



# Financial Audit Presentation Year Ended June 30, 2020

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Greene Finney, LLP

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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

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### OPINION

- The Town's responsibility:
  - Maintain effective internal controls
    - There are limitations on internal controls.
    - Regular risk assessment is important, including assessing the risk of fraud.
  - Financial Statements
    - Accuracy, completeness, and propriety of balances, amounts, and disclosures

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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

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### GFLLP responsibility:

- Opinion – reasonable assurance that financial statements are materially correct
  - Does not address the financial condition of the Town
  - Purpose of the audit is not to detect fraud. We cannot take responsibility for finding fraud, if it existed.
- Issued unmodified opinion

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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

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General Fund: Total Fund Balance of \$8.0m at 6/30/20  
Fund Balance Classifications:

- Nonspendable – unavailable for spending (prepaids, inventories, etc.)
- Restricted – available for spending only for specific purposes due to external constraints (such as debt covenants or legislation)
- Committed – available for spending only for specific purposes due to constraints imposed by Town Council (action must be taken prior to fiscal year-end)
- Assigned – available for spending only for specific purposes due to constraints imposed by Town Council (action may be taken through report date)
- Unassigned – available for future spending

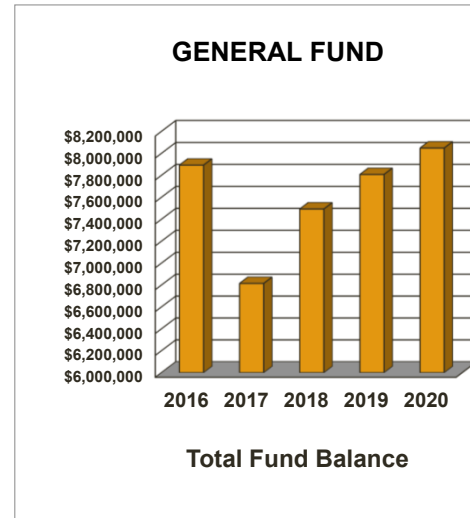
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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

### General Fund

- Total fund balance increased \$242k to \$8.0m.
- Nonspendable fund balance of \$188k (prepaid amounts)
- Restricted fund balance of \$313k primarily for capital projects, debt service, and victims services
- Committed fund balance of \$1.6m for capital projects
- Assigned fund balance of \$20k for William Bradley Memorial Fund



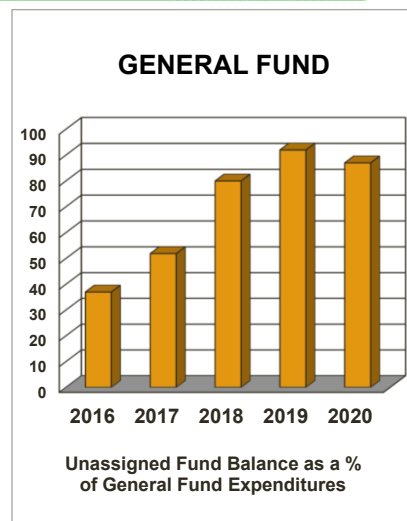
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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

### General Fund

- Unassigned fund balance is \$6.0m includes capital improvements reserve of \$614k and emergency reserve of \$1.38m
- Unassigned and unreserved fund balance is \$4.0m and represents 58% of FY20 operating expenditures
- GFOA recommends a minimum of 16.7% (two months), but we believe the Town's unassigned fund balance should be higher than two months – see next slide.



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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

### Major Reasons To Maintain An Adequate Fund Balance:

- Cash flow through second half of calendar year; property taxes and business licenses are cyclical.
- Significant emergencies and unanticipated expenditures (Town has an emergency reserve).
- Flexibility for discretionary funding needs (Town has capital improvements reserve)
- Potential for better interest rates on debt issues (can save the Town money).
- Unique requirements for a beach coastal municipality (Town has an emergency reserve).
- Extremely important given the uncertain economic times resulting from the COVID-19 pandemic.

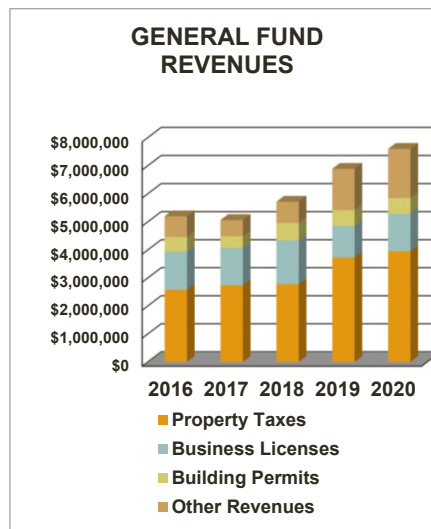
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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

### General Fund Revenues:

- \$7.6 million for 2020:
  - \$4.0m in property taxes
  - \$1.3m in business licenses
  - \$561k in building permits
  - \$565k in franchise fees
  - \$699k in permits
  - \$520k for all other revenues
- \$708k (17%) increase from 2019
  - Primarily due to a \$218k increase in business licenses and building permits and a \$222k increase in property taxes as well as nonrecurring reimbursements
- \$1.2m (19%) better than budget
  - Primarily due to licenses and franchise fees exceeding budget by \$329k, permits exceeding budget by \$179k, and property taxes exceeding budget by \$237k



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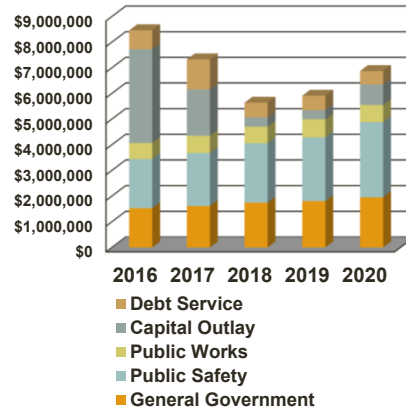


## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

### General Fund Expenditures:

- \$6.9 million for 2020:
  - \$2.0m in general government
  - \$2.9m in public safety
  - \$670k in public works
  - \$799k in capital outlay
  - \$524k in debt service
- \$961k (14%) increase from 2019
  - Primarily due to a \$447k increase in public safety expenditures primarily related to overtime related to the checkpoints due to the COVID-19 pandemic.
  - Capital Outlay increased \$799k due to the purchase of public safety vehicles including a fire truck with a cost of \$547k.
- \$943k (12%) under budget
  - Police and Fire expenditures exceeded budget by \$144k and \$650k, respectively (amounts approved by Council but not included in operating budget)
  - Administrative expenditures were \$1.5m under budget due to debt service payments on the IPRBs being budgeted as General Fund expenditures but reported as transfers out.

### GENERAL FUND EXPENDITURES



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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

### Public Facilities Corporation

- The Corporation was created in the prior year for the purpose of issuing debt to finance the cost of upgrades and improvements to the Town's wastewater treatment plant and sewer collection system.
  - Installment Purchase Revenue Bonds of \$17.5m with premium of \$2.8m issued in FY20.
  - Capital Projects Fund – Reports the issuance of the bonds and use of proceeds (unspent proceeds of \$33.2m as of 6/30/20).
  - Debt Service Fund – Reports principal and interest payments which are funded through General Fund transfers.
- The projects financed through debt proceeds in FY20 are reported in the Sewer Fund.

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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

### **Enterprise Funds**

- **The Water Fund** had an increase in net position of \$221k to \$5.0m (including \$2.5m invested in capital assets).
  - Total Water Fund revenues and expenses were consistent with prior year.
  - The Water Fund has \$2.6m in unrestricted cash at June 30, 2020.
  - The Water System is 56% depreciated at June 30, 2020 (cost of system was \$4.7m with accumulated depreciation of \$2.6m)
- **The Sewer Fund** had an increase in net position of \$4.4m to \$11.9m (including \$12.4m invested in capital assets).
  - Total sewer operating revenues and expenses were consistent with prior year.
  - Sewer Fund received transfers of \$4.3m from the Capital Projects Fund (IPRB proceeds) to fund ongoing sewer system improvements.
- Debt coverage ratio for the Water and Sewer Bonds is approximately 11.05 as of June 30, 2020 (exceeds requirement of 1.10).

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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

### **Other Items of Note:**

- Total capital assets, net of accumulated depreciation, were \$24.0m at 6/30/20. Depreciation expense was \$1.0m.
- Significant additions included:
  - Machinery and Equipment additions of approximately \$65k
  - Public Safety vehicle additions of \$641k
  - Building & Improvements of \$94k
  - Construction in progress related to the sewer system improvements of \$5.4m
  - Property acquired by the Town prior to 2003 is reported at a value of zero in accordance with GAAP

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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

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### **Other Items of Note:**

- Total long-term obligations outstanding at 6/30/20 were \$44.6m – increase of \$19.7m from 6/30/19:
  - Total principal payments on debt and capital leases were \$643k
  - Issuance of \$17.5m in IPRBs with premium of \$2.8m
  - Issuance of \$100k lease purchase for Public Safety vehicles
  - Net pension liability of \$5.5M as of June 30, 2020 on the full accrual statements. This is the Town's proportionate share of the total net pension liability for the State pension plans. The liability does not directly affect the Town's cash flows; however, employer contribution rates have increased annually. Those increases have a direct impact on the Town's operating budgets.

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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

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### **Other Items of Note:**

- On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a pandemic. The COVID-19 outbreak in the United States has resulted in a significant impact on the economy and the financial markets. Though the Town's operating revenues have not yet been significantly impacted, the Town may experience significant decreases in its growth-oriented revenues (i.e. business licenses, building permits, hospitality taxes, etc.) if this pandemic continues for a sustained period of time.

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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

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### **Compliance**

- No findings, significant deficiencies, or material weaknesses were noted.
- Single Audit was not required for 2020 based on federal expenditures being less than \$750k.

### **Management Letter**

- Required communications to management and those charged with governance – no issues to report as management has done a good job of addressing issues noted in past years. We discussed several oral recommendations with the Mayor, Town Administrator and Comptroller.

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## 2020 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

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### **Summary**

- Unmodified opinion on the Financial Statements from GFLLP
- Good financial condition as of June 30, 2020

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