

**FRIPP ISLAND  
PUBLIC SERVICE DISTRICT**

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**FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

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**YEAR ENDED JUNE 30, 2019**

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**Fripp Island, South Carolina**

C O N T E N T S

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## ***Independent Auditors' Report***

To the Commissioners  
***Fripp Island Public Service District***  
Fripp Island, South Carolina

### **Report on Financial Statements**

We have audited the accompanying financial statements governmental activities, the business-type activities, and each major fund of ***Fripp Island Public Service District*** as of and for the year ended June 30, 2019, as listed in the table of contents, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express 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 opinions.

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PO Box 1999  
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843-706-8440 Fax 843-706-8441  
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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Fripp Island Public Service District as of June 30, 2019, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of pension liability and contributions, and the schedule of changes in the District's total OPEB liability information on pages 3-10 and 46-51 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.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Bluffton, South Carolina  
March 10, 2020

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**FRIPP ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

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As management of the Fripp Island Public Service District (the District), we offer the readers of the Fripp Island Public Service District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the basic financial statements and the accompanying notes.

### **Financial Highlights**

- The District's Governmental Activities' net position at year end was \$1,677,763. Of this amount, \$4,988,196 represents negative unrestricted net position.
- The District's Business-Type Activities' net position at year end was \$10,582,009. Of this amount, \$5,012,347 represents unrestricted net position.
- The District invested in new capital assets in the amount of \$194,385 and \$3,015,287 for its Governmental Activities and Business-Type Activities, respectively.
- The District issued debt in the amount of \$3,160,000 and \$2,729,145 in the Governmental Activities and Business-Type Activities, respectively. The debt was issued to fund major infrastructure improvements on the island.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balance of \$5,464,495, an increase of \$3,051,439.
- At the end of the year the District's proprietary fund, the Water and Sewer Fund, had an increase in net position of \$1,057,630 to \$10,582,009 of which \$5,012,347 was unrestricted.
- The requirements of Governmental Accounting Standards Board (GASB) Standard No. 68, *Accounting and Financial Reporting for Pensions* and GASB Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, require the District to record a liability for the future pension and healthcare costs associated with current employees. Those liabilities total \$2,491,935 and contribute to the negative unrestricted net position of the District.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements** – The *government-wide financial statements* provide a broad overview of the Fripp Island Public Service District's operations in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in *net position* may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and all intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Fripp Island Public Service District include general government, fire protection, public works and beach erosion control. The business-type activities include water and sewer operations.

The government-wide financial statements can be found on pages 11-12 of this report.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

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**Fund Financial Statements** – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fripp Island Public Service District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fripp Island Public Service District can be classified into two categories: governmental and proprietary.

**Governmental Funds** – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. All of the District's basic services are reported in the governmental funds financial statements which focus on how money flows into and out of those funds in the near-term and the balances left at year-end that are available for commitment. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be committed in the near future to finance the Fripp Island Public Service District's programs. This information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the governmental-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Fire Department Fund, the Bridge and Beach Erosion Fund, the Capital Projects Fund and the Debt Service Fund, all of which are major funds. The basic governmental fund financial statements can be found on pages 13-16 of this report.

**Proprietary Funds** – The District maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The District uses an enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water operations which is considered to be a major fund of the District.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-45 of this report.

**Other Information** – The District adopts an annual appropriated budget for the Fire Department Fund, Bridge and Beach Erosion Fund, and the Debt Service Fund. A budgetary comparison schedule has been presented as *required supplementary information* for the Fire Department Fund, Bridge and Beach Erosion Fund, the major governmental funds with adopted budgets that are required to be reported under governmental generally accepted accounting practices (GAAP). The budgetary comparison schedules are presented to demonstrate compliance with the budget. Required supplementary information can be found on pages 46-51 of this report.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's assets exceeded liabilities by \$12,259,772 at the close of the most recent fiscal year. The largest portion of the District's net position (52.3 percent) is its investment in capital assets (e.g. land, infrastructure, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**The Fripp Island Public Service District Net Position**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<u>Assets</u>						
Current and Other						
Assets	\$ 5,533,763	\$ 2,435,982	\$ 7,424,738	\$ 6,157,131	\$ 12,958,501	\$ 8,593,113
Capital Assets	2,475,169	2,554,570	14,378,463	12,457,241	16,853,632	15,011,811
Total Assets	<u>8,008,932</u>	<u>4,990,552</u>	<u>21,803,201</u>	<u>18,614,372</u>	<u>29,812,133</u>	<u>23,604,924</u>
Deferred Outflows	93,860	146,066	95,780	145,249	189,640	291,315
<u>Liabilities</u>						
Long-term						
Liabilities	5,356,591	2,243,000	9,181,457	7,161,763	14,538,048	9,404,763
Other Liabilities	967,173	748,920	2,042,654	881,829	3,009,827	1,630,749
Total Liabilities	<u>6,323,764</u>	<u>2,991,920</u>	<u>11,224,111</u>	<u>8,043,592</u>	<u>17,547,875</u>	<u>11,035,512</u>
Deferred Inflows	101,265	116,728	92,861	116,076	194,126	232,804
<u>Net Position</u>						
Net Investment in						
Capital Assets	1,201,464	311,570	5,214,453	5,295,478	6,415,917	5,607,048
Restricted	5,464,495	296,700	355,209	1,047,189	5,819,704	1,343,889
Unrestricted	(4,988,196)	1,419,700	5,012,347	4,257,286	24,151	5,676,986
Total Net Position	<u>\$ 1,677,763</u>	<u>\$ 2,027,970</u>	<u>\$ 10,582,009</u>	<u>\$ 10,599,953</u>	<u>\$ 12,259,772</u>	<u>\$ 12,627,923</u>

A portion of the District's net position (\$5,819,704) (47.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position, \$24,151, is categorized as unrestricted. The unrestricted net position consists of a surplus of \$5,012,347 in the business type activities, offset by a deficit of \$4,988,196 in the governmental activities.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

**The Fripp Island Public Service District Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues						
Charges for services	\$ 25,955	\$ 41,255	\$ 2,249,629	\$ 2,271,429	\$ 2,275,584	\$ 2,312,684
Capital contributions	-	-	550,000	-	550,000	-
General revenues						
Property taxes	1,446,369	1,184,565	-	-	1,446,369	1,184,565
Investment earnings (loss)	22,984	5,957	173,949	(29,941)	196,933	(23,984)
Gain on sale of assets	-	-	-	-	-	-
Miscellaneous	125	-	20,700	-	20,825	-
Total revenues	<u>1,495,433</u>	<u>1,231,777</u>	<u>2,994,278</u>	<u>2,241,488</u>	<u>4,489,711</u>	<u>3,473,265</u>
Expenses						
Governmental activities						
Public safety	552,214	769,594	-	-	552,214	769,594
Public service	407,290	255,829	-	-	407,290	255,829
Interest and other charges	60,272	-	-	-	60,272	-
Business-type activities						
Water and sewer	-	-	2,477,748	2,107,586	2,477,748	2,107,586
Total expenses	<u>1,019,776</u>	<u>1,025,423</u>	<u>2,477,748</u>	<u>2,107,586</u>	<u>3,497,524</u>	<u>3,133,009</u>
Transfers in (out)	<u>(541,100)</u>	<u>(442,931)</u>	<u>541,100</u>	<u>442,931</u>	<u>-</u>	<u>-</u>
Change in net position	(65,443)	(236,577)	1,057,630	576,833	992,187	340,256
Net position, beginning, as restated	<u>1,743,206</u>	<u>2,264,547</u>	<u>9,524,379</u>	<u>10,023,120</u>	<u>11,267,585</u>	<u>12,287,667</u>
Net position, ending	<u>\$ 1,677,763</u>	<u>\$ 2,027,970</u>	<u>\$ 10,582,009</u>	<u>\$ 10,599,953</u>	<u>\$ 12,259,772</u>	<u>\$ 12,627,923</u>

Beginning net position was restated in the current year for the effect of implementing GASB Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as well as certain other restatements made to more accurately reflect the net position of the District. (See Note 9 to the financial statements for further information.) Prior year numbers were not restated to reflect such changes.

**Governmental Activities** – Governmental activities decreased the District's net position by \$65,443, decreasing net position of the District by 3.8 percent. Key elements of this increase are as follows:

Program revenues from charges for services amounting to \$25,955 amounted to 1.7 percent. The charges for services are for fees related to utility attachment to the District's infrastructure and tap fees for access to water used for fire protection. Property tax revenues amount to \$1,446,369 or 96.7 percent of the \$1,495,433 total revenues for governmental activities.

Total governmental revenues increased by \$263,656 from the prior year, largely as a result of an increase in property tax collections, while expenditures decreased overall by .6 percent (\$5,647).

Public safety was the costliest program accounting for \$552,214 of the \$1,019,776 total expenses for governmental activities or 54.2 percent of the total expenses. Public service had the next largest program accounting for \$407,290 (39.9 percent) of the total governmental expenses.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

The following table for governmental activities indicates the total cost of services and the net cost of services. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

**Governmental Activities – Cost of Services**

	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Public safety	\$ 552,214	\$ 543,258	\$ 769,594	\$ 728,339
Public service	407,290	390,291	255,829	255,829
Interest on long term debt	60,272	60,272	-	-
Total Expenses	\$ 1,019,776	\$ 993,821	\$ 1,025,423	\$ 984,168

Charges for services of \$25,955 (2.5 percent of the total costs of services) were received and used to fund the general government expenses of the District. The remaining \$993,821 in general government expenses is funded by property taxes and other revenue.

**Business-type Activities** – Charges for services of \$2,249,629 was the District's largest program revenue accounting for 75.1 percent of the total business-type activities' revenues. These charges are for water and sewer services for the water and sewer enterprise fund. Capital contributions related to the replacement of a water line accounted for a further 18.4 percent of revenues in the business-type activities.

Water and sewer rates were increased for fiscal year 2019, with the flat sewer rate increasing by \$0.50/quarter and the volumetric water rates increasing by \$0.10/1,000 gallons to absorb an increase of \$0.08/1,000 gallons in the wholesale water rate and to provide for anticipated decreases in water usage during the year. Notwithstanding the increase in the volumetric water rates, water use revenues decreased from prior year earnings by \$12,030 (1.3%). As a result of the sewer rate increase, sewer use revenues increased from prior year earnings by \$6,826 (1%). Combined water and sewer use revenues exceeded budgeted projections by \$9,482 (0.6%). Collection of vacuum sewer assessments by the Beaufort County Treasurer decreased by \$5,316 compared to the prior year and fell short of budgeted projections by \$2,007 (0.5%).

**Financial Analysis of the Fripp Island Public Service District's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds** – The purpose of the District's governmental fund financial statements is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements.

As of June 30, 2019, the District's governmental funds reported a combined ending fund balance of \$5,464,495, an increase of \$3,051,439 in comparison with the prior year. \$1,386,200 or 25.4 percent of fund balance represents resources restricted whose use is restricted by the purpose of the property tax millage. The remaining \$4,078,295 are resources restricted for capital projects under the terms of bond issuance documents.

The **Fire Department Fund** accounts for the collection and expenditure of property taxes imposed for the purpose of providing fire protection, emergency medical service, and beach rescue for the residents and guests on Fripp Island. At the end of the fiscal year, fund balance was \$425,645, a \$10,830 increase from prior year.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

The **Bridge and Beach Erosion Fund** accounts for the collection and expenditure of property taxes imposed for the maintenance of the Fripp Inlet Bridge and various 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 rights of way for water and sewer lines. At the end of the fiscal year, fund balance was \$560,952, a \$2,640 decrease from prior year.

The **Capital Project Fund** accounts for the collection and expenditure of proceeds of debt issued for the purpose of repairing the Fripp Inlet revetments and the Fripp Inlet Bridge. At the end of the fiscal year, fund balance was \$4,078,295, a \$2,940,346 increase from the prior year, largely occasioned by the issuance of \$3,160,000 in general obligation debt in June 2019.

The **Debt Service Fund** accounts for the collection and expenditure of property taxes imposed for the payment of general obligation debt. At the end of the fiscal year, fund balance was \$399,603, an \$102,903 increase from prior year.

**Proprietary Funds** – The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Additional selected statistics regarding the Water and Sewer Fund are as follows:

	Fiscal Year		Increase (Decrease)
	2019	2018	
Gallons of water purchased (in thousands)	159,787	158,198	1,589
Less gallons of water sold (in thousands)	161,590	152,993	8,597
Water gained (lost)	1,803	(5,205)	7,008
Water accountability	101%	97%	4%
Water accounts	1610	1605	5
Sewer accounts	1546	1538	8

Net position of the Water and Sewer Fund at the end of the year amounted to \$10,582,009, of which \$5,012,347 was unrestricted. The total increase in net position was \$1,057,630.

**Budgetary Highlights**

By state statute, the District Commission adopts the annual operating budget for the District by the last day of June.

Fire Department Fund

The largest Fire Department expenditure was employee salaries totaling \$335,013 (vs. \$310,985 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. The largest account expenditures other than employee expenses were \$36,187 for capital purchases and \$15,009 for property and tort liability insurance. Capital purchases consisted of a new truck and related equipment for use by the Fire Chief. To comply with the tax limitation requirement, the Fire Department limited expenses in fiscal year 2018, and revenues exceeded expenses by \$95,379. During fiscal year 2019, the Fire Department continued to limit budgeted expenses and, despite a budgeted deficit of \$42,923, revenues exceeded expenditures, resulting in an overall favorable variance of \$53,753.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

**Bridge and Beach Erosion Fund**

The District collected a total of \$171,331 for maintaining its erosion control structures and the Fripp Inlet Bridge (\$138,701 in tax revenue, \$16,260 in investment earnings and \$17,000 in bridge utility attachment fees), exceeding the budget projection of \$138,420. Actual expenditures totaled \$282,841. The budget projection for the repair and maintenance of erosion control structures and the Fripp Inlet Bridge was \$339,650 and included legal and engineering expenses associated with the bridge repairs which were capitalized.

**Debt Service Fund**

The tax levy for debt service was increased by 6.63 mills to 16.14 mills due to an increase in the District's annual debt service payments. Tax collections for debt service fell short of budget projections by 0.9% or \$6,430.

**Capital Assets and Debt Administration**

**Capital Assets –** The District's investment in capital assets for its governmental and business-type activities as of June 30, 2019, was \$16,853,632 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure, water and sewer systems, buildings, improvements, vehicles, computers, software, furniture, and equipment.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 132,219	\$ 132,219	\$ 17,001	\$ 17,001	\$ 149,220	\$ 149,220
Construction in progress	99,593	154,126	-	203,840	99,593	357,966
Infrastructure	1,785,302	1,809,028	-	-	1,785,302	1,809,028
Water and sewer system	-	-	14,037,113	11,800,988	14,037,113	11,800,988
Buildings and improvements	350,258	367,786	228,673	250,779	578,931	618,565
Vehicles	25,960	-	27,426	13,956	53,386	13,956
Furniture, fixtures and equipment	81,837	91,411	68,250	24,196	150,087	115,607
	<u>\$ 2,475,169</u>	<u>\$ 2,554,570</u>	<u>\$ 14,378,463</u>	<u>\$ 12,310,760</u>	<u>\$ 16,853,632</u>	<u>\$ 14,865,330</u>

Additional information on the District's capital assets can be found in Note 3.

**Long-Term Debt –** During the year, the District issued general obligation debt in the amount of \$3,160,000 to fund the Fripp Inlet Bridge renovations and a \$2,729,145 state revolving fund loan to fund the replacement of a water line.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 5,352,000	\$ 2,243,000	\$ 819,376	\$ 863,215	\$ 6,171,376	\$ 3,106,215
Revenue bonds	-	-	3,293,285	3,587,661	3,293,285	3,587,661
State revolving fund loans	-	-	5,051,349	2,710,887	5,051,349	2,710,887
Compensated absences	4,591	4,249	17,447	11,376	22,038	15,625
	<u>\$ 5,356,591</u>	<u>\$ 2,247,249</u>	<u>\$ 9,181,457</u>	<u>\$ 7,173,139</u>	<u>\$ 14,538,048</u>	<u>\$ 9,420,388</u>

Additional information on the District's long-term debt can be found in Note 4.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

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**Economic Factors and Next Year's Budget**

During the current fiscal year, the District's total fund balance increased allowing the District to continue to provide quality service to the residents. Notwithstanding the increase in fund balance, increases in operations expenses, recorded liabilities and debt service related to new infrastructure necessitated tax increases in the next fiscal year.

The District is a vibrant community that will continue to grow in the coming years. The budget will continue to expand to meet the service needs of the growing community

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Fripp Island Public Service District Treasurer, 291 Tarpon Boulevard, Fripp Island, SC 29920

## **BASIC FINANCIAL STATEMENTS**

**FRIPP ISLAND PUBLIC SERVICES DISTRICT**

**GOVERNMENT-WIDE STATEMENT OF NET POSITION  
JUNE 30, 2019**

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 183,212	\$ 2,642,061	\$ 2,825,273
Investments	271,952	2,648,159	2,920,111
Due from County Treasurer	566,092	-	566,092
Interfund balances	2,495	(2,495)	-
Taxes receivable	12,447	-	12,447
Accounts receivable	-	982,150	982,150
Inventory	-	24,823	24,823
Prepaid expenses	-	31,477	31,477
Restricted assets			
Cash and cash equivalents	4,104,445	74,183	4,178,628
Investments	-	669,171	669,171
Due from County Treasurer	393,120	355,209	748,329
Capital assets, not being depreciated	231,812	17,001	248,813
Capital assets, net of accumulated depreciation	<u>2,243,357</u>	<u>14,361,462</u>	<u>16,604,819</u>
<b>TOTAL ASSETS</b>	<u>8,008,932</u>	<u>21,803,201</u>	<u>29,812,133</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension benefit	90,871	80,837	171,708
OPEB	<u>2,989</u>	<u>14,943</u>	<u>17,932</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>93,860</u>	<u>95,780</u>	<u>189,640</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	69,268	392,638	461,906
Accrued interest payable	21,693	34,293	55,986
Net pension liability	679,737	633,350	1,313,087
OPEB liability	196,475	982,373	1,178,848
Long-term liabilities			
Due within one year	151,845	993,441	1,145,286
Due in more than one year	<u>5,204,746</u>	<u>8,188,016</u>	<u>13,392,762</u>
<b>TOTAL LIABILITIES</b>	<u>6,323,764</u>	<u>11,224,111</u>	<u>17,547,875</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension benefit	<u>101,265</u>	<u>92,861</u>	<u>194,126</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,201,464	5,214,453	6,415,917
Restricted for:			
Debt service	399,603	355,209	754,812
Public safety	425,645	-	425,645
Public service	560,952	-	560,952
Capital Projects	4,078,295	-	4,078,295
Unrestricted	<u>(4,988,196)</u>	<u>5,012,347</u>	<u>24,151</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,677,763</u>	<u>\$ 10,582,009</u>	<u>\$ 12,259,772</u>

The Notes to the Financial Statements are an integral part of these financial statements.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**JUNE 30, 2019**

	Program Revenues			Net (expense) revenues And changes in net assets		
	Expenses	Charges For Services	Capital Contributions	Governmental Activities	Business Type Activities	Total
Functions/programs						
Primary government						
Governmental activities						
Public safety	\$ 552,213	\$ 8,955	\$ -	\$ (543,258)	\$ -	\$ (543,258)
Public service	407,291	17,000	-	(390,291)	-	(390,291)
Interest and other charges	60,272	-	-	(60,272)	-	(60,272)
Total governmental services	<u>1,019,776</u>	<u>25,955</u>	<u>-</u>	<u>(993,821)</u>	<u>-</u>	<u>(993,821)</u>
Business type activities						
Water and sewer	2,488,574	2,249,629	550,000	-	311,055	311,055
Total business type activities	<u>2,488,574</u>	<u>2,249,629</u>	<u>550,000</u>	<u>-</u>	<u>311,055</u>	<u>311,055</u>
Total primary government	<u>\$ 3,508,350</u>	<u>\$ 2,275,584</u>	<u>\$ 550,000</u>	<u>(993,821)</u>	<u>311,055</u>	<u>(682,766)</u>
General revenues						
Taxes						
Property taxes - fire department				559,035	-	559,035
Property taxes - erosion and bridge				138,071	-	138,071
Property taxes - debt				749,263	-	749,263
Other income				125	20,700	20,825
Investment earnings				22,984	173,949	196,933
Interfund transfers				(541,100)	541,100	-
Total general revenues				<u>928,378</u>	<u>735,749</u>	<u>1,664,127</u>
Change in net assets				(65,443)	1,046,804	981,361
Net assets - beginning of year, as restated				<u>1,743,206</u>	<u>9,535,205</u>	<u>11,278,411</u>
Net assets - end of year				<u>\$ 1,677,763</u>	<u>\$ 10,582,009</u>	<u>\$ 12,259,772</u>

The Notes to the Financial Statements are an integral part of these financial statements.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**

	<u>Fire Department</u>	<u>Bridge and Beach Erosion</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 30,015	\$ 153,197	\$ -	\$ -	\$ 183,212
Investments	-	271,952	-	-	271,952
Taxes receivable	5,964	-	-	6,483	12,447
Due from County Treasurer	404,144	161,948	-	393,120	959,212
Due from other funds	2,495	-	-	-	2,495
Restricted assets					
Cash and cash equivalents	<u>778</u>	<u>25,372</u>	<u>4,078,295</u>	<u>-</u>	<u>4,104,445</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 443,396</u></u>	<u><u>\$ 612,469</u></u>	<u><u>\$ 4,078,295</u></u>	<u><u>\$ 399,603</u></u>	<u><u>\$ 5,533,763</u></u>
<b>LIABILITIES</b>					
Vouchers and accounts payable	<u>17,751</u>	<u>51,517</u>	<u>-</u>	<u>-</u>	<u>69,268</u>
<b>TOTAL LIABILITIES</b>	<u>17,751</u>	<u>51,517</u>	<u>-</u>	<u>-</u>	<u>69,268</u>
<b>FUND EQUITY</b>					
Fund balance					
Restricted for debt service	-	-	-	399,603	399,603
Restricted for capital projects	-	-	4,078,295	-	4,078,295
Restricted for public safety	425,645	-	-	-	425,645
Restricted for public service	<u>-</u>	<u>560,952</u>	<u>-</u>	<u>-</u>	<u>560,952</u>
<b>TOTAL FUND EQUITY</b>	<u>425,645</u>	<u>560,952</u>	<u>4,078,295</u>	<u>399,603</u>	<u>5,464,495</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><u>\$ 443,396</u></u>	<u><u>\$ 612,469</u></u>	<u><u>\$ 4,078,295</u></u>	<u><u>\$ 399,603</u></u>	<u><u>\$ 5,533,763</u></u>

The Notes to the Financial Statements are an integral part of these financial statements.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO**  
**NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2019**

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

Ending fund balance-governmental funds		\$ 5,464,495
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,475,169
Pension related deferrals are not reported in governmental funds, but are reported in governmental activities as follows:		
Deferred outflows		90,871
Deferred inflows		(101,265)
Net pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(679,737)
OPEB related deferrals are not reported in governmental funds, but are reported in governmental activities		2,989
OPEB liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(196,475)
Long-term liabilities, including bonds and notes, are not due or payable in the current period, and therefore are not reported as liabilities in the funds:		
Bonds	\$ (5,352,000)	
Compensated absences	(4,591)	
Accrued interest	(21,693)	
	(5,378,284)	(5,378,284)
Net assets of governmental activities		\$ 1,677,763

The Notes to the Financial Statements are an integral part of these financial statements.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2019**

	Fire Department	Bridge and Beach Erosion	Capital Projects	Debt Service	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 559,035	\$ 138,071	\$ -	\$ 749,263	\$ 1,446,369
Assessments	2,700	-	-	-	2,700
Net investment income	3,114	16,260	-	3,610	22,984
Bridge attachment fee	-	17,000	-	-	17,000
Donations	125	-	-	-	125
Other	6,255	-	-	-	6,255
<b>Total revenues</b>	<b>571,229</b>	<b>171,331</b>	<b>-</b>	<b>752,873</b>	<b>1,495,433</b>
<b>Expenditures</b>					
<b>Current</b>					
Public safety	524,212	-	-	-	524,212
Public service	-	173,971	61,456	-	235,427
<b>Debt Service</b>					
Principal	-	51,000	-	-	51,000
Interest	-	57,870	-	-	57,870
Capital outlay	36,187	-	158,198	-	194,385
<b>Total expenditures</b>	<b>560,399</b>	<b>282,841</b>	<b>219,654</b>	<b>-</b>	<b>1,062,894</b>
<b>Excess of revenues over (under) expenditures</b>	<b>10,830</b>	<b>(111,510)</b>	<b>(219,654)</b>	<b>752,873</b>	<b>432,539</b>
<b>Other financing sources (uses)</b>					
Bond proceeds	-	-	3,160,000	-	3,160,000
Transfers in	-	108,870	-	-	108,870
Transfers out	-	-	-	(649,970)	(649,970)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>108,870</b>	<b>3,160,000</b>	<b>(649,970)</b>	<b>2,618,900</b>
<b>Net change in fund balance</b>	<b>10,830</b>	<b>(2,640)</b>	<b>2,940,346</b>	<b>102,903</b>	<b>3,051,439</b>
<b>Fund balance</b>					
Beginning, as restated	414,815	563,592	1,137,949	296,700	2,413,056
Ending	\$ 425,645	\$ 560,952	\$ 4,078,295	\$ 399,603	\$ 5,464,495

The Notes to the Financial Statements are an integral part of these financial statements.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

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

Net changes in fund balances-total governmental funds \$ 3,051,439

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.

Capital outlay	\$ 194,385	
Depreciation	<u>(209,340)</u>	(14,955)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The effect of the difference in the treatment of general obligation bonds is as follows:

Issuance of general obligation bonds		(3,160,000)
Repayment of principal		51,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The details are as follows:

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Other post-employment expense		20,823
District's portion of collective pension expense		(11,006)
Compensated absence expense		(341)
Interest		<u>(2,403)</u>

Change in net assets of governmental activities		<u><u>\$ (65,443)</u></u>
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The Notes to the Financial Statements are an integral part of these financial statements.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2019**

<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 2,642,061
Investments	2,648,159
Accounts receivable water and sewer system	982,150
Inventory	24,823
Prepaid expenses	31,477
Restricted assets	
Due from County Treasurer	355,209
Cash	74,183
Investments	669,171
Total current assets	7,427,233
Property, plant and equipment (net of accumulated depreciation)	14,378,463
Total assets	21,805,696
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension benefit	80,837
OPEB	14,943
Total deferred outflows	95,780
Total assets and deferred outflows of resources	\$ 21,901,476
<b>LIABILITIES</b>	
Current liabilities	
Vouchers and accounts payable	\$ 392,638
Accrued compensated absences	10,528
Due to other funds	2,495
Bonds and loans payable	661,997
Payable from restricted assets	
Accrued interest	34,293
Bonds and loans payable	320,916
Total current liabilities	1,422,867
Noncurrent liabilities	
Bonds and loans payable	8,181,097
Net pension liability	633,350
OPEB liability	982,373
Accrued compensated absences	6,919
Total noncurrent liabilities	9,803,739
Total liabilities	11,226,606
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension benefit	92,861
<b>NET POSITION</b>	
Net investment in capital assets	5,214,453
Restricted for debt service	355,209
Unrestricted	5,012,347
Total net position	10,582,009
Total liabilities, deferred inflows of resources, and net position	\$ 21,901,476

The Notes to the Financial Statements are an integral part of these financial statements.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2019**

<b>Operating Revenue</b>	
Water sales	\$ 909,941
Sewer usage and assessments	1,062,382
Other operating income	277,306
	<u>2,249,629</u>
Operating expenses:	
Water purchases	456,714
Operations and maintenance	895,741
Depreciation	606,582
	<u>1,959,037</u>
Operating income	<u>290,592</u>
Non-operating revenues (expenses):	
Investment income	173,949
Other income	20,700
Interest	(176,509)
Other expenses	(353,028)
	<u>(334,888)</u>
Gain before transfers and contributions	<u>(44,296)</u>
Capital contributions	550,000
Transfers	541,100
	<u>1,046,804</u>
Change in net position	1,046,804
Net position, at beginning of year, as restated	<u>9,535,205</u>
Net position, at end of year	<u><u>\$ 10,582,009</u></u>

The Notes to the Financial Statements are an integral part of these financial statements.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2019**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers and users	\$ 2,277,761
Payments to suppliers	(668,295)
Payments to employees	<u>(413,476)</u>
Net cash provided by operating activities	<u>1,195,990</u>
<b>Cash Flows From Non-Capital Financing Activities</b>	
Interfund transfers	<u>536,308</u>
Net cash flows from non-capital financing activities	<u>536,308</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Principal paid on capital debt	(726,898)
Interest paid on capital debt	(178,480)
Bond fee	(1,200)
Proceeds from capital borrowings	2,729,145
Acquisition of capital assets	<u>(3,015,287)</u>
Net cash used in capital and related financing activities	<u>(1,192,720)</u>
<b>Cash Flows From Investing Activities</b>	
Investment income	72,454
Purchase of CD's	(459,650)
Proceeds from sale of CD's	<u>260,000</u>
Net cash used in investing activities	<u>(127,196)</u>
Net increase in cash and cash equivalents	412,382
Cash and Cash Equivalents at Beginning of Year	<u>2,303,862</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,716,244</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 290,592
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	606,582
(Increase) decrease in:	
Accounts receivable	28,139
Inventory	(2,873)
Prepaid expenses	(6,342)
Deferred outflows	23,483
Increase (decrease) in:	
Accounts payable	227,496
Interfund balances	2,495
Compensated absences	17,447
Pension liability	(65,135)
OPEB liability	53,790
Deferred inflows	<u>20,316</u>
Net cash provided by operating activities	<u>\$ 1,195,990</u>
<b>Reconciliation of Cash and Cash Equivalent Balances</b>	
Unrestricted cash and cash equivalents	\$ 2,642,061
Restricted cash and cash equivalents	<u>74,183</u>
	<u>\$ 2,716,244</u>

The Notes to the Financial Statements are an integral part of these financial statements.

## FRIPP ISLAND PUBLIC SERVICE DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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

##### **A. Reporting Entity**

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 District follows GASB Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34, which provides additional guidance to determine whether certain organizations for which the District is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. In evaluating the District as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the District may be financially accountable and, as such, should be included within the District' financial statements. The District (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

The District is a legally separate and fiscally independent entity whose governing body is a Commission whose members are elected in a general election and should therefore be considered a primary government. There are no entities which meet the criteria detailed above for inclusion with the District' financial statements as component units.

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

##### **B. Basis of Presentation - Government-Wide and Fund Financial Statements**

###### Government-wide Statements

The Statement of Net Position and the Statement of Activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to avoid the double counting of interfund 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 primarily by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Position reports all financial and capital resources of the District and reports the difference between assets plus deferred outflows and liabilities plus deferred inflows as net position. The Statement of Activities presents a comparison between direct expenses and program revenues for each activity of the District. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular activity.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the programs and, (b) grants and contributions that are restricted to meet the operations or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. As a general rule, the effect of interfund activity has been eliminated from the government- wide financial statements.

Fund Financial Statements

The accounts of the reporting entity are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts comprised of assets, deferred outflows, liabilities, deferred inflows, fund balances, revenues, and expenditures or expenses, as appropriate. The fund financial statements provide information about the District's funds. Separate statements for each fund category—governmental, proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds with 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:

Fire Department Fund accounts for revenues and expenditures associated with public safety which primarily include the fire and rescue operations.

The Bridge and Beach Erosion Fund accounts for revenues and expenditure for public services associated with erosion control operations and bridge maintenance.

The Debt Service Fund accumulates financial resources for the payment of principal and interest on the general long-term debt of the District, other than debt service payments in proprietary fund types.

The Capital Projects Fund accounts for the expenditure of debt proceeds issued for costs incurred for the construction and renovation of District infrastructure.

The Enterprise Fund is a proprietary fund used to account for the activities of the District's Water and Sewer utilities.

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

Government-wide, Proprietary, and Fiduciary Fund Statements

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The agency funds also use the accrual basis of accounting to recognize assets and liabilities. 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, grants, and entitlements. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. For Water and Sewer Utilities, principal operating revenues include sales to existing customers for services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

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**Note 1. Summary of Significant Accounting Policies (Continued)**

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 as the amounts become susceptible to accrual by becoming measurable and available to finance the District's operations. Net investment income and revenue from intergovernmental reimbursement grants is recorded as earned. Other revenues are considered available to be used to pay liabilities of the current period if they are collectible within the current period or within 60 days thereafter. The primary revenues susceptible to accrual include property taxes and intergovernmental revenues. Expenditures are recorded when the related fund liability is incurred, except that principal and interest on general long-term debt and certain other general long-term obligations, such as compensated absences, are recognized only to the extent they have matured. General capital asset acquisitions are reported as capital outlays in governmental funds. The issuance of general long-term debt and acquisitions under capital leases are reported as other financing sources. The effect of interfund activity has not been eliminated from the governmental fund financial statements.

**D. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position/Fund Balance**

*Cash and cash equivalents* - The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

*Investments* – Investments in all funds are stated at fair value.

*Receivables* All trade and property tax receivables are shown net of an allowance for uncollectible accounts. No allowance is recorded for the year ended June 30, 2019, as management believes all reported receivables to be collectible.

*Property Taxes* 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.

*Tax Calendar* Property is valued for taxation at December 31 of the prior fiscal year with the tax bills due between September 30 and January 15 of the current fiscal year. Unpaid taxes are assessed a 3% penalty during the period January 16 to February 1, an additional 7% penalty is assessed February 2 to March 16, and a further 5% penalty is assessed for tax bills unpaid after March 16.

South Carolina law attaches a lien on the property at the December 31 valuation date. The County Treasurer transfers the delinquent tax accounts to the delinquent tax collector after March 17 for collection efforts as prescribed by state law.

Motor vehicle taxes are billed annually to coincide with the vehicles registration month and are due by the last day of that month. Real property taxes billed but not collected as of June 30 are reflected in the Governmental Fund balance sheet as taxes receivable.

*Restricted Assets* - Restricted assets are liquid assets which have third-party limitations on their use. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

*Capital Assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary funds. Capital assets are defined by the District as property with an estimated useful life in excess of three years.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**Note 1. Summary of Significant Accounting Policies (Continued)**

*Inventories and Prepaid Items* - Inventories are valued at cost using the average cost method. The consumption method of accounting for inventories is used. Under this method, inventories are expensed as they are consumed as operating supplies and spare parts in the period to which they apply. Inventories consist of operating supplies. Payments to vendors that reflect costs applicable to future periods are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items consist primarily of insurance coverage paid in advance.

Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. 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. Major outlays for capital assets and improvements are capitalized as the projects are constructed. All reported capital assets are depreciated if applicable. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
Water system	15-40
Buildings and improvements	15-50
Infrastructure and improvements	10-25
Machinery and equipment	3-10
Vehicles	3-15

*Interfund Receivables and Payables* - Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts as "due to/from" funds.

*Compensated Absences* - District employees may accumulate unused vacation leave hours but may only carry 120 hours of unused vacation forward from one fiscal year to the next. Employees separating from service are paid their regular pay rate for accrued and unused vacation leave. Employees may accumulate sick leave but the District does not pay employees separating from service for unused sick leave. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in governmental funds only when they mature because an employee resigns or retires.

*Deferred Outflows/Inflows of Resources and Unearned Revenue*

Deferred Outflows of Resources

In addition to assets, the statement of financial 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 a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District may have five items that qualify for reporting in this category, as follows:

1. Pension and other post-employment benefits (OPEB) contributions made subsequent to the measurement date which will be recognized as a reduction of the net pension and OPEB liability in the subsequent year.
2. The net difference between the projected and actual earnings on pension plan investments which is deferred and amortized over a closed five-year period. There are no plan investments in the OPEB plan.
3. The differences between expected and actual experience which is amortized into pension expense beginning in the year the deferral occurs over a closed period equal to the average remaining service lives of all plan participants.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

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**Note 1. Summary of Significant Accounting Policies (Continued)**

4. The changes in proportion and differences between employer contribution and proportionate share of contributions, which will be deferred and amortized over the remaining service lives of all plan participants.
5. Changes in actuarial assumptions of pension plans, which will be deferred and amortized over remaining service lives of all plan participants.

Deferred Inflows of Resources

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District may have the following items that qualify for reporting in this category:

1. The differences between expected and actual experience which is amortized into pension expense beginning in the year the deferral occurs over a closed period equal to the average remaining service lives of all plan participants.
2. The changes in proportion and differences between employer contribution and proportionate share of contributions, which will be deferred and amortized over the remaining service lives of all plan participants.

*Net Position* – Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the statement of net position. Net position is comprised of three categories: Net investment in capital assets, Restricted net position, and Unrestricted net position. The first category of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, loans, and leases that are attributable to these capital assets. Restricted net position consists of net positions with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulation of other governments, or (2) law through constitutional provisions or enabling legislation. Net position which is neither restricted nor related to net investment in capital assets, is reported as unrestricted net position. When the District funds outlays for a particular purpose from both restricted and unrestricted sources, it is the District's policy to use funds restricted for that purpose first before using unrestricted net position.

*Fund Balances*

Nonspendable Fund Balance - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts and long-term notes receivable.

Restricted Fund Balance - includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance - The District Commission, as the highest level of authority within the District, establishes the commitment of any unrestricted fund balance to purposes through the approval of the annual budget plan by ordinance. As a result, all unrestricted amounts directed toward a purpose are shown as committed.

Assigned Fund Balance - Balances shown as assigned represent balances management has allocated for a specific purpose but which is neither restricted nor committed.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Unassigned Fund Balance – Balances shown as unassigned include amounts that have not been assigned to other funds and have not been restricted, committed or assigned for specific purposes within the fund.

The District considers restricted balances to be expended first in cases where both restricted and unrestricted amounts are available. When utilizing unrestricted balances, committed balances are applied first, followed by assigned then unassigned balances.

*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), 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.

*Use of Estimates* - The financial statements include estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenditures. Actual results could differ from these estimates.

**Note 2. Cash and Cash Equivalents**

***Custodial Credit Risk - Cash Deposits*** -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, 2019, the carrying amount of the District's cash and certificates of deposit was \$10,343,043, and the balance per the bank statements was \$10,344,161, all of which was covered by federal depository insurance or collateral held by the bank or institution in the District's name.

***Investments*** - State law limits local government investments to (1) obligations of the United States and agencies thereof; (2) general obligations of the State of South Carolina or any of its political units; (3) savings and loan association deposits to the extent insured by the FDIC; (4) certificates of deposit and repurchase agreements collateralized by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, at a market value not less than the amount of certificates of deposit and repurchase agreements so secured, including interest; and (5) no load open and closed-end portfolios of certain investment companies with issues of the US Government. The District has no investment policy that would further limit its investment choices.

The District's investments totaling \$3,589,282 at June 30, 2019 are invested in certificates of deposit and U.S. government bonds. These investments are carried at fair value. The change in fair value is recognized as an increase or decrease to investment assets and investment income. Fair value for all investments is determined on a recurring basis based on quoted market prices.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 2. Cash and Cash Equivalents (Continued)**

**Credit Risk and Interest Rate Risk** - The District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from fluctuating interest rates or from credit risk arising from concentration of investments in a limited number of investment vehicles. Investment maturities are as follows:

Investment type	Rating	Fair Value	Investment Maturity in Years		
			Less than 1	1 - 4	Over 5
Certificates of Deposit	N/A	\$ 3,339,342	\$ 398,884	\$ 1,775,587	\$ 1,164,871
US Government Bonds	N/A	249,940		99,940	150,000
		<u>\$ 3,589,282</u>	<u>\$ 398,884</u>	<u>\$ 1,875,527</u>	<u>\$ 1,314,871</u>

A reconciliation of cash and investments as shown on the government-wide statement of net position is as follows:

Carrying value of deposits	\$ 7,003,701
Certificates of deposit	3,339,342
Cash on hand	200
Investments	<u>249,940</u>
	<u>\$ 10,593,183</u>
Unrestricted	
Cash and cash equivalents	\$ 2,825,273
Investments	2,920,111
Restricted	
Cash and cash equivalents	4,178,628
Investments	<u>669,171</u>
	<u>\$ 10,593,183</u>

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 3. Property, Plant and Equipment**

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

	Balance at July 1, 2018	Restatement	As restated	Additions	Deletions	Balance at June 30, 2019
Capital assets not being depreciated:						
Land	\$ 132,219	\$ -	\$ 132,219	\$ -	\$ -	\$ 132,219
Construction in progress	154,126	(154,126)	-	99,593		99,593
Total not being depreciated	<u>286,345</u>	<u>(154,126)</u>	<u>132,219</u>	<u>99,593</u>	<u>-</u>	<u>231,812</u>
Capital assets being depreciated:						
Infrastructure	5,514,743	89,680	5,604,423	58,606	-	5,663,029
Buildings and improvements	682,811	-	682,811	-	-	682,811
Equipment, furniture and fixtures	457,229	-	457,229	-	-	457,229
Vehicles	336,816	-	336,816	36,186	-	373,002
Total being depreciated	<u>6,991,599</u>	<u>89,680</u>	<u>7,081,279</u>	<u>94,792</u>	<u>-</u>	<u>7,176,071</u>
Less accumulated depreciation						
Infrastructure	3,705,862	(147)	3,705,715	171,865	-	3,877,580
Buildings and improvements	315,025	-	315,025	17,528	-	332,553
Equipment, furniture and fixtures	360,614	5,204	365,818	14,778	-	380,596
Vehicles	341,873	(5,057)	336,816	5,169	-	341,985
Total accumulated depreciation	<u>4,723,374</u>	<u>-</u>	<u>4,723,374</u>	<u>209,340</u>	<u>-</u>	<u>4,932,714</u>
Net capital assets being depreciated	<u>2,268,225</u>	<u>89,680</u>	<u>2,357,905</u>	<u>(114,548)</u>	<u>-</u>	<u>2,243,357</u>
Net governmental activity capital assets	<u>\$ 2,554,570</u>	<u>\$ (64,446)</u>	<u>\$ 2,490,124</u>	<u>\$ (14,955)</u>	<u>\$ -</u>	<u>\$ 2,475,169</u>

Governmental activity capital assets were restated to correct the classification of costs incurred in the prior year for uncompleted construction in progress, and to remove costs incurred for bond issuance related costs.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 3. Property, Plant and Equipment (Continued)**

Capital asset activity for business-type activities for the year ended June 30, 2019, was as follows:

	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019
Capital assets not being depreciated:				
Land	\$ 17,001	\$ -	\$ -	\$ 17,001
Construction in progress	203,840	2,832,602	(3,036,442)	-
Total not being depreciated	<u>220,841</u>	<u>2,832,602</u>	<u>(3,036,442)</u>	<u>17,001</u>
Capital assets being depreciated:				
Building and fixtures	438,334	1,929	(4,792)	435,471
Water system	3,891,982	3,036,442	(433,019)	6,495,405
Collection system	5,795,734	-	-	5,795,734
Lift stations	1,894,799	32,793	-	1,927,592
Sewer system/treatment plant	7,544,447	67,620	-	7,612,067
Vehicles	100,186	22,125	(33,927)	88,384
Computer equipment-software	35,396	2,597	-	37,993
Equipment	62,063	55,621	-	117,684
Total being depreciated	<u>19,762,941</u>	<u>3,219,127</u>	<u>(471,738)</u>	<u>22,510,330</u>
Less: accumulated depreciation				
Building and fixtures	187,555	24,035	(4,792)	206,798
Water system	2,341,690	129,507	(81,191)	2,390,006
Collection system	1,909,220	144,747	-	2,053,967
Lift stations	927,315	68,758	-	996,073
Sewer system/treatment plant	2,136,922	216,715	-	2,353,637
Vehicles	86,230	8,656	(33,927)	60,959
Computer equipment-software	30,924	2,307	-	33,231
Equipment	42,339	11,858	-	54,197
Total accumulated depreciation	<u>7,662,195</u>	<u>606,583</u>	<u>(119,910)</u>	<u>8,148,868</u>
Net capital assets being depreciated	<u>12,100,746</u>	<u>2,612,544</u>	<u>(351,828)</u>	<u>14,361,462</u>
Net property, plant and equipment	<u>\$ 12,321,587</u>	<u>\$ 5,445,146</u>	<u>\$ (3,388,270)</u>	<u>\$ 14,378,463</u>

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 4. Long-Term Debt**

The following is a summary of note and bond transactions of the District for the year ended June 30, 2019:

	July 1, 2018	Additions	Reductions	June 30, 2019	Amounts Due Within One year
<b>Governmental activities</b>					
General obligation bonds	\$ 2,243,000	\$ 3,160,000	\$ (51,000)	\$ 5,352,000	\$ 150,000
Compensated absences	4,249	2,187	(1,845)	4,591	1,845
	<u>\$ 2,247,249</u>	<u>\$ 3,162,187</u>	<u>\$ (52,845)</u>	<u>\$ 5,356,591</u>	<u>\$ 151,845</u>
<b>Business-type activities</b>					
General obligation bonds	\$ 863,215	\$ -	\$ (43,839)	\$ 819,376	\$ 44,509
Revenue bonds	3,587,661	-	(294,376)	3,293,285	300,352
State revolving fund loans	2,710,887	2,729,145	(388,683)	5,051,349	638,052
	7,161,763	2,729,145	(726,898)	9,164,010	982,913
Compensated absences	11,376	16,599	(10,528)	17,447	10,528
	<u>\$ 7,173,139</u>	<u>\$ 2,745,744</u>	<u>\$ (737,426)</u>	<u>\$ 9,181,457</u>	<u>\$ 993,441</u>

Notes and bonds payable at June 30, 2019 are comprised of the following individual issues:

Governmental activities

General obligation note payable

\$2,300,000 - Bond payable due in annual installments of principal and semi-annual installments of interest from March 1, 2018, through March 1, 2032, with interest at 2.58%.

\$ 2,192,000

General obligation note payable

\$3,160,000 - Bond payable due in annual installments of principal and semi-annual installments of interest from April 1, 2020, through April 1, 2032, with interest at 2.73%.

3,160,000

\$ 5,352,000

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 4. Long-Term Debt (Continued)**

Business-type activities

State Revolving Loan

\$6,035,000 - Revolving note payable due in quarterly installments of principal and interest of \$100,593 from April 1, 2006, through April 1, 2026, with interest at 3.00%. At October 2, 2011, the terms of the note were modified by adjusting the interest rate to 2.25% per annum, and the quarterly payments were adjusted to \$95,539. \$ 2,387,006

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. 3,293,285

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%. 819,376

Waterworks & Sewer System General Obligation Bonds

\$2,729,085 - 2018 Waterworks & sewer system general obligation bonds due in quarterly installments of \$41,866 through January 1, 2037; which includes interest at 2.10%. 2,664,343

\$ 9,164,010

The annual requirements to amortize all debt outstanding as of June 30, 2019, including interest payments are as follows:

Year Ended June 30,	Principal	Interest	Total
2020	\$ 1,132,913	\$ 290,553	\$ 1,423,466
2021	987,487	305,161	1,292,648
2022	1,009,826	283,004	1,292,830
2023	1,032,535	260,368	1,292,903
2024	1,055,627	237,189	1,292,816
2025-2029	5,763,607	828,514	6,592,121
2030-2034	3,041,631	239,986	3,281,617
3035-3037	492,384	14,769	507,153
	<u>\$ 14,516,010</u>	<u>\$ 2,459,544</u>	<u>\$ 16,975,554</u>

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**Note 5. Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and job-related illnesses and accidents. The District carries insurance for these risks of loss. Premiums for workers' compensation are paid to a public entity risk pool. The public entity risk pool promises to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with the insurance policy and benefit program limits. Management believes such coverage is sufficient to preclude any significant uninsured losses for covered risks. There has been no significant reduction in coverage and amounts of settlements have not exceeded coverage in any of the last three years.

The District is also subject to risks of loss from providing health, life, accident, dental, and other medical benefits to employees, retirees, and their dependents. The District has enrolled substantially all its eligible, full-time employees in the State's health insurance plans administered by the Public Employee Benefit Authority.

**Note 6. Interfund Receivables, Payables and Transfers**

Interfund balances largely result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund balances at June 30, 2019, consisted of the individual fund receivables and payables between the Water and Sewer Fund and the Fire Department Fund in the amount of \$2,495.

During the course of normal operations, the District makes numerous transactions between funds. Transfers of resources from a fund receiving revenue to a fund through which the resources are expended are recorded as transfers and are reported as other financing sources (uses) in the governmental funds and as nonoperating revenues (expenses) in proprietary funds. Transfers of \$108,870 and \$541,100 from the Debt Service Fund into the Beach and Erosion Fund and the Water and Sewer Fund, respectively, were made to transfer the funds necessary to pay general obligation debt.

**Note 7. Defined Benefit Pension Plans**

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, and governed by an 11-member Board, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. The Retirement Funding and Administration Act of 2017, which became effective July 1, 2017, increased the employer and employee contribution rates, established a ceiling on the SCRS and PORS employee contribution rates, lowered the assumed rate of return, required a scheduling reduction of the funding periods, and addressed various governance issues including the assignment of the PEBA Board as custodian of the retirement trust funds and assignment of the South Carolina Retirement System Investment Commission and PEBA as co-trustees of the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

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](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. 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.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**Note 7. Defined Benefit Pension Plans (Continued)**

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 and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

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 and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

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, 2019

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**Note 7. Defined Benefit Pension Plans (Continued)**

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or \$500 every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

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 1% or \$500 every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

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% of earnable compensation for SCRS and 5% for PORS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of 1% 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 30-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 30-year amortization period; this increase is not limited to one-half of 1% per year.

Required and actual contributions are as follows:

Year ended June 30, 2019	SCRS	PORS
Required contributions	\$ 88,489	\$ 2,430
Actual contributions	\$ 88,489	\$ 2,430

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**Note 7. Defined Benefit Pension Plans (Continued)**

Required contribution rates for fiscal year 2018-2019 are as follows:

	<u>Required Employee Contributions</u>	
	<u>Fiscal year 2019*</u>	<u>Fiscal year 2018*</u>
SCRS		
Employee Class Two	9.00%	9.00%
Employee Class Three	9.00%	9.00%
PORS		
Employee Class Two	9.75%	9.75%
Employee Class Three	9.75%	9.75%
	<u>Required Employer Contributions</u>	
	<u>Fiscal year 2019*</u>	<u>Fiscal year 2018*</u>
SCRS		
Employer Class Two	14.41%	13.41%
Employer Class Three	14.41%	13.41%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	16.84%	15.84%
Employer Class Three	16.84%	15.84%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

\*Contribution rates are calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

Actuarial assumptions and methods

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined 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. An experience report on the Systems was most recently issued for the period ending June 30, 2015.

The June 30, 2018, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in PEBA's report were determined by their consulting actuary, Gabriel, Roeder, Smith, and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2018, using generally accepted actuarial principles.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 7. Defined Benefit Pension Plans (Continued)**

The following provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2018:

	<u>SCRS</u>	<u>PORS</u>
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	3.0% to 12.5% (varies by service)*	3.0% to 12.5% (varies by service)*
Benefit adjustments	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually

\* Includes inflation at 2.25%

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

Assumptions used in the determination of the June 30, 2018 TPL are as follows:

<u>Former Job Class</u>	<u>Males</u>	<u>Females</u>
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

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.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 7. Defined Benefit Pension Plans (Continued)**

As of June 30, 2018, the District's proportional share of the NPL amounts for SCRS and PORS are presented below:

	Fiscal Year Ended June 30,	
	2019	2018
	Measurement Period Ended June 30,	
	2018	2017
<b>SCRS</b>		
Governmental Activities	\$ 639,174	\$ 702,412
Business Type Activities	633,350	698,485
Total SCRS	<u>\$ 1,272,524</u>	<u>\$ 1,400,897</u>
<b>PORS</b>		
Governmental Activities	\$ 40,563	\$ 36,518
Total PORS	<u>\$ 40,563</u>	<u>\$ 36,518</u>

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, 2018, the District's percentage of the SCRS and PORS net pension liability were 0.005679% and 0.001432%, respectively.

Long-term expected rate of return

The long-term expected rate of return on pension plan investments is based upon 30-year capital markets assumptions. The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00% real rate of return and a 2.25% inflation component.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**Note 7. Defined Benefit Pension Plans (Continued)**

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
<b>Global Equity</b>	<b>47%</b>		
Global Public Equity	33%	6.99%	2.31%
Private Equity	9%	8.73%	0.79%
Equity Options Strategy	5%	5.52%	0.28%
<b>Real Assets</b>	<b>10%</b>		
Real Estate (Private)	6%	3.54%	0.21%
Real Estate (REITs)	2%	5.46%	0.11%
Infrastructure	2%	5.09%	0.10%
<b>Opportunistic</b>	<b>13%</b>		
GTAA/Risk Parity	8%	3.75%	0.30%
Hedge Funds (non-PA)	2%	3.45%	0.07%
Other Opportunistic Strategies	3%	3.75%	0.11%
<b>Diversified Credit</b>	<b>18%</b>		
Mixed Credit	6%	3.05%	0.18%
Emerging Markets Debt	5%	3.94%	0.20%
Private Debt	7%	3.89%	0.27%
<b>Conservative Fixed Income</b>	<b>12%</b>		
Core Fixed Income	10%	0.94%	0.09%
Cash and Short Duration (Net)	2%	0.34%	0.01%
Total Expected Real Return	<u>100%</u>		5.03%
Inflation for Actuarial Purposes			<u>2.25%</u>
Total Expected Nominal Return			<u>7.28%</u>

Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS 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.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**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 7.25%, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate.

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

	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
<b>SCRS</b>			
Governmental Activities	\$ 816,741	\$ 639,174	\$ 512,224
Business-type Activities	809,299	633,350	507,557
	<u>1,626,040</u>	<u>1,272,524</u>	<u>1,019,781</u>
<b>PORS</b>			
Governmental Activities	54,686	40,563	28,998
	<u>54,686</u>	<u>40,563</u>	<u>28,998</u>
	<u>\$ 1,680,726</u>	<u>\$ 1,313,087</u>	<u>\$ 1,048,779</u>

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, 2019, the District recognized pension expense of \$26,054 for governmental activities and \$23,988 for business-type activities.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 7. Defined Benefit Pension Plans (Continued)**

At June 30, 2019, the District reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Outflows of Resources	Inflows of Resources
	<b>SCRS</b>	
<b><u>Governmental Activities</u></b>		
Pension contributions subsequent to measurement date	\$ 44,447	\$ -
Differences between actual and expected experience	1,154	3,761
Assumption changes	25,359	-
Net difference between projected and actual earnings on plan investments	10,153	-
Changes in proportionate share and differences between District's contributions and proportionate share of contributions	467	89,952
	<u>\$ 81,580</u>	<u>\$ 93,713</u>
	<b>PORS</b>	
Pension contributions subsequent to measurement date	\$ 2,430	\$ -
Differences between actual and expected experience	1,250	-
Assumption changes	2,675	-
Net difference between projected and actual earnings on plan investments	811	-
Changes in proportionate share and differences between District's contributions and proportionate share of contributions	2,125	7,552
	<u>\$ 9,291</u>	<u>\$ 7,552</u>
Total Governmental Activities	<u>\$ 90,871</u>	<u>\$ 101,265</u>
	<b>SCRS</b>	
<b><u>Business-type Activities</u></b>		
Pension contributions subsequent to measurement date	\$ 44,042	\$ -
Differences between actual and expected experience	1,143	3,727
Assumption changes	25,128	-
Net difference between projected and actual earnings on plan investments	10,061	-
Changes in proportionate share and differences between District's contributions and proportionate share of contributions	463	89,134
	<u>\$ 80,837</u>	<u>\$ 92,861</u>
Total Business-type Activities	<u>\$ 171,708</u>	<u>\$ 194,126</u>

The District reported \$93,441 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 ended June 30, 2020. 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, 2019**

**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, 2019. Average remaining service lives of all employees provided with pensions through the pension plans at June 30, 2018, was 4.080 years for SCRS and 4.348 years for PORS.

Governmental Activities			
Measurement Period Ending	Fiscal Year Ending	SCRS	PORS
June 30, 2019	June 30, 2020	\$ (13,216)	\$ 56
June 30, 2020	June 30, 2021	(18,856)	(641)
June 30, 2021	June 30, 2022	(22,354)	(344)
June 30, 2022	June 30, 2023	(2,154)	238
		<u>\$ (56,580)</u>	<u>\$ (691)</u>
Net balance of deferred outflows/(inflows) of resources			
Business Type Activities			
Measurement Period Ending	Fiscal Year Ending	SCRS	PORS
June 30, 2019	June 30, 2020	\$ (13,096)	\$ -
June 30, 2020	June 30, 2021	(18,684)	-
June 30, 2021	June 30, 2022	(22,150)	-
June 30, 2022	June 30, 2023	(2,136)	-
		<u>\$ (56,066)</u>	<u>\$ -</u>
Net balance of deferred outflows/(inflows) of resources			

Payables to the pension plans

At June 30, 2019, the District reported a payable of \$11,459 and \$358 for the outstanding amount of contributions due to SCRS and PORS, respectively. The liabilities will be paid in the normal course of paying year-end obligations.

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2018 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2018.

**Note 8. Other Post-employment Benefit Plan**

General information

The District's defined benefit OPEB plan, Fripp Island Public Service District Postemployment Benefits Plan, was established and may be amended by the Commissioners. The District currently finances the plan on a pay-as-you go basis. The plan does not issue separate financial statements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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**Note 8. Other Post-employment Benefit Plan (Continued)**

Plan description

For ages 60-64, the retiree and spouse will receive District paid health and dental coverage through the Standard State Health Plan provided by the South Carolina Public Benefit Authority (PEBA). Upon reaching age 65, the retiree and spouse will receive fully paid Medicare Supplement coverage provided by PEBA. Non-spouse dependent must pay full premium. Surviving spouse of a deceased retiree can continue coverage for life by paying the full premium.

For employees hired after 7/1/1999, if they have less than 20 years of consecutive service but more than 10 years of consecutive service with the District, retirees are eligible for a partial benefit if they meet all other requirements. The partial benefit is equal to the current employer cost-sharing responsibility for an active employee which is set annually by PEBA. The retiree must pay the difference in premiums.

Eligibility

All full-time employees must be at least 60 years old and eligible for retirement under the South Carolina Retirement System. For employees hired before 7/1/1999, 15 years of District Service is required. For employees hired on or after July 1, 1999, 20 consecutive years of District Service is required.

The District's required and actual contributions to the plan for the year ended June 30, 2019 were \$19,420.

Actuarial Assumptions and Methods

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018 rolled forward to June 30, 2019, the measurement date. The following actuarial assumptions applied to all periods in the measurement, unless otherwise specified:

Actuarial Cost Method:	Entry age normal cost method
Discount Rate:	2.79% based on S&P Municipal Bond 20-Year High Grade Rate Index at June 30, 2019.
Inflation Rate:	Implicit in the discount and healthcare cost trend rates
Salary Increases:	Salary increases are composed of 2.25% cost of living adjustment, 0.75% real wage growth, and a merit increase which varies by years of service from 4% to 0%.
Mortality:	Current employees: SOA Pri - 2012 Headcount-Weighted Total Mortality Table Incorporated into the table are rates projected generationally by MP-2019 to reflect mortality improvement.  Retirees: 2016 Public Retirees of South Carolina Mortality Table Incorporated into the table are rates projected from 2016 by Scale AA to reflect mortality improvement.
Healthcare Trend Rates:	6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
Participation Rates:	100% of eligible employees are assumed to elect coverage.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**Note 8. Other Post-employment Benefit Plan (Continued)**

Changes in Total OPEB Liability

	<u>Government-Wide</u>	<u>Business-Type</u>	<u>Total</u>
Balance at July 1, 2018	\$ 185,717	\$ 928,583	\$ 1,114,300
Changes for the year			
Service cost	8,621	43,108	51,729
Interest on total OPEB liability	5,373	26,866	32,239
Benefit payments	(3,236)	(16,184)	(19,420)
Net change in total OPEB liability	10,758	53,790	64,548
Net liability for OPEB, end of year	\$ 196,475	\$ 982,373	\$ 1,178,848

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the plan's total OPEB liability, calculated using a discount rate of 2.79%, as well as what the OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

	<u>1% Decrease</u>	<u>Current Discount Rate Assumption</u>	<u>1% Increase</u>
	<u>1.79%</u>	<u>2.79%</u>	<u>3.79%</u>
Governmental Activities	\$ 232,443	\$ 196,475	\$ 167,269
Business-Type Activities	1,162,214	982,373	836,343
	\$ 1,394,657	\$ 1,178,848	\$ 1,003,612

Sensitivity of Total OPEB Liability to the Healthcare Cost Trend Rate Assumption

The following presents the plan's total OPEB liability, calculated using the current healthcare cost trend rate percent, as well as what the OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
Governmental Activities	\$ 159,986	\$ 196,475	\$ 244,237
Business Type Activities	799,928	982,373	1,221,183
	\$ 959,914	\$ 1,178,848	\$ 1,465,420

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

For the year ended June 30, 2019, the District recognized OPEB expense from governmental activities of \$13,994 and from business-type activities of \$69,974.

At June 30, 2019, the District reported deferred outflows for employer contributions subsequent to the measurement date of \$2,989 and \$14,943 in the governmental activities and business type activities, respectively.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 9. Restatements of Net Assets/Fund Balance**

The District made several restatement adjustments to the prior year financial statements. Those restatements are as follows:

	Governmental Activities	Business-type Activities/ Proprietary Fund
Net position, June 30, 2018, as previously reported	\$ 2,027,970	\$ 10,599,953
Correction of an error:		
Bond issue costs reported as assets	(64,446)	(146,480)
Incorrect allocation of pension liabilities and related outflows and inflows	(19,570)	19,570
Omission of accrued interest on debt	(19,290)	(36,264)
Incorrect allocation of depreciation	-	10,826
Donated assets reported in fiduciary fund	1,022	
Change in accounting principle*		
Implementation of GASB 75 (OPEB)	<u>(182,480)</u>	<u>(912,400)</u>
Net position, as restated	<u>\$ 1,743,206</u>	<u>\$ 9,535,205</u>

	Fire Department	Bridge and Beach Erosion	Capital Projects
Fund balance, June 30, 2018, as previously reported	\$ 409,544	\$ (541,459)	\$ -
Correction of an error:			
Donated assets reported in fiduciary fund	1,022	-	-
Compensated absence liability reported as fund liability	4,249	-	-
Outstanding GOB debt reported as liability in fund statements	-	2,243,000	-
Debt proceeds reported in incorrect fund	-	(2,300,000)	2,300,000
Capital outlay from debt proceeds reported in incorrect fund	-	1,162,051	(1,162,051)
	<u>\$ 414,815</u>	<u>\$ 563,592</u>	<u>\$ 1,137,949</u>

*\*Change in Accounting Principle - As a result of the implementation of GASB No. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions (OPEB), beginning net position for the District's government-wide and business-type activities was decreased to represent the effect of OPEB liability that was not recognized under previous accounting standards.*

The restatements had no impact on the current year change in net position or change in fund balance.

**Note 10. Commitments and Contingencies**

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 \$456,792 for the year ended June 30, 2019.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**Note 11. 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 12. Pending GASB Pronouncements**

GASB Statement No. 84, *Fiduciary Activities*, addresses the criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is generally on (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The District will implement the new guidance with the 2020 financial statements.

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District will implement the new guidance with the 2021 financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District will implement the new guidance with the 2021 financial statements.

GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61* is intended to improve the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if the government's holding meets the definition of an investment. It provides guidance as to whether the investment should be reported using the equity method or be reported at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

FRIPP ISLAND PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

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**Note 12. Pending GASB Pronouncements (Continued)**

This Statement also requires that a component unit in which a government has a 100% equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100% equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The District will implement the new guidance with the 2020 financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*, intends to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The District will implement the new guidance with the 2022 financial statements.

Management has not yet determined the impact implementation of these standards will have on the District's financial statements, if any.

**Note 13. Subsequent Events**

In July 2019, the District entered into a stipulated sum contract in the amount of \$2,450,340 for the bridge rehabilitation/repair project, to be funded by general obligation debt issued in June 2019.

Subsequent to year-end, the District received \$804,300 in FEMA reimbursements. These funds were used to pay down long-term debt.

Subsequent to year-end, capital contribution funds of \$550,000 received during fiscal 2019 were also used to pay down long-term debt.

The District has evaluated subsequent events through March 10, 2020, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MANAGEMENT'S DISCUSSION  
AND ANALYSIS (UNAUDITED)**

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE –**  
**BUDGET AND ACTUAL**  
**FIRE DEPARTMENT FUND**

**JUNE 30, 2019**

	Original and Final Budget	Actual	Variance
<b>Revenues</b>			
Taxes	\$ 553,407	\$ 559,035	\$ 5,628
Assessments	1,500	2,700	1,200
Revenue from use of money and property	-	3,114	3,114
Donations	-	125	125
Other	-	6,255	6,255
	<u>554,907</u>	<u>571,229</u>	<u>16,322</u>
<b>Total revenues</b>			
<b>Expenditures</b>			
<b>Current</b>			
Public safety	562,830	524,212	(38,618)
Capital outlay	35,000	36,187	1,187
	<u>597,830</u>	<u>560,399</u>	<u>(37,431)</u>
<b>Total expenditures</b>			
	<u>\$ (42,923)</u>	<u>10,830</u>	<u>\$ 53,753</u>
<b>Net change in fund balance</b>			
Fund balance at beginning of year, as restated		<u>414,815</u>	
Fund balance at end of year		<u>\$ 425,645</u>	

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN NET POSITION –  
BUDGET AND ACTUAL  
BRIDGE AND BEACH EROSION FUND**

**JUNE 30, 2019**

	Original and Final Budget	Actual	Total Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenues			
Taxes	\$ 138,420	\$ 138,071	\$ (349)
Assessments	-	-	-
Revenue from use of money and property	-	16,260	16,260
Bridge attachment fee	-	17,000	17,000
Other	-	-	-
	<u>138,420</u>	<u>171,331</u>	<u>32,911</u>
 Expenditures			
Current			
Public service	339,650	173,971	(165,679)
Debt Service			
Principal	51,000	51,000	-
Interest	57,870	57,870	-
	<u>448,520</u>	<u>282,841</u>	<u>(165,679)</u>
 Excess of revenues over (under) expenditures	<u>(310,100)</u>	<u>(111,510)</u>	<u>198,590</u>
 Other financing sources (uses)			
Bond proceeds	-	-	-
Transfers in	108,870	108,870	-
	<u>108,870</u>	<u>108,870</u>	<u>-</u>
 Net change in fund balance	<u><u>\$ (201,230)</u></u>	(2,640)	<u><u>\$ 198,590</u></u>
 Fund balance at beginning of year, as restated		<u>563,592</u>	
 Fund balance at end of year		<u><u>\$ 560,952</u></u>	

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2019**

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**Budgetary Data**

The District uses the following procedures to establish the budgetary data reflected in the financial statements:

- a. In March of each year, all departments of the District submit requests for appropriations to the District Manager so that a budget may be prepared. A proposed budget is presented to the District Commission for review at or before the regular May Commission meeting. The Commission holds a public hearing, and the final budget must be prepared and adopted by the District Commission no later than June 30.
- b. The budget adoption appropriates amounts for activities/departments of the Water/Sewer, Debt Service, Fire Department and Bridge & Erosion Funds. GAAP does not require or permit the presentation of budget to actual comparison statements as required supplementary information for non-major, debt service, capital project, or proprietary funds. Therefore, the Debt Service and Water/Sewer Funds do not present budget to actual schedules. The Capital Projects Fund does not adopt an annual budget.
- c. All funds reflect the legal level of budgetary control at the fund level.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2019**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –  
SOUTH CAROLINA RETIREMENT SYSTEM**

Measurement Year Ended June 30	Fiscal Year Ended June 30	District's proportion of the net pension liability	District's proportionate share of the net pension liability (asset)	District's covered employee payroll	District's share of the net pension liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	2019	0.00568%	\$ 1,272,524	\$ 585,892	217%	54.10%
2017	2018	0.00622%	1,400,897	631,181	222%	53.30%
2016	2017	0.00709%	1,514,627	686,669	221%	52.90%
2015	2016	0.00728%	1,380,118	682,315	202%	57.00%
2014	2015	0.00715%	1,230,476	648,889	190%	59.92%
2013	2014	0.00715%	1,281,917	650,088	197%	56.39%

**SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS –  
POLICE OFFICER'S RETIREMENT SYSTEM**

Measurement Year Ended June 30	Fiscal Year Ended June 30	District's proportion of the net pension liability	District's proportionate share of the net pension liability (asset)	District's covered employee payroll	District's share of the net pension liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	2019	0.00143%	\$ 40,563	\$ 19,765	205%	61.70%
2017	2018	0.00133%	36,436	14,773	247%	60.90%
2016	2017	0.00180%	45,707	22,967	199%	60.40%
2015	2016	0.00203%	44,287	25,176	176%	64.60%
2014	2015	0.00193%	37,025	23,261	159%	67.55%
2013	2014	0.00193%	40,091	11,110	361%	62.98%

**Note:** The District implemented GASB 68 during fiscal year 2015; therefore, only the last six years of data are available. Over time, ten years of historical data will be presented.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2019**

**SCHEDULE OF CONTRIBUTIONS**  
**SOUTH CAROLINA RETIREMENT SYSTEM**  
**LAST SEVEN FISCAL YEARS**

Fiscal Year Ended June 30	Contractually required contribution	Contributions relative to contractually required contribution	Contribution deficiency (excess)	District's covered employee payroll	Contributions as a percentage of covered employee payroll
2019	\$ 88,489	\$ 88,489	-	\$ 633,914	13.96%
2018	75,781	75,781	-	585,892	12.93%
2017	79,761	79,761	-	631,181	12.64%
2016	92,132	92,132	-	686,669	13.42%
2015	74,916	74,916	-	682,314	10.98%
2014	74,382	74,382	-	648,889	11.46%
2013	68,782	68,782	-	650,088	10.58%

**SCHEDULE OF CONTRIBUTIONS**  
**POLICE OFFICER'S RETIREMENT SYSTEM**  
**LAST SEVEN FISCAL YEARS**

Fiscal Year Ended June 30	Contractually required contribution	Contributions relative to contractually required contribution	Contribution deficiency (excess)	District's covered employee payroll	Contributions as a percentage of covered employee payroll
2019	\$ 2,430	\$ 2,430	-	\$ 14,096	17.24%
2018	3,210	3,210	-	19,765	16.24%
2017	2,104	2,104	-	14,773	14.24%
2016	3,156	3,156	-	22,967	13.74%
2015	3,376	3,376	-	25,176	13.41%
2014	2,987	2,987	-	23,261	12.84%
2013	1,367	1,367	-	11,110	12.30%

**Note:** The District implemented GASB 68 during fiscal year 2015; therefore, only the last six years of data are available. Over time, ten years of historical data will be presented.

**FRIPP ISLAND PUBLIC SERVICE DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2019**

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**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS**

	<b>2019</b>
Service cost	\$ 51,729
Interest on total OPEB liability	32,239
Benefit payments	(19,420)
Net change in total OPEB liability	64,548
Net liability for OPEB, beginning of year	1,114,300
Net liability for OPEB, end of year	\$ 1,178,848
Covered employee payroll	\$ 374,236
Total OPEB liability as a percentage of covered employee payroll	315.00%

**Note:** The District implemented GASB 75 during fiscal year 2019; therefore, only one year of data is available. Over time, ten years of historical data will be presented.

***GOVERNMENT AUDITING STANDARDS REPORT***

***Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards***

To the Commissioners  
***Fripp Island Public Service District***  
Fripp Island, South Carolina

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of Fripp Island Public Service District, (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 10, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency. Refer to finding 2019-001.

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1 Westbury Park Way, Suite 200  
PO Box 1999  
Bluffton, SC 29910  
843-706-8440 Fax 843-706-8441  
[www.websterrogers.com](http://www.websterrogers.com)

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Districts financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Fripp Island Public Service District's Response to Findings**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bluffton, South Carolina  
March 10, 2020

**FRIPP ISLAND PUBLIC SERVICE DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2019**

Ref #	Department/ Program/ Grant	Finding/Noncompliance
2019-001	Finance	<p><u>Criteria:</u> Segregation of duties, is necessary to ensure proper safeguarding of assets of the District.</p> <p><u>Condition:</u> The District does not maintain sufficient segregation of duties among accounting functions.</p> <p><u>Cause:</u> The District has a limited number of personnel to whom accounting tasks can be assigned.</p> <p><u>Effect:</u> The District had insufficient internal controls to monitor the risk of material misstatements whether due to fraud or error that could result from erroneous or fraudulent journal entries.</p> <p><u>Recommendation:</u> To the extent possible, the District should cross-train individuals to perform various functions and reassign duties to minimize concentration of accounting functions to a few individuals. The District should consider leveraging the use of technology and outsourcing to mitigate risks associated with a small staff.</p> <p><u>Management's Response:</u> The cost of adding additional staff or outsourcing tasks outweighs the benefit that would be received. The District Commission reviews the financial statements as presented by management on a quarterly basis. Management will continue to assess internal control risk and add procedures to strengthen internal controls wherever possible in a cost-effective manner.</p>