

GAFFNEY BOARD OF PUBLIC WORKS

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
MARCH 31, 2019 AND 2018**

GAFFNEY BOARD OF PUBLIC WORKS
FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

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To the Board of Commissioners of
Gaffney Board of Public Works
Gaffney, South Carolina

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of Gaffney Board of Public Works as of and for the years ended March 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Gaffney Board of Public Works' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Gaffney Board of Public Works' 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 audits. We conducted our audits 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate remaining fund information of Gaffney Board of Public Works as of March 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Commissioners of
Gaffney Board of Public Works
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Emphasis-of-Matter

As discussed in Note 15 to the financial statements, in March 31, 2019, the Gaffney Board of Public Works adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of changes in net OPEB liability and related ratios, investment returns, and contributions, and schedules of the Board's proportionate share of the collective net pension liability and contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Gaffney Board of Public Works' basic financial statements. The supplementary schedules of departmental operations and historical statements of revenues, expenses and debt service coverage are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules, as detailed above, are the responsibility of management and were derived from and relate 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 audits 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McAbee, Schwartz, Haliday & Co.

Spartanburg, South Carolina
August 3, 2019

**Board of Public Works
Management's Discussion and Analysis (Unaudited)**

This section represents management's analysis of the Board's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the Board's financial condition is very strong. During FY 2019 revenues have decreased in water but increased in the sewer and electric departments. Overall, operating expenses have decreased. Departmentally, water, sewer and administrative expenses have increased while electrical and depreciation expenses have decreased. The contributing factors to the increases in expenses were plant operations and maintenance, materials and supplies, chemicals and lastly salaries. A new construction crew was added to the water and sewer maintenance department to prepare for the I-85 widening and related utility relocations. As for the electrical department decreases, PMPA voted to implement a \$21 million credit to all participants over an eleven month period due to a reduction in PMPA's working capital needs in February 2018, the PMPA board approved a similar credit to continue through December 2019. The Board has continued to improve service, provide for future growth, and maintain a very stable and competitive rate structure. Also, the Board has remained well within its debt covenants, with stringent financial policies and guidelines set by the Board and management. The following are key financial highlights for FY 2019 and FY 2018.

Total assets and deferred outflows of resources for FY 2019 year-end were \$59,905,724 and exceeded liabilities and deferred inflows of resources by \$37,848,819. Of the total net position, \$17,852,360 was unrestricted. Total assets and deferred outflows of resources for FY 2018 year-end were \$62,391,022 and exceeded liabilities and deferred inflows of resources by \$41,460,705. Of the total net position, \$22,438,647 was unrestricted. Total net position decreased compared to prior year. The current year operations resulted in an increase in net position of \$3,993,047, but the Board implemented GASB Statement 75, *Accounting and Financial Reporting for Post Employment Benefits Other than Pensions*, which required restating the Board's beginning net position as of April 1, 2018. The restatement resulted in a decrease in beginning net position of \$7,604,933, creating the overall decrease in net position of \$3,611,886 from FY 2018 to FY 2019.

Debt service coverage was 523% in FY 2019 and 402% in FY 2018; both years exceeded the 120% required by the Board's Bond covenants.

For FY 2019, the Board sold approximately 247 million kwh of electricity and 2.09 billion gallons of potable water and treated 1.14 billion gallons of wastewater. This compares to 223 million kwh of electricity, 2.13 billion gallons of potable water, and 1.16 billion gallons of wastewater in FY 2018.

Operating revenues for FY 2019 were \$38,380,626 as compared to \$37,998,444 for FY 2018.

Operating expenses for FY 2019 were \$35,328,740 as compared to \$36,836,340 for FY 2018. Management and staff are continually evaluating operations to control and/or reduce costs and improve efficiency.

Interest income on investments increased over last year with the continued improvement in interest rates on the certificate of deposits. Interest income for FY 2019 totaled \$123,576 compared to \$87,183 for FY 2018.

The Board transferred 3.05% of electric sales, the equivalent of a franchise fee to the City of Gaffney in accordance with our Intergovernmental Agreement. The transfer for FY 2019 was \$693,771 compared to \$672,456 for FY 2018.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements, notes to the financial statements, and supplementary information. The MD&A represents management's examination and analysis of the Board's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Board's strategic plan, budget, bond resolutions, and other management tools were used for this analysis.

The basic financial statements consist of the Enterprise Fund, which is a type of Proprietary Fund to account for its electric, water, and sewer operations, that reports information about the Board using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include statements of net position; statements of revenues, expenses, and changes in net position; statements of cash flows; and notes to the financial statements. The financial statements also include the Pension (Other Post-Employment Benefits) Trust Fund, a type of Fiduciary Fund, used to account for resources held in trust for retirees and beneficiaries covered by the Board's Retiree Healthcare Plan. The accounting for the fiduciary fund is much like that used for the proprietary fund.

The *statements of net position* present the financial position of the Board on a full accrual basis. The statements of net position present information on all the Board's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in the net position are one indicator of whether the financial position of the Board is improving or deteriorating.

While the statements of net position provide information about the nature and amount of resources and obligations at year-end, the *statements of revenues, expenses, and changes in net position* present the results of the business and fiduciary activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. These statements also provide certain information about the Board's recovery of its costs. Rate setting policies are different methods of cost recovery not fully provided for by general accepted accounting standards. The primary objectives of the rate model are to improve equity among customer classes and to insure that capital costs are allocated on a basis of long term capacity needs, ensuring growth pays for growth.

The *statements of cash flows* present changes in cash and cash equivalents, resulting from operational, financing, and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital costs.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Board's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

In addition to the basic financial statements and accompanying notes, this report also presents certain **Required Supplementary Information** concerning the Board's proportionate share of the collective net pension liability and contributions to the retirement system, as well as the schedules in changes in the net OPEB liability and ratios, contributions and investment returns. **Supplementary information**, immediately following the *required supplementary information*, includes detail schedules of departmental operations and historical statements of revenues, expenses and debt service coverage.

Financial Analysis

The following comparative condensed financial statements and other information serve as the key financial data and indicators for management, monitoring, and planning.

Condensed Financial Statements

Condensed Statements of Net Position

Assets:	3/31/2019	3/31/2018	3/31/2017
Current and Other Assets	\$ 35,493,216	\$ 38,452,919	\$ 36,094,926
Capital Assets	22,560,728	22,273,081	24,009,356
Total Assets	58,053,944	60,726,000	60,104,282
Total Deferred Outflows of Resources	1,851,780	1,665,022	1,355,562
Liabilities:			
Current Liabilities	7,995,170	7,471,748	7,438,291
Long-Term Liabilities	13,944,889	13,375,316	13,700,414
Total Liabilities	21,940,059	20,847,064	21,138,705
Total Deferred Inflows of Resources	116,846	83,253	-
Net Position:			
Net Investment in Capital Assets	19,193,742	18,689,412	19,222,297
Restricted for Debt Service Reserve Fund	333,230	332,646	332,655
Restricted for Capital Projects	469,487	-	-
Unrestricted	17,852,360	22,438,647	20,766,187
Total Net Position	\$ 37,848,819	\$ 41,460,705	\$ 40,321,139

Condensed Financial Statements - continued

Condensed Statements of Revenues, Expenses, and Changes in Net Position

Revenues:	3/31/2019	3/31/2018	3/31/2017
Operating Revenues			
Water Department	\$ 7,081,075	\$ 7,236,146	\$ 6,815,542
Sewer Department	6,129,410	6,098,863	5,774,789
Electrical Department	25,170,141	24,663,435	24,264,540
Non-operating Revenues	119,779	102,298	32,610
Total Revenues	38,500,405	38,100,742	36,887,481
Expenses:			
Operating Expenses, Excluding Depreciation			
Water Department	4,522,131	4,107,843	4,015,377
Sewer Department	3,349,564	3,252,700	3,176,725
Electrical Department	20,480,669	22,529,285	23,253,173
Warehouse, Clinic/Safety, and Administrative Departments	4,144,977	3,981,501	3,362,722
Depreciation Expense	2,831,399	2,965,011	3,406,487
Non-operating Expenses	113,906	136,836	159,606
Total Expense	35,442,646	36,973,176	37,374,090
Excess (Deficiency), Before Capital Contributions	3,057,759	1,127,566	(486,609)
Capital Contributions	935,288	12,000	350,000
Increase (Decrease) in Net Position	3,993,047	1,139,566	(136,609)
Net Position Beginning of Year - Restated	33,855,772	40,321,139	40,457,748
Net Position End of Year	\$ 37,848,819	\$ 41,460,705	\$ 40,321,139

General Trends and Significant Events

In FY 2019 the overall number of electric and water accounts decreased. Electric service accounts decreased overall by 28; water service accounts decreased by 28 also and lastly wastewater accounts increased by 53. The decreases in the electrical and water accounts were mainly from reduced residential customers and the increase in wastewater accounts was due to the expansion of an apartment complex that only needed wastewater services from the Board.

The Board had 247 million kwh electrical sales for FY 2019 and 223 million kwh in FY 2018, for a total increase of 10.8% in electrical sales. Suminoe was the Board's largest electric demand customer in 2019 and 2018.

The volume of water sold in FY 2019 was approximately 2.096 billion gallons and 2.127 billion gallons was sold in FY 2018, netting a decrease in sales of 1.46%. The FY19 decrease in sales was seen in the industrial customer category. Retail customers purchased approximately 76% and 77% of total water sales in FY 2019 and FY 2018, respectively. During FY 2019 and FY 2018, the Nestle Corporation was the Board's largest water customer, accounting for approximately 11% in FY 2019 and 15% in FY 2018 of total water sales. FY 2019 wholesale water sales accounted for 21% of the total sales. During FY 2018 20% of total water sales was in the wholesale category. The City of Blacksburg was the largest wholesale customer for FY 2019 and FY 2018.

The volume of wastewater billed in FY 2019 was 1.14 billion gallons which was 1.72% less than FY 2018 sales. During FY 2018 the volume of wastewater billed was 1.16 billion gallons which was 4.5% greater than FY 2017 sales. During FY 2019 and FY 2018, the Nestle Corporation was the Board's largest sewer customer.

Financial Condition

The Board experienced an increase in its net position of \$3,993,047 for FY 2019 after experiencing an increase of \$1,139,566 for FY 2018. The Board's financial condition remains strong at year-end with adequate liquid assets, reliable facilities to meet demand, and a reasonable level of an unrestricted net position. The current financial condition, technical support staff capabilities, and operating and expansion plans to meet anticipated customer needs are well balanced and under control.

Total assets and deferred outflows of resources combined for FY 2019 were \$59,905,724 with a \$19,193,742 net investment in capital assets, \$333,230 restricted for the debt service reserve fund, \$469,487 restricted for capital projects, and \$17,852,360 unrestricted for a \$37,848,819 total net position. Total assets and deferred outflows of resources combined in FY 2018 were \$62,391,022 with a \$18,689,412 net investment in capital assets, \$332,646 restricted for the debt service reserve fund and \$22,438,647 unrestricted for a \$41,460,705 total net position.

Accounts receivable for FY 2019 were \$2,946,337 compared to \$2,792,687 in FY 2018.

Results of Operations

Operating Revenues:

Revenues from operations fall into three categories: electric service, water service and wastewater service. The ancillary charges such as tap fees, service charges and penalties are shown in each of the respective categories. The Board has inside and outside the city residential, commercial and industrial water and sewer customer classes. The Board has seven electric customer classifications, residential all gas, residential gas hot water heater, residential total electric, commercial, commercial total electric, industrial and economic development.

The average realized rate from electrical sales in FY 2019 was \$101.90 per thousand kwh delivered compared to \$110.60 and \$103.69 in FY 2018 and FY 2017, respectively. The average realized rate from water sales in FY 2019 was \$3.38 per thousand gallons compared to \$3.40 and \$3.21 in FY 2018 and FY 2017, respectively. The average realized rate from wastewater treatment in FY 2019 was \$5.38 per thousand gallons treated compared to \$5.26 and \$5.20 in FY 2018 and FY 2017, respectively.

Operating Expenses:

The Board operates and maintains an electrical distribution system, a potable water treatment and delivery system and, a wastewater collection and treatment system. The overhead electrical distribution system consists of 18 dedicated circuits originating from 6 different outdoor substations. The water is treated at the Victor Gaffney and Cherokee Water Treatment Plants with a capacity of 12 million gallons per day and 6 million gallons per day, respectively. During FY 2019, 2018 and 2017, the Cherokee Water Treatment plant did not operate due to decreased system demands. The wastewater is treated at the Broad River and Clary Wastewater Treatment Plants with a capacity of 4.0 million gallons per day and 5.0 million gallons per day, respectively.

The following table shows the operating expenses for each of the departments.

<u>Actual Amounts in 1000s</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Water operating expenses			
Total	\$ 5,519	\$ 5,077	\$ 5,377
Excluding depreciation	4,522	4,108	4,015
Wastewater operating expenses			
Total	\$ 4,072	\$ 4,139	\$ 4,044
Excluding depreciation	3,349	3,253	3,177
Electric operating expenses:			
Total	\$ 21,515	\$ 23,555	\$ 24,331
Excluding depreciation	20,481	22,529	23,253

The average electric operating cost per thousand kwh delivered was \$87.11 in FY 2019 versus \$105.63 and \$103.98 in FY 2018 and FY 2017, respectively. The average water operating cost per thousand gallons consumed was \$2.63 in FY 2019 versus \$2.39 and \$2.53 in FY 2018 and FY 2017, respectively. The wastewater operating cost per thousand gallons treated was \$3.57 in FY 2019 versus \$3.57 and \$3.63 in FY 2018 and FY 2017, respectively. The domestic component of the wastewater flow is relatively constant and directly proportional to the domestic water flow but the industrial component and required treatment fluctuates with the strength of the industrial waste stream. The sewer surcharge rates, industrial discharge permits and other associated fees related to the industrial wastewater are designed to recover the additional expenses incurred due to the higher strength waste. The relatively stable cost per thousand gallons is an indication that the industrial fee structure is effective in recovering those costs.

Capital Contributions and Grants:

The Board agrees to own and operate water and sewer lines that are funded by developers as long as the facilities are installed in accordance with the Board’s specifications. The Board also receives contributions from developers and occasionally, contributions from federal/state agencies and other entities in the form of grants for capital projects.

During FY 2019, the total contributed assets were \$935,288; the following contributions and grants make-up that amount:

- 0.68 acres of land at the intersection of East O’Neal Street and East Knott Street was deeded to the Board by the heirs of the John Weatherford Estate, valued at \$21,769.
- November 6, 2017, the Board was awarded a \$473,000 grant from the Rural Infrastructure Authority for the construction of the Rutledge Drive and Suez Street Sewer Line Replacement Project. As of March 31, 2019, the project was still in progress, however, \$131,019 of those grant funds were spent and reimbursed during the current year.
- The Board agreed to the construction of a trail around Lake Whelchel. The Carolina Thread Trail awarded and the Board received \$150,000 in grant funds for the construction of the trail.
- The Board was awarded and received a \$632,500 grant from the Santee Cooper Municipal Site Readiness Fund for the construction of a sewer line to serve a large industrial park being constructed off Peachoid Road. Along with sewer service, the Board received an agreement from the property owner giving the Board exclusive rights to provide electric service to the property.

Cash Flow Activity

The following table shows the Board's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues.

	2019	2018	2017
Total operating revenues	\$ 38,380,626	\$ 37,998,444	\$ 36,854,871
Net cash provided by operations	6,144,399	3,981,206	3,592,113
Net operating cash as a % of operating revenue	16.0%	10.5%	9.7%

Capital Assets and Debt Administration

Capital Assets

At the end of FY 2019, the Board had \$22,560,728 invested in capital assets as provided in the following schedule:

	2019	2018	2017
Transmission, Distribution, and Treatment Facilities	\$ 132,112,731	\$ 130,519,216	\$ 129,238,464
Property and Other Facilities	5,332,120	5,310,351	5,247,449
Vehicles, Office and Maintenance Equipment	6,481,573	6,240,839	6,236,419
Construction in Progress	1,181,085	39,473	393,546
	145,107,509	142,109,879	141,115,878
Accumulated Depreciation	(122,546,781)	(119,836,798)	(117,106,522)
	\$ 22,560,728	\$ 22,273,081	\$ 24,009,356

For FY 2019, the Board spent \$2,211,205 on significant improvements, compared to \$677,642 and \$1,055,975 in FY 2018 and FY 2017, respectively. The FY 2019 capital expenses included significant additions to construction in progress of \$1,018,062 for the Cherokee Filter Upgrade II, Lake Whelchel Walking Trail, Rutledge/Suez sewer line replacement, and Jennie Lane Industrial Park projects. The additional significant improvements of \$1,193,143 was made up of the purchases of various electrical meter services and outdoor lights, water plant basin treatment, and various water and sewer plant equipment. For more information on the changes in capital assets, see Note 3 to the financial statements.

Debt Administration

Rate Covenant

In the Board's Bond Resolution, the Board covenants and agrees that it will operate the System in an efficient and economical manner and establish and collect rates and charges for the services and facilities furnished by the Board. Those rates and charges with other income will yield annual Net Revenues in the fiscal year equal to at least one hundred twenty percent (120%) of the amounts required to be deposited into each Bond and Interest Redemption Fund for the current Fiscal Year. The Board's Total Debt Service Coverage for FY19 was 5.23. Net revenues are defined by the bond resolution to mean, the revenues of the System after deducting the expenses of operating and maintaining the System.

If in any Fiscal Year the revenues are insufficient to satisfy the rate covenant, the Bond Resolution obligates the Board to employ a Consulting Engineer to examine the fees, rates, and other charges of the System and methods of the operations of the system and make recommendations as the Consulting Engineer believes are appropriate to enable the Board to satisfy the rate covenant.

For revenue bond debt service coverage from March 31, 2010 through 2019 see Schedule 3-5 of the Financial Statements.

Outstanding Debt

The Board has \$2,572,000 in long-term debt outstanding at FY 2019, as provided in the following schedule:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenue Bonds			
2009 Combined Utility System Refunding Bond	\$ 900,000	\$ 1,170,000	\$ 1,435,000
2015 Combined Utility System Refunding Bond	<u>1,672,000</u>	<u>2,491,000</u>	<u>3,300,000</u>
Total Long-term Debt Outstanding	<u>\$ 2,572,000</u>	<u>\$ 3,661,000</u>	<u>\$ 4,735,000</u>

The Board had no significant transactions during the year. For more information on changes in long-term liabilities, see Note 4 to the financial statements.

Economic Factors

There were no significant economic issues in FY19. The positive financial position at year end confirms the Board continues to take necessary measures to keep the utility in a stable economic position.

Request for Information

This financial report is intended to provide a general overview of the Board’s finances. For questions concerning this report or other requests for financial information, please contact:

General Manager
 Gaffney Board of Public Works
 P.O. Box 64
 Gaffney, South Carolina 29342
 (864) 488-8800

GAFFNEY BOARD OF PUBLIC WORKS
STATEMENTS OF NET POSITION - PROPRIETARY FUND
MARCH 31, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2019	2018
Current Assets		
Cash	\$ 19,332,004	\$ 17,138,880
Investments	3,133,105	2,828,214
Accounts receivable - net of allowance for doubtful accounts of \$67,770 and \$64,857 at March 31, 2019 and 2018, respectively	2,946,337	2,792,687
Other receivables	1,908,438	1,840,997
Inventories	1,471,919	1,376,379
Prepaid expenses	190,616	156,233
Total Current Assets	28,982,419	26,133,390
Noncurrent Assets		
Restricted cash	3,746,723	3,122,164
Investments	2,764,074	2,975,859
Capital assets - nondepreciable	3,002,886	1,839,505
Capital assets - net of accumulated depreciation	19,557,842	20,433,576
Net other post employment benefit asset	-	6,221,506
Total Noncurrent Assets	29,071,525	34,592,610
Total Assets	58,053,944	60,726,000
Deferred Outflows of Resources		
Deferred loss on refundings	59,369	87,993
Deferred amounts related to pensions	1,323,561	1,577,029
Deferred amounts related to OPEB	468,850	-
Total Deferred Outflows of Resources	1,851,780	1,665,022

GAFFNEY BOARD OF PUBLIC WORKS
STATEMENTS OF NET POSITION - PROPRIETARY FUND - CONTINUED
MARCH 31, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2019	2018
Current Liabilities		
Accounts payable	1,057,220	205,622
Accrued salaries and related withholdings	361,724	373,685
Accrued compensated absences	450,300	382,484
Accrued interest	4,900	6,649
Accrued expenses	2,065,520	2,315,289
Payable from restricted assets - customer deposits	2,944,006	2,789,519
Advanced tapping fees	2,500	309,500
Bonds payable - current portion	1,109,000	1,089,000
Total Current Liabilities	7,995,170	7,471,748
Long-term Liabilities		
Net pension liability	10,789,370	10,806,022
Net OPEB liability	1,694,370	-
Bonds payable - net of current portion	1,461,149	2,569,294
	13,944,889	13,375,316
Total Liabilities	21,940,059	20,847,064
Deferred Inflows of Resources		
Deferred amounts related to pensions	99,503	83,253
Deferred amounts related to OPEB	17,343	-
	116,846	83,253
Net Position		
Net investment in capital assets	19,193,742	18,689,412
Restricted - debt service reserve fund	333,230	332,646
Restricted - capital projects	469,487	-
Unrestricted	17,852,360	22,438,647
Total Net Position	\$ 37,848,819	\$ 41,460,705

The accompanying notes are an integral part of the financial statements.

GAFFNEY BOARD OF PUBLIC WORKS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
 PROPRIETARY FUND
 FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
Operating Revenues		
Water department	\$ 7,081,075	\$ 7,236,146
Sewer department	6,129,410	6,098,863
Electrical department	25,170,141	24,663,435
	38,380,626	37,998,444
Operating Expenses		
Water department	4,522,131	4,107,843
Sewer department	3,349,564	3,252,700
Electrical department	20,480,669	22,529,285
Warehouse, clinic/safety and administrative departments	4,144,977	3,981,501
Depreciation expense	2,831,399	2,965,011
	35,328,740	36,836,340
Operating Income (Loss)	3,051,886	1,162,104
Nonoperating Revenues (Expenses)		
Interest income	123,576	87,183
Gain (loss) on sale of capital assets	(3,797)	15,115
Interest expense	(113,906)	(136,836)
	5,873	(34,538)
Increase (Decrease) in Net Position - Before Capital Contributions	3,057,759	1,127,566
Capital Contributions	935,288	12,000
Increase (Decrease) in Net Position	3,993,047	1,139,566
Net Position - Beginning of Year - Restated	33,855,772	40,321,139
Net Position - End of Year	\$ 37,848,819	\$ 41,460,705

The accompanying notes are an integral part of the financial statements.

GAFFNEY BOARD OF PUBLIC WORKS
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 37,852,535	\$ 37,959,523
Cash paid to suppliers for goods and services	(21,978,855)	(25,245,398)
Cash paid to or for the benefit of employees	<u>(9,729,281)</u>	<u>(8,732,919)</u>
	<u>6,144,399</u>	<u>3,981,206</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Proceeds from the sale of capital assets	-	18,420
Acquisition and construction of capital assets	(3,097,278)	(1,217,102)
Capital contributions	913,519	-
Principal paid on revenue bonds	(1,089,000)	(1,074,000)
Interest paid	<u>(84,429)</u>	<u>(107,359)</u>
	<u>(3,357,188)</u>	<u>(2,380,041)</u>
Cash Flows Provided (Used) by Investing Activities		
Interest received on cash investments	123,576	87,183
Sale (purchase) of investments	<u>(252,773)</u>	<u>38,079</u>
	<u>(129,197)</u>	<u>125,262</u>
Net Increase in Cash and Cash Equivalents	2,658,014	1,726,427
Cash and Cash Equivalents - Beginning of Year	<u>20,592,503</u>	<u>18,866,076</u>
Cash and Cash Equivalents - End of Year	<u>\$ 23,250,517</u>	<u>\$ 20,592,503</u>

GAFFNEY BOARD OF PUBLIC WORKS
 STATEMENTS OF CASH FLOWS - PROPRIETARY FUND - CONTINUED
 FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	<u>\$ 3,051,886</u>	<u>\$ 1,162,104</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	2,831,399	2,965,011
Pension expense	838,206	959,980
OPEB expense	(140,564)	-
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(153,650)	(161,354)
Unbilled revenue	(67,441)	(145,067)
Inventories	(99,337)	(164,300)
Other current assets	(34,383)	(26,850)
Net other post employment benefit asset	-	(175,011)
Deferred outflows related to pensions	(585,139)	(451,764)
Increase (decrease) in liabilities:		
Accounts payable	851,598	(267,597)
Accrued salaries and related withholdings	(11,961)	112,769
Accrued compensated absences	67,816	-
Accrued interest	(1,749)	(1,680)
Accrued expenses	(249,769)	(166,792)
Customer deposits	154,487	74,257
Advanced tapping fees	(307,000)	267,500
	<u>3,092,513</u>	<u>2,819,102</u>
Net Cash Provided by Operating Activities	<u>\$ 6,144,399</u>	<u>\$ 3,981,206</u>
Noncash Investing, Capital and Financing Activities		
Contribution of capital assets	\$ 21,769	\$ 12,000
Disposal of capital assets	\$ (3,797)	\$ (3,305)
Amortization expense included in interest	\$ (29,477)	\$ (29,477)

GAFFNEY BOARD OF PUBLIC WORKS
 STATEMENTS OF CASH FLOWS - PROPRIETARY FUND - CONTINUED
 FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Cash and Investments as Shown on the Statements of Net Position and Statements of Cash Flows		
Statements of Net Position classifications		
Current assets		
Cash	\$ 19,332,004	\$ 17,138,880
Investments	<u>3,133,105</u>	<u>2,828,214</u>
	<u>22,465,109</u>	<u>19,967,094</u>
Noncurrent assets		
Restricted cash	3,746,723	3,122,164
Investments	<u>2,764,074</u>	<u>2,975,859</u>
	<u>6,510,797</u>	<u>6,098,023</u>
	<u>\$ 28,975,906</u>	<u>\$ 26,065,117</u>
Cash flow classifications		
Petty cash	\$ 2,500	\$ 2,300
Cash deposits	22,713,965	19,898,519
Money market funds	<u>534,052</u>	<u>691,684</u>
Total cash and cash equivalents	23,250,517	20,592,503
Certificates of deposit	<u>5,725,389</u>	<u>5,472,614</u>
	<u>\$ 28,975,906</u>	<u>\$ 26,065,117</u>

The accompanying notes are an integral part of the financial statements.

GAFFNEY BOARD OF PUBLIC WORKS
 STATEMENTS OF FIDUCIARY NET POSITION - OPEB TRUST FUND
 MARCH 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 10,023,795	\$ 9,639,585
Total Assets	<u>\$ 10,023,795</u>	<u>\$ 9,639,585</u>

LIABILITIES AND NET POSITION

Total Liabilities	\$ -	\$ -
Net Position Restricted for OPEB	<u>\$ 10,023,795</u>	<u>\$ 9,639,585</u>

The accompanying notes are an integral part of the financial statements.

GAFFNEY BOARD OF PUBLIC WORKS
 STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION - OPEB TRUST FUND
 FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
Additions		
Employer contributions	\$ 602,952	\$ 545,129
Net investment income - interest and accrued income	91,710	52,879
	694,662	598,008
Total Additions		
Deductions		
Benefit payments	302,952	245,129
Administrative expenses	7,500	7,500
	310,452	252,629
Total Deductions		
Net Increase in Net Position	384,210	345,379
Net Position Restricted for OPEB - Beginning of Year	9,639,585	9,294,206
Net Position Restricted for OPEB - End of Year	\$ 10,023,795	\$ 9,639,585

The accompanying notes are an integral part of the financial statements.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Gaffney Board of Public Works (the Board) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Board's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from these estimates.

Reporting Entity

The Gaffney Board of Public Works was created pursuant to Act No. 389 of the Acts and Joint Resolutions of the South Carolina General Assembly, 1907. This and other Acts empower the Board to be the sole provider of electric, water and sewer services within the corporate limits of the City of Gaffney and surrounding areas, to establish rules and regulations and to set rates for such services. The Board is governed by an elected five-member Board of Commissioners.

Financial Statements and Method of Accounting

Under accounting principles generally accepted in the United States of America (GAAP), the Board is considered to be a self-supporting enterprise, and these financial statements are presented accordingly. Enterprise funds, a type of proprietary fund, are used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles.

The Board's financial statements also provide information on the Board's other postemployment benefit (OPEB) trust fund, a Fiduciary Fund. The OPEB trust fund accounts for the activities of the Retiree Health Plan, which accumulate resources for medical costs for eligible retirees and their dependents.

Both the enterprise and OPEB trust funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Use of Restricted Resources

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

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

For purposes of reporting cash flows, all investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

Investments

Investments are reported at fair value.

Inventories

Inventories are stated at the lower of cost (moving average) or net realizable value. Inventories consist of expendable supplies held for consumption.

Capital Assets

Capital assets are stated at cost. Donated capital assets are recorded at estimated acquisition value on the date donated. Major outlays for capital assets and improvements of \$500 or more are capitalized as projects are constructed. Interest costs associated with monies borrowed and used to finance construction of capital projects have been expensed as a period cost in the year in which it became due.

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

	<u>Years</u>
Water plant and lines	20-50
Sewer plant and lines	20-33.3
Electrical	10-25
Office and warehouse buildings	20-40
Office Equipment	10
Equipment and vehicles	4-8

Compensated Absences

Eligible employees receive Personal Time Off (PTO) based on years of service ranging from five (5) to thirty (30) days annually. The PTO policy provides for no carry over from one calendar year to the next. All unused PTO as of December 31st is paid on an annual basis.

Long-term Debt

Bond premium and discounts are deferred and equally amortized over the life of the bonds.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows or 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 the SCRS' fiduciary net position have been determined on the accrual basis of accounting as it is reported by the SCRS in accordance with GAAP. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan.

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Outflows and Inflows of Resources

In the Statements of Net Position, in addition to assets and liabilities, separate sections for deferred outflows and deferred inflows of resources are reported. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an expense until then. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as revenue until that time. The Board's deferred outflows of resources are deferred amounts arising from refunding of debt and amounts related to the Board's defined benefit pension plan and other post-employment benefits (OPEB). The Board's deferred inflows of resources are amounts related to the Board's defined benefit pension plan and other post-employment benefits.

Capital Contributions

The Board frequently has contributions to its sewer and water system from developers and contractors. In addition, the Board receives grant monies for construction of improvements or extensions to its system at various times. These contributions are recognized in the Statements of Revenues, Expenses and Changes in Net Position when earned. For the years ended March 31, 2019 and 2018, the Board received capital contributions of \$935,288 and \$12,000, respectively.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Credit Risk - State statutes authorize the Board to invest in obligations of the United States and its agencies, general obligations (not revenue obligations) of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool. The Board has no formal investment policy that would further limit its investment choices.

Interest rate risk - the Board does not have a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At March 31, 2019 and 2018 the Board had the following investments:

Investment Type	Maturity	2019	2018	Rating
Dreyfus Treasury Prime Cash Management	<60 days	\$ 362,261	\$ 360,225	AAAm
Edward Jones Money Market Fund	<60 days	171,791	331,459	AAAm
		<u>\$ 534,052</u>	<u>\$ 691,684</u>	

The Gaffney Board of Public Works is required under bond indenture agreements and GASB to segregate certain assets. The following assets have been segregated and are restricted in use. The assets listed below are shown in their respective categories in the accompanying statements of net position.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

	2019	2018
Noncurrent Assets		
Restricted cash		
Debt service reserve fund	\$ 333,230	\$ 332,646
Capital projects	469,487	-
	802,717	332,646
Customer deposits	2,927,733	2,771,470
Operation HOPE	16,273	18,048
	2,944,006	2,789,518
	\$ 3,746,723	\$ 3,122,164

The following assets, although not legally restricted, have been designated by the Board:

	2019	2018
Depreciation fund	\$ 12,237,597	\$ 10,737,597
Contingency fund	8,448,182	7,448,182
	\$ 20,685,779	\$ 18,185,779

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 3 - CAPITAL ASSETS

Components of capital assets include the following for the fiscal years ended March 31, 2019 and 2018:

	2019				Balance at March 31, 2019
	Balance at March 31, 2018	Additions	Deletions	Transfers	
Capital Assets					
Non depreciable					
Land and land rights	\$ 1,800,032	\$ 21,769	\$ -	\$ -	\$ 1,821,801
Construction in progress	39,473	1,305,957		(164,345)	1,181,085
	<u>1,839,505</u>	<u>1,327,726</u>	<u>-</u>	<u>(164,345)</u>	<u>3,002,886</u>
Depreciable					
Water plant and lines	52,053,426	767,804	(1,381)	77,962	52,897,811
Sewer plant and lines	42,057,065	222,428	-	10,000	42,289,493
Electrical distribution and transmission lines	36,408,725	507,437	(67,118)	76,383	36,925,427
Office and warehouse buildings	3,510,319	-	-	-	3,510,319
Office equipment	1,863,695	142,824	(52,917)	-	1,953,602
Equipment and vehicles	4,377,144	150,827	-	-	4,527,971
	<u>140,270,374</u>	<u>1,791,320</u>	<u>(121,416)</u>	<u>164,345</u>	<u>142,104,623</u>
	<u>142,109,879</u>	<u>3,119,046</u>	<u>(121,416)</u>	<u>-</u>	<u>145,107,509</u>
Accumulated Depreciation					
Water plant and lines	42,984,249	917,099	(1,381)	-	43,899,967
Sewer plant and lines	37,305,328	704,835	-	-	38,010,163
Electrical distribution and transmission lines	30,671,035	868,463	(67,118)	-	31,472,380
Office and warehouse buildings	3,125,465	41,217	-	-	3,166,682
Office equipment	1,621,924	95,699	(52,917)	-	1,664,706
Equipment and vehicles	4,128,797	204,086	-	-	4,332,883
	<u>119,836,798</u>	<u>2,831,399</u>	<u>(121,416)</u>	<u>-</u>	<u>122,546,781</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 22,273,081</u>				<u>\$ 22,560,728</u>

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 3 - CAPITAL ASSETS - CONTINUED

	2018				Balance at March 31, 2018
	Balance at March 31, 2017	Additions	Deletions	Transfers	
Capital Assets					
Non depreciable					
Land and land rights	\$ 1,751,097	\$ 48,935	\$ -	\$ -	\$ 1,800,032
Construction in progress	393,546	71,465		(425,538)	39,473
	<u>2,144,643</u>	<u>120,400</u>	<u>-</u>	<u>(425,538)</u>	<u>1,839,505</u>
Depreciable					
Water plant and lines	51,750,932	300,071	-	2,423	52,053,426
Sewer plant and lines	42,012,653	75,726	(31,314)	-	42,057,065
Electrical distribution and transmission lines	35,474,879	583,852	(75,544)	425,538	36,408,725
Office and warehouse buildings	3,496,352	13,967	-	-	3,510,319
Office equipment	1,795,251	135,086	(64,219)	(2,423)	1,863,695
Equipment and vehicles	4,441,168	-	(64,024)	-	4,377,144
	<u>138,971,235</u>	<u>1,108,702</u>	<u>(235,101)</u>	<u>425,538</u>	<u>140,270,374</u>
	<u>141,115,878</u>	<u>1,229,102</u>	<u>(235,101)</u>	<u>-</u>	<u>142,109,879</u>
Accumulated Depreciation					
Water plant and lines	42,084,393	899,856	-	-	42,984,249
Sewer plant and lines	36,491,935	844,707	(31,314)	-	37,305,328
Electrical distribution and transmission lines	29,902,487	844,092	(75,544)	-	30,671,035
Office and warehouse buildings	3,084,481	40,984	-	-	3,125,465
Office equipment	1,596,738	89,039	(63,853)	-	1,621,924
Equipment and vehicles	3,946,488	246,333	(64,024)	-	4,128,797
	<u>117,106,522</u>	<u>2,965,011</u>	<u>(234,735)</u>	<u>-</u>	<u>119,836,798</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 24,009,356</u>				<u>\$ 22,273,081</u>

Depreciation expense for the fiscal years ending March 31, 2019 and 2018 was \$2,831,399 and \$2,965,011, respectively.

NOTE 4 - LONG-TERM DEBT

Components of long-term debt include the following for the fiscal years ending March 31, 2019 and 2018.

	2019				
	Balance at March 31, 2018	Additions	Reductions	Balance at March 31, 2019	Due Within One Year
Bonds Payable:					
Revenue bonds	\$ 3,661,000	\$ -	\$(1,089,000)	\$ 2,572,000	\$1,109,000
Less deferred amounts Bond discount	(2,706)	-	855	(1,851)	-
	<u>\$ 3,658,294</u>	<u>\$ -</u>	<u>\$(1,088,145)</u>	<u>\$ 2,570,149</u>	<u>\$1,109,000</u>

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 4 - LONG-TERM DEBT - CONTINUED

	2018				
	Balance at March 31, 2017	Additions	Reductions	Balance at March 31, 2018	Due Within One Year
Bonds Payable:					
Revenue bonds	\$ 4,735,000	\$ -	\$(1,074,000)	\$ 3,661,000	\$1,089,000
Less deferred amounts					
Bond discount	(3,561)	-	855	(2,706)	-
	<u>\$ 4,731,439</u>	<u>\$ -</u>	<u>\$(1,073,145)</u>	<u>\$ 3,658,294</u>	<u>\$1,089,000</u>

Revenue bonds payable at March 31, 2019 and 2018 were comprised of the following issues:

	2019	2018
\$3,320,000 Combined Utility System Refunding Revenue Bonds, Series 2009 of the City of Gaffney, South Carolina, dated May 20, 2009. Annual maturities of \$220,000 to \$620,000 and semi-annual interest rates from 1.30% to 4.00% maturing in 2021. Bonds were issued to refund the remaining balance of the series 2001 bonds.	900,000	1,170,000
\$4,889,000 Combined Utility System Refunding Revenue Bonds, Series 2015 of the City of Gaffney, South Carolina, dated March 16, 2015. Annual maturities of \$792,000 to \$843,000 and semi-annual interest rate of 1.45% maturing in 2021. Bonds were issued to refund the remaining balance of the series 2005 and	1,672,000	2,491,000
	2,572,000	3,661,000
Less current maturities	1,109,000	1,089,000
Bonds payable - net of current portion	\$ 1,463,000	\$ 2,572,000

Debt service requirements to maturity for the Revenue Bonds are as follows:

Fiscal Year Ended March 31	Principal	Interest	Total
2020	1,109,000	60,104	1,169,104
2021	1,463,000	37,024	1,500,024
	\$ 2,572,000	\$ 97,128	\$ 2,669,128

Arbitrage rebate liabilities

Arbitrage represents the difference or "spread" between lower interest rates on tax-exempt government securities and the higher interest on taxable investment securities. The Internal Revenue Code requires local governments to rebate arbitrage earnings to the federal government every five years for as long as the local government has tax-exempt bonds outstanding. No estimate of potential liability, if any, has been made on the accompanying financial statements.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 5 - DEFEASANCE OF DEBT AND ADVANCED REFUNDINGS

The proceeds from previous bonds issued that defeased certain bonds in prior years were placed in an irrevocable trust to provide for all future debt payments on the old bonds. Accordingly, the trust accounts' assets and the liabilities for the defeased bonds are not included in the Board's financial statements. At March 31, 2019 and 2018, there are no bonds outstanding considered defeased from prior years.

In current and prior years, advance refundings resulted in book losses that are being amortized over the original remaining life of the old bonds that were defeased or the life of the new bonds, whichever is shorter. The unamortized losses at March 31, 2019 and 2018 are included as a deferred outflow of resources on the statements of net position. Amortization has been included in interest expense and was \$28,623 for both the years ended March 31, 2019 and 2018.

NOTE 6 - PENSION PLAN

Plan Description - The Board, as the employer, participates in the South Carolina Retirement System (SCRS) Plan - a cost-sharing multiple-employer defined benefit pension plan administered and managed by the South Carolina Public Employee Benefit Authority (PEBA), a state agency. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

Benefits Provided/Membership - SCRS provides retirement and other benefits for teachers and employees of the state, and its political subdivisions. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. 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. Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary.

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. 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.

An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member. 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.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

Benefits Provided/Membership - Continued

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or \$500 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.

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

After June 30, 2027, if the most recent annual actuarial valuation of the SCRS for funding purposes shows a ratio of the actuarial value of the system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85%, then the board, effective on the following July 1st, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85%. The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9%. The employer contribution rates will continue to increase annually by 1% through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56%. The amortization period is scheduled to be reduced one year for each of the next 10 years to a 20 year amortization period. Required employee (both Class II and III) contribution rates for the years ended March 31, 2019 and 2018 was 9.00%. Required employer contribution rates for the years ended March 31, 2019 and 2018 was 14.41% and 13.41%, respectively. Both required employee and employer contribution rates are calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws. Employers also contribute an additional .15% of earnable compensation, if participating in the death benefit program.

Contributions to the Plan from the Board were \$755,374 and \$646,947, for the years ended March 31, 2019 and 2018, respectively. For the State's year ended June 30, 2018, the State General Assembly appropriated funds to cover 1% of the 2% contribution rate increase for all employers participating in the State retirement plans. The total contributions paid on behalf of the Board by the General Assembly for SCRS for the year ended March 31, 2018 was \$46,443 and included in the deferred outflows of resources – pensions. For the year ended March 31, 2019, the \$46,443 paid on behalf of the Board was recognized as other operating revenues.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At March 31, 2019, the Board reported a net pension liability of \$10,789,370 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability, net pension liability and sensitivity information are based on an actuarial valuation performed as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. The allocation of the Board's proportion shares of the collective net pension liability and pension expense were calculated on the basis of the Board's contributions actually remitted to the plan relative to the total contributions remitted to the plan for all participating employers, less employer contributions that are not representative of future contributions effort, as of June 30, 2018. Based upon this information, the Board's proportion of the collective net pension liability was .048152%, an increase of .00015%, since June 30, 2017, the prior measurement date.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

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

For the years ended March 31, 2019 and 2018, the Board recognized pension expense of \$884,647 and \$959,980, respectively. At March 31, 2019 and 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

2019		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 138,971	\$ (99,503)
Changes in assumptions	428,062	-
Net difference between projected and actual earnings on pension plan investments	171,389	-
Board contributions subsequent to the measurement date	585,139	-
Total	\$ 1,323,561	\$ (99,503)
2018		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 191,035	\$ (83,253)
Changes in assumptions	632,577	-
Net difference between projected and actual earnings on pension plan investments	301,653	-
Board contributions subsequent to the measurement date	451,764	-
Total	\$ 1,577,029	\$ (83,253)

\$585,139 reported as deferred outflows of resources related to pensions in 2019, resulted from Board contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended March 31, 2020. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2020	\$ 443,520
2021	322,090
2022	(109,426)
2023	(17,265)
	\$ 638,919

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

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

The June 30, 2018 total pension liability, net pension liability, and sensitivity information determined by the July 1, 2017 valuation, used the following actuarial assumptions and methods:

Actuarial cost method	Entry age normal
Inflation	2.25%
Projected salary increases	3.0% to 12.5% (varies by service and includes 2.25% inflation)
Benefit adjustments	lesser of 1% or \$500 annually
Investment rate of return	7.25% (includes 2.25% inflation)

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

The long-term expected rate of return on pension plan investments is based upon 30 year capital markets assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation, and is summarized in the following table. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes 5.00% real rate of return and a 2.25% inflation component.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Portfolio Real Rate of Return</u>
Global Equity	47%	3.38%
Real Assets	10%	0.42%
Opportunistic	13%	0.48%
Diversified Credit	18%	0.65%
Conservative Fixed Income	12%	0.10%
Total Expected Real Return	<u>100%</u>	<u>5.03%</u>
Inflation for Actuarial Purposes		<u>2.25%</u>
Total Expected Nominal Return		<u><u>7.28%</u></u>

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Board's proportionate share of the collective net pension liability calculated using the discount rate of 7.25%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Board's proportionate share of the collective net pension liability	\$ 13,786,811	\$ 10,789,370	\$ 8,646,486

Pension Plan Fiduciary Net Position - Detailed information regarding the fiduciary net position of the plan, administered by PEBA, is available in the Systems' audited financial statements for the fiscal year ended June 30, 2018 (including the unmodified opinion on the financial statements). Information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the accrual basis of accounting. Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2018. The additional information is publically available on PEBA's Retirement Benefits' website at www.peba.sc.gov.

NOTE 7 - DEFERRED COMPENSATION PLANS

The Board offers its employees and Commissioners a deferred compensation plan through the South Carolina Deferred Compensation Commission, created in accordance with the Internal Revenue Code Sections 457 and 401(k). The plan, available to all Board employees and Commissioners, permits them to defer a portion of their salary, up to the maximum allowed by law, until future years. The Board does not "own" the amounts deferred by plan participants or the related income on those amounts and does not have a contractual liability to the plan participants, except as it relates to employer matching contributions.

The Board matches employee contributions to the Section 457 and 401(k) plans. Effective 4/1/2017, The Board increased its matching contribution from 50% as of March 31, 2017, to 100% for the year ending March 31, 2018. The Board's match for the fiscal years ended March 31, 2019 and 2018 was \$571,435 and \$617,073, respectively.

In addition, the Board matches contributions for selected management employees, up to the maximum amount allowed by the 457 and 401(k) plans and pays related personal income taxes, to nonqualified supplemental retirement plans. The Board's expense for the years ended March 31, 2019 and 2018 was \$93,166 and \$85,147, respectively, for the contributions and related income taxes.

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2019 AND 2018

NOTE 8 - POST RETIREMENT HEALTH CARE BENEFITS

Plan Description

Plan Administration and Benefits - The Gaffney Board of Public Works Retiree Healthcare Plan (the plan), is a single employer defined benefit plan, administered by the Board, governed by an elected 5 member Commission, to provide certain post-employment benefits (OPEB). The plan provides medical and dental insurance coverage through third-party insurers to all retirees and their dependents who meet the SCRS qualifications for unreduced retirement and have been employed by the Board a minimum of 20 consecutive years prior to their retirement from SCRS. Commissioners must have served two full terms or 12 consecutive years. Retirees must have attained the minimum age of 60 years prior to retirement and qualifying spouses must be the spouse on record at the time of the employee's retirement. The Board, upon majority vote of the elected 5 member Board of Commissioners, has the authority to establish and amend benefit provisions.

Plan Membership

Membership in the Plan as of March 31, 2016, the date of the latest actuarial valuation was:

Inactive plan members or beneficiaries receiving benefits	38
Active plan members	73
Total plan members	111

Contributions

The contribution requirements of plan members and the Board are established and may be amended by the Board of Commissioners, upon majority vote of its members. The Board pays the entire premium for eligible retirees under 65 with retiree only coverage. Retirees under 65 with dependent or family coverage pay \$75 per month. Medicare retirees (those retirees 65 and over) have their own supplemental health plan that is reimbursed monthly for their health and drug premiums from their supplemental plan by the Board. The Board contributes to the plan on a pay-as-you-go basis based on contractual insurance premiums and through separate contributions to the Gaffney, SC Board of Public Works Retirement Benefits Trust, a voluntary employee benefit association (VEBA) trust, as determined annually by the Board. The Board contributed \$602,952 and \$545,129 for the years ended March 31, 2019 and 2018, respectively, with \$300,000 each year set aside in the VEBA. The plan is accounted for as a trust fund as presented in the basic financial statements.

Investments

Investment policy - The Plan's policy in regard to the allocation of invested assets can be established and may be amended by the Board of Commissioners by a majority vote of its members. As of March 31, 2019, The Board of Commissioners has not established an investment policy.

The Board makes contributions to the VEBA throughout the year. The Trustee is responsible for maintaining records and accounts for the assets. The Board invests the assets in the VEBA in accordance with state statutes.

The assets are currently invested in cash and cash equivalents. As a result, the long-term rate of return was assumed to equal the long-term inflation assumption of 2.25%.

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2019 AND 2018

NOTE 8 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Investments - Continued

Rate of return - For the year ended March 31, 2019 and 2018, the annual money rate of return on investments (in this case, cash and cash equivalents), net of investment expenses, was .94% and .56%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for changing amounts actually invested.

Net OPEB Liability of the Board

The components of the net OPEB liability of the Board at March 31, 2019 and 2018 were as follows:

	2019	2018
Total OPEB liability	\$ 11,718,165	\$ 11,023,012
Plan fiduciary net position	(10,023,795)	(9,639,585)
Net OPEB liability	\$ 1,694,370	\$ 1,383,427
 Plan fiduciary net position as a percentage of the total OPEB liability	85.54%	87.45%

Actuarial Assumptions and Methods - the total OPEB liability was determined by an actuarial valuation as of March 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry Age
Asset Valuation Method	Market Value
Inflation	2.25%
Salary Increases	3.00% to 7.00%, including inflation
Investment Rate of Return	2.25%
Demographic Assumptions	Based on the experience study covering the five year period ending June 30, 2015 as conducted for the South Carolina Retirement System (SCRS). For the OPEB valuation, the standard SCRS retirement rates were adjusted to reflect the Board's retiree medical plan design.
Mortality Assumptions	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality table for Females are used with fully generational mortality projections from the year 2016 based on Scale AA from the year 2016. The following multipliers are applied to the base tables: 100% for male SCRS members, 111% for female SCRS members.
Health Care Trend Rates	<u>Pre-65</u> : Initial rate of 6.40% declining to an ultimate rate of 4.15% over 15 years; ultimate trend rate includes a 0.15% adjustment for the excise tax. <u>Post-65</u> : Initial rate of 6.30% declining to an ultimate rate of 4.00% after 14 years.
Participation Rates	It was assumed that 95% of eligible retirees would choose to receive retiree health care benefits through the employer.
Other Information	
Notes	The Health Care Trend Inflation assumptions were slightly updated to better reflect the plan's anticipated experience.

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2019 AND 2018

NOTE 8 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Actuarial Assumptions and Methods - continued

The actuarial valuation was performed as of March 31, 2018. Update procedures were used to roll forward the total OPEB liability to March 31, 2019.

Discount Rate

A Single Discount Rate of 2.25% was used to measure the total OPEB liability. This Single Discount Rate was based on the expected rate of return on OPEB plan investments of 2.25%. The OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of Net OPEB Liability

Regarding the sensitivity of the net OPEB liability to changes in the Single Discount Rate, the following represents the plan's net OPEB liability, calculated using a Single Discount Rate of 2.25%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher:

1% Decrease 1.25%	Current Single Discount Rate Assumption 2.25%	1% Increase 3.25%
\$ 4,011,852	\$ 1,694,370	\$ (125,208)

Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, the following represents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$ (413,797)	\$ 1,694,370	\$ 4,494,088

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 8 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Changes in the Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance as of March 31, 2018	\$ 11,023,012	\$ 9,639,585	\$ 1,383,427
Changes for the Year			
Service cost	351,643	-	351,643
Interest on the Total OPEB liability	248,566	-	248,566
Difference between expected and actual experience	417,684	-	417,684
Change of assumptions	(19,788)	-	(19,788)
Employer contributions	-	602,952	(602,952)
Net investment income	-	91,710	(91,710)
Benefit payments	(302,952)	(302,952)	-
Administrative expense	-	(7,500)	7,500
Net Changes	<u>695,153</u>	<u>384,210</u>	<u>310,943</u>
Balance as of March 31, 2019	<u>\$ 11,718,165</u>	<u>\$ 10,023,795</u>	<u>\$ 1,694,370</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended March 31, 2019, the Board recognized OPEB expense of \$411,686. At March 31, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience, liability	\$ 366,073	\$ -
Changes in assumptions	-	(17,343)
Difference between expected and actual experience, assets	102,777	-
	<u>\$ 468,850</u>	<u>\$ (17,343)</u>

The above deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending March 31	Net Deferred Outflows (Inflows)
2020	\$ 74,860
2021	74,860
2022	74,860
2023	74,861
2024	49,166
Thereafter	102,900
	<u>\$ 451,507</u>

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 9 - EMPLOYMENT AGREEMENTS

The Board has employment agreements with the two (2) management employees. The general manager's employment agreement provides for a minimum base salary, various benefits and a six (6) year severance package in the event of termination without cause. The operations engineer's employment agreement provides for a minimum base salary, various benefits and a three (3) year severance package in the event of termination without cause.

NOTE 10 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board is insured under policies through the South Carolina Office of Insurance Services, South Carolina Reserve Fund (the Fund) that is a public entity risk pool. The Board pays premiums to the Fund for its general liability, property and accidental insurance. The agreement for formation of the Fund provides that the Fund will be self-sustaining through member premiums and will reinsure through commercial companies for each insured event.

The Board did not have settled claims that exceeded the Board's insurance coverage in any of the past three years.

The Board provides group health insurance for all of its full time employees under the State Insurance Plan. The Board pays the employee and qualifying dependent premiums for this insurance plan. In addition to this plan, the Board provides employees and Commissioners with a health reimbursement account intended to assist in payment of increased deductibles and out of pocket, medical, dental, vision and prescription expenses.

The Board also participates in the South Carolina Municipal Insurance Trust for workers compensation insurance coverage up to the statutory limits.

NOTE 11 - INTERDEPARTMENTAL ALLOCATION OF COSTS

The Board records on its books, costs allocated to various departments, with the offsetting expense charged to the individual department. These amounts are included in the utility expenses of the administrative, clinic/safety, warehouse, water and sewer departments, and the offset is shown as a reduction of the total expenses of the water, sewer and electrical departments.

NOTE 12 - FRANCHISE FEES

The Board pays the City of Gaffney a fee of 3.05% of electricity sales. For the fiscal years ended March 31, 2019 and 2018, the Board paid the City \$693,771 and \$672,456, respectively, in franchise fees.

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2019 AND 2018

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Piedmont Municipal Power Agency

The City of Gaffney is a charter member of the Piedmont Municipal Power Agency (PMPA) that was formed in 1979. PMPA is a public body corporate and politic of the State of South Carolina consisting of ten municipalities in South Carolina, which purchase electric power from PMPA. PMPA owns a 25% undivided interest in Unit 2 of Duke Power's Catawba Nuclear Station in York County, South Carolina. The City and therefore the Board has agreed pursuant to the Catawba Nuclear Project Power Sales Agreement, in exchange for a share of the power and energy from the Catawba Nuclear Station, to take or pay for the cost of its share (10.05%) of the Catawba Project output whether or not the Project is operable or operating.

Such costs are all of PMPA's costs resulting from or attributable to the ownership, operation, maintenance, termination, retirement from service, decommissioning of, necessary repairs and additions, and amounts required to be deposited to debt service funds. In addition, if any other party to the agreement defaults, the City/Board's share of the Project output would increase pro rata by a maximum of 25% of the nondefaulting participant's Catawba share prior to any such increases. The Sales Agreement is in effect until the later of January 1, 2022 or the completion of payment and satisfaction of bond obligations under the agreement. In no case may the agreement extend beyond August 1, 2035.

The City/Board is also party to a Supplemental Power Sales Agreement with PMPA under which it has agreed to take and pay for electric power and energy requirements in excess of those supplied under the Power Sales Agreement. The term of this agreement expires August 2030.

The City and the Board are not required to make any payments to PMPA under these agreements except from the revenues of its electric system.

For the years ended March 31, 2019 and 2018, the Board's purchased power expense from PMPA was \$18,701,915 and \$20,780,996, respectively. Also, the amount included in accrued expenses for accrued purchased power from PMPA at March 31, 2019 and 2018 is \$1,232,960 and \$1,526,223 respectively.

B. Annual Leave/PTO

As described more fully in Note 1, the total amount of PTO accumulated and unused, as of March 31, 2019 and 2018 is as follows:

	2019	2018
Beginning of the year liability	\$ 382,484	\$ 352,440
Increase	493,588	473,221
Decrease	(425,772)	(443,177)
End of year liability	\$ 450,300	\$ 382,484

C. Unemployment Compensation

The Board is required to pay unemployment compensation on covered employees. It has chosen the alternative of paying claims as billed by the South Carolina Employment Security Commission. However, under this method of funding, no accurate estimate of potential liability has been made.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2019 AND 2018

NOTE 13 - COMMITMENTS AND CONTINGENCIES – CONTINUED

D. Contract Commitments

There were no outstanding commitments on construction contracts at March 31, 2019 and 2018.

E. Litigation

Due to the nature of the Board's normal operating activities, it is routinely subject to a variety of claims and demands by various individuals and entities. At the present time, the Board is not involved in any additional litigation that in management's opinion represents a material potential liability.

NOTE 14 - RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The Board adopted Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the fiscal year ending March 31, 2019. The implementation required the Board to record the beginning net OPEB liability and remove the net OPEB asset as required by GASB Statement 45. Beginning net position was restated and reduced \$7,604,933, as follows:

Net Position - Beginning of Year - as Previously Reported (4/1/2018)	\$ 41,460,705
Removal of Net OPEB Asset (GASB Statement 45)	(6,221,506)
Implementation of GASB Statement 75 - Net OPEB Liability	<u>(1,383,427)</u>
Net Position - Beginning of Year - Restated (4/1/2018)	<u>\$ 33,855,772</u>

REQUIRED SUPPLEMENTARY INFORMATION

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
 LAST TEN FISCAL YEARS ENDING MARCH 31

	2019	2018
Total OPEB Liability		
Service cost	\$ 351,643	\$ 349,163
Interest on the total OPEB liability	248,566	303,859
Changes in benefit terms	-	(2,816,350)
Difference between expected and actual experience	417,684	(21,355)
Changes in assumptions	(19,788)	-
Benefit payments, including refunds of employee contributions	(302,952)	(245,129)
Net Change in Total OPEB Liability	695,153	(2,429,812)
Total OPEB Liability - Beginning	11,023,012	13,452,824
Total OPEB Liability - Ending (a)	\$ 11,718,165	\$ 11,023,012
Plan Fiduciary Net Position		
Employer contributions	\$ 602,952	\$ 545,129
OPEB plan net investment income	91,710	52,879
Benefit payments	(302,952)	(245,129)
OPEB plan administrative expense	(7,500)	(7,500)
Net Change in Plan Fiduciary Net Position	384,210	345,379
Plan Fiduciary Net Position - Beginning	9,639,585	9,294,206
Plan Fiduciary Net Position - Ending (b)	\$ 10,023,795	\$ 9,639,585
Net OPEB Liability - Ending (a)-(b)	\$ 1,694,370	\$ 1,383,427
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	85.54%	87.45%
Covered-Employee Payroll	\$ 5,865,106	\$ 5,540,388
Net OPEB Liability as a Percentage of Covered-Employee Payroll	28.89%	24.97%

Notes to Schedule:

2019: Assumption Change - The Health Care Trend assumptions were slightly updated to better reflect the plan's anticipated experience

2018: Plan Change - Effective January 1, 2018, the Medicare retirees were moved to a separate health plan and reimbursed for their coverage.

March 31, 2018 was the first year of GASB 74 implementation, therefore 10-year data is not yet available.

GAFFNEY BOARD OF PUBLIC WORKS
SCHEDULE OF OPEB INVESTMENT RETURNS
LAST TEN FISCAL YEARS*

	<u>2019</u>	<u>2018</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	0.94%	0.56%

*March 31, 2018 was the first year of GASB 74 implementation, therefore 10-year data is not yet available.

GAFFNEY BOARD OF PUBLIC WORKS
SCHEDULE OF THE BOARD'S OPEB CONTRIBUTIONS
LAST TEN FISCAL YEARS

Contractually Required Contributions	<u>2019</u> \$ 252,250
Contributions in Relation to the Contractually Required Contributions	<u>602,952</u>
Contribution Deficiency (Excess)	<u>\$ (350,002)</u>
Board's Covered-Employee Payroll	\$ 5,865,106
Contributions as a Percentage of Covered-Employee Payroll	4.30%

Notes to Schedules:

March 31, 2019 was the first year of GASB 75 implementation, therefore 10-year data is not yet available.

Schedule 2-1

GAFFNEY BOARD OF PUBLIC WORKS
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF
THE COLLECTIVE NET PENSION LIABILITY
SOUTH CAROLINA RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Board's Proportion of the Collective Net Pension Liability	0.048152%	0.048002%	0.047018%	0.047696%
Board's Proportionate Share of the Collective Net Pension Liability	\$ 10,789,370	\$ 10,806,022	\$ 10,042,975	\$ 9,045,776
Board's Covered Payroll	\$ 4,989,904	\$ 4,843,201	\$ 4,553,055	\$ 4,472,093
Board's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll	216.22%	223.12%	220.58%	202.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.10%	53.34%	52.91%	56.99%

*The amounts presented were determined as of the prior fiscal years ending June 30.

Schedule 2-2

GAFFNEY BOARD OF PUBLIC WORKS
SCHEDULE OF THE BOARD'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily Required Contributions	\$ 755,374	\$ 646,947	\$ 548,177	\$ 495,887
Contributions in Relation to the Statutorily Required Contributions	<u>755,374</u>	<u>646,947</u>	<u>548,177</u>	<u>495,887</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's Covered Payroll	\$ 5,274,229	\$ 4,950,318	\$ 4,792,404	\$ 4,499,689
Contributions as a Percentage of Covered Payroll	14.32%	13.07%	11.44%	11.02%

Notes to Schedules:

March 31, 2016 was the first year of GASB 68 implementation, therefore 10-year data is not yet available.

SUPPLEMENTARY INFORMATION

GAFFNEY BOARD OF PUBLIC WORKS
SCHEDULES OF WATER DEPARTMENT OPERATIONS - PROPRIETARY FUND
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
Operating Revenues		
Water sales	\$ 6,602,136	\$ 6,696,005
Intergovernmental revenues	15,481	-
Other	463,458	540,141
Total Operating Revenues	<u>7,081,075</u>	<u>7,236,146</u>
Operating Expenses - Excluding Depreciation		
Plant		
Salaries and related payroll expenses	1,218,803	1,239,649
Uniforms	2,935	5,262
Training and schools	9,511	2,662
Professional fees	52,730	33,952
Postage	171	713
Telephone	4,013	4,217
Insurance	32,805	52,700
Vehicle expense	3,028	2,058
Equipment maintenance and operation	321,555	92,261
Building and grounds maintenance	24,718	44,742
Materials and supplies	39,998	19,795
Chemicals	302,618	215,635
Other expenses	611	528
Bad debts - net	33,781	9,500
Lab expense	42,292	40,158
Public relations	2,590	80
Contract services	80,477	205,143
Other post-employment benefits	127,835	114,954
Utilities	751,755	801,998
Scholarship program	-	1,222
	<u>3,052,226</u>	<u>2,887,229</u>
Maintenance		
Salaries and related payroll expenses	1,199,559	979,283
Uniforms	13,758	6,059
Training and schools	1,219	2,041
Professional fees	9,663	16,673
Telephone	4,921	4,525
Insurance	21,998	21,314
Vehicle expense	40,009	27,631
Equipment maintenance and operation	92,611	82,173
Building and grounds maintenance	71	153
Materials and supplies	272,549	258,517
Other expenses	166	101
Public relations	67	125
Utilities	10,132	9,740
Scholarship program	500	1,000
	<u>1,667,223</u>	<u>1,409,335</u>
Costs allocated to other departments	<u>(197,318)</u>	<u>(188,721)</u>
Total Operating Expenses - Excluding Depreciation	4,522,131	4,107,843

GAFFNEY BOARD OF PUBLIC WORKS
SCHEDULES OF WATER DEPARTMENT OPERATIONS - PROPRIETARY FUND - CONTINUED
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Depreciation		
Plant depreciation	945,144	925,938
Maintenance depreciation	51,471	43,558
	<u>996,615</u>	<u>969,496</u>
 Total Operating Expenses	 <u>5,518,746</u>	 <u>5,077,339</u>
 Operating Income	 <u>\$ 1,562,329</u>	 <u>\$ 2,158,807</u>

GAFFNEY BOARD OF PUBLIC WORKS
SCHEDULES OF SEWER DEPARTMENT OPERATIONS - PROPRIETARY FUND
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
Operating Revenues		
Sewer	\$ 5,831,040	\$ 5,995,064
Intergovernmental revenues	15,481	-
Other	282,889	103,799
Total Operating Revenues	6,129,410	6,098,863
Operating Expenses - Excluding Depreciation		
Plant		
Salaries and related payroll expenses	1,112,600	1,146,878
Uniforms	2,918	5,578
Training and schools	3,503	2,007
Professional fees	15,244	11,630
Telephone	4,648	4,800
Insurance	32,755	30,771
Vehicle expense	10,514	9,369
Equipment maintenance and operation	74,381	69,876
Building and grounds maintenance	19,233	49,233
Materials and supplies	17,263	18,737
Chemicals	88,044	83,966
Other expenses	212	282
Bad debts - net	(1,237)	(1,240)
Lab expense	52,783	52,516
Landfill disposal costs	189,786	268,400
Other post-employment benefits	113,603	95,313
Utilities	1,189,749	1,169,543
Scholarship program	-	2,310
	2,925,999	3,019,969
Maintenance		
Salaries and related payroll expenses	587,931	462,297
Uniforms	1,841	4,838
Professional fees	8,091	4,149
Telephone	5,066	4,590
Insurance	22,822	18,120
Vehicle expense	11,835	8,619
Equipment maintenance and operation	10,892	19,993
Materials and supplies	30,896	22,449
Other expenses	166	101
Public relations	67	25
Utilities	9,288	8,928
Scholarship program	500	1,000
	689,395	555,109
Costs allocated to other departments	(265,830)	(322,378)
Total Operating Expenses - Excluding Depreciation	3,349,564	3,252,700
Depreciation		
Plant depreciation	697,239	860,918
Maintenance depreciation	25,245	25,167
	722,484	886,085
Total Operating Expenses	4,072,048	4,138,785
Operating Income	\$ 2,057,362	\$ 1,960,078

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULES OF ELECTRICAL DEPARTMENT OPERATIONS - PROPRIETARY FUND
 FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Electric sales	\$ 24,615,075	\$ 23,940,022
Intergovernmental revenues	15,481	-
Other	539,585	723,413
Total Operating Revenues	<u>25,170,141</u>	<u>24,663,435</u>
Operating Expenses - Excluding Depreciation		
Power purchased	19,290,035	21,358,543
Line expenses		
Salaries and related payroll expenses	1,978,546	1,916,058
Uniforms	16,246	17,292
Training and schools	15,364	23,605
Professional fees	31,623	39,988
Telephone	9,204	7,373
Insurance	51,060	50,368
Vehicle expense	56,180	32,061
Equipment maintenance and operation	92,302	118,311
Building and grounds maintenance	11,396	18,443
Materials and supplies	172,139	156,137
Other expenses	1,216	903
Bad debts - net	(13,538)	13,265
Public relations	183	50
Contract services	132,302	145,022
Other post-employment benefits	132,360	103,320
Utilities	30,752	30,963
Computer processing	21,666	20,930
Scholarship program	-	5,000
	<u>22,029,036</u>	<u>24,057,632</u>
Costs allocated to other departments	<u>(1,548,367)</u>	<u>(1,528,347)</u>
Total Operating Expenses - Excluding Depreciation	20,480,669	22,529,285
Depreciation		
Line Depreciation	<u>1,034,618</u>	<u>1,025,306</u>
Total Operating Expenses	<u>21,515,287</u>	<u>23,554,591</u>
Operating Income	<u>\$ 3,654,854</u>	<u>\$ 1,108,844</u>

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULES OF WAREHOUSE, CLINIC/SAFETY AND ADMINISTRATIVE
 DEPARTMENT EXPENSES - PROPRIETARY FUND
 FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
Warehouse		
Salaries and related payroll expenses	\$ 422,817	\$ 410,452
Uniforms	1,515	1,745
Training and schools	191	504
Professional fees	3,584	1,865
Postage	1,847	1,778
Telephone	1,745	1,236
Insurance	8,420	8,345
Vehicle expense	1,063	902
Equipment maintenance and operation	7,913	3,960
Building and grounds maintenance	17,174	26,283
Materials and supplies	8,298	5,547
Other post-employment benefits	2,624	5,925
Utilities	2,608	-
Scholarship program	21,952	21,103
Computer processing	-	1,500
	<u>501,751</u>	<u>491,145</u>
Clinic/Safety		
Salaries and related payroll expenses	219,980	201,421
Training and schools	-	2,540
Professional fees	12,409	9,945
Telephone	967	1,313
Insurance	845	432
Materials and supplies	15,374	15,738
Utilities	4,222	4,058
Claims reimbursements	(57,305)	(58,828)
	<u>196,492</u>	<u>176,619</u>
Administrative		
Salaries and related payroll expenses	2,745,715	2,654,157
Uniforms	1,188	2,170
Training and schools	17,570	18,491
Professional fees	109,938	63,261
Public relations	89,168	75,625
Postage	2,509	1,779
Telephone	19,772	18,313
Insurance	14,235	11,966
Vehicle expense	4,047	2,819
Equipment maintenance and operation	24,201	10,562
Building and grounds maintenance	21,937	37,845
Materials and supplies	105,949	106,448
Other expenses	86,191	72,275
Computer processing	132,351	149,459

Schedule 3-4 - Continued

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULES OF WAREHOUSE, CLINIC/SAFETY AND ADMINISTRATIVE
 DEPARTMENT EXPENSES - PROPRIETARY FUND - CONTINUED
 FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
Administrative - continued		
Other post-employment benefits	35,265	50,607
Utilities	36,698	33,960
Scholarship program	-	4,000
	3,446,734	3,313,737
 Total Warehouse, Clinic/Safety and Administrative Expenses - Excluding Depreciation	 4,144,977	 3,981,501
 Depreciation		
Warehouse depreciation	20,419	45,061
Clinic depreciation	1,890	2,285
Administration depreciation	55,373	36,778
	77,682	84,124
 Total Warehouse, Clinic/Safety and Administrative Expenses	 \$ 4,222,659	 \$ 4,065,625

**GAFFNEY BOARD OF PUBLIC WORKS
HISTORICAL STATEMENTS OF REVENUES, EXPENSES AND DEBT SERVICE COVERAGE
MARCH 31, 2010 THROUGH 2019**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Net Income										
Operating Revenues	\$ 30,111,565	\$ 31,646,737	\$ 32,279,947	\$ 33,421,376	\$ 33,077,545	\$ 33,435,583	\$ 36,746,821	\$ 36,854,871	\$ 37,998,444	\$ 38,380,626
Operating Expenses	(30,738,193)	(32,133,505)	(33,454,134)	(33,997,265)	(34,451,278)	(35,849,086)	(36,031,030)	(37,214,484)	(36,836,340)	(35,328,740)
Operating Income (Loss)	(626,628)	(486,768)	(1,174,187)	(575,889)	(1,373,733)	(2,413,503)	715,791	(359,613)	1,162,104	3,051,886
Nonoperating Revenues	219,855	109,895	68,417	86,905	(4,588)	160,591	41,940	32,610	102,298	119,779
Nonoperating Expenses	(474,706)	(487,513)	(460,598)	(395,421)	(365,078)	(389,948)	(171,108)	(159,606)	(136,836)	(113,906)
Net Income (Loss) - Before Capital Contributions per Financial Statements	\$ (881,479)	\$ (864,386)	\$ (1,566,368)	\$ (884,405)	\$ (1,743,399)	\$ (2,642,860)	\$ 586,623	\$ (486,609)	\$ 1,127,566	\$ 3,057,759
Income Available for Debt Service										
Net Income (Loss) - Before Capital Contributions per Financial Statements	\$ (881,479)	\$ (864,386)	\$ (1,566,368)	\$ (884,405)	\$ (1,743,399)	\$ (2,642,860)	\$ 586,623	\$ (486,609)	\$ 1,127,566	\$ 3,057,759
Less: (Gain) Loss on Sale of Capital Assets	(33,018)	(36,820)	2,352	55,700	(22,384)	(119,877)	1,746	23,429	(15,115)	3,797
Plus: Depreciation	4,477,470	4,322,573	4,171,536	4,040,263	3,709,721	3,377,051	3,407,679	3,406,487	2,965,011	2,831,399
Plus: Interest Expense	440,100	450,904	423,989	395,421	365,078	319,425	171,108	159,606	136,836	113,906
Plus: Bond Cost	-	-	-	-	-	70,523	-	-	-	-
Plus: Pension expense adjustment	-	-	-	-	-	-	150,666	304,729	508,216	253,066
Less: OPEB expense adjustment	-	-	-	-	-	-	-	-	-	(140,564)
Less: Transfers In to Contingency Fund	(1,522,797)	(1,514,195)	(1,501,505)	(1,500,050)	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)
Plus: Transfers Out of Contingency Fund	1,000,000	1,500,000	1,500,000	1,250,000	1,750,000	2,625,000	2,625,000	500,000	1,000,000	500,000
Plus: Excess Transfers In Over Out	522,797	14,195	1,505	250,050	-	-	-	1,000,000	500,000	1,000,000
Plus: Amortization of Bond Costs	34,606	36,609	36,609	-	-	-	-	-	-	-
Income Available for Debt Service	\$ 4,037,679	\$ 3,908,880	\$ 3,068,118	\$ 3,606,979	\$ 2,559,016	\$ 2,129,262	\$ 5,442,822	\$ 3,407,642	\$ 4,722,514	\$ 6,119,363
Total System Debt Service	\$ 1,234,890	\$ 1,240,115	\$ 1,238,681	\$ 1,234,743	\$ 1,238,768	\$ 1,236,078	\$ 1,180,166	\$ 1,173,761	\$ 1,176,173	\$ 1,170,565
Total System Debt Service Coverage	3.27	3.15	2.48	2.92	2.07	1.72	4.61	2.90	4.02	5.23