

**FRIPP ISLAND
PUBLIC SERVICE DISTRICT**

Financial Statements
and Accompanying Information
for the year ended June 30, 2017

FRIPP ISLAND PUBLIC SERVICE DISTRICT

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Report of Independent Auditor

To The Commissioners
Fripp Island Public Service District
Fripp Island, South Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Fripp Island Public Service District as of and for the year ended June 30, 2017, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fripp Island Public Service District as of the year ended June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying information as listed in the table of contents. Are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Webster Rogers CPA

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis

Introduction

The Commission, management and staff of the Fripp Island Public Service District (the District) are pleased to present the audited, annual financial report for the fiscal year ended June 30, 2017. The report complies with the Statement of Governmental Accounting Standard No. 34, entitled "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" (GASB 34).

Management is responsible, in all material respects, both for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. The data is reported in a manner designed to fairly present the financial position and changes in the financial position of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial and operational activities are included.

Organization

The District, created on April 16, 1962 by Act No. 1042 of the South Carolina General Assembly, serves the residents and property owners of Fripp Island, South Carolina. Services provided originally included water supply, fire protection and erosion control. On March 23, 1993, the District's authority was expanded to include wastewater collection and treatment. On April 8, 2003, operation and maintenance of the Fripp Inlet Bridge became a District responsibility when its ownership was transferred from the Fripp Island Property Owners Association to the District.

The Fripp Island Public Service District Commission governs the District. Originally governed by a three-member commission appointed by the Beaufort County Legislative Delegation, the District's enabling legislation was amended on June 28, 1974, increasing the number of commissioners to six. With the successful passage of a referendum by the registered voters of Fripp Island on November 7, 2000, the Commission became an elected body. The first general election was held on November 6, 2001.

The elected, six-member commission establishes policies and procedures, approves the annual budget and adopts the necessary utility rates and tax levies to fund the District's operations. The District's manager, hired by the Commission, has fiduciary responsibility for the District's operation.

The District is organized into three departments: water and wastewater, fire, and erosion and bridge. The water and wastewater department is funded predominantly through user charges (utility rates) similar to a private business enterprise. However, taxes are levied for payment of the annual debt service of the general obligation bonds issued for the construction and upgrade of the wastewater treatment plant. The fire department is funded exclusively by taxes. The erosion and bridge department is funded exclusively by taxes for all activities related to erosion control and the maintenance and repair of the Fripp Inlet Bridge. However, the Fripp Island Property Owners Association in accordance with the Agreement for Transfer of [the] Inlet Bridge reimbursed the District for all expenditures required to inspect, maintain and repair the Fripp Inlet Bridge until June 30, 2014, when the District assumed all financial responsibility for the operation and maintenance of the bridge. The District began levying taxes for expenditures related to the Fripp Inlet Bridge in fiscal year 2015.

Administration

Administrative services for all departments are provided by the District manager and the District manager's assistant. The manager, who answers directly to the Commission, serves as the chief operating officer of the District and is responsible for the overall operation and supervision of all District activities. The manager is responsible for carrying out the policies and mandates of the Commission and ensuring that the District complies with Federal and State laws.

The manager's assistant serves as the human resources officer and performs all accounting functions necessary to support the various departments, such as payroll and accounts payable. Additionally, the manager's assistant is responsible for utility billing and provides customer service for the water and wastewater department.

Water and Wastewater

The District purchases drinking water from the Beaufort Jasper Water and Sewer Authority for resale to its customers located on and off Fripp Island. As of June 30, 2017 the District had 1,600 retail water accounts and one wholesale water customer: Hunting Island State Park. The District's water transmission/distribution system begins on St. Helena Island at the Harbor River and terminates on Fripp Island. To provide a reliable supply of water for potable use and fire protection, the District also operates and maintains two water pumping stations and three elevated storage tanks.

The wastewater collection system consists of gravity sewer lines, sewer force mains, fourteen lift stations, and a vacuum sewer station and collection system. Of the current 1,533 residential and commercial wastewater accounts, 555 are customers served by the vacuum sewer system. The collection system conveys the wastewater to a reclaimed water treatment plant capable of handling 750,000 gallons of wastewater per day at build-out. The reclaimed water is used to irrigate the Ocean Point Golf Course on Fripp Island.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

In November 2006 the District completed construction of the "state of the art" reclaimed water treatment plant replacing an existing wastewater treatment plant, which only provided secondary treatment. With an initial capability to treat 500,000 gallons per day, expanded to 750,000 gallons per day in 2015, the plant provides the capacity necessary to serve all of Fripp Island. The plant, a membrane biological reactor (MBR), was the first MBR to be constructed in South Carolina, and, as such, visits by design engineers and public officials are common.

The vacuum sewer collection system, completed in January 2008, provides mandatory sewer service to all single family lots previously relying on septic tanks for wastewater disposal. As of April 8, 2009, all single family homes on Fripp Island, which previously relied on septic tanks, were connected to the sewer system. Like the wastewater treatment plant, the vacuum system also attracts numerous visitors annually.

Harbor Island Utilities, Inc., a privately owned water and wastewater utility that serves Harbor Island, also relies on the District for the delivery of drinking water and the disposal of treated wastewater effluent. Via a three-way agreement between the Beaufort Jasper Water and Sewer Authority, Harbor Island Utilities and the District, Harbor Island Utilities purchases water directly from the Authority and pays the District a transportation fee for the use of the District's transmission main. Harbor Island Utilities also pays the District an effluent disposal fee for the storage and disposal of its treated wastewater.

Individuals operating and maintaining water and wastewater systems must be licensed by the South Carolina Environmental Certification Board. The department's staff consists of three certified operators with multiple licenses in water and wastewater operations.

Fire Department

The fire department provides fire protection, emergency medical service, and beach rescue for the residents and guests on Fripp Island. Operation of the department and the supervision and training of department personnel is the responsibility of a full-time, paid fire chief. In addition to the fire chief, the department has a personnel compliment of nineteen part-time, paid firefighters and five volunteers. The addition of part-time, paid personnel, recruited from other fire departments, has allowed the District to provide full-time fire and emergency services twenty-four hours per day, seven days per week for a minimum cost compared to the cost for full-time personnel. This ability is further enhanced through mutual aid agreements with other fire departments in Beaufort County and the District's agreement with Beaufort County to house an emergency medical paramedic and emergency medical vehicle in the fire station.

The fire department's inventory of firefighting/emergency apparatuses consists of two mainline pumpers, a squad/equipment vehicle, two pick-ups, and an all-terrain vehicle and personal watercraft for performing beach rescue.

Erosion and Bridge

The District currently maintains several erosion control structures intended to protect facilities for the common use and benefit of Fripp Island property owners. This includes roadways necessary for emergency vehicles and right of ways for water and sewer lines. The District's current policy precludes the protection of private property from beach erosion.

In 2003 the Fripp Island Property Owners Association (FIPOA) transferred ownership of the Fripp Inlet Bridge to the Fripp Island Public Service District. The District, as the owner, assumed ultimate responsibility for maintaining, insuring and repairing the bridge. However, FIPOA, per the transfer agreement, remained financially responsible for all costs associated with its operation. This arrangement precluded the need for the District to levy taxes for bridge related expenditures but required FIPOA to include these costs in the annual Road & Bridge assessments it collected from Fripp Island property owners.

In 2013, FIPOA and the District decided that it would be more advantageous for the property owners of Fripp Island if the District assumed financial responsibility for the bridge. As a result, on June 30, 2014, the District assumed all financial responsibility for the operation and maintenance of the Fripp Inlet Bridge. To avoid an immediate, significant increase in taxes and to help fund planned maintenance expenses over the next five years, FIPOA also transferred \$625,000 from its Roads & Bridges Reserve Fund to the District.

Routine bridge inspection and annual soundings of the Fripp Inlet Channel are performed as part of a long term maintenance plan to insure the reliability and safety of the Fripp Inlet Bridge. Periodic maintenance is performed based on the inspection recommendations of the District's engineering consultant.

Major Initiatives and Events - SCDOT Replacement of the Harbor River Bridge

The District owns, operates and maintains a water transmission main that crosses the Harbor River. Approximately 2,800 feet of the water line is attached to the Harbor River Bridge (US 21). However, because the center span of the bridge must open for boat traffic, approximately 400 feet of the water line is underwater and buried on the bottom of the river. The water main is the only source of supply of potable water for Harbor Island, Hunting Island State Park and Fripp Island.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

In May 2009, a directional boring contractor installing a six-inch steel casing for the local telephone company struck and broke the subaqueous line in multiple locations. Temporary repairs to the subaqueous line were completed in June 2009. Based on the District's consulting engineer's recommendation, the Commission approved replacement of the subaqueous portion of the waterline, and construction of the new waterline was completed in June 2011 for an actual cost of \$472,207.

In February 2012, the District filed a civil complaint with the Beaufort County Court of Common Pleas against the alleged responsible parties. The case was settled out of court in December 2013 with the District receiving a settlement payment in 2014 of \$525,000. Out of pocket cost incurred by the District after settlement and insurance reimbursement totaled \$460,411.

In October 2013 the District learned from an independent, engineering firm that the South Carolina Department of Transportation plans to begin construction to replace the Harbor River Bridge in 2017. When contacted by the District, the SCDOT confirmed its plans to replace the bridge. As a result, the waterline that was constructed in 2011, due to damage incurred in 2009, will have to be replaced in or about 2017. The preliminary estimated cost to replace the waterline in its entirety was \$1,320,000. In March 2016, the District obtained updated waterline replacement cost estimates ranging from \$1,700,000 to \$3,100,000, depending on the new bridge placement and method of construction of the waterline. In April 2017, the District refined the cost estimate to \$3,200,000 for construction of the waterline, including engineering fees and estimated legal fees associated with issuing bond debt.

Major Initiatives and Events – Revenue Bond Advanced Refunding

In 2005 the District issued \$5,499,008 in revenue bond debt to construct a vacuum sewer collection system. The series 2005 revenue bond carried an interest rate of 4.16%, had a balloon payment of \$2,113,579 due on October 1, 2025, but could not be prepaid (called) prior to October 1, 2014. To achieve a cost savings by taking advantage of the low interest rates available prior to June 2013, the District's Commission authorized the advanced refunding of the bonds.

In fiscal year 2013, the District issued the series 2013 advanced refunding revenue bond in the amount of \$4,580,317 and contributed \$83,000 in cash reserves toward the refunding of the series 2005 bond. The series 2013 refunding bond bears an interest rate of 2.03% and matures on October 1, 2028. The vacuum sewer assessments used to pay the debt service will expire in 2025, and in May 2013, the District's Commission authorized setting aside \$35,000 annually to be used to pay the debt service after the vacuum sewer assessments expire.

Early redemption of the series 2005 revenue bond on October 1, 2014 totaled \$4,608,182: \$4,514,285 in principal and \$93,897 in interest. The advanced refunding will result in a total gross savings of \$692,142 for the District and residents of Fripp Island.

Major Initiatives and Events – Unrealized Investment Losses

To protect the public's funds, the District's investments are limited to obligations of the Federal government, its agencies and federal loan corporations; general obligations of the State of South Carolina; and other instruments, such as certificates of deposit, which are secured by the FDIC. Investment in equities is not permissible.

Redemption of securities during fiscal year 2016 resulted in a decrease of \$186,437 in investments, however, capital gains increased by \$67,232. On June 30, 2016, the investments held by the District totaled \$3,244,514 based on cost. For the year, the District showed an unrealized gain of \$35,467 increasing its investments to a fair market value of \$3,279,981.

Due to improvements in market volatility and an increase in capital gains experienced in fiscal year 2016, the District increased investments for fiscal year 2017. On June 30, 2017, the investments held by the District totaled \$3,543,616 based on cost. For the year, the District showed an unrealized loss of \$42,993, reducing its investments to a fair market value of \$3,500,623.

Because the District intends to hold the securities until maturity, a realized loss is not anticipated. A comparison of the District's investments as of June 30, 2017 and 2016 are as follows:

	June 30, 2017	Increase (Decrease)	June 30, 2016
Investments			
At cost	\$ 3,543,616	\$ 299,102	\$ 3,244,514
Capital gain (loss)	(42,993)	(78,460)	35,467
Fair market value	<u>\$ 3,500,623</u>	<u>\$ 220,642</u>	<u>\$ 3,279,981</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

Major Initiatives and Events – Hurricane Matthew

On October 5, 2016, SC Governor Nikki Haley issued evacuation orders for the coastal areas of South Carolina in preparation for the approach of Hurricane Matthew. Prior to evacuation, Beaufort-Jasper Water & Sewer Authority turned off the District's water main at the master meter located at the Shrimp Shack on St. Helena Island to guard against possible breaks in the lines suspended from the bridge crossings. Following the District's emergency operations plan, the sewer system was pumped down completely and all sewer lift stations were powered off prior to evacuation. The three elevated water tanks were filled with water and two were isolated from the system to conserve a supply of water on the island for emergency use after the storm. District administrative staff and Commissioners evacuated to Aiken, SC, where a mobile command center was implemented at the Aiken County emergency management office.

On October 8, 2016, Hurricane Matthew struck the barrier islands of Georgia and South Carolina as a category 1 hurricane. Fripp Island sustained wind and flood damage island-wide. The Fripp Island Fire Department returned to Fripp Island on October 9th, utilizing the Department's six wheeler and chainsaws to cut through downed trees on Hunting Island and clear access to the island to begin search and rescue operations. Water and sewer operators returned to the island on October 10th to begin the process of pumping down flooded sewer lift stations and bringing the water system back online. An emergency bridge inspection to insure that the Fripp Inlet Bridge was safe to use was conducted on October 10th, and the bridge was cleared for normal use within the posted load restrictions. Upon returning to the island on October 11th, administrative staff conducted damage assessments and determined that the District-owned Fripp Inlet revetment sustained significant damage, along with damages to several sewer lift stations, water booster pump stations, wastewater treatment plant controls and the spillway protecting the water line crossing the marsh at Blue Heron Lake. One of the timber pile dolphins protecting the bridge bents at the navigable channel under the Fripp Inlet Bridge was washed away during the storm surge. Insurance claims were filed for all insured properties damaged during the storm, and the District applied for disaster grant funding from the Federal Emergency Management Agency for assistance with recovery and repair efforts. The District's water system was returned to full operations with all boil water advisories lifted by October 18th, and the sewer system was fully operational with no usage restrictions by October 21st. A precautionary inspection of the subaqueous water line crossing at the Harbor River was conducted in November 2016 and the line found to be completely covered with no exposure from erosion due to the storm surge.

Major Initiatives and Events – Hurricane Matthew Recovery and Repair Expenses

The following expenses associated with recovery from Hurricane Matthew were incurred during the fiscal year ending June 30, 2017:

	Fire Department	Erosion and Bridge	Water and Sewer	Totals
Evacuation & recovery administrative	\$ 558	\$ -	\$ 10,355	\$ 10,913
Emergency inspections	-	17,542	4,260	21,802
Emergency repairs and operations	981	203,918	66,146	271,045
Total Hurricane Matthew Expenses	<u>\$ 1,539</u>	<u>\$ 221,460</u>	<u>\$ 80,761</u>	<u>\$ 303,760</u>

Additional expenses related to Hurricane Matthew are expected to be paid during the fiscal year ending June 30, 2018. The final cost of repairs to the Fripp Inlet revetment is anticipated to be approximately \$1,500,000.

Major Initiatives and Events – Extraordinary Income Related to Hurricane Matthew

Following Hurricane Matthew, the District's Commission authorized application to the Federal Emergency Management Agency for public assistance. Insurance claims were filed with the State Insurance Reserve Fund for all insured property that sustained damages. The following income was received as a result of the FEMA application and approved insurance claims:

	Fire Department	Erosion and Bridge	Water and Sewer	Totals
FEMA reimbursements	\$ -	\$ 59,831	\$ -	\$ 59,831
Insurance claims paid	-	15,000	24,280	39,280
Total Hurricane Matthew Related Income	<u>\$ -</u>	<u>\$ 74,831</u>	<u>\$ 24,280</u>	<u>\$ 99,111</u>

Additional income from FEMA claims is expected during the fiscal year ending June 30, 2018.

Major Initiatives and Events – General Obligation Bond Debt

In April 2017, in anticipation of the need to replace the District's water transmission main across the Harbor River and repairs to the Fripp Inlet revetment, the Commission approved incurring up to \$5,500,000 in general obligation debt and petitioned Beaufort County Council to authorize the issuance of \$5,500,000 in general obligation bonds, contingent upon the passage of a referendum by voters within the District. In June 2017, Beaufort County Council authorized the bonds and ordered a referendum to be held in the District in August 2017.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

Financial Overview

The management's discussion and analysis, which follows, serves as an introduction to the audited financial statements of the District for the fiscal year ending June 30, 2017 and should be read in conjunction with the audited financial statements, data and notes presented in this report.

The statement of net assets and balance sheets present the financial position of the District as of a specific date. These statements provide information about the nature and amount of assets and liabilities with the difference reported as net assets or total fund equity. Over time, increases and decreases in the net assets or fund equity may indicate whether the District's financial position is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present the results of the business activities over the course of the fiscal year and how net assets have changed during the year.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing and investment activities.

The notes to the financial statements provide required disclosures and other information essential to fully understand the data provided in the statements.

Financial Position (Statement of Net Assets)

The District's financial position continues to be strong with adequate cash and debt service coverage. Total net assets of \$12,287,667 as of June 30, 2017 increased \$197,743 (1.6%) compared to an increase of \$332,084 (2.8%) in the previous fiscal year. (Total net assets in the previous fiscal year were positively influenced by unrealized gains on securities, increased income from effluent treatment, and decreased engineering, legal and personnel expenses.) Increased income from effluent treatment, decreased legal and personnel expenses and pension liability reporting contributed to the fiscal year 2017 increase in total net assets. Of the total amount, \$4,238,920 is unrestricted and available to support current operations; \$1,411,984 is restricted for the payment of debt service; and \$6,636,763 represents the depreciated investment in capital assets (net of related debt). The following tables compare the net assets of the current fiscal year and fiscal years 2016 and 2015:

Comparison of 2017 to 2016:

	June 30, 2017	Increase (Decrease)	June 30, 2016
Net assets			
Unrestricted	\$ 4,238,920	\$ 109,950	\$ 4,128,970
Restricted	1,411,984	101,648	1,310,336
Capital assets	6,636,763	(13,855)	6,650,618
Total net assets	<u>\$ 12,287,667</u>	<u>\$ 197,743</u>	<u>\$ 12,089,924</u>

Comparison of 2016 to 2015:

	June 30, 2016	Increase (Decrease)	June 30, 2015
Net assets			
Unrestricted*	\$ 4,128,970	\$ 275,618	\$ 3,853,352
Restricted	1,310,336	127,598	1,182,738
Capital assets	6,650,618	(71,132)	6,721,750
Total net assets	<u>\$ 12,089,924</u>	<u>\$ 332,084</u>	<u>\$ 11,757,840</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

The unrestricted net assets as of June 30, 2017 by department consist of the following:

	Fire Department	Erosion and Bridge	Water and Sewer	Totals
Cash for operations	\$ 88,224	\$ 33,317	\$ 336,473	\$ 458,014
Cash for system improvements	-	-	1,610,596	1,610,596
Total cash	88,224	33,317	1,947,069	2,068,610
Cash due from Beaufort County	243,758	142,220	-	385,978
Available cash	331,982	175,537	1,947,069	2,454,588
Certificates of deposit at cost	-	500,199	2,366,330	2,866,529
Unrealized gains (losses)	-	(6,353)	(22,062)	(28,415)
Certificates of deposit at fair value	-	493,846	2,344,268	2,838,114
Total unrestricted funds	331,982	669,383	4,291,337	5,292,702
Accounts receivable	1,500	-	434,726	436,226
Inventory	-	-	23,854	23,854
Prepaid expenses	-	-	23,486	23,486
Deferred pension outflows	147,390	-	143,580	290,970
Accounts payable	(19,317)	(41,376)	(122,180)	(182,873)
Net pension liability	(790,385)	-	(769,949)	(1,560,334)
Deferred pension inflows	(43,113)	-	(41,998)	(85,111)
Unrestricted net assets	<u>\$ (371,943)</u>	<u>\$ 628,007</u>	<u>\$ 3,982,856</u>	<u>\$ 4,238,920</u>

Unrestricted net assets not adjusted for pension liabilities	\$ 314,165	\$ 628,007	\$ 4,651,223	\$ 5,593,395
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A comparison of the unrestricted net assets by department as of June 30, 2017 and 2016 are as follows:

	Fire Department	Erosion and Bridge	Water and Sewer	Totals
Unrestricted net assets at June 30, 2016	\$ (334,050)	\$ 869,115	\$ 3,593,905	\$ 4,128,970
Increase (decrease)	(37,893)	(241,108)	388,951	109,950
Unrestricted net assets at June 30, 2017	<u>\$ (371,943)</u>	<u>\$ 628,007</u>	<u>\$ 3,982,856</u>	<u>\$ 4,238,920</u>

For fiscal year 2017, the unrestricted net assets for the fire department decreased due to an increase in pension liability. A decrease in accounts receivable was offset by a decrease in accounts payable.

The decrease in unrestricted net assets for the erosion and bridge department in fiscal year 2017 was the result of an increase in needed repairs to erosion control structures and an increase in unrealized losses on securities.

For the water and wastewater department, increases in available cash, investments and accounts receivable were partially offset by increases in accounts payable and pension liability, resulting in an overall increase in unrestricted net assets for fiscal year 2017.

The restricted net assets available for debt service as of June 30, 2017 are as follows:

	Debt Service	Water and Sewer	Totals
Cash for debt service	\$ -	\$ 44,416	\$ 44,416
Due from Beaufort County	364,066	340,993	705,059
Total restricted cash	364,066	385,409	749,475
Certificates of deposit at cost	-	677,087	677,087
Unrealized gains	-	(14,578)	(14,578)
Certificates of deposit at fair value	-	662,509	662,509
Total restricted funds and net assets	<u>\$ 364,066</u>	<u>\$ 1,047,918</u>	<u>\$ 1,411,984</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

A comparison of the restricted net assets available for debt service as of June 30, 2017 and 2016 are as follows:

	Debt Service	Water and Sewer	Totals
Restricted net assets at June 30, 2016	\$ 361,409	\$ 948,927	\$ 1,310,336
Increase (decrease)	2,657	98,991	101,648
Restricted net assets at June 30, 2017	<u>\$ 364,066</u>	<u>\$ 1,047,918</u>	<u>\$ 1,411,984</u>

Taxes collected for payment of the wastewater treatment plant general obligation bonds are collected and held by the Beaufort County Treasurer in a debt service account. The treasurer, as directed by the district manager, makes quarterly debt service payments to the South Carolina Water Quality Revolving Fund Authority.

Penalties for late payment of taxes increased restricted net assets for the debt service fund in fiscal year 2017.

The special assessments collected and held by the Beaufort County Treasurer for the vacuum sewer project are transferred to the District's bond trustee. The District's bond trustee then pays the biannual debt service on the revenue bonds issued to fund the vacuum sewer project.

The series 2013 advanced refunding revenue bond matures in 2028, while the vacuum sewer assessments used to pay the debt service will expire in 2025. A transfer of unrestricted invested funds to restricted sewer construction fund investments, to be used to defray the cost of the debt service payments after the vacuum sewer assessments expire, combined with interest income, increased the water and sewer department's restricted net assets.

The investment in capital assets, net of related debt, as of June 30, 2017 is itemized by department as follows:

	Fire Department	Erosion and Bridge	Water and Sewer	Totals
Capital assets at June 30, 2016	\$ 1,554,137	\$ 4,352,692	\$ 19,699,064	\$ 25,605,893
Accumulated depreciation at June 30, 2016	(948,900)	(3,191,788)	(6,546,680)	(10,687,368)
Asset additions (deletions).net	15,493	-	49,560	65,053
Construction in progress	-	154,126	-	154,126
Depreciation for the year ending June 30, 2017	<u>(34,306)</u>	<u>(257,037)</u>	<u>(561,196)</u>	<u>(852,539)</u>
Net capital assets at June 30, 2017	586,424	1,057,993	12,640,748	14,285,165
Unamortized debt costs	-	-	161,548	161,548
Bonds payable	-	-	<u>(7,809,950)</u>	<u>(7,809,950)</u>
Capital assets net of debt	<u>\$ 586,424</u>	<u>\$ 1,057,993</u>	<u>\$ 4,992,346</u>	<u>\$ 6,636,763</u>

A comparison of the investment in capital assets, net of related debt as of June 30, 2017 and 2016 are as follows:

	Fire Department	Erosion and Bridge	Water and Sewer	Totals
Capital assets, net of related debt at June 30, 2016	\$ 605,237	\$ 1,160,904	\$ 4,884,477	\$ 6,650,618
Increase (decrease)	<u>(18,813)</u>	<u>(102,911)</u>	<u>107,869</u>	<u>(13,855)</u>
Capital assets, net of related debt at June 30, 2017	<u>\$ 586,424</u>	<u>\$ 1,057,993</u>	<u>\$ 4,992,346</u>	<u>\$ 6,636,763</u>

Construction in progress during the year, a component of the investment in capital assets, totaled \$154,126 and was comprised of legal, engineering, consulting and construction fees for repair of erosion control structures. These expenses were paid from available funds, but are anticipated to be reimbursed from the proceeds of the general obligation bonds to be issued in fiscal year 2018, contingent upon authorization of the issuance of the bonds through a voter referendum.

Notwithstanding \$169,619 in combined asset additions and capital improvements, the net capital investment for the Fire Department and Erosion and Bridge Department decreased by 3.1% and 8.9% respectively from the prior fiscal year due to depreciation. For the Water and Sewer Department, asset additions and payment of outstanding debt combined to offset depreciation and resulted in a net increase of 2.2% in capital investments.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

Accounts Receivable

As of June 30, 2017, accounts receivable by department consisted of the following items:

	Fire Department	Erosion and Bridge	Water and Sewer	Totals
Utility billing for water and sewer service	\$ -	\$ -	\$ 418,294	\$ 418,294
Casual sales and reimbursable repairs	-	-	16,432	16,432
Inter-fund interest transfers and payments	1,500	-	-	1,500
	<u>\$ 1,500</u>	<u>\$ -</u>	<u>\$ 434,726</u>	<u>\$ 436,226</u>

Casual sales include use of fire hydrants for jetting piles and fees charged to Harbor Island Utilities for transportation of potable water and storage of treated wastewater effluent. Reimbursable repairs include charges for repairs to water and sewer lines damaged by individuals or other utility providers.

Accounts Payable

As of June 30, 2017, accounts payable by department consisted of the following items:

	Fire Department	Erosion and Bridge	Water and Sewer	Totals
Vendors payable normal and recurring	\$ 9,600	\$ 41,631	\$ 48,448	\$ 99,679
Wholesale water purchases BJW&SA	-	-	54,431	54,431
Accrued employee expenses	9,717	-	17,554	27,271
Inter-fund interest transfers and payments	-	(255)	1,747	1,492
Totals	<u>\$ 19,317</u>	<u>\$ 41,376</u>	<u>\$ 122,180</u>	<u>\$ 182,873</u>

Accrued employee expenses include \$14,744 in accrued salaries, \$9,713 in accrued vacation, and \$2,814 in employment tax and retirement liabilities. Because the employees of the District participate in the South Carolina State Employee's Retirement System, the District does not have to maintain a pension plan liability reserve.

Debt and Debt Service Coverage

The District is authorized to issue long term debt (bonds) for the purchase and construction of capital assets. The District may issue general obligation bonds secured by pledging its taxing authority or revenue bonds secured by the revenues of the water and wastewater system.

As of July 1, 2016, the District had \$8,444,522 in outstanding long term debt: \$4,285,563 for the wastewater treatment plant and \$4,158,959 for the vacuum sewer system. Debt principal payments for the year totaled \$634,572: \$351,793 for the wastewater treatment plant general obligation bonds (\$42,125 for the series 2014 wastewater treatment plant improvements bond issue, \$309,668 for the 2005 wastewater treatment plant note payable), and \$282,779 for the vacuum sewer system series 2013 refunding revenue bond.

The general obligation debt is paid by taxes collected by the Beaufort County Treasurer, who acts as the trustee for the debt. For fiscal year 2017, the Beaufort County Treasurer collected \$445,589 in taxes, penalties and interest to pay the District's general obligation debt. The taxes levied for payment of the annual debt service of the District's outstanding general obligation bond debt totaled 9.34 mills, which was decreased from 9.38 mills the previous year due to a change in the value of a mill. At the end of the year, the treasurer's debt service account had available funds totaling \$364,066 for payment of the outstanding general obligation debt.

The Beaufort County Treasurer also collected \$366,698 in special assessments and \$2,661 in penalties and interest to pay the revenue bond debt for the vacuum sewer project. Assessments collected as of June 30, 2017 were \$292 less than the \$366,990 budgeted projection. At the end of the year, funds held by the Beaufort County Treasurer and Bond Trustee for the payment of revenue bond debt totaled \$340,993.

On May 14, 2013, the District issued the series 2013 advanced refunding revenue bond in the amount of \$4,580,317. The bond proceeds were used to refund the series 2005 revenue bond, in its entirety, on October 1, 2014. The series 2013 refunding bond bears an interest rate of 2.03% and matures on October 1, 2028.

The District's Bond Resolutions, which govern the issuance of revenue bonds for the water and wastewater system, require that the combined annual net earnings of the water and wastewater systems at all times equal one hundred twenty percent (120%) of the annual debt service payments for all outstanding revenue bonds. For fiscal year 2017, actual net earnings equaled one hundred seventy-five percent (175%) of the annual debt service. The budgeted projection of net earnings to debt service was one hundred sixty-five percent (165%).

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

As of June 30, 2017, the outstanding long term debt for the District totaled \$7,809,950: \$3,876,180 in revenue bond debt for the vacuum sewer system and \$3,933,770 in general obligation bond debt for the wastewater treatment plant. The general obligation bond debt includes \$3,027,582 for the 2005 general obligation bond and \$906,188 for the 2014 general obligation bond, issued for improvements to the wastewater treatment plant.

Revenue and Expenses-Proprietary Fund (Water and Wastewater Department)

The water and wastewater department's gross profit from operations (operating revenues less the cost of water purchased) exceeded prior year earnings by 6.2% (\$108,502): \$1,852,178 versus \$1,743,676 in the prior year. Compared to budgeted projections of \$1,780,740, gross profit for the year showed a favorable variance of 4.0% (\$71,438). The favorable budget comparison resulted from an increase in effluent disposal fees, wholesale water purchases that were lower than expected (\$436,240 budgeted versus \$417,852 actual) and extraordinary income generated by insurance claims and FEMA reimbursements related to Hurricane Matthew.

Water and sewer rates were increased for fiscal year 2017, with the flat sewer rate and the base water rate both increasing by \$3/quarter. The volumetric water rates were also increased by \$0.15/1,000 gallons to absorb an increase of \$0.03/1,000 gallons in the wholesale water rate and to provide for anticipated decreases in water usage during the year. As a result, water use revenues and sewer use revenues increased from prior year earnings by \$51,952 (6.3%) and \$19,257 (2.9%), respectively. Combined water and sewer use revenues exceeded budgeted projections by \$5,907 (0.4%). Collection of vacuum sewer assessments by the Beaufort County Treasurer increased by \$2,710 compared to the prior year, but were under budget by \$292.

Income for cellular telephone tower leases increased by \$10,975 (4.3%) from the prior year and met budget projections.

"Other" revenues, including penalties, tap fees and charges to Harbor Island Utilities, Inc. for potable water transmission and effluent disposal, increased by \$5,116 (9.7%) compared to the prior year. Compared to budgeted projections, "other" revenues had a favorable variance of 67%: \$57,729 actual vs. \$34,570 budget.

The following table illustrates how these changes impacted the gross profit for the water and wastewater department compared to the prior year:

	Fiscal Year		Increase (Decrease)
	2017	2016	
Gallons of water purchased (in thousands)	157,087	156,679	408
Gallons of water sold (in thousands)	150,580	148,590	1,990
Water gained (lost)	(6,507)	(8,089)	1,582
Water accountability percentage	96	95	1
Water accounts	1,601	1,594	7
Sewer accounts	1,533	1,530	3
Operating revenues:			
Water sold	\$ 880,440	\$ 828,488	\$ 51,952
Sewer use	676,838	657,581	19,257
Vacuum sewer assessment	366,698	363,988	2,710
Cellular tower leases	264,047	253,072	10,975
Extraordinary income	24,280	-	24,280
Other	57,729	52,613	5,116
Total operating revenues	<u>2,270,032</u>	<u>2,155,742</u>	<u>114,290</u>
Less water purchased	<u>417,854</u>	<u>412,066</u>	<u>5,788</u>
Gross profit before expenses	<u>\$ 1,852,178</u>	<u>\$ 1,743,676</u>	<u>\$ 108,502</u>
Gross profit less extraordinary income	<u>\$ 1,827,898</u>	<u>\$ 1,743,676</u>	<u>\$ 84,222</u>

Non-operating income (interest earned) decreased by \$22,253 (28.8%) compared to the prior year, due to lower interest rates on investments. Non-operating income did not meet budget projections by \$3,065 (5.3%): \$54,935 actual vs. \$58,000 budget.

Total operating expenses for the current year were under budget by 1.5%: \$937,855 actual vs. \$952,020 budget; and decreased by 2.3% or \$22,536 compared to the prior year. The prior year ended with a favorable variance of 6.2%: \$960,391 actual vs. \$1,024,290 budget.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

The following table compares the current and prior year operating expenses for the water and wastewater department:

	Fiscal Year		Increase (Decrease)
	2017	2016	
Actual operating expenses:			
General and administrative	\$ 553,736	\$ 649,485	\$ (95,749)
Travel and training	6,535	4,494	2,041
Operations	80,123	99,408	(19,285)
Maintenance	196,951	104,857	92,094
Utilities	100,510	102,147	(1,637)
Total operating expenses	937,855	960,391	(22,536)
Budgeted operating expenses:	952,020	1,024,290	(72,270)
Less actual operating expenses	937,855	960,391	(22,536)
Favorable (unfavorable) variance	\$ 14,165	\$ 63,899	\$ (49,734)

Administrative support provided to the fire department and for erosion and bridge operations reduced general and administrative expenses by \$16,690 in fiscal year 2017 and \$33,430 in fiscal year 2016.

Retirement expenses for fiscal year 2017 were \$24,100 lower than the projected budget; however, this favorable variance of 72% was due to the effects of the pension liability reporting requirements of GASB Statement Nos. 68 and 71. Engineering consulting fees and legal expenses were \$8,481 (57%) and \$23,427 (94%) lower, respectively, than the projected budgets, due to delays in the Harbor River water line relocation project.

Bond interest expense for fiscal year 2017 decreased from the prior year by \$13,385 and met budget projections.

Compared to the prior year:

- Salaries, including overtime, decreased 18.6% (\$71,625).
- Employee training decreased 42.5% (\$1,609).
- Insurance premiums increased 2.6% (\$3,111): 2% for employee health coverage and workmen's comp and 4% for property and liability coverage.

Significant changes in operation and maintenance expenses compared to the prior year included the following:

- Telephone expense increased 23% (\$1,145)
- Engineering consulting not for capitalized construction decreased 31% (\$2,965).
- Legal fees increased 98% (\$778).
- Miscellaneous expenses increased 386% (\$8,500).
- Building maintenance expense increased 231% (\$9,310).
- Commissioner expenses increased 154% (\$4,092).
- Training expense decreased 42% (\$1,609).
- Wastewater treatment chemicals expense increased 158% (3,938).
- Sludge disposal costs decreased 35% (\$22,041).
- Water and sewer tap costs decreased 88% (\$5,153).
- Generator repairs and maintenance increased 956% (\$22,780).
- Water and sewer pumping system repairs increased 61% (\$5,392).
- Repair of water and sewer system lines, force mains and meters increased 270% (\$61,060).

The most significant budget variances for expenses during fiscal year 2017 are listed below.

Account	Comments	Actual	Budget	Favorable (Unfavorable) Variance
Engineering fees	Delay of projects	\$ 6,519	\$ 15,000	\$ 8,481
Legal fees	Delay of projects	1,573	25,000	23,427
Miscellaneous expenses	Hurricane recovery	10,700	2,500	(8,200)
Building maintenance	Hurricane recovery	13,333	6,340	(6,993)
Overtime wages	Hurricane recovery	21,803	11,900	(9,903)
Commissioner expenses	Evacuation lodgings	4,357	850	(3,507)
Seminars & training	Less than anticipated	2,178	6,500	4,322
Chemicals	Treatment requirements	6,427	3,340	(3,087)
Sludge disposal	Less than anticipated	41,360	71,900	30,540
Auxiliary generator	Unexpected repairs	25,164	3,160	(22,004)
Wastewater treatment units	Hurricane recovery	28,309	25,000	(3,309)
Water and sewer line	Hurricane recovery	79,894	33,500	(46,394)

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

Revenue and Expenses-Governmental Funds (Fire, Erosion, Bridge and Debt Service)

Section 6-1-320 of the South Carolina Code of Laws limits local governments' ability to increase taxes for operation and maintenance activities. (This requirement does not apply to debt service.) Tax increases are restricted to the percentage increase of the consumer price index plus population growth over the prior calendar year. To fund operations and maintenance activities in fiscal year 2017, the District was limited to an increase of 0.33 mills (2.67%) over the prior year: 12.53 mills to 12.86 mills. The tax levy for debt service was decreased by 0.04 mills to 9.34 mills due to an increase in the value of a mill.

Revised countywide mill values during the fiscal year resulted in a combined anticipated budget shortfall for operations and maintenance and debt service of \$9,480.

The following table compares the total tax levy (including general obligation bond debt service) for fiscal year 2017 and fiscal year 2016. The tax levy was based on a tax collection rate of 100%.

	Tax levy		
	Year ending June 30, 2017	2016	Increase (Decrease)
Operation and maintenance levy			
Erosion and bridge	1.14	2.15	(1.01)
Fire department	11.72	10.38	1.34
Total operation and maintenance levy	<u>12.86</u>	<u>12.53</u>	<u>0.33</u>
Debt service levy			
Wastewater treatment plant	9.34	9.38	(0.04)
Total debt service levy	<u>9.34</u>	<u>9.38</u>	<u>(0.04)</u>
Total levy	<u>22.20</u>	<u>21.91</u>	<u>0.29</u>
Value of one mill	\$ <u>47,429</u>	\$ <u>46,123</u>	\$ <u>1306</u>

Overall, tax collections fell short of budgeted projections due to the revised mill value, however the combined unfavorable variance of \$1,449 (\$1,129 for erosion and bridge and fire department and \$320 for debt service) was less than expected.

Tax collections for debt service were under budget by 0.1% or \$320. The following table compares the current and prior year tax collections for general obligation bond debt service.

General Obligation Debt Service	Fiscal Year		Increase (Decrease)
	2017	2016	
Actual tax collections	\$ 442,640	\$ 441,194	\$ 1,446
Budgeted tax collections	442,960	442,960	-
Favorable (unfavorable) variance	<u>\$ (320)</u>	<u>\$ (1,766)</u>	<u>\$ 1,446</u>

Actual tax revenues collected for the fire department and bridge and erosion operations were under budget by 0.2% or \$1,129. The following table compares the current and prior year tax collections for the fire department and erosion and bridge operations.

Fire Department & Erosion Operations	Fiscal Year		Increase (Decrease)
	2017	2016	
Actual tax collections	\$ 608,809	\$ 588,356	\$ 20,453
Budgeted tax collections	609,938	592,320	17,618
Favorable (unfavorable) variance	<u>\$ (1,129)</u>	<u>\$ (3,964)</u>	<u>\$ 2,835</u>

Total revenues for the fire department and the erosion and bridge department, which included interest earned, special assessments and miscellaneous income in addition to taxes, showed favorable budget variances of \$6,595 and \$84,563, respectively. The favorable variances were the result of tax penalties collected, interest earned on investments, FEMA reimbursements and insurance claim payments.

The District collected \$54,015 in tax revenue, \$9,417 in investment interest, and \$75,131 in miscellaneous income for maintaining its erosion control structures and the Fripp Inlet Bridge. Actual expenditures totaled \$213,303 compared to \$98,906 in the prior year. The budget projections for tax collections and other income and the repair and maintenance of erosion control structures and the Fripp Inlet Bridge were \$54,000 and \$133,240 respectively. Expenses incurred to maintain the Fripp Inlet Bridge were partially funded by the amount remaining from the \$625,000 transferred from the Fripp Island Property Owners Association in fiscal year 2014.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Management's Discussion and Analysis (continued)

The District's erosion control structures are not insurable. Therefore, the District maintains an emergency reserve for the repair of unforeseeable, storm related damage. Because there was major storm related damage to the District's revetments during the year, the District had \$46,990 available for emergency repairs at the end of fiscal year 2017 versus a budgeted projection of \$228,800.

The largest Fire Department expenditure was employee salaries totaling \$322,542 (vs. \$327,649 in the prior year), which allows the District to hire part-time, trained firefighters to provide improved fire protection for Fripp Island twenty-four hours per day, seven days per week. Total employee expenses, which also include retirement, employee insurance and workmen's compensation, were \$42,571 under budget. Total employee expenses were \$21,839 under budget in the prior year. The largest account expenditures other than employee expenses and the administrative support fee were \$15,493 for capital purchases and \$11,178 for property and tort liability insurance. Capital purchases included new appliances for the fire station and a new personal watercraft to replace the previous watercraft after it sustained damage during a rescue operation. In fiscal year 2016, Fire Department expenses exceeded revenues by \$45,748. During fiscal year 2017, to comply with the tax limitation requirement and recover from the prior year's budget deficit, the Fire Department relied on available funds and continued to limit budgeted expenses, resulting in an excess of revenues over expenditures of \$50,096.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Statement of Net Assets

June 30, 2017

	Governmental Activities	Business Type Activities	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 121,541	\$ 1,947,069	\$ 2,068,610
Certificates of deposit	493,846	2,344,268	2,838,114
Due from Beaufort County Treasurer	385,978	340,993	726,971
Accounts receivable	1,500	434,726	436,226
Inventory	-	23,854	23,854
Prepaid expenses	-	23,486	23,486
Restricted cash	364,066	44,416	408,482
Restricted certificates of deposit	-	662,509	662,509
Property, plant and equipment (net of accumulated depreciation)	1,644,417	12,640,748	14,285,165
Unamortized debt acquisition costs	-	161,548	161,548
	<u> </u>	<u> </u>	<u> </u>
Total assets	3,011,348	18,623,617	21,634,965
DEFERRED OUTFLOWS OF RESOURCES			
	<u>147,390</u>	<u>143,580</u>	<u>290,970</u>
LIABILITIES			
Vouchers and accounts payable	60,693	122,180	182,873
Net pension liability	790,385	769,949	1,560,334
General obligation and revenue bonds payable	-	7,809,950	7,809,950
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	851,078	8,702,079	9,553,157
DEFERRED INFLOWS OF RESOURCES			
	<u>43,113</u>	<u>41,998</u>	<u>85,111</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,644,417	4,992,346	6,636,763
Restricted net assets	364,066	1,062,496	1,426,562
Accumulated restricted unrealized gain (loss) on securities	-	(14,578)	(14,578)
Unrestricted net assets	262,417	4,004,918	4,267,335
Accumulated unrestricted unrealized gain (loss) on securities	(6,353)	(22,062)	(28,415)
	<u> </u>	<u> </u>	<u> </u>
Total net assets	<u>\$ 2,264,547</u>	<u>\$ 10,023,120</u>	<u>\$ 12,287,667</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Statement of Activities

Year ended June 30, 2017

	Expenses	Program Revenues		Net (expense) revenues And changes in net assets		
		Charges For Services	Capital Contributions	Governmental Activities	Business Type Activities	Total
Functions/programs						
Primary government						
Governmental activities						
Public safety	\$ 877,176	\$ 84,528	\$ -	\$ (792,648)	\$ -	\$ (792,648)
Public service	213,303	0	-	(213,303)	-	(213,303)
Total governmental services	<u>1,090,479</u>	<u>84,528</u>	<u>-</u>	<u>(1,005,951)</u>	<u>-</u>	<u>(1,005,951)</u>
Business type activities						
Water	934,510	1,204,027	-	-	269,517	269,517
Sewer	1,171,360	1,066,005	-	-	(105,355)	(105,355)
Total business type activities	<u>2,105,870</u>	<u>2,270,032</u>	<u>-</u>	<u>-</u>	<u>164,162</u>	<u>164,162</u>
Total primary government	<u>\$ 1,015,391</u>	<u>\$ 2,185,504</u>	<u>\$ -</u>	<u>(1,005,951)</u>	<u>164,162</u>	<u>(841,789)</u>
General revenues						
Taxes						
Property taxes-general				608,809	-	608,809
Property taxes-debt				442,640	-	442,640
Interfund transfers				(442,932)	442,932	-
Investment earnings				11,608	54,935	66,543
Total general revenues				<u>620,125</u>	<u>497,867</u>	<u>1,117,992</u>
Change in net assets				(385,826)	662,029	276,203
Net assets-beginning of year				2,662,615	9,427,309	12,089,924
Unrealized gain (loss) on investments				<u>(12,242)</u>	<u>(66,218)</u>	<u>(78,460)</u>
Net assets-end of year				<u>\$ 2,264,547</u>	<u>\$ 10,023,120</u>	<u>\$ 12,287,667</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Balance Sheet
Governmental Funds

June 30, 2017

	Special Revenue	Debt Service	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 121,541	\$ -	\$ 121,541
Certificates of deposit	493,846	-	493,846
Due from Beaufort County Treasurer	385,978	364,066	750,044
Accounts receivable	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Total assets	<u>1,002,865</u>	<u>364,066</u>	<u>1,366,931</u>
LIABILITIES			
Vouchers and accounts payable	60,693	-	60,693
Total liabilities	<u>60,693</u>	<u>-</u>	<u>60,693</u>
FUND EQUITY			
Fund balance-Reserved for debt service	-	364,066	364,066
Fund balance-Unrestricted	948,525	-	948,525
Accumulated unrealized gain (loss) on securities	<u>(6,353)</u>	<u>-</u>	<u>(6,353)</u>
Total fund equity	<u>942,172</u>	<u>364,066</u>	<u>1,306,238</u>
Total liabilities and fund equity	<u>\$ 1,002,865</u>	<u>\$ 364,066</u>	<u>\$ 1,366,931</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Balance Sheet
Proprietary Fund

June 30, 2017

ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,947,069
Certificates of deposit	2,344,268
Due from Beaufort County Treasurer	340,993
Accounts receivable water and sewer system	434,726
Inventory	23,854
Prepaid expenses	23,486
Restricted cash	44,416
Restricted certificates of deposit	662,509
Total current assets	<u>5,821,321</u>
Property, plant and equipment (net of accumulated depreciation)	12,640,748
Unamortized debt acquisition costs	<u>161,548</u>
Total assets	<u>18,623,617</u>
DEFERRED OUTFLOWS OF RESOURCES	143,580
Total assets and deferred outflows of resources	<u>18,767,197</u>
LIABILITIES	
Current liabilities	
Vouchers and accounts payable	122,180
Vouchers and accounts payable from restricted assets	-
Net pension liability	769,949
Total current liabilities	<u>892,129</u>
Long-term debt	<u>7,809,950</u>
Total liabilities	<u>8,702,079</u>
DEFERRED INFLOWS OF RESOURCES	<u>41,998</u>
FUND EQUITY	
Contributed capital	2,270,705
Retained earnings-Restricted	1,062,496
Accumulated restricted unrealized gain (loss) on securities	(14,578)
Retained earnings-Unrestricted	6,726,559
Accumulated unrestricted unrealized gain (loss) on securities	(22,062)
Total fund equity	<u>10,023,120</u>
Total liabilities, deferred inflows of resources, and fund equity	<u>\$ 18,767,197</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets

June 30, 2017

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

Ending fund balance-governmental funds	\$	1,306,238
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,644,417
Other long term assets related to pension expense are not available to pay for current expenditures and are, therefore, not reported or are deferred in funds:		
Contributions made subsequent to measurement date	36,588	
Differences between expected and actual experience	110,802	147,390
Net pension liabilities are not due and payable in the current period and, therefore are not reported in the funds		(790,385)
Investment earnings on retirement plan fiduciary held assets		<u>(43,113)</u>
Net assets of governmental activities	\$	<u>2,264,547</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2017

	Special Revenue	Debt Service	Total Governmental Funds
Revenues			
Taxes	\$ 608,809	\$ 442,640	\$ 1,051,449
Assessments	1,500	-	1,500
Interest	10,646	962	11,608
Bridge	-	-	-
Other	81,041	1,987	83,028
Total revenues	<u>701,996</u>	<u>445,589</u>	<u>1,147,585</u>
Expenditures			
Current:			
Employee expenses	418,599	-	418,599
Operating expenses	292,548	-	292,548
Capital outlay	169,619	-	169,619
Interfund transfers	-	442,932	442,932
Total expenditures	<u>880,766</u>	<u>442,932</u>	<u>1,323,698</u>
Excess (deficiency) of revenues over expenditures	(178,770)	2,657	(176,113)
Fund balance at beginning of year	<u>1,127,295</u>	<u>361,409</u>	<u>1,488,704</u>
Fund balance at end of year	<u>\$ 948,525</u>	<u>\$ 364,066</u>	<u>\$ 1,312,591</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual-Special Revenue Funds

Year ended June 30, 2017

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 608,809	\$ 609,938	\$ (1,129)
Assessments	1,500	900	600
Interest	10,646	-	10,646
Bridge	-	-	-
Other	81,041	-	81,041
Total revenues	<u>701,996</u>	<u>610,838</u>	<u>91,158</u>
Expenditures			
Employee expenses	418,599	461,170	42,571
Operating expenses	292,548	204,980	(87,568)
Capital outlay	169,619	19,000	(150,619)
Total expenditures	<u>880,766</u>	<u>685,150</u>	<u>(195,616)</u>
Excess (deficiency) of revenues over expenditures	(178,770)	(74,312)	286,774
Fund balance at beginning of year	<u>1,127,295</u>	<u>1,127,295</u>	-
Fund balance at end of year	<u>\$ 948,525</u>	<u>\$ 1,052,983</u>	<u>\$ 286,774</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual-Debt Service Fund

Year ended June 30, 2017

	Actual	Budget	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 442,640	\$ 442,960	\$ (320)
Interest	962	-	962
Other	1,987	-	1,987
Total revenues	<u>445,589</u>	<u>442,960</u>	<u>2,629</u>
Expenditures			
Interfund transfers	442,932	442,960	28
Total expenditures	<u>442,932</u>	<u>442,960</u>	<u>28</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	2,657	-	2,657
Fund balance at beginning of year	<u>361,409</u>	<u>361,409</u>	<u>-</u>
Fund balance at end of year	<u>\$ 364,066</u>	<u>\$ 361,409</u>	<u>\$ 2,657</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Statement of Revenues, Expenses and Changes in Retained Earnings
Proprietary Fund

Year ended June 30, 2017

	Water	Sewer	Total 2017 (Memorandum) (Only)	Total 2016 (Memorandum) (Only)
Revenues				
Operating revenue	\$ 1,204,027	\$ 1,066,005	\$ 2,270,032	\$ 2,155,742
Cost of sales	417,854	-	417,854	412,066
Gross profit from operations	<u>786,173</u>	<u>1,066,005</u>	<u>1,852,178</u>	<u>1,743,676</u>
Operating expenses				
General and administrative	276,087	277,649	553,736	649,485
Travel and training	3,268	3,267	6,535	4,494
Operations	4,356	75,767	80,123	99,408
Maintenance	85,920	111,031	196,951	104,857
Utilities	14,054	86,456	100,510	102,147
Depreciation	132,971	428,227	561,198	519,137
Total expenditures	<u>516,656</u>	<u>982,397</u>	<u>1,499,053</u>	<u>1,479,528</u>
Earnings (loss) from operations	<u>269,517</u>	<u>83,608</u>	<u>353,125</u>	<u>264,148</u>
Nonoperating revenues (expenses):				
Other revenues	42,333	12,602	54,935	77,188
Other expenses	-	(188,963)	(188,963)	(202,348)
Net nonoperating revenues (expenses)	<u>42,333</u>	<u>(176,361)</u>	<u>(134,028)</u>	<u>(125,160)</u>
Interfund transfers	-	442,932	442,932	442,929
Net earnings (loss)	311,850	350,179	662,029	581,917
Retained earnings, at beginning of year	<u>5,545,640</u>	<u>1,581,386</u>	<u>7,127,026</u>	<u>6,545,109</u>
Retained earnings, at end of year	<u>\$ 5,857,490</u>	<u>\$ 1,931,565</u>	<u>\$ 7,789,055</u>	<u>\$ 7,127,026</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities

Year ended June 30, 2017

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

Net changes in fund balances-total governmental funds	\$ (176,113)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.	(121,724)
Pension expense that is related to net pension liability as recorded in the statement of activities is based on the District's proportionate share of pension expense of the retirement system as a whole, whereas pension expense recorded in the funds are based on the use of current financial resources (e.g. required contributions).	<u>(87,989)</u>
Change in net assets of governmental activities	<u>\$ (385,826)</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Statement of Fiduciary Net Assets

June 30, 2017

ASSETS	
Cash and cash equivalents	\$ <u>825</u>
Total assets	\$ <u><u>825</u></u>
LIABILITIES	
Accounts payable	\$ <u>153</u>
Total liabilities	<u>153</u>
NET ASSETS	
Unrestricted fund balance	<u>672</u>
Total net assets	\$ <u><u>672</u></u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Statement of Cash Flows - Proprietary Fund

Year ended June 30, 2017

	2017	2016 (Memorandum) (Only)
Cash flows from operating activities		
Cash received from customers	\$ 2,231,626	\$ 2,152,180
Deferred cash inflows for pension liability	(3,720)	(12,037)
Deferred cash outflows for pension liability	(27,295)	(55,547)
Cash paid for water purchases	(417,854)	(412,066)
Cash paid for operating expenses	(915,160)	(875,447)
Cash provided by operating activities	<u>867,597</u>	<u>797,083</u>
Cash flows from investing activities		
Purchase (sale) of certificates of deposit	(232,884)	127,046
Unrealized gain (loss) in investments	(66,218)	59,777
Interest	54,935	77,188
Net cash provided (used) by investing activities	<u>(244,167)</u>	<u>264,011</u>
Cash flows from capital and related financing activities		
Interest paid on borrowings	(173,896)	(187,281)
Transfers from other funds	442,932	442,929
Acquisition of capital assets	(49,562)	(207,696)
Proceeds of debt	0	94,243
Principal payments on debt	(634,572)	(621,241)
Net cash provided (used) by financing activities	<u>(415,098)</u>	<u>(479,046)</u>
Net increase (decrease) in cash and cash equivalents	208,332	582,048
Cash and cash equivalents at beginning of year	<u>2,124,146</u>	<u>1,542,098</u>
Cash and cash equivalents at end of year	<u>\$ 2,332,478</u>	<u>\$ 2,124,146</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 353,125	\$ 264,148
Adjustments:		
Depreciation	561,198	519,137
Change in net deferred inflows and outflows of resources	(31,015)	(67,584)
Change in assets and liabilities		
Accounts receivable	(38,406)	(3,562)
Inventory	1,342	(1,863)
Prepaid expenses	1,063	(2,161)
Accounts payable	15,895	1,091
Pension liability	4,395	87,877
Net cash provided (used) by operating activities	<u>\$ 867,597</u>	<u>\$ 797,083</u>

See notes to financial statements.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 1 - Summary of significant accounting policies

The Fripp Island Public Service District was created by enabling legislation Act. No. 1042 of the State of South Carolina, ratified on April 16, 1962. The District was formed to provide and maintain waterworks, fire protection, and erosion control facilities as in the opinion of the Commissioners shall be necessary for development of the District. On March 23, 1993, the District's enabling legislation was expanded to include the authority to build, acquire, construct, operate and maintain sewage collection and disposal facilities.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Basis of Presentation - Basis of Accounting

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business - type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

Special Revenue Fund-This fund is used for public safety, which includes the fire and rescue operations, and the public service, which includes the erosion control operations and bridge maintenance.

Fiduciary Fund- This fund is used to collect and administer any financial assets that are contributed to the district.

The District reports the following major business-type funds:

Proprietary Fund-The fund is used for the purpose of providing water and sewer services to all of Fripp Island. Included within the fund are space lease revenues generated from cell telephone antennas, and are recorded on the accrual basis.

Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus. The agency funds, which are included in the fiduciary fund financial statements, have no measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 1 - Summary of significant accounting policies (continued)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization costs are \$50 for all asset categories. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the District are depreciated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	15-50
Infrastructure improvements	15
Machinery and equipment	10
Vehicles	5-15

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

Net Assets

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Budgets and Budgetary Accounting

The District generally enacts an operating budget for each year for the Special Revenue and Proprietary Funds. Management is authorized to transfer budgeted amounts between accounts within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Commission.

Certificates of deposit

Certificates of deposit are stated at fair value, with unrealized gains and losses included in current period earnings.

Inventory

Inventory consists primarily of supplies, valued at average cost or market.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 1 - Summary of significant accounting policies (continued)**Deferred outflows/inflows of resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then.

Property tax

Property taxes are recognized as revenues when collected. The County Treasurer is charged with collection of the current year levy of property taxes and vehicle taxes. In this capacity, the Treasurer acts as a collection agent for the District. Any property taxes not collected or abated are turned over to the Tax Collector as delinquent taxes. The mills are set at an amount sufficient to fund the budget for the next fiscal year.

Fixed Assets

Additions to the utility plant in service are recorded at cost or, if contributed property, at their estimated fair value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

	<u>Years</u>
Water system	15-40
Buildings	25-50
Improvements	10-20
Equipment	3-10
Vehicles	3

Amortization of bond expenses

The costs of issuance of bonds are being amortized, on a straight-line method, over the term of the related bond issue.

Total columns on the combined statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Pensions

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

Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the Water and Sewer System considers all highly liquid investments with a remaining maturity of three months or less, including those held by the Beaufort County Treasurer and restricted cash balances, to be cash equivalents.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 1 - Summary of significant accounting policies (continued)**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Cash and Cash Equivalents

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to federal and state regulations. The depository bank deposits approved pledged securities with the District's third party agent for safekeeping and trust, in an amount sufficient to protect District funds on a day to day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At June 30, 2017, the carrying amount of the District's cash and cash equivalents was \$3,204,888 and the balance per the bank statements was \$3,302,276. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$3,052,276 was covered by collateral held by the bank or institution in the District's name.

At June 30, 2017, the District had cash and cash equivalent amounts available as follows:

Available for operations	\$ 843,992
Available for debt service	749,475
Available for fire department donations	825
Available for systems replacement	<u>1,610,596</u>
Total cash	<u>\$ 3,204,888</u>

Note 3 - Certificates of deposit

Certificates of deposit are classified as assets available for sale and are stated at fair value with unrealized gains and losses reported as a separate component of fund equity. Fair values and unrealized gains are as follows at June 30, 2017:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Unrestricted-business type activities	\$ 2,366,330	\$ 2,344,268	\$ (22,062)
Restricted-business type activities	677,087	662,509	(14,578)
Unrestricted-government type activities	500,199	493,846	(6,353)
Total certificates of deposit	<u>\$ 3,543,616</u>	<u>\$ 3,500,623</u>	<u>\$ (42,993)</u>

Note 4 - Property, Plant and Equipment

Amounts reported on the combined balance sheet as property, plant and equipment are net of accumulated depreciation. Details on these assets by fund are as follows:

	Proprietary Fund
Land	\$ 17,001
Buildings and fixtures	425,244
Water system	3,894,398
Collection system	5,795,734
Lift stations	1,876,572
Sewer system/treatment plant	7,544,447
Vehicles	100,186
Computer equipment-software	32,879
Equipment	<u>62,163</u>
	19,748,624
Less accumulated depreciation	7,107,876
Add construction in progress	-
Net property, plant and equipment	<u>\$ 12,640,748</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 4 - Property, Plant and Equipment (continued)

Capital asset activity for governmental activities for the year ended June 30, 2017 was as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital asset not being depreciated				
Land	\$ 132,219	\$ -	\$ -	\$ 132,219
Construction in progress	-	154,126	-	154,126
	<u>132,219</u>	<u>154,126</u>	<u>-</u>	<u>286,345</u>
Capital assets being depreciated:				
Infrastructure	4,352,692	-	-	4,352,692
Buildings and improvements	682,811	-	-	682,811
Equipment, furniture and fixtures	402,291	15,493	-	417,784
Vehicles	336,816	-	-	336,816
Total being depreciated	<u>5,774,610</u>	<u>15,493</u>	<u>-</u>	<u>5,790,103</u>
Less: accumulated depreciation				
Infrastructure	3,191,788	257,037	-	3,448,825
Buildings and improvements	278,375	18,325	-	296,700
Equipment, furniture and fixtures	340,550	10,032	-	350,582
Vehicles	329,975	5,949	-	335,924
Total accumulated depreciation	<u>4,140,688</u>	<u>291,343</u>	<u>-</u>	<u>4,432,031</u>
Net capital assets being depreciated	<u>1,633,922</u>	<u>(275,850)</u>	<u>-</u>	<u>1,358,072</u>
Net governmental activity capital assets	<u>\$ 1,766,141</u>	<u>\$ (121,724)</u>	<u>\$ -</u>	<u>\$ 1,644,417</u>

During the year ended June 30, 2003, the Fripp Island Property Owners Association (Association) contributed the bridge linking Fripp Island to the mainland. The Association agreed to provide all repairs and maintenance to the bridge over its remaining life. The District recorded this transaction as a contribution to capital amounting to \$2,686,035, which was the deemed fair market value at the date of contribution.

Note 5 - Long-Term Debt (other than capitalized leases)

The following is a summary of note and bond transactions of the District for the year ended June 30, 2017:

	General Long Term Debt Account Group	Enterprise Revenue Bonds	Total
Balance at July 1, 2016	\$ 4,285,563	\$ 4,158,959	\$ 8,444,522
Notes and bonds issued	-	-	0
Payments	<u>(351,793)</u>	<u>(282,779)</u>	<u>(634,572)</u>
Balance at June 30, 2017	<u>\$ 3,933,770</u>	<u>\$ 3,876,180</u>	<u>\$ 7,809,950</u>

Notes and bonds payable at June 30, 2017 are comprised of the following individual issues:

Waterworks & Sewer System General Obligation Bonds

\$1,000,000- 2014 Waterworks & sewer system general obligation bonds due in quarterly installments through April 1, 2035; which includes interest at 2.00%.

\$ 906,188

Waterworks & Sewer System Advance Refunding Revenue Bonds

\$4,580,317- 2013 Waterworks & sewer system advance refunding revenue bonds due in semiannual installments through October 1, 2028; interest at 2.03% payable on April 1 and October 1 of each year.

3,876,180

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 5 - Long-Term Debt (other than capitalized leases) (continued)

General obligation note payable

\$6,035,000 - Revolving note payable due in quarterly installments of principal and interest of \$100,593 from April 1, 2006 through January 1, 2026 with interest at 3.00%. At October 2, 2011, the terms of the note were modified by adjusting the interest rate to 2.75% per annum and the quarterly payments were adjusted to \$95,539.

\$	3,027,582
\$	<u>7,809,950</u>

The annual requirements to amortize all debt outstanding as of June 30, 2017, including interest payments are as follows:

Year Ended June 30,	General Obligation	Revenue	Total
2018	\$ 442,944	\$ 364,277	\$ 807,221
2019	442,944	364,218	807,162
2020	442,944	364,157	807,101
2021	442,943	364,095	807,038
2022	442,944	364,032	806,976
2023	442,943	363,967	806,910
2024	442,944	363,902	806,846
2025	442,944	363,835	806,779
2026	347,405	363,767	711,172
2027	60,789	363,697	424,486
2028	60,788	363,625	424,413
2029	60,788	363,553	424,341
2030	60,788	-	60,788
2031	60,788	-	60,788
2032	60,788	-	60,788
2033	60,789	-	60,789
2034	60,788	-	60,788
2035	49,992	-	49,992
	<u>\$ 4,427,253</u>	<u>\$ 4,367,125</u>	<u>\$ 8,794,378</u>

Note 6 - Supplemental cash flow and non-cash activity information - proprietary fund only

Cash and cash equivalents for proprietary funds consist of the following as of June 30, 2017:

Cash and cash equivalents	\$ 2,288,062
Restricted cash	44,416
Cash and cash equivalents at end of year	<u>\$ 2,332,478</u>

Note 7 - Defined Benefit Pension Plans

The South Carolina Public Employee Benefit Authority ("PEBA"), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (restructured into the Department of Administration on July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)

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, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The South Carolina Police Officers Retirement System ("PORS"), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Membership

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

PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for each system is presented below.

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

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

Required employee contribution rates for fiscal year 2016-2017 are as follows:

SCRS	
Employee Class Two	8.66% of earnable compensation
Employee Class Three	8.66% of earnable compensation
PORS	
Employee Class Two	9.24% of earnable compensation
Employee Class Three	9.24% of earnable compensation

Required employer contribution rates for fiscal year 2016-2017 are as follows:

SCRS	
Employer Class Two	11.41% of earnable compensation
Employer Class Three	11.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
PORS	
Employer Class Two	13.84% of earnable compensation
Employer Class Three	13.84% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

Required and actual contributions are as follows:

	SCRS	PORS
Year ended June 30, 2017		
Required contributions	\$ 72,965	\$ 2,104
Actual contributions	72,965	2,104

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)**Actuarial Assumptions and Methods**

Actuarial valuations 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 during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2017 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age	Entry age
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases (varies by service)	3.5% to 12.5%	3.5% to 12.5%
Includes inflation at	2.75%	2.75%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Males:

Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%
Public Safety, Firefighters and members South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%

Females:

Educators and Judges	RP-2000 Females(with White Collar adjustment)multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members South Carolina National Guard	RP-2000 Females(with Blue Collar adjustment)multiplied by 115%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67 less that System's fiduciary net position. As of June 30, 2016, the District's proportional share of the NPL amounts for SCRS and PORS are presented below:

Governmental Activities				
Measurement Period Ended	Fiscal Year Ended		SCRS	PORS
June 30, 2015	June 30, 2016	\$	638,367	\$ 20,485
June 30, 2016	June 30, 2017		700,583	21,142
Business Type Activities				
Measurement Period Ended	Fiscal Year Ended		SCRS	PORS
June 30, 2015	June 30, 2016	\$	741,751	\$ 23,802
June 30, 2016	June 30, 2017		814,044	24,565

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The District's proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the year ended June 30, 2016, the District's percentage of the SCRS and PORS net pension liability were 0.007277% and .00203%, respectively.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission ("RSIC") using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	43%		
Global Public Equity	34%	6.52%	2.22%
Private Equity	9%	9.30%	0.84%
Real Assets	8%		
Real Estate	5%	4.32%	0.22%
Commodities	3%	4.53%	0.13%
Opportunistic	20%		
GTAA/Risk Parity	10%	3.90%	0.39%
HF (Low Beta)	10%	3.87%	0.39%
Diversified Credit	17%		
Mixed Credit	5%	3.52%	0.17%
Emergingf Markets Debt	5%	4.91%	0.25%
Private Debt	7%	4.47%	0.31%
Conservative Fixed Income	12%		
Hedge Funds (Low Beta)	10%	1.72%	0.17%
Commodities	2%	0.71%	0.01%
Total Expected Real Return	<u>100%</u>		<u>5.10%</u>
Inflation for Actuarial Purposes			<u>2.75%</u>
Total Expected Nominal Return			<u><u>7.85%</u></u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate

	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
Governmental Activities System			
SCRS	873,958	700,583	556,255
PORS	27,708	21,142	15,240
Business-type Activities System			
SCRS	1,015,498	814,044	646,341
PORS	32,195	24,565	17,709

Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in PEBA's separately issued financial report.

Pension Expense and Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2017, the District recognized pension expense of \$36,966 for governmental activities and \$9,390 for business-type activities.

At June 30, 2017, the District reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Governmental Activities		
Pension contributions subsequent to measurement date	\$ 38,026	\$ -
Differences between actual and expected experience	109,364	-
Net difference between projected and actual earnings on plan investments	-	43,113
Total	<u>\$ 147,390</u>	<u>\$ 43,113</u>
Business-type Activities		
Pension contributions subsequent to measurement date	\$ 37,043	\$ -
Differences between actual and expected experience	106,537	-
Net difference between projected and actual earnings on plan investments	-	41,998
Total	<u>\$ 143,580</u>	<u>\$ 41,998</u>

The District reported \$290,970 as deferred outflows of resources related to contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Notes to Financial Statements

June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)

The following schedule reflects the amortization of the District's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2017. Average remaining service lives of all employees provided with pensions through the pension plans at June 30, 2016 was 4.233 years for SCRS and 4.856 years for PORS.

Governmental Activities			SCRS	PORS
Measurement Period Ending	Fiscal Year Ending			
June 30, 2017	June 30, 2018	\$	14,980	\$ 325
June 30, 2018	June 30, 2019		11,184	309
June 30, 2019	June 30, 2020		20,035	634
June 30, 2020	June 30, 2021		12,802	226
Net balance of deferred outflows/inflows of resources		\$	<u>59,001</u>	<u>\$ 1,494</u>

Business Type Activities			SCRS	PORS
Measurement Period Ending	Fiscal Year Ending			
June 30, 2017	June 30, 2018	\$	17,407	\$ 378
June 30, 2018	June 30, 2019		12,996	359
June 30, 2019	June 30, 2020		23,280	736
June 30, 2020	June 30, 2021		14,876	263
Net balance of deferred outflows/inflows of resources		\$	<u>68,559</u>	<u>\$ 1,736</u>

Payables to the pension plans

At June 30, 2017, the District reported a payable of \$707 and \$9 for the outstanding amount of contributions due to SCRS and PORS, respectively for governmental activities and \$970 for the outstanding amount of contributions due to SCRS for business-type activities. The liability will be paid in the normal course of paying year-end obligations.

Note 8 - Commitments

The District is obligated under contract, to purchase water from the Beaufort-Jasper Water and Sewer Authority (BJWSA) of Beaufort, South Carolina, at the lowest wholesale rate provided to similar customers. Amounts paid to BJWSA totaled \$417,854 for the year ended June 30, 2017.

Note 9 - Deferred compensation plan

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457, and later modified to be in accordance with Internal Revenue Code Section 414(h) which is optional and available to all District employees and currently permits them to defer a portion of their salary until future years.

Note 10 -Subsequent Events

The District has evaluated subsequent events through September 23, 2017, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Special Revenue Funds- Combining Balance Sheet

June 30, 2017

	Fire Department	Bridge and Beach Erosion	Total
Assets			
Cash and cash equivalents	\$ 88,224	\$ 33,317	\$ 121,541
Certificates of deposit	-	493,846	493,846
Due from Beaufort County Treasurer	243,758	142,220	385,978
Accounts receivable	1,500	-	1,500
	<u>333,482</u>	<u>669,383</u>	<u>1,002,865</u>
Total assets			
Liabilities:			
Accounts payable	19,317	41,376	60,693
	<u>19,317</u>	<u>41,376</u>	<u>60,693</u>
Total liabilities			
Fund balance:			
Unreserved-undesignated	314,165	634,360	948,525
Accumulated unrealized gain (loss) on securities	-	(6,353)	(6,353)
Total fund balance	<u>314,165</u>	<u>628,007</u>	<u>942,172</u>
Total liabilities and fund balance	<u>\$ 333,482</u>	<u>\$ 669,383</u>	<u>\$ 1,002,865</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2017

	Fire Department	Bridge and Beach Erosion	Total
Revenues			
Taxes	\$ 554,794	\$ 54,015	\$ 608,809
Assessments	1,500	-	1,500
Interest	1,229	9,417	10,646
Bridge	-	-	-
Other	5,910	75,131	81,041
Total revenues	<u>563,433</u>	<u>138,563</u>	<u>701,996</u>
Expenditures			
Employee expenses	418,599	-	418,599
Operating expenses	79,245	213,303	292,548
Capital outlay	15,493	154,126	169,619
Total expenditures	<u>513,337</u>	<u>367,429</u>	<u>880,766</u>
Excess (deficiency) of revenues over expenditures	50,096	(228,866)	(178,770)
Fund balance (deficit) at beginning of year	<u>264,069</u>	<u>863,226</u>	<u>1,127,295</u>
Fund balance (deficit) at end of year	<u>\$ 314,165</u>	<u>\$ 634,360</u>	<u>\$ 948,525</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

Year ended June 30, 2017

	Fire Department Fund			Bridge and Beach Erosion Fund			Total		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Revenues									
Taxes	\$ 554,794	\$ 555,938	\$ (1,144)	\$ 54,015	\$ 54,000	\$ 15	\$ 608,809	\$ 609,938	\$ (1,129)
Assessments	1,500	900	600	-	-	-	1,500	900	600
Interest	1,229	-	1,229	9,417	-	9,417	10,646	-	10,646
Bridge	-	-	-	-	-	-	-	-	-
Other	5,910	-	5,910	75,131	-	75,131	81,041	-	81,041
Total revenues	<u>563,433</u>	<u>556,838</u>	<u>6,595</u>	<u>138,563</u>	<u>54,000</u>	<u>84,563</u>	<u>701,996</u>	<u>610,838</u>	<u>91,158</u>
Expenditures									
Employee expenses									
Salaries	322,542	353,000	30,458	-	-	-	322,542	353,000	30,458
Payroll expense	24,696	27,010	2,314	-	-	-	24,696	27,010	2,314
Retirement	36,966	38,900	1,934	-	-	-	36,966	38,900	1,934
Medical, life and disability insurance	15,814	15,960	146	-	-	-	15,814	15,960	146
Employee uniforms and gear	1,447	3,000	1,553	-	-	-	1,447	3,000	1,553
Workers compensation insurance	17,134	23,000	5,866	-	-	-	17,134	23,000	5,866
Physicals	-	300	300	-	-	-	-	300	300
Total employee expenses	<u>418,599</u>	<u>461,170</u>	<u>42,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,599</u>	<u>461,170</u>	<u>42,571</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual (continued)

Year ended June 30, 2017

	Fire Department Fund			Bridge and Beach Erosion Fund			Total		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Expenditures (continued)									
Operating expenses									
Accounting and audit	5,500	5,200	(300)	1,250	1,240	(10)	6,750	6,440	(310)
Administrative support	13,440	13,440	-	3,250	3,300	50	16,690	16,740	50
Bank service charges	-	-	-	0	-	-	-	-	-
Beverages and compliments	683	700	17	-	-	-	683	700	17
Bridge	-	-	-	67,272	51,500	(15,772)	67,272	51,500	(15,772)
Cleaning supplies	844	1,000	156	-	-	-	844	1,000	156
Commissioners' expenses	120	100	(20)	41	200	159	161	300	139
Dues	423	200	(223)	-	-	-	423	200	(223)
Fire fighting supplies	742	1,500	758	-	-	-	742	1,500	758
Fire fighting prevention	-	1,000	1,000	-	-	-	-	1,000	1,000
Radios	-	350	350	-	-	-	-	350	350
Gas and oil	6,489	7,000	511	-	-	-	6,489	7,000	511
General insurance	11,178	11,800	622	45,747	46,000	253	56,925	57,800	875
Legal fees	2,376	200	(2,176)	8,645	1,000	(7,645)	11,021	1,200	(9,821)
Taxes and licenses	432	-	(432)	(40)	-	40	392	-	(392)
Office supplies	607	400	(207)	-	-	-	607	400	(207)
Small tools	456	300	(156)	-	-	-	456	300	(156)
Printing	-	50	50	-	-	-	-	50	50
Subscriptions	1,523	1,300	(223)	-	-	-	1,523	1,300	(223)
Equipment maintenance	649	1,400	751	-	-	-	649	1,400	751
Grounds and station maintenance	5,907	4,500	(1,407)	-	-	-	5,907	4,500	(1,407)
Vehicles	9,774	4,200	(5,574)	-	-	-	9,774	4,200	(5,574)
Emergencies	1,217	250	(967)	-	-	-	1,217	250	(967)
Medical supplies	85	500	415	-	-	-	85	500	415
Training aids	572	1,600	1,028	-	-	-	572	1,600	1,028
Travel and related	46	200	154	-	-	-	46	200	154
Electricity	5,954	6,800	846	-	-	-	5,954	6,800	846
Garbage collection	903	1,300	397	-	-	-	903	1,300	397
Telephone	4,325	3,450	(875)	-	-	-	4,325	3,450	(875)
Miscellaneous	5,000	3,000	(2,000)	-	-	-	5,000	3,000	(2,000)
Groin and revetment repair	-	-	-	87,138	30,000	(57,138)	87,138	30,000	(57,138)
Total operating expense	<u>79,245</u>	<u>71,740</u>	<u>(7,505)</u>	<u>213,303</u>	<u>133,240</u>	<u>(80,063)</u>	<u>292,548</u>	<u>204,980</u>	<u>(87,568)</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual (continued)

Year ended June 30, 2017

	Fire Department Fund			Bridge and Beach Erosion Fund			Total		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Capital outlay	15,493	19,000	3,507	154,126	-	(154,126)	169,619	19,000	(150,619)
Excess (deficiency) of revenues over expenditures	50,096	4,928	45,168	(228,866)	(79,240)	(149,626)	(178,770)	(74,312)	(104,458)
Fund balance (deficit), beginning of year	264,069	264,069	-	863,226	863,226	-	1,127,295	1,127,295	-
Fund balance (deficit), end of year	\$ 314,165	\$ 268,997	\$ 45,168	\$ 634,360	\$ 783,986	\$ (149,626)	\$ 948,525	\$ 1,052,983	\$ (104,458)

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Proprietary Fund
Statement of Revenues and Expenses-Budget and Actual

Year ended June 30, 2017

	Water			Sewer			Total		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Operating revenues									
Water consumption and sewer use	\$ 880,440	\$ 875,850	\$ 4,590	\$ 676,838	\$ 675,520	\$ 1,318	\$ 1,557,278	\$ 1,551,370	\$ 5,908
Water and sewer availability	-	-	-	366,698	366,990	(292)	366,698	366,990	(292)
Tap in fees	2,900	1,800	1,100	6,000	3,600	2,400	8,900	5,400	3,500
Water transport and effluent fees	9,929	9,400	529	16,469	1,270	15,199	26,398	10,670	15,728
Tower lease	264,047	264,050	(3)	-	-	-	264,047	264,050	(3)
Other	46,711	18,500	28,211	-	-	-	46,711	18,500	28,211
Total operating revenues	<u>1,204,027</u>	<u>1,169,600</u>	<u>34,427</u>	<u>1,066,005</u>	<u>1,047,380</u>	<u>18,625</u>	<u>2,270,032</u>	<u>2,216,980</u>	<u>53,052</u>
Cost of sales									
Water purchase	417,854	436,240	18,386	-	-	-	417,854	436,240	18,386
Total cost of sales	<u>417,854</u>	<u>436,240</u>	<u>18,386</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>417,854</u>	<u>436,240</u>	<u>18,386</u>
Gross profit from operations	786,173	733,360	52,813	1,066,005	1,047,380	18,625	1,852,178	1,780,740	71,438
Operating expenses									
General and administrative									
Accounting and auditing	3,355	2,950	(405)	3,355	2,950	(405)	6,710	5,900	(810)
Bad debts	-	200	200	-	200	200	-	400	400
Bank service charges	5,357	5,900	543	5,356	5,900	544	10,713	11,800	1,087
Dues and subscriptions	1,938	1,975	37	1,937	1,975	38	3,875	3,950	75
Electric	922	1,150	228	922	1,150	228	1,844	2,300	456
Telephone	3,082	2,800	(282)	3,082	2,800	(282)	6,164	5,600	(564)
Equipment maintenance	27	300	273	26	300	274	53	600	547
Engineering consulting	3,260	7,500	4,240	3,259	7,500	4,241	6,519	15,000	8,481
Insurance	17,798	18,150	352	17,798	18,150	352	35,596	36,300	704
Legal fees	-	-	-	1,573	25,000	23,427	1,573	25,000	23,427
Licenses and taxes	6,195	5,780	(415)	6,195	5,780	(415)	12,390	11,560	(830)
Miscellaneous	5,350	1,250	(4,100)	5,350	1,250	(4,100)	10,700	2,500	(8,200)
Office supplies	1,125	1,300	175	1,124	1,300	176	2,249	2,600	351
Postage and freight	3,591	3,790	199	3,591	3,790	199	7,182	7,580	398
Printing and microfilm	508	600	92	508	600	92	1,016	1,200	184
Program maintenance	1,887	2,000	113	1,886	2,000	114	3,773	4,000	227
Building maintenance	6,667	3,170	(3,497)	6,666	3,170	(3,496)	13,333	6,340	(6,993)
Office rent	-	-	-	-	-	-	-	-	-
Salaries	146,053	147,550	1,497	146,053	147,550	1,497	292,106	295,100	2,994
Payroll taxes	11,526	11,740	214	11,526	11,740	214	23,052	23,480	428
Retirement	4,695	16,745	12,050	4,695	16,745	12,050	9,390	33,490	24,100
Employee insurance	40,147	41,350	1,203	40,146	41,350	1,204	80,293	82,700	2,407
Overtime	10,902	5,950	(4,952)	10,901	5,950	(4,951)	21,803	11,900	(9,903)
Administrative support	(8,345)	(8,370)	(25)	(8,345)	(8,370)	(25)	(16,690)	(16,740)	(50)
Workers compensation insurance	2,993	3,000	7	2,992	3,000	8	5,985	6,000	15
Uniforms	-	300	300	-	300	300	-	600	600
Vehicle	7,054	8,400	1,346	7,053	8,400	1,347	14,107	16,800	2,693
Graphic services	-	100	100	-	100	100	-	200	200
Total general and administrative	<u>276,087</u>	<u>285,580</u>	<u>9,493</u>	<u>277,649</u>	<u>310,580</u>	<u>32,931</u>	<u>553,736</u>	<u>596,160</u>	<u>42,424</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Proprietary Fund
Statement of Revenues and Expenses-Budget and Actual (continued)

Year ended June 30, 2017

	Water			Sewer			Total		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Operating expenses (continued)									
Travel and training									
Business meals	-	50	50	-	50	50	-	100	100
Commissioners expense	2,179	425	(1,754)	2,178	425	(1,753)	4,357	850	(3,507)
Land travel	-	200	200	-	200	200	-	400	400
Seminar and convention fees	1,089	3,250	2,161	1,089	3,250	2,161	2,178	6,500	4,322
Total travel and training	<u>3,268</u>	<u>3,925</u>	<u>657</u>	<u>3,267</u>	<u>3,925</u>	<u>658</u>	<u>6,535</u>	<u>7,850</u>	<u>1,315</u>
Operations									
Chemicals	-	200	200	6,427	3,140	(3,287)	6,427	3,340	(3,087)
Effluent monitoring	-	-	-	26,364	31,210	4,846	26,364	31,210	4,846
Sludge disposal	-	-	-	41,360	71,900	30,540	41,360	71,900	30,540
Small tools and supplies	909	1,000	91	1,616	2,250	634	2,525	3,250	725
Tap costs	704	1,560	856	-	-	-	704	1,560	856
Water quality monitoring	2,743	3,260	517	-	-	-	2,743	3,260	517
Total operations	<u>4,356</u>	<u>6,020</u>	<u>1,664</u>	<u>75,767</u>	<u>108,500</u>	<u>32,733</u>	<u>80,123</u>	<u>114,520</u>	<u>34,397</u>
Maintenance									
Auxiliary generator	-	-	-	25,164	3,160	(22,004)	25,164	3,160	(22,004)
Booster pumps	4,188	6,000	1,812	-	-	-	4,188	6,000	1,812
Buildings and grounds	-	-	-	2,708	3,820	1,112	2,708	3,820	1,112
Disinfection system	-	-	-	-	500	500	-	500	500
Controls and instruments	207	-	(207)	2,509	3,500	991	2,716	3,500	784
Fire hydrants	-	1,000	1,000	-	-	-	-	1,000	1,000
Irrigation system	-	-	-	2,252	3,000	748	2,252	3,000	748
Secondary treatment units	-	-	-	28,309	25,000	(3,309)	28,309	25,000	(3,309)
Sewer force mains	-	-	-	-	2,000	2,000	-	2,000	2,000
Sewer pumping system	-	-	-	10,043	8,500	(1,543)	10,043	8,500	(1,543)
Support equipment maintenance	-	500	500	-	-	-	-	500	500
Water and sewer lines	39,848	28,000	(11,848)	40,046	5,500	(34,546)	79,894	33,500	(46,394)
Water meter repair	3,765	4,000	235	-	-	-	3,765	4,000	235
Water tanks	37,912	39,000	1,088	-	-	-	37,912	39,000	1,088
Total maintenance	<u>85,920</u>	<u>78,500</u>	<u>(7,420)</u>	<u>111,031</u>	<u>54,980</u>	<u>(56,051)</u>	<u>196,951</u>	<u>133,480</u>	<u>(63,471)</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Proprietary Fund
Statement of Revenues and Expenses-Budget and Actual (continued)

Year ended June 30, 2017

	Water			Sewer			Total		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Operating expenses (continued)									
Utilities									
Electricity	11,800	14,000	2,200	85,755	83,000	(2,755)	97,555	97,000	(555)
Telephone	2,254	2,260	6	701	750	49	2,955	3,010	55
Total utilities	<u>14,054</u>	<u>16,260</u>	<u>2,206</u>	<u>86,456</u>	<u>83,750</u>	<u>(2,706)</u>	<u>100,510</u>	<u>100,010</u>	<u>(500)</u>
Total operating expenses	<u>383,685</u>	<u>390,285</u>	<u>6,600</u>	<u>554,170</u>	<u>561,735</u>	<u>7,565</u>	<u>937,855</u>	<u>952,020</u>	<u>14,165</u>
Other revenues:									
Interest-not restricted	42,333	50,000	(7,667)	-	-	-	42,333	50,000	(7,667)
Interest-restricted	-	-	-	12,602	8,000	4,602	12,602	8,000	4,602
Total other revenues	<u>42,333</u>	<u>50,000</u>	<u>(7,667)</u>	<u>12,602</u>	<u>8,000</u>	<u>4,602</u>	<u>54,935</u>	<u>58,000</u>	<u>(3,065)</u>
Other expenses									
Interest expense on bonds	-	-	-	172,696	172,700	4	172,696	172,700	4
Bond issue and payment fees	-	-	-	16,267	16,100	(167)	16,267	16,100	(167)
Total other expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,963</u>	<u>188,800</u>	<u>(163)</u>	<u>188,963</u>	<u>188,800</u>	<u>(163)</u>
Interfund transfers	-	-	-	442,932	442,960	(28)	442,932	442,960	(28)
Depreciation	132,971	135,120	2,149	428,227	449,130	20,903	561,198	584,250	23,052
Net earnings (loss)	<u>\$ 311,850</u>	<u>\$ 257,955</u>	<u>\$ 53,895</u>	<u>\$ 350,179</u>	<u>\$ 298,675</u>	<u>\$ 51,504</u>	<u>\$ 662,029</u>	<u>\$ 556,630</u>	<u>\$ 105,399</u>

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Schedule of Bonds Outstanding
June 30, 2017**2014 Waterworks and Sewer System General Obligation Bonds**

Year ending June 30,	Amount Due		Remaining Principal Balance
	Interest	Principal	
2018	\$ 18,020	\$ 42,768	\$ 863,420
2019	17,158	43,630	819,790
2020	16,279	44,509	775,281
2021	15,382	45,406	729,875
2022	14,467	46,321	683,554
2023	13,534	47,254	636,300
2024	12,582	48,206	588,094
2025	11,610	49,178	538,916
2026	10,620	50,169	488,747
2027	9,609	51,180	437,567
2028	8,577	52,211	385,356
2029	7,525	53,263	332,093
2030	6,452	54,336	277,757
2031	5,357	55,431	222,326
2032	4,240	56,548	165,778
2033	3,101	57,688	108,090
2034	1,938	58,850	49,240
2035	752	49,240	-

\$ 177,203 \$ 906,188

These waterworks and sewer system general obligation bonds, dated September 10, 2014, bear interest at 2.00% per annum. Interest and principal are payable quarterly January 1, April 1, July 1 and October 1 of each year. The bonds are payable from, and shall be secured by, a pledge of and a lien upon the assets of the District.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Schedule of Bonds Outstanding (continued)
June 30, 2017

General obligation note payable

Year ending June 30,	Amount Due		Remaining Principal Balance
	Interest	Principal	
2018	\$ 65,461	\$ 316,695	\$ 2,710,887
2019	58,275	323,881	2,387,006
2020	50,926	331,230	2,055,776
2021	43,410	338,745	1,717,031
2022	35,724	346,432	1,370,599
2023	27,863	354,292	1,016,307
2024	19,824	362,332	653,975
2025	11,603	370,553	283,422
2026	3,194	283,422	-
	<u>\$ 316,280</u>	<u>\$ 3,027,582</u>	

This general obligation note had an interest rate at 3.00% per annum, with principal and interest payments due quarterly starting July 1, 2006 through April 30, 2026. At October 2, 2011, the terms of the note were modified by adjusting the interest rate to 2.75% per annum and the quarterly payments were adjusted to \$95,539.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Schedule of Bonds Outstanding (continued)
June 30, 2017**2013 Waterworks and Sewer System Revenue Bonds**

Year ending June 30,	Amount Due		Remaining Principal Balance
	Interest	Principal	
2018	\$ 75,758	\$ 288,519	\$ 3,587,661
2019	69,842	294,376	3,293,285
2020	63,805	300,352	2,992,933
2021	57,646	306,449	2,686,484
2022	51,362	312,670	2,373,814
2023	44,950	319,017	2,054,797
2024	38,409	325,493	1,729,304
2025	31,734	332,101	1,397,203
2026	24,924	338,843	1,058,360
2027	17,976	345,721	712,639
2028	10,886	352,739	359,900
2029	3,653	359,900	-
	<u>\$ 490,945</u>	<u>\$ 3,876,180</u>	

These waterworks and sewer system advance refunding revenue bonds, dated May 23, 2013, bear interest at 2.03% per annum are to be used to liquidate the 2005 Waterworks and Sewer System Revenue Bonds payable. Interest and principal are payable April 1 and October 1 of each year. The bonds are payable from, and shall be secured by, a pledge of and a lien upon the net revenues from the operation of the waterworks and sewer systems. The original issue amount was \$4,580,317.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Required Supplementary Information (Unaudited)
 Schedule of Proportionate Share of the Net Pension Liability
 South Carolina Retirement System
 Last 4 Fiscal Years

<u>Year Ended June 30</u>	<u>District's proportion of the net pension liability</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered employee payroll</u>	<u>District's share of the net pension liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2017	0.00709%	\$ 1,514,627	\$ 645,954	234%	52.90%
2016	0.00728%	1,380,118	686,669	201%	57.00%
2015	0.00715%	1,230,476	682,315	180%	59.92%
2014	0.00715%	1,281,917	648,889	198%	56.39%

Note: Each year the District will add an additional year of data until a total of ten years is presented.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Required Supplementary Information (Unaudited)
 Schedule of Proportionate Share of the Net Pension Liability
 Police Officer's Retirement System
 Last 4 Fiscal Years

Year Ended <u>June 30</u>	District's proportion of the net pension <u>liability</u>	District's proportionate share of the net pension liability <u>(asset)</u>	District's covered employee <u>payroll</u>	District's share of the net pension liability (asset) as a percentage of its covered employee <u>payroll</u>	Plan fiduciary net position as a percentage of the total pension <u>liability</u>
2017	0.00180%	\$ 45,707	\$ 645,954	7%	60.40%
2016	0.00203%	44,287	686,669	6%	64.60%
2015	0.00193%	37,025	682,315	5%	67.55%
2014	0.00193%	40,091	648,889	6%	62.98%

Note: Each year the District will add an additional year of data until a total of ten years is presented.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Required Supplementary Information (Unaudited)
 Schedule of Proportionate Share of the Net Pension Liability
 South Carolina Retirement System
 Last 10 Fiscal Years

<u>Year Ended June 30</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
2017	72,965	72,965	-	645,954	11.30%
2016	74,916	74,916	-	686,669	10.91%
2015	74,382	74,382	-	682,315	10.90%
2014	68,782	68,782	-	648,889	10.60%
2013	67,727	67,727	-	638,934	10.60%
2012	61,328	61,328	-	643,185	9.54%
2011	60,541	60,541	-	644,735	9.39%
2010	58,238	58,238	-	620,218	9.39%
2009	56,233	56,233	-	598,863	9.39%
2008	52,480	52,480	-	569,820	9.21%
2007	43,505	43,505	-	530,543	8.20%

FRIPP ISLAND PUBLIC SERVICE DISTRICT

Required Supplementary Information (Unaudited)
 Schedule of Proportionate Share of the Net Pension Liability
 Police Officer's Retirement System
 Last 10 Fiscal Years

Year Ended <u>June 30</u>	Contractually required <u>contribution</u>	Contributions relative to contractually required <u>contribution</u>	Contribution deficiency <u>(excess)</u>	District's covered employee <u>payroll</u>	Contributions as a percentage of covered employee <u>payroll</u>
2017	2,104	2,104	-	645,954	0.33%
2016	3,156	3,156	-	686,669	0.46%
2015	25,176	25,176	-	682,315	3.69%
2014	23,261	23,261	-	648,889	3.58%
2013	22,264	22,264	-	638,934	3.48%
2012	-	-	-	-	-
2011	-	-	-	-	-
2010	-	-	-	-	-
2009	-	-	-	-	-
2008	-	-	-	-	-
2007	-	-	-	-	-