in total net position. The statement of cash flows reflects how the Town finances and meets the cash flow of its proprietary fund.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

***Basis of Accounting***

In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Items such as franchise fees, business licenses, grants, garbage fees and intergovernmental revenues are considered to be susceptible to accrual. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for the general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

**D. Cash, Cash Equivalents, and Investments**

*Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, amounts in demand deposits, restricted cash and certificates of deposits.

*Investments*

Any investments held by the Town are stated at fair value in accordance with *GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for Investment Pools*. Investment policies of the Town must operate within existing state statutes of the State of South Carolina, which authorizes what the Town may and may not invest in. The Town did not have any investments at June 30, 2018.

**E. Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible taxes receivable are based upon historical trends and the aging of taxes receivable. Major receivable balances for the governmental activities include property taxes, vehicle taxes, garbage fees, grants and intergovernmental revenues. Business-type activities report water service revenues as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals for Federal and State revenue if they are both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government wide financial statements in accordance with the accrual basis. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Water service receivables compose the majority of proprietary fund receivables.

**F. Short-term Inter-fund Receivables/Payable**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial balance sheet. Inter-fund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position.

**G. Capital Assets**

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

*Government-Wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are reported at their estimated fair value at the date of donation. Estimated historical cost was used to value many of the assets acquired prior to July 1, 2004. The Town maintains a capitalization policy of \$500 for its capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Infrastructure assets have not been retroactively reported. However, the financial statements include infrastructure fixed assets beginning with the implementation of GASB Statement 34.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

Infrastructure	10-30 years
Buildings	10-40 years
Land Improvements	15 years
Water Lines and System	10-50 years
Machinery and Equipment	5-10 years
Water Wells	25 years

*Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**H. Compensated Absences**

The Town reports compensated absences in accordance with the provisions of *GASB Statement No. 16 Accounting for Compensated Absences*. The Town's policies regarding vacation and sick leave permit employees to accumulate earned but unused vacation but do not accumulate unused sick leave. The maximum amount of unused vacation leave that may be carried over to the next fiscal year is forty hours. Employees, upon termination of employment or retirement, receive compensation for accumulated unused vacation up to the forty hour maximum, but do not receive compensation for accumulated sick leave.

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

A compensated absence liability is reported on the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources. For the proprietary fund, the entire amount of compensated absences is reported as a fund liability.

At June 30, 2018, there was not any unused vacation leave and, therefore, no compensated absence liability is included in the financial statements.

**I. Equity Classifications**

*Government-Wide Statements*

Equity is classified as net position and displayed in three components:

- a. Net Investment in Capital Assets. This consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, capital leases or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net position. This consists of net position with constraints placed on the use by either external groups such as creditors, grantors, contributors, laws or regulations of other governments or law through constitutional provisions or enabling legislation.
- c. Unrestricted net position. All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

*Fund Statements*

In the governmental fund financial statements, fund balances are classified as follows:

- Non-spendable—Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted—Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed—Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution.
- Assigned—Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by Town Council.
- Unassigned—All amounts not included in other spendable classifications.

Proprietary fund equity is classified the same as in the government-wide statements.



**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

**J. Inter-fund Transactions**

Transactions between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in the governmental funds and non-operating revenues/expenses in the utility fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**K. Operating and Non-operating Revenues**

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those, which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

**L. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

**M. Long-term Obligations**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debts to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

**N. Capital Contributions**

Contributions of capital on the General and Utility Fund financial statements arise from outside contributions of capital assets, contributions from other funds, grants or outside contributions of resources restricted to capital acquisition and construction.

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

**O. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation.

**P. Use of 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Q. Statement of Cash Flows**

For the purpose of the statement of cash flows, the Town's proprietary fund considers cash, restricted cash and cash equivalents. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include certificates of deposits.

**R. Deferred Inflows/Outflows of Resources**

In addition to assets, The Town reports deferred outflows of resources in a separate section of its government wide and proprietary fund statements. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period. The Town only has one item that qualified for reporting in this category. It is prepaid cost related to the GASB 68 pension liability.

In addition to liabilities, The Town reports deferred inflows of resources in a separate section of its government wide, governmental and proprietary fund statements. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period. The Town has two types of items which occur because governmental fund revenues are not recognized until available (collected no later than 60 days after the end of the Town's fiscal year) under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, deferred property taxes and grant revenue are reported in the governmental fund balance sheet. The second item is future pension revenues related to the GASB 68 pension liability.

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

**S. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note 2. Property Taxes**

Real property taxes are levied on October 1 on the assessed valuations of property located in Chesterfield County as of the preceding January 1, and are due and payable at that time. All unpaid taxes levied October 1 become delinquent January 15 of the following year, and property taxes attach as an enforceable lien if not paid by March 16 of the following year. Penalties are added to taxes depending on the date paid as follows:

January 16-February 1	3% of tax
February 2 – March 16	10% of tax
March 17 and thereafter	15% of tax plus collection costs

Motor vehicle taxes are levied on the first day of the month in which the motor vehicle license expires and is due by the end of the month. Property taxes are billed and collected by Chesterfield County. Property tax revenue is recognized when collected by the County Treasurer's Office. Assessed values for real estate are established annually by the Chesterfield County Tax Assessor at 4% of market value for legal residence and 6% of market value for rental and other real property.

Based on information provided by the Chesterfield County Treasurer's Office, the Town has recorded uncollected property taxes at June 30, 2018, of \$5,448 (net of allowance for uncollectible portion of \$2,941) for the General Fund. Delinquent property taxes of \$123 have been recognized as revenue at June 30, 2018, and the remaining amount of \$1,624 has been recorded as deferred inflows of resources on the governmental fund basic financial statements because it was not collected within 60 days of year end.

**Note 3. Deposits – Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2018, \$777,441 of the Town's bank balance of \$1,027,441, which has a carrying value of \$1,023,218, was exposed to custodial credit risk.

Uninsured by FDIC, but collateral held by pledging bank in the Town's name	<u>\$777,441</u>
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**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

**Note 4. Other Receivables**

Other governmental receivables at June 30, 2018, consist of intergovernmental revenues, business licenses, grants and garbage fees. Garbage fees receivable shown in the General Fund consist of garbage services rendered as of June but not collected.

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned.

**Note 5. Capital Assets**

Capital asset activity for the year ended June 30, 2018, was as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Disposals &amp; Transfers</u>	<u>Ending</u>
<b>Governmental Activities</b>				
<i>Capital Assets, Non-Depreciable:</i>				
Land	\$ 95,954	\$ -	\$ -	\$ 95,954
Idle Property	400,000	-	-	400,000
<i>Capital Assets, Depreciable:</i>				
Buildings and Improvements	774,234	13,300	-	787,534
Infrastructure	924,392	-	-	924,392
Equipment	71,120	-	-	71,120
Vehicles	<u>100,638</u>	<u>-</u>	<u>-</u>	<u>100,638</u>
Totals	<u>2,366,338</u>	<u>13,300</u>	<u>-</u>	<u>2,379,638</u>
Less Accumulated Depreciation				
Buildings	(556,493)	(34,434)	-	(590,927)
Infrastructure	(72,307)	(41,983)	-	(114,290)
Equipment	(137,641)	(5,519)	-	(143,160)
Vehicles	<u>(15,118)</u>	<u>(821)</u>	<u>-</u>	<u>(15,939)</u>
Totals	<u>(781,559)</u>	<u>(82,757)</u>	<u>-</u>	<u>(864,316)</u>
Governmental Activities Capital Assets, Net	<u>\$ 965,666</u>	<u>\$ (69,457)</u>	<u>\$ -</u>	<u>\$ 1,515,322</u>
<b>Business - type Activities</b>				
<i>Capital Assets, Non-Depreciable:</i>				
Land	\$ 11,600	\$ -	\$ -	\$ 11,600
Idle Property	286,400	-	-	286,400
<i>Capital Assets, Depreciable:</i>				
Water System and Equipment	<u>3,623,352</u>	<u>-</u>	<u>-</u>	<u>3,623,352</u>
Totals	<u>3,921,352</u>	<u>-</u>	<u>-</u>	<u>3,921,352</u>
Less Accumulated Depreciation				
Water System and Equipment	<u>(1,054,083)</u>	<u>(96,485)</u>	<u>-</u>	<u>(1,150,568)</u>
Business - type Activities Capital Assets, Net	<u>\$ 2,640,556</u>	<u>\$ (96,485)</u>	<u>\$ -</u>	<u>\$ 2,770,784</u>

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

Depreciation expense was charged to functions as follows:

General Government	\$	29,133
Public Safety		24,555
Recreation		9,421
Streets and Sanitation		<u>19,648</u>
 Total	 \$	 <u>82,757</u>

The medical office building, water tank and pump were idle as of June 30, 2018, with a net book value of \$400,000 for the building and \$286,400 for the water tank and pump.

**Note 6. Long-Term Debt**

*Business-type Activity Revenue Bonds*

On February 10, 2005, the Town issued \$1,456,800 in Water Revenue Bonds Series 2005A. The bonds range in maturity dates from 2006 to 2045. The interest rate on the bonds is 4.50 percent. The balance owed on the principal amount of these bonds on June 30, 2018, was \$1,229,628. The bonds, which were purchased by the United States Department of Agriculture, are secured with liens on the revenue of the Utility Fund.

On February 10, 2005, the Town issued \$172,200 in Water Revenue Bonds Series 2005B. The bonds range in maturity dates from 2006 to 2045. The interest rate on the bonds is 4.375 percent. The balance owed on the principal amount of these bonds on June 30, 2018, was \$144,565. The bonds, which were purchased by the United States Department of Agriculture, are secured with liens on the revenue of the Utility Fund.

On August 24, 2006, the Town issued \$75,000 in Water Revenue Bonds Series 2006. The bonds range in maturity dates from 2007 to 2046. The interest rate on the bonds is 4.50 percent. The balance owed on the principal amount of these bonds on June 30, 2018, was \$64,384. The bonds, which were purchased by the United States Department of Agriculture, are secured with liens on the revenue of the Utility Fund.

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

The following is a schedule showing the annual debt service requirements to maturity for the long-term debt.

Fiscal Year Ending June 30	Principal	Interest	Total
2019	28,682	63,970	92,652
2020	29,996	62,656	92,652
2021	31,369	61,283	92,652
2022	32,806	59,846	92,652
2023	34,309	58,343	92,652
2024-2028	196,610	266,650	463,260
2029-2033	245,959	217,301	463,260
2034-2038	307,695	155,565	463,260
2039-2043	384,929	78,331	463,260
2044-2046	146,222	5,869	152,091
Total	<u>\$ 1,438,577</u>	<u>\$ 1,029,814</u>	<u>\$ 2,468,391</u>

**Note 7. Changes in Long-Term Liabilities**

During the fiscal year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
<i>Business-type Activities</i>					
Series 2005A Bond	\$ 1,253,087	\$ -	\$ 23,459	1,229,628	\$ 24,537
Series 2005B Bond	147,401	-	2,836	144,565	2,962
Series 2006 Bond	65,515	-	1,131	64,384	1,183
	<u>\$ 1,466,003</u>	<u>\$ -</u>	<u>\$ 27,426</u>	<u>\$ 1,438,577</u>	<u>\$ 28,682</u>

**Note 8. Debt Service and Cushion Fund**

The 2005A, 2005B and 2006 Series Bond Resolutions require the establishment of a debt service fund to facilitate the payment of the bonds when they become due. Each month, the Town is required to deposit an amount that would be sufficient to pay the monthly interest and principal on the bonds.

**TOWN OF McBEE, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Continued)**

The 2005A, 2005B and 2006 Series Bond Resolutions require the establishment of cushion funds to facilitate a reserve equal to the highest annual principal and interest requirements on the bonds. Each month, the Town is required to deposit 1/10 of the monthly principal and interest payments until the account is equal to the highest annual principal and interest requirement on the bonds.

On June 30, 2018, all Debt Service and Cushion Funds totaled \$92,986. The Town is in compliance with the Debt Service and Cushion Fund requirements.

**Note 9. Depreciation and Contingency Fund**

The 2005A, 2005B and 2006 Series Bond Resolutions require the establishment of a depreciation and contingency fund to facilitate the payment of replacement and improvement costs. The Town is not required to maintain a minimum balance in these accounts. On June 30, 2018, the Depreciation and Contingency Funds totaled \$16,262. The Town is in compliance with the Depreciation and Contingency Fund requirements.

**Note 10. Employee Retirement Systems**

*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.

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

SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and

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coroners may elect membership in PORS. Magistrates are required to participate in 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.

*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. 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.



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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.

*Contributions-* Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, The PEBA Board may adopt and present to the Budget and Control Board for approval and increase the SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and 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 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 board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, 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 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 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 increases employer contribution rates to 13.56 percent for SCRS and 16.24 percent for 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 SCRS and 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 SCRS and 21.24 percent for 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.