

Financial Audit Presentation Year Ended June 30, 2021

Emily Sobczak, Partner

emily@gfhllp.com

Greene Finney, LLP

1



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

OPINION

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

2



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

GFLLP responsibility:

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

3



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

General Fund: Total Fund Balance of \$9.0M at 6/30/21
Fund Balance Classifications:

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

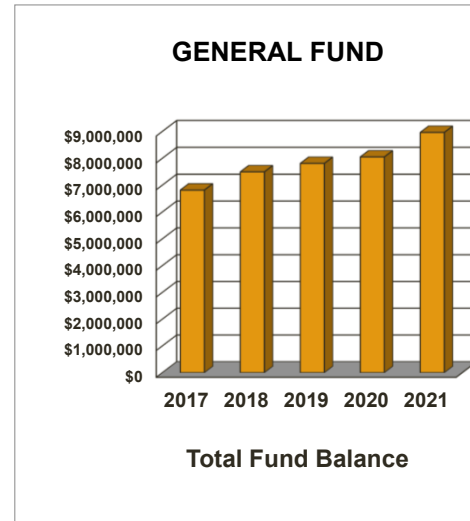
4



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

General Fund

- Total fund balance increased \$913k to \$9.0M.
- Nonspendable fund balance of \$252k (prepaid amounts)
- Restricted fund balance of \$188k primarily for debt service, and victims services
- Committed fund balance of \$1.6m for capital projects
- Assigned fund balance of \$20k for William Bradley Memorial Fund



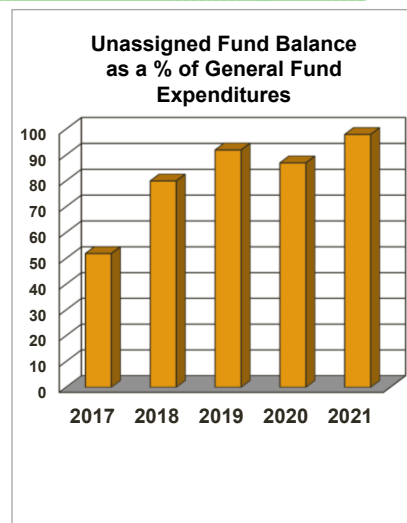
5



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

General Fund

- Unassigned fund balance is \$6.9M includes capital improvements reserve of \$662k and emergency reserve of \$1.44M
- Unassigned and unreserved fund balance is \$4.8M and represents 68% of FY21 operating expenditures
- GFOA recommends a minimum of 16.7% (two months), but we believe the Town's unassigned fund balance should be higher than two months – see next slide.



6



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

Major Reasons To Maintain An Adequate Fund Balance:

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

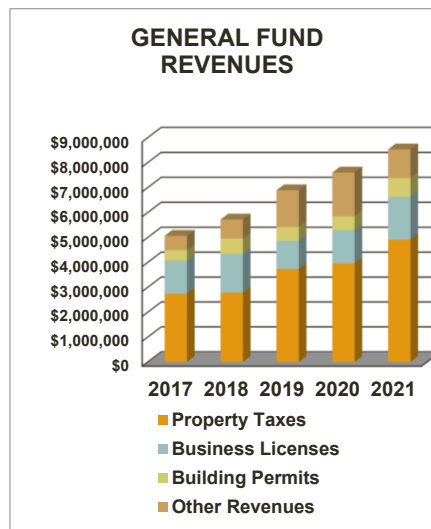
7



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

General Fund Revenues:

- \$8.5 million for 2021:
 - \$4.9m in property taxes
 - \$1.7m in business licenses
 - \$751k in building permits
 - \$330k in local option sales taxes
 - \$820k for all other revenues
- \$930k (11%) increase from 2020
 - Primarily due to a \$957k increase in property taxes
- \$835k (11%) better than budget
 - Primarily due to permits exceeding budget by \$182k and unanticipated grant income of \$189k



8

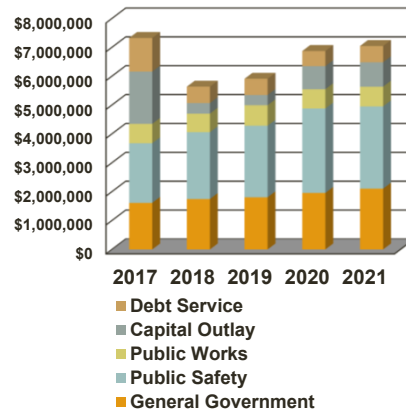


2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

General Fund Expenditures:

- \$7.0 million for 2021:
 - \$2.1m in general government
 - \$2.9m in public safety
 - \$682k in public works
 - \$846k in capital outlay
 - \$564k in debt service
- \$174k (2%) increase from 2020
- \$398k (6%) over budget
 - Capital outlay related to the fire station project is primarily being funded through IPRB proceeds (transfers in from Capital Projects fund) and thus was not included in the FY2021 budget

GENERAL FUND EXPENDITURES



9



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

Public Facilities Corporation

- The Corporation was created in the prior year for the purpose of issuing debt to finance the cost of certain upgrades and improvements, including improvements to the wastewater treatment plant and sewer collection system.
 - Capital Projects Fund – Reports the issuance of the bonds and use of proceeds (unspent proceeds of \$19.7M as of 6/30/21).
 - Debt Service Fund – Reports principal and interest payments which are funded through General Fund transfers.
 - Expenditures and expenses related to projects financed through debt proceeds in FY21 are reported in the Sewer Fund (sewer system rehabilitation) and the General Fund (fire station).

10



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

Enterprise Funds

- **The Water Fund** had an increase in net position of \$189k to \$5.2M (including \$2.3M invested in capital assets).
 - Total Water Fund revenues and expenses were consistent with prior year.
 - The Water Fund has \$3.0M in unrestricted cash at June 30, 2021.
 - The Water System is 58% depreciated at June 30, 2021 (cost of system was \$4.7M with accumulated depreciation of \$2.7M)
- **The Sewer Fund** had an increase in net position of \$11.4M to \$23.3M (including \$23.7M invested in capital assets).
 - Total sewer operating revenues and expenses were consistent with prior year.
 - Sewer Fund received transfers of \$13.1M from the Capital Projects Fund (IPRB proceeds) to fund ongoing sewer system improvements.
 - The Sewer Fund has \$1.6M in unrestricted cash at June 30, 2021.
- Debt coverage ratio for the Water and Sewer Bonds is approximately 10.55 as of June 30, 2021 (exceeds requirement of 1.10).

11



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

Other Items of Note:

- Total capital assets, net of accumulated depreciation, were \$35.0M at 6/30/21. Depreciation expense was \$1.3M.
- Significant additions included:
 - Machinery and Equipment additions of approximately \$152k
 - Public Safety vehicle additions of \$171k
 - Construction in progress related to the ongoing fire station construction of \$448k
 - Construction in progress related to the sewer system improvements of \$12.4m; project was transferred to depreciable assets as of 6/30/2021
 - Property acquired by the Town prior to 2003 is reported at a value of zero in accordance with GAAP

12



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

Other Items of Note:

- Total long-term obligations outstanding at 6/30/21 were \$43.7M – decrease of \$713k from 6/30/20:
 - Total principal payments on debt and capital leases were \$581k
 - Issuance of \$185k lease purchase for Public Safety vehicles
 - Net pension liability of \$6.5M as of June 30, 2021 on the full accrual statements. This is the Town's proportionate share of the total net pension liability for the State pension plans. The liability does not directly affect the Town's cash flows; however, PEBA approved continuing rate increases of 1% each year through July 1, 2024 which will result in a final employer rate of 18.56% and 21.24% for the SCRS and PORS, respectively. Those increases have a direct impact on the Town's operating budgets.

13



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

Other Items of Note:

- Implementation of Governmental Accounting Standards Board No. 84 "*Fiduciary Activities*" ("GASB #84")
 - This Statement made it clear that the Firefighters' 1% balances and activities no longer qualify as fiduciary activities. They will now be reported by the Town in a special revenue fund. The balances and activities were previously recorded in an agency fund.
 - The fund balance for the Special Revenue Fund as of July 1, 2020 was increased by approximately \$20,000 to reflect the addition of these balances.

14



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

Compliance

- No findings, significant deficiencies, or material weaknesses were noted.
- Single Audit was not required for 2021 based on federal expenditures being less than \$750k.

Management Letter

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

15



2021 FINANCIAL AUDIT TOWN OF SULLIVAN'S ISLAND

Summary

- Unmodified opinion on the Financial Statements from GFLLP
- Good financial condition as of June 30, 2021

16