

**TOWN OF SULLIVAN'S ISLAND,
SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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**TOWN OF SULLIVAN'S ISLAND,
SOUTH CAROLINA**

LIST OF ELECTED AND APPOINTED OFFICIALS

YEAR ENDED JUNE 30, 2019

MAYOR

Pat O'Neil

TOWN COUNCIL MEMBERS

Chauncey Clark, Mayor Pro Tem

Sarah Church

Greg Hammond

Tim Reese

Kaye Smith

Bachman Smith, IV

APPOINTED OFFICIALS

Town Administrator	Andy Benke
Deputy Administrator/Comptroller	Jason Blanton
Building Official	Randy Robinson
Director of Planning and Zoning	Joe Henderson
Fire Chief	Anthony Stith
Police Chief	Chris Griffin
Water & Sewer, General Manager	Greg Gress
Town Attorney	Lawrence Dodds

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Greene Finney, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of Town Council
Town of Sullivan's Island
Sullivan's Island, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina (the "Town"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town'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.

Auditor's Responsibility

Our responsibility is to express opinions on these 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule – General Fund, and pension schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2019 on our consideration of the Town'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 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 Town's internal control over financial reporting and compliance.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
September 13, 2019

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

As management of the Town of Sullivan’s Island (“Town”), we offer readers of the Town’s financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Town’s financial performance as a whole. We would encourage readers to not only consider the information presented here, but also the information provided in the financial statements and notes to the financial statements to enhance their understanding the Town’s overall financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the fiscal year by approximately \$17,734,000 (*net position*). Of this amount, approximately \$5,432,000 and \$12,302,000 were related to the Town’s governmental and business-type activities, respectively. In addition, the Town’s unrestricted net position (may be used to meet the government’s ongoing obligations to citizens and creditors) was approximately \$308,000 for its governmental activities and approximately \$2,334,000 for its business-type activities.
- The government’s total net position decreased by approximately \$3,258,000 for governmental activities and increased by approximately \$4,226,000 for business-type activities, primarily as a result of the issuance of debt by the governmental activities for the purpose of improving the wastewater treatment plant and sewer system.
- As of the close of the current fiscal year, the Town’s governmental funds reported combined ending fund balances of approximately \$25,336,000, an increase of approximately \$17,375,000 compared to the prior year’s fund balance. Approximately 22% of this total amount, or approximately \$5,483,000, is available for spending at the government’s discretion (*unassigned fund balance*).
- At the end of the current fiscal year, \$1,245,000 of the General Fund’s unassigned portion of the Fund’s balance was allocated to the Emergency Reserve.
- At the end of the current fiscal year, approximately \$550,500 of the General Fund’s unassigned portion of the Fund’s balance was allocated to the Capital Improvement Reserve Fund.
- At the end of the current fiscal year, unassigned, unallocated fund balance of the General Fund was approximately \$5,483,000, or approximately 93% of total General Fund expenditures of approximately \$5,911,000 for the year ended June 30, 2019.
- The Town’s total capital assets increased by approximately \$4,004,000 (25%) during the current fiscal year primarily due to depreciation expense of approximately \$905,000 and net disposals of approximately \$96,000 offset by capital asset additions of approximately \$5,005,000.
- The Town’s total debt increased by approximately \$19,672,000 during the current year due to the issuance of Installment Purchase Revenue Bonds in the amount of \$19,490,000, with a premium of approximately \$884,000, and capital leases of \$190,000 offset by scheduled principal payments and premium amortization.
- The Town of Sullivan’s Island Public Facilities Corporation (the “Corporation”) was organized during the current year as a tax-exempt, 501(c)(3) not-for-profit organization. The Corporation was organized exclusively for the purpose of providing funds to finance the cost of constructing certain upgrades and improvements to the Town’s wastewater treatment plant and sewer collection system, issuance of bonds, and ownership of the facility. The Town leases the facility from the Corporation for essential governmental functions through a lease agreement which commenced on August 1, 2018. The Corporation is reported as a blended component unit of the Town.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of two parts – the Financial Section (which includes management’s discussion and analysis, the financial statements, required supplementary information, and supplementary information), and Compliance Section.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town’s financial statements. The Town’s financial statements are comprised of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the financial statements, this report contains other supplementary information that will enhance the reader’s understanding of the financial condition of the Town.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

Government-Wide Financial Statements. The financial statements include two kinds of statements that present different views of the Town. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town's assets, deferred outflows, liabilities and deferred inflows, with the differences between them 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 Town is improving or deteriorating.

The *statement of activities* presents information showing how the government'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.

The government-wide financial statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include public works, public safety, and general government. Taxes, business licenses, building permits, fines, and state and federal grant revenues finance most of these activities. The business-type activities are the Town's water and sewer operations for which it charges its customers a fee to provide.

The government-wide financial statements can be found as listed in the table of contents.

Fund Financial Statements. The fund financial statements provide a more detailed look at the Town's most significant activities. 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 Town, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – *Governmental funds* are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow (in and out), and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* is described in a reconciliation that is a part of the fund financial statements.

The Town maintained five (5) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund, Local Tax Fund, Capital Projects Fund, Debt Service Fund and the Tree Bank Fund. The governmental fund financial statements can be found as listed in the table of contents.

Proprietary Funds – The Town maintains one type of proprietary fund. *Enterprise Funds* are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town uses two enterprise funds to account for both its water and sewer operations. The proprietary fund financial statements can be found as listed in the table of contents.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. *Agency Funds* are used to account for assets the Town holds on behalf of others. The Town's Volunteer Fire Department Fund is used by the Town to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by insurance companies. Agency funds are custodial in nature and do not present results of operations. The financial statement of the fiduciary fund can be found as listed in the table of contents.

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 as listed in the table of contents.

Other Information – In addition to the financial statements and accompanying notes, this report includes certain required supplementary information. Regarding the Town's major governmental funds, the Town adopts an annual budget for its General Fund, as required by the General Statutes. A required budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with its budget. Required supplementary information can be found as listed in the table of contents.

Supplementary information, which includes a budgetary schedule of expenditures for the General Fund, enterprise budgetary comparison schedules, and a schedule of fines, assessments, and surcharges, is presented immediately following the required supplementary information. These schedules can be found as listed in the table of contents.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

Figure A-1 Major Features of the Town of Sullivan's Island Government-Wide and Fund Financial Statements				
	Fund Financial Statements			
	Government-Wide Financial Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Town government (except fiduciary funds).	The activities of the Town that are not proprietary or fiduciary.	Activities the Town operates similar to private businesses.	Instances in which the Town is the trustee or agent for someone else's resources.
Required financial statements	<ul style="list-style-type: none"> ▪ Statement of net position ▪ Statement of activities 	<ul style="list-style-type: none"> ▪ Balance sheet ▪ Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> ▪ Statement of net position ▪ Statement of revenues, expenses, and changes in net position ▪ Statement of cash flows 	<ul style="list-style-type: none"> ▪ Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All balance sheet types, both financial and capital, and short-term and long-term	Only assets and deferred outflows of resources (if any) expected to be used up and liabilities and deferred inflows of resources (if any) that come due during the year or soon thereafter; no capital assets or long-term debt included	All balance sheet types, both financial and capital, and short-term and long-term	All balance sheet types, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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 following table provides a summary of the Town's net position for 2019 compared to 2018.

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and Other Assets	\$ 25,817,686	8,234,026	3,383,752	2,896,623	29,201,438	\$ 11,130,649
Capital Assets, Net	7,663,284	7,631,802	11,141,808	7,169,323	18,805,092	14,801,125
Contributed Capital, Net	-	-	550,993	660,749	550,993	660,749
Total Assets	33,480,970	15,865,828	15,076,553	10,726,695	48,557,523	26,592,523
Deferred Outflows of Resources:						
Deferred Pension Charges	1,013,718	892,471	83,622	90,928	1,097,340	983,399
Liabilities:						
Long-Term Obligations	23,150,174	3,200,191	1,735,422	2,005,951	24,885,596	5,206,142
Net Pension Liability	4,917,601	4,585,344	354,896	390,984	5,272,497	4,976,328
Other Liabilities	937,904	281,239	758,055	344,382	1,695,959	625,621
Total Liabilities	29,005,679	8,066,774	2,848,373	2,741,317	31,854,052	10,808,091
Deferred Inflows of Resources:						
Deferred Pension Credits	57,160	1,177	9,710	217	66,870	1,394
Net Position:						
Net Investment in Capital						
Assets	4,858,284	4,525,348	9,968,251	5,833,273	11,779,180	10,358,621
Restricted	265,866	487,280	-	-	265,866	487,280
Unrestricted	307,699	3,677,720	2,333,841	2,242,816	5,688,895	5,920,536
Total Net Position	\$ 5,431,849	8,690,348	12,302,092	8,076,089	17,733,941	\$ 16,766,437

The Town's total assets of approximately \$48,558,000 increased approximately \$21,965,000 over the prior year. The majority of the increase is due to the unspent proceeds from the Installment Purchase Revenue Bond issuance of approximately \$17,198,000 and the net increase in capital assets of \$4,004,000. Total liabilities increased by approximately \$21,046,000 from the prior year primarily due to the above-mentioned bond issuance.

The Town's net position increased by approximately \$968,000 during the current fiscal year due to current year revenues exceeding current year expenses. Please see discussion following the next table regarding this increase.

The Town's assets exceeded liabilities by approximately \$17,734,000 at June 30, 2019. The largest portion of the Town's net position of approximately \$11,779,000 (approximately 66%) reflects its investment in capital assets (i.e., land, buildings, furniture and equipment, water/sewer infrastructure, etc.) less any related outstanding debt/lease purchase obligations used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position of approximately \$266,000 (approximately 2%) represents resources that are subject to external restrictions on how they may be used. This portion of net position is restricted primarily for special revenue programs which are restricted by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The remaining portion of the Town's net position is unrestricted net position of approximately \$5,689,000 (approximately 32%) may be used to meet the government's ongoing obligations to citizens and creditors.

The following table shows the changes in the Town's net position for fiscal year 2019 compared to 2018:

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues:						
Charges for Services	\$ 865,045	864,377	2,326,193	2,370,383	3,191,238	\$ 3,234,760
Operating Grants and Contributions	-	63,356	-	-	-	63,356
General Revenues:						
Taxes	6,189,926	5,073,248	-	-	6,189,926	5,073,248
Other	611,596	195,999	31,801	5,562	643,397	201,561
Total Revenues	7,666,567	6,196,980	2,357,994	2,375,945	10,024,561	8,572,925
Expenses:						
Public Works	747,539	635,941	-	-	747,539	635,941
Public Safety	2,846,264	2,711,717	-	-	2,846,264	2,711,717
General Government	1,999,831	2,041,998	-	-	1,999,831	2,041,998
Interest and Other Charges	1,486,465	68,248	-	-	1,486,465	68,248
Water	-	-	926,665	837,707	926,665	837,707
Sewer	-	-	1,050,293	993,676	1,050,293	993,676
Total Expenses	7,080,099	5,457,904	1,976,958	1,831,383	9,057,057	7,289,287
Change in Net Position Before Transfers	586,468	739,076	381,036	544,562	967,504	1,283,638
Transfers In (Out)	(3,844,967)	-	3,844,967	-	-	-
Change in Net Position	(3,258,499)	739,076	4,226,003	544,562	967,504	1,283,638
Net Position - Beginning of Year	8,690,348	7,951,272	8,076,089	7,531,527	16,766,437	15,482,799
Net Position - End of Year	\$ 5,431,849	8,690,348	12,302,092	8,076,089	17,733,941	\$ 16,766,437

Governmental Activities: Governmental activities decreased the Town's net position by approximately \$3,258,000 in the current year.

Key changes in governmental activities revenues and expenses compared to the prior year were as follows:

- Tax revenues increased by approximately \$1,117,000, or 22% over the prior year primarily as a result of an increase in the debt service millage rate.
- Interest and other charges increased by approximately \$1,418,000 over the prior year primarily as a result of interest expense and bond issuance costs related to the Installment Purchase Revenue Bonds.
- Transfers out increased by approximately \$3,845,000 over the prior year primarily as a result of the Town transferring a portion of the proceeds from the Installment Purchase Revenue Bonds to the Sewer Fund for capital improvements to the sewer system.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities: Net position for business-type activities (water and sewer services) increased by approximately \$4,226,000 primarily as a result of the above-mentioned transfers in for capital improvements to the sewer system.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance of approximately \$25,336,000, an increase of approximately \$17,375,000 from the prior year fund balance. The increase in fund balance was primarily the result of proceeds from the issuance of the Installment Purchase Revenue Bonds.

Approximately 22%, or approximately \$5,483,000, of the total governmental fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending because it is nonspendable (1) for prepaid expenses and inventory (\$673,000), restricted (2) for tourism related expenditures or operating expenses incurred to serve tourists (\$204,000), for capital projects (\$17,198,000), for debt service (\$6,000), or for expenditures related to other outside restrictions (\$56,000), committed for (3) expenditures related to the Tree Fund (\$119,000) and (4) future capital projects (\$1,577,000), and assigned (5) by Council in the amount received from the Estate of William Bradley (\$20,000).

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the total fund balance was approximately \$7,808,000. As a measure of the General Fund's liquidity, it may be useful to compare total unassigned fund balance to total General Fund expenditures. Total unassigned fund balance of the General Fund (\$5,483,000) represents approximately 93% of total General Fund expenditures for 2019. Of the unassigned fund balance, Council has established a reserve for emergency expenditures which at the end of 2019 has a balance of \$1,245,000 and a reserve for capital improvements of \$550,500.

Points of interest for the General Fund were as follows:

- During 2019, the General Fund's fund balance increased by approximately \$315,000.
- Property tax revenues increased \$951,000 as a result of an increase in the debt service millage rate. The increased revenues are being used for the annual lease payments due to the Corporation. The Corporation is using those payments to make the annual debt service payments on the Installment Purchase Revenue Bonds.

For the year ended June 30, 2019, the Town consolidated the State Accommodations Tax Fund, Local Accommodations Tax Fund, and the Local Hospitality Tax Fund into the Local Tax Fund. Revenues of the Local Tax Fund increased by approximately \$19,000, or 4%, from the prior year. Transfers out increased by approximately \$93,000, or 17%, from the prior year as a result of the Town using hospitality tax revenues to fund the replacement and repair of several boardwalks.

The Town's financial statements include two governmental funds that report the activity of the Corporation which was created during the current year. Those funds are the Capital Projects Fund and the Debt Service Fund. The Capital Projects Fund reports activity related to the issuance of the Installment Purchase Revenue Bonds, including bond proceeds, costs of issuance, and transfers to the Sewer Fund to fund the cost of improvements to the sewer system. The Debt Service Fund reports activity related to the repayment of the Installment Purchase Revenue Bonds.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Proprietary Fund. The Town's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Net position of the Water and Sewer Enterprise Funds at the end of the fiscal year amounted to approximately \$12,302,000. Please see the earlier discussion of the business-type activities change in net position in the government-wide financial analysis section of this MD&A for more details.

Fiduciary Funds. The Town's Volunteer Fire Department Fund is used by the Town to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by fire insurance companies. Agency funds are custodial in nature and do not present results of operations. The Fiduciary Fund had amounts held for custody of others of approximately \$21,000 at June 30, 2019.

General Fund Budgetary Highlights: If budget amendments are made they generally fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The Town did not amend the budget during 2019.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets as of June 30, 2019 and June 30, 2018, amounted to approximately \$18,805,000 and \$14,801,000 (net of accumulated depreciation), respectively. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, sewer/water lines, and other infrastructure. The Town's capital assets (net of depreciation) as of June 30, 2019 and 2018 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 37,392	211,231	-	-	37,392	\$ 211,231
Construction in Progress	-	-	4,010,629	269,500	4,010,629	269,500
Building and Improvements	4,727,015	4,848,959	-	-	4,727,015	4,848,959
Machinery and Equipment	625,543	537,051	-	-	625,543	537,051
Playground Equipment	843,650	588,418	-	-	843,650	588,418
Vehicles	1,183,664	1,188,548	-	-	1,183,664	1,188,548
Fire and Emergency Command System	246,020	257,595	-	-	246,020	257,595
Water/Sewer System	-	-	7,131,179	6,899,823	7,131,179	6,899,823
Total	\$ 7,663,284	7,631,802	11,141,808	7,169,323	18,805,092	\$ 14,801,125

The total increase in the Town's investment in capital assets for the current fiscal year was approximately \$4,004,000. Major capital asset events during the current fiscal year included the following:

- Capital asset additions of approximately \$572,000 for governmental activities which consisted primarily of the following:
 - Machinery and equipment for approximately \$97,000.
 - Public safety vehicles for approximately \$153,000.
 - Boardwalk improvements and additions for approximately \$156,000.
 - IT software and equipment for approximately \$95,000
- Capital asset additions of approximately \$4,433,000 for business-type activities which consisted primarily of construction in progress additions of approximately \$4,402,000 for sewer system improvements.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

- Depreciation expense of approximately \$490,000 for governmental activities and \$415,000 for business-type activities.

Additional information regarding the Town's capital assets can be found in Note III.D in the notes to the financial statements.

Debt Administration

As of June 30, 2019, and June 30, 2018, the Town had total outstanding debt of approximately \$24,775,000 and \$5,103,000, respectively. Of the Town's total long-term obligations, approximately \$2,615,000 was general obligation debt which is backed by the full faith and credit of the Town. The Town's total debt as of June 30, 2019 and 2018 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Debt:						
General Obligation Bonds	\$ 2,615,000	3,005,000	-	-	2,615,000	\$ 3,005,000
Revenue Bonds (including premiums)	20,245,337	-	1,284,193	1,430,844	21,529,530	1,430,844
Capital Leases	190,000	101,454	440,357	565,954	630,357	667,408
Total Debt	<u>\$ 23,050,337</u>	<u>3,106,454</u>	<u>1,724,550</u>	<u>1,996,798</u>	<u>24,774,887</u>	<u>\$ 5,103,252</u>

The total increase in the Town's debt obligations for the current fiscal year was approximately \$19,672,000. Major events during the current fiscal year included the following:

- The Town's governmental activities made scheduled principal payments on debt obligations of approximately \$591,000.
- The Town's business-type activities made scheduled principal payments on debt obligations of approximately \$272,000.
- Installment Purchase Revenue Bonds with a par amount of \$19,490,000 and a premium of approximately \$884,000 were issued for the purpose of financing the rehabilitation of the Town's sewer system.
- The Town entered into capital lease contracts for \$190,000 for public safety vehicles.

The State of South Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The Town's statutory debt limit at June 30, 2019 was approximately \$6,223,000. The Town had \$2,615,000 of bonded debt subject to the 8% limit and thus resulted in the Town having an unused legal debt margin of approximately \$3,608,000.

Additional information regarding the Town's long-term obligations can be found in Note III.E in the notes to the financial statements.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

ECONOMIC FACTORS AND 2019-2020 BUDGETS AND RATES FOR THE TOWN

The Town’s elected officials and staff considered many factors when setting the fiscal year 2020 budget. The state of the economy, tourism activity, anticipated building activity, future capital needs, and the best interests of the Town’s residents were all considered. Key budget highlights were as follows:

- The debt service millage rate will decrease from 15.9 mils to 15.6 mils, while the operating millage rate increased slightly from 35.0 to 35.8 mils.
- There was a slight increase in the total water and sewer rates for the purchase of equipment.
- Continue improvements to the sewer system.
- Public safety radios were budgeted to be replaced during FY 2020.

REQUESTS FOR TOWN INFORMATION

This financial report is designed to provide a general overview of the Town of Sullivan’s Island’s finances for all those with an interest in the government’s financing. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Comptroller, Post Office Drawer 427, Sullivan’s Island, South Carolina 29482.

Basic Financial Statements

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2019

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 7,364,485	3,089,568	\$ 10,454,053
Cash and Cash Equivalents - Restricted	17,429,564	15,100	17,444,664
Investments	150,440	-	150,440
Taxes Receivable, Net	27,910	-	27,910
Other Receivables, Net	172,255	249,407	421,662
Prepaid Expenses	673,032	29,677	702,709
Capital Assets:			
Non-Depreciable	37,392	4,010,629	4,048,021
Depreciable, Net	7,625,892	7,131,179	14,757,071
Capacity Capital Contribution, Net	-	550,993	550,993
TOTAL ASSETS	33,480,970	15,076,553	48,557,523
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	1,013,718	83,622	1,097,340
LIABILITIES			
Accounts Payable	266,635	716,620	983,255
Accrued Interest	465,752	6,954	472,706
Other Accrued Liabilities	200,517	19,381	219,898
Customer Deposits	5,000	15,100	20,100
Non-Current Liabilities:			
Net Pension Liability	4,917,601	354,896	5,272,497
Long-Term Obligations - Due Within One Year	561,259	192,040	753,299
Long-Term Obligations - Due in More Than One Year	22,588,915	1,543,382	24,132,297
TOTAL LIABILITIES	29,005,679	2,848,373	31,854,052
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	57,160	9,710	66,870
NET POSITION			
Net Investment in Capital Assets	4,858,284	9,968,251	11,779,180
Restricted For:			
Tourism Related Expenditures	203,764	-	203,764
Debt Service	6,189	-	6,189
Other	55,913	-	55,913
Unrestricted	307,699	2,333,841	5,688,895
TOTAL NET POSITION	\$ 5,431,849	12,302,092	\$ 17,733,941

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
Public Works	\$ 747,539	-	-	-	(747,539)	-	\$ (747,539)
Public Safety	2,846,264	270,774	-	-	(2,575,490)	-	(2,575,490)
General Government	1,999,831	594,271	-	-	(1,405,560)	-	(1,405,560)
Interest and Other Charges	1,486,465	-	-	-	(1,486,465)	-	(1,486,465)
Total Governmental Activities	7,080,099	865,045	-	-	(6,215,054)	-	(6,215,054)
Business-Type Activities:							
Water	926,665	1,114,940	-	-	-	188,275	188,275
Sewer	1,050,293	1,211,253	-	-	-	160,960	160,960
Total Business-Type Activities	1,976,958	2,326,193	-	-	-	349,235	349,235
TOTAL - PRIMARY GOVERNMENT	\$ 9,057,057	3,191,238	-	-	(6,215,054)	349,235	(5,865,819)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Property Taxes					3,730,811	-	3,730,811
Local Option Sales Taxes					286,970	-	286,970
Hospitality Taxes					448,486	-	448,486
Accommodation Taxes					42,439	-	42,439
Business License Taxes					1,126,090	-	1,126,090
Franchise Taxes					555,130	-	555,130
Intergovernmental					76,618	-	76,618
Interest Income					345,910	12,559	358,469
Gain on Disposal of Capital Assets					-	19,242	19,242
Miscellaneous					189,068	-	189,068
Transfers In (Out)					(3,844,967)	3,844,967	-
Total General Revenues and Transfers					2,956,555	3,876,768	6,833,323
CHANGE IN NET POSITION					(3,258,499)	4,226,003	967,504
NET POSITION, Beginning of Year					8,690,348	8,076,089	16,766,437
NET POSITION, End of Year					5,431,849	12,302,092	\$ 17,733,941

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2019

	GENERAL FUND	LOCAL TAX FUND
ASSETS		
Cash and Cash Equivalents	\$ 7,219,793	-
Cash and Cash Equivalents - Restricted	120,412	104,981
Investments	150,440	-
Taxes Receivable, Net	27,910	-
Accounts Receivable, Net	73,472	98,783
Prepaid Expenses	673,032	-
TOTAL ASSETS	8,265,059	203,764
LIABILITIES		
Accounts Payable	266,635	-
Other Accrued Liabilities	175,080	-
Customer Deposits	5,000	-
TOTAL LIABILITIES	446,715	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue, Property Taxes	10,000	-
TOTAL DEFERRED INFLOWS OF RESOURCES	10,000	-
FUND BALANCES		
Nonspendable:		
Prepaid Expenses	673,032	-
Restricted:		
Capital Projects	-	-
Debt Service	-	-
Tourism Related Expenditures	-	203,764
Victims Services	20,343	-
Confederate Memorial	452	-
Land Trust	35,118	-
Committed:		
Tree Bank	-	-
Capital Projects	1,576,748	-
Assigned:		
William Bradley Memorial Fund	20,000	-
Unassigned	5,482,651	-
TOTAL FUND BALANCES	7,808,344	203,764
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,265,059	203,764

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

PUBLIC FACILITIES CAPITAL PROJECTS FUND	PUBLIC FACILITIES DEBT SERVICE FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	144,692	\$ 7,364,485
17,197,982	6,189	-	17,429,564
-	-	-	150,440
-	-	-	27,910
-	-	-	172,255
-	-	-	673,032
17,197,982	6,189	144,692	25,817,686
-	-	-	266,635
-	-	25,437	200,517
-	-	-	5,000
-	-	25,437	472,152
-	-	-	10,000
-	-	-	10,000
-	-	-	673,032
17,197,982	-	-	17,197,982
-	6,189	-	6,189
-	-	-	203,764
-	-	-	20,343
-	-	-	452
-	-	-	35,118
-	-	119,255	119,255
-	-	-	1,576,748
-	-	-	20,000
-	-	-	5,482,651
17,197,982	6,189	119,255	25,335,534
17,197,982	6,189	144,692	\$ 25,817,686

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TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	25,335,534
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Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:

Property taxes that will be collected in the future but are not available soon enough to pay for the current period's expenditures are deferred in the funds.	10,000
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets was \$10,476,713 and the accumulated depreciation was \$2,813,429.	7,663,284
The Town's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State pension plans are not recorded in the governmental funds but are recorded in the Statement of Net Position.	(3,961,043)
Accrued interest payable was recognized for governmental activities but is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.	(465,752)
Long-term obligations, including bonds payable and lease purchases, are not due or payable in the current period and therefore are not reported in the governmental funds.	
Long -Term Debt	(22,005,000)
Long -Term Debt - Net Premiums	(855,337)
Lease Purchases	(190,000)
Compensated Absences	(99,837)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	5,431,849
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The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2019

	GENERAL FUND	LOCAL TAX FUND
REVENUES		
Property Taxes	\$ 3,730,811	-
Local Option Sales Taxes	286,970	-
Accommodations Taxes	-	17,280
Hospitality Taxes	-	448,486
Licenses	1,681,221	-
Magistrate and Recorder Fines	237,931	-
State Shared Revenues	101,778	-
Permits	562,441	-
Victims' Services	32,843	-
Interest	66,069	1,142
Other	189,068	-
TOTAL REVENUES ALL SOURCES	6,889,132	466,908
EXPENDITURES		
Current:		
Public Works	709,851	-
Public Safety	2,477,004	-
General Government	1,805,945	3,352
Capital Outlay	355,871	-
Debt Service:		
Bond Issuance Costs	-	-
Principal	491,454	-
Interest	70,959	-
TOTAL EXPENDITURES	5,911,084	3,352
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	978,048	463,556
OTHER FINANCING SOURCES (USES)		
Transfers In	639,848	-
Transfers Out	(1,493,376)	(630,082)
Proceeds of IPRB Issuance	-	-
Premium on IPRB Issuance	-	-
Proceeds from Lease Purchases	190,000	-
TOTAL OTHER FINANCING SOURCES (USES)	(663,528)	(630,082)
NET CHANGES IN FUND BALANCES	314,520	(166,526)
FUND BALANCES, Beginning of Year	7,493,824	370,290
FUND BALANCES, End of Year	\$ 7,808,344	203,764

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

PUBLIC FACILITIES CAPITAL PROJECTS FUND	PUBLIC FACILITIES DEBT SERVICE FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	-	\$ 3,730,811
-	-	-	286,970
-	-	-	17,280
-	-	-	448,486
-	-	-	1,681,221
-	-	-	237,931
-	-	-	101,778
-	-	31,828	594,269
-	-	-	32,843
272,055	6,189	455	345,910
-	-	-	189,068
272,055	6,189	32,283	7,666,567
-	-	-	709,851
-	-	-	2,477,004
-	-	-	1,809,297
-	-	-	355,871
353,111	-	-	353,111
-	100,000	-	591,454
-	643,219	-	714,178
353,111	743,219	-	7,010,766
(81,056)	(737,030)	32,283	655,801
-	743,219	-	1,383,067
(3,094,810)	-	(9,766)	(5,228,034)
19,490,000	-	-	19,490,000
883,848	-	-	883,848
-	-	-	190,000
17,279,038	743,219	(9,766)	16,718,881
17,197,982	6,189	22,517	17,374,682
-	-	96,738	7,960,852
17,197,982	6,189	119,255	\$ 25,335,534

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TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 17,374,682
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Amounts reported for the governmental activities in the Statement of Activities are different because of the following:

Bond principal payments and lease purchase payments are expenditures in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position.	591,454
Bond and lease purchase proceeds provide current financial resources to governmental funds, but issuing debt or entering into lease purchases increases long-term obligations in the Statement of Net Position.	(19,680,000)
Bond premiums are revenues the year they are received in governmental funds but are amortized over the lives of the bonds in the Statement of Activities. This amount represents the difference between premiums received during the current year and amortization of the premiums.	(855,337)
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and payable and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due and payable. This adjustment relates to the change in accrued interest from the prior year.	(447,687)
Changes in the Town's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources for the current year are not reported in the governmental funds but are reported in the Statement of Activities.	(266,993)
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.	(6,100)
In the Statement of Activities the loss on the disposal of fixed assets is reported, whereas in the governmental funds, proceeds from the disposal of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets disposed.	(50,852)
Governmental funds report capital asset additions as expenditures of \$572,434. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation of \$490,100. This is the amount by which capital asset additions exceeded depreciation expense in the current period.	82,334

TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (3,258,499)
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The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

JUNE 30, 2019

	WATER	SEWER	TOTAL
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,069,660	1,019,908	\$ 3,089,568
Cash and Cash Equivalents - Restricted	15,100	-	15,100
Accounts Receivable, Net	126,278	123,129	249,407
Prepaid Expenses	13,275	16,402	29,677
Total Current Assets	<u>2,224,313</u>	<u>1,159,439</u>	<u>3,383,752</u>
Noncurrent Assets:			
Capital Assets:			
Non-Depreciable	-	4,010,629	4,010,629
Depreciable, Net	2,287,435	4,843,744	7,131,179
Capacity Capital Contribution, Net	550,993	-	550,993
Total Noncurrent Assets	<u>2,838,428</u>	<u>8,854,373</u>	<u>11,692,801</u>
TOTAL ASSETS	<u>5,062,741</u>	<u>10,013,812</u>	<u>15,076,553</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	41,811	41,811	83,622
LIABILITIES			
Current Liabilities:			
Accounts Payable	18,424	698,196	716,620
Accrued Interest	456	6,498	6,954
Other Accrued Liabilities	9,561	9,820	19,381
Customer Deposits	15,100	-	15,100
Compensated Absences Liability	5,436	5,436	10,872
Lease Purchase Payable - Current Portion	12,813	93,964	106,777
Revenue Bond Payable - Current Portion	-	74,391	74,391
Total Current Liabilities	<u>61,790</u>	<u>888,305</u>	<u>950,095</u>
Noncurrent Liabilities:			
Net Pension Liability	177,446	177,450	354,896
Lease Purchase Payable - Net of Current Portion	40,780	292,800	333,580
Revenue Bond Payable - Net of Current Portion	-	1,209,802	1,209,802
TOTAL LIABILITIES	<u>280,016</u>	<u>2,568,357</u>	<u>2,848,373</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	4,855	4,855	9,710
NET POSITION			
Net Investment in Capital Assets	2,784,835	7,183,416	9,968,251
Unrestricted	2,034,846	298,995	2,333,841
TOTAL NET POSITION	<u>\$ 4,819,681</u>	<u>7,482,411</u>	<u>\$ 12,302,092</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

YEAR ENDED JUNE 30, 2019

	WATER	SEWER	TOTAL
OPERATING REVENUES			
Charges for Services	\$ 1,073,283	1,202,766	\$ 2,276,049
Meter Connections, Sewer Tie-In Fees, and Other Revenue	41,657	8,487	50,144
TOTAL OPERATING REVENUES	1,114,940	1,211,253	2,326,193
OPERATING EXPENSES			
Salaries	248,815	248,968	497,783
Payroll Taxes	17,994	18,001	35,995
Hospitalization Insurance	31,521	31,524	63,045
Retirement	28,534	23,058	51,592
Gas and Oil - Vehicles	5,420	5,425	10,845
Diesel Fuel and Equipment	-	3,816	3,816
Repairs and Maintenance - Diesel Equipment	1,499	-	1,499
Vehicle Repairs	2,080	5,385	7,465
Supplies and Tools	9,966	12,876	22,842
Office Supplies	9,113	8,631	17,744
Lab Supplies	3,725	6,018	9,743
Telephone	7,895	7,895	15,790
Power and Lights	3,541	42,617	46,158
Insurance	22,128	25,210	47,338
System Repairs and Improvements	65,948	165,030	230,978
Sludge Disposal	-	25,776	25,776
Grit Disposal	-	2,859	2,859
Dues and Certifications	5,479	3,322	8,801
Training and Seminars	4,640	4,815	9,455
Professional Engineering Fees	76,369	64,030	140,399
Professional Services	5,000	5,000	10,000
Lab Analysis, Inspection, and Chemicals	11,753	38,661	50,414
Wholesale Water Purchase	107,029	-	107,029
Depreciation and Amortization Expense	254,905	269,578	524,483
Miscellaneous	2,253	4,432	6,685
TOTAL OPERATING EXPENSES	925,607	1,022,927	1,948,534
OPERATING INCOME (LOSS)	189,333	188,326	377,659
NONOPERATING REVENUES (EXPENSES)			
Gain on Sale of Assets	-	19,242	19,242
Interest Income	7,067	5,492	12,559
Interest Expense	(1,058)	(27,366)	(28,424)
TOTAL NONOPERATING REVENUES (EXPENSES)	6,009	(2,632)	3,377
INCOME (LOSS) BEFORE TRANSFERS	195,342	185,694	381,036
Transfers In	-	3,844,967	3,844,967
CHANGE IN NET POSITION	195,342	4,030,661	4,226,003
NET POSITION, Beginning of Year	4,624,339	3,451,750	8,076,089
NET POSITION, End of Year	\$ 4,819,681	7,482,411	\$ 12,302,092

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
WATER AND SEWER FUNDS**

YEAR ENDED JUNE 30, 2019

	WATER	SEWER	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 1,093,406	1,198,742	\$ 2,292,148
Cash Payments to Suppliers for Goods and Services	(378,517)	7,666	(370,851)
Cash Payments to Employees	(330,566)	(330,666)	(661,232)
NET CASH PROVIDED BY OPERATING ACTIVITIES	384,323	875,742	1,260,065
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets	-	(4,432,827)	(4,432,827)
Proceeds from Sale of Assets	-	64,857	64,857
Proceeds from Issuance of Debt	-	-	-
Principal Paid on Long-Term Obligations	(23,213)	(249,036)	(272,249)
Interest Paid on Long-Term Obligations	(1,508)	(26,681)	(28,189)
Transfer from Other Funds	-	3,844,967	3,844,967
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(24,721)	(798,720)	(823,441)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	7,067	5,492	12,559
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,067	5,492	12,559
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	366,669	82,514	449,183
CASH AND CASH EQUIVALENTS, Beginning of Year	1,718,091	937,394	2,655,485
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,084,760	1,019,908	\$ 3,104,668
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:			
Operating Income	\$ 189,333	188,326	\$ 377,659
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:			
Depreciation and Amortization Expense	254,905	269,578	524,483
Non-cash Pension Expense	(6,905)	(12,384)	(19,289)
Change Due to (Increase) Decrease in Operating Assets:			
Other Receivable	(19,684)	(12,511)	(32,195)
Prepaid Expenses	(2,332)	(3,419)	(5,751)
Change Due to Increase (Decrease) in Operating Liabilities:			
Other Payables	(30,004)	445,292	415,288
Compensated Absences	860	860	1,720
Customer Deposits	(1,850)	-	(1,850)
Net Cash Provided by Operating Activities	\$ 384,323	875,742	\$ 1,260,065

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

**STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND - AGENCY FUND
TOWN OF SULLIVAN'S ISLAND VOLUNTEER FIRE DEPARTMENT**

JUNE 30, 2019

ASSETS

Cash and Cash Equivalents	\$	21,300
TOTAL ASSETS	\$	21,300

LIABILITIES

Due To Volunteer Fire Department	\$	21,300
TOTAL LIABILITIES	\$	21,300

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

The Town of Sullivan's Island, South Carolina (the "Town") embraces an area of approximately five miles. The Town was originally incorporated in 1817 as Moultrieville and consists of approximately 2,000 residents. The Town operates under a Council form of government. The Mayor and six council members (the "Council") establish policy for the Town. Administrative functions are directed by the Town Administrator. The Town's major operations, as provided by its charter, include public safety (police and fire), highway and streets, sanitation, public improvements, planning and zoning, recreation, and general administrative services.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

As required by GAAP, the financial statements must present the Town's financial information with any of its component units. The primary criterion for determining inclusion or exclusion of a legally separate entity (component unit) is financial accountability, which is presumed to exist if the Town both appoints a voting majority of the entity's governing body, and either 1) the Town is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the Town. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the Town and there is a potential that the entity could either provide specific financial benefits to, or to impose specific financial burdens on the Town.

In order to be considered fiscally independent, an entity must have the authority to do all of the following: (a) determine its budget without the Town having the authority to approve or modify that budget; (b) levy taxes or set rates or charges without approval by the Town; and (c) issue bonded debt without approval by the Town. An entity has a financial benefit or burden relationship with the Town if, for example, any one of the following conditions exists: (a) the Town is legally entitled to or can otherwise access the entity's resources, (b) the Town is legally obligated or has otherwise assumed the obligation to finance the deficits or, or provide financial support to, the entity, or (c) the Town is obligated in some manner for the debt of the entity. Finally, an entity could be a component unit even if it met all the conditions described above for being fiscally independent if excluding it would cause the Town's financial statements to be misleading.

Blended component units, although legally separate entities, are in substance, part of the government's operations and data from these units are combined with data of the primary government in the fund financial statements. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the Town. Based on the criteria above, the Town has one blended component unit.

Blended Component Unit. The Town of Sullivan's Island Public Facilities Corporation (the "Corporation") is a tax-exempt, 501(c)(3) not-for-profit organization. The Corporation was organized exclusively for the purpose of providing funds to finance the cost of constructing certain upgrades and improvements to the Town's wastewater treatment plant and sewer collection system, issuance of bonds, and ownership of the facility. The Town leases the facility from the Corporation for essential governmental functions through a lease agreement which commenced on August 1, 2018. The Corporation is governed by a three-member Board of Directors. Separate financial statements for the Corporation are not issued. The activities of the Corporation are reported in the Town's financial statements as a major capital projects fund and as a major debt service fund.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Town (the "Primary Government"). The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, includes property taxes, grants, and donations. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide financial statements are prepared using a different measurement focus from the manner in which governmental fund financial statements are prepared (see further detail below). Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Governmental **fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, intergovernmental revenues, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be measurable and susceptible to accrual and so have been recognized as revenues of the current fiscal period. For this purpose, the government considers property taxes to be available if they are collected within sixty (60) days of the end of the current fiscal period. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under lease purchase are reported as other financing sources.

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Town has no non-major funds.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used as an aid to management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The following major funds and fund types are used by the Town.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

Governmental fund types are those through which most governmental functions of the Town are financed. The Town's expendable financial resources and related assets and liabilities (except for those accounted for in the proprietary funds) are accounted for through governmental funds.

The Town's governmental fund types and major funds are as follows:

The **General Fund, a major fund** and a budgeted fund, is the general operating fund of the Town and accounts for all revenues and expenditures of the Town except those required to be accounted for in other funds. All general tax revenues and other receipts that (a) are not allocated by law or contractual agreement to other funds or (b) that have not been restricted, committed, or assigned to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Special revenue funds are used to account for and report the proceeds of specific revenue sources (that are expected to continue to comprise a substantial portion of the inflows of the fund) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The Town has the following major special revenue funds:

- i) The **Local Tax Fund, a major fund** and an unbudgeted fund, is used to account for the accumulation of resources from the hotel/motel 2% fee levied by the State of South Carolina and remitted to the Town, the accumulation of resources from the 1% fee imposed on the rental of any accommodations within the Town which is collected and allocated to the Town from Charleston County, and is used to account for and report the financial resources received and disbursed related to the Town's 2% tax on food and beverage sales. These funds are to be spent only for support of tourism and tourist-related services.
- ii) The **Tree Bank Fund, a major fund** and an unbudgeted fund, is used to account for the money collected from tree permits, as well as from fines for violations of the Town's tree fund ordinance. These funds are to be used for the purchase of trees to be planted on the public property of the Town and for other related activities planned by the Tree Commission and approved by Town Council.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned for (a) the acquisition, construction, or renovation of major capital facilities, (b) ongoing major improvement projects which usually span more than one year, and (c) major equipment or other capital asset acquisitions which are not financed by another fund. The Town has the following capital projects fund:

The **Public Facilities Capital Projects Fund, a major capital projects fund** and an unbudgeted fund, is used to account for proceeds from the Corporation's Installment Purchase Revenue Bonds which will be used for the construction of certain upgrades and improvements to the Town's wastewater treatment plant and sewer collection system.

Debt service funds are used to account for the accumulation of resources and payments of long-term bond principal and interest from government resources. The Town has the following debt service fund: Debt Service Fund, a non-major debt service fund and a budgeted fund, is used to account for all debt obligations such as bonds, leases, and loans.

The **Public Facilities Debt Service Fund, a major debt service fund** and an unbudgeted fund, is used to account for and report the accumulation of financial resources that are restricted for the payment of all long-term debt principal, interest, and related costs for the Corporation.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

Proprietary Fund Types are accounted for based on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds are made up of two classes: enterprise funds and internal service funds. The Town does not have any internal service funds and has two enterprise funds.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. The principal operating revenues of enterprise funds are primarily charges for services and fees. Operating expenses for enterprise funds include the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items. Proprietary fund types include the following funds:

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town has two major enterprise funds:

The **Water Enterprise Fund, a major fund** and a budgeted fund, is used to account for water services provided to the residents of the Town.

The **Sewer Enterprise Fund, a major fund** and a budgeted fund, is used to account for sewer services provided to the residents of the Town.

Fiduciary Fund Types include the **Agency Fund**. This fund is used to account for assets held by the Town on behalf of individuals, other governments, and/or other funds. The Town of Sullivan's Island Volunteer Fire Department is accounted for as an agency fund. The Agency Fund is custodial in nature and does not present results of operations.

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

The Town considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased, including money market mutual funds and investments in the South Carolina Local Government Investment Pool ("Pool"), to be cash equivalents. Securities with an initial maturity of more than three months (from when initially purchased) that are not money market mutual funds or purchased from the Pool are reported as investments.

Investments

The Town's investment policy is designed to operate within existing statutes (which are identical for all funds, fund types, and component units within the State of South Carolina) that authorize the Town to invest in the following:

- (a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
- (b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

1. Cash, Cash Equivalents, and Investments (Continued)

Investments (Continued)

Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

- (c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
- (e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
- (f) Repurchase agreements when collateralized by securities as set forth in this section.
- (g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The Town's cash investment objectives are preservation of capital, liquidity, and yield. The Town reports its cash and investments at fair value which is normally determined by quoted market prices. The Town currently or in the past year has primarily used the following investments:

- South Carolina Local Government Investment Pool ("Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. In accordance with GASB Statement No. 31 *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"* and GASB Statement No. 72 *"Fair Value Measurement and Application"*, investments are carried at fair value determined annually based upon (a) quoted market prices for identical or similar investments or (b) observable inputs other than quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by Pool participants at any time and may be withdrawn upon 24 hours' notice. Financial statements for the Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211-1960.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

1. Cash, Cash Equivalents, and Investments (Continued)

Investments (Continued)

- Government mutual funds are generally open-ended funds that invest in short term debt securities (including obligations of the United States and related agencies) that generally have a weighted average maturity of less than one year and do not invest more than 5% in any one issuer, except for government securities and repurchase agreements.

2. Receivables and Payables

During the course of its operations, the Town has numerous transactions occurring between funds. These transactions include expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. To the extent that certain transactions between funds had not been paid or received as of year-end, balances of interfund amounts or payables have been recorded.

All trade and property taxes receivable are shown net of an allowance for uncollectibles.

3. Inventories and Prepaids

Inventories and prepaid items in the governmental funds are reported under the consumption method (if material) as they are recorded as expenditures as they are used (consumed). Inventories of diesel fuel oil are valued at cost (first-in, first-out). Inventories and prepaid items in the governmental funds are offset by a fund balance reserve to reflect that portion of fund balance that is not an available expendable resource.

4. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective fund financial statements.

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at estimated acquisition value (as estimated by the Town) at the date of donation. As allowed by GASB #34, the Town has elected to prospectively report public domain ("infrastructure") general capital assets. Therefore, infrastructure capital assets acquired prior to July 1, 2003 have not been recorded, except for those accounted for in the proprietary funds. 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. The Town maintains a minimum capitalization threshold of \$5,000 for all capital assets.

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

4. Capital Assets (Continued)

Description	Governmental and Business-Type Activities
Buildings	40-50 years
Building Improvements	7-25 years
Machinery and Equipment	5-15 years
Beach Walkovers	10-15 years
Fire Trucks	15-20 years
Vehicles	5 years
Water and Sewer Systems	10-99 years

5. Compensated Absences

The Town's general leave policy allows the accumulation of unused vacation leave up to a maximum of three work weeks. An unlimited amount of sick leave may be carried over from year to year. Employees terminating or retiring are paid for accumulated vacation leave based on their hourly rate of pay earned at the time of termination or retirement. Sick leave can only be paid for illness while employed with the Town.

The Town reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." The entire compensated absence liability and expense is reported in the government-wide financial statements. The portion of the liability that is applicable to the Town's water and sewer activities is also reported on the Town's proprietary funds. The governmental funds will also recognize compensated absences for terminations and retirements (matured liabilities) that occurred prior to year-end that are expected to be paid within a short time subsequent to year end (if material).

6. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. The portion applicable to the proprietary funds is also recorded in the Proprietary Fund financial statements. All current payables and accrued liabilities from governmental funds are reported in the governmental fund financial statements.

In the government-wide financial statements for the Primary Government, debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are recognized during the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

7. *Deferred Outflows and Inflows of Resources*

In addition to assets, the Statement of Net Position and the Balance Sheet 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 Town currently has one type of deferred outflows of resources. The Town reports *deferred pension charges* in its Statements of Net Position in connection with its participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. These *deferred pension charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position and the Balance Sheet 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 Town currently has two types of deferred inflows of resources: (1) The Town reports *unavailable revenue – property taxes* only in the governmental funds Balance Sheet; it is deferred and recognized as an inflow of resources (property tax revenues) in the period the amounts become available. (2) The Town also reports *deferred pension credits* in its Statements of Net Position in connection with its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System. These *deferred pension credits* are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

8. *Fund Balance*

The Town implemented GASB #54 “*Fund Balance Reporting and Governmental Fund Type Definitions*” (“GASB #54”) in fiscal year 2011. The objective of GASB #54 was to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB #54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The Town classifies governmental fund balances as follows:

Nonspendable – includes amounts that inherently cannot be spent either because they are not in spendable form (i.e. prepaids, inventories, etc.) or because of legal or contractual requirements (i.e. principal on an endowment, etc.).

Restricted – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action made by the highest level of decision making authority (Town Council) before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned – includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed and that such assignments are made before the report issuance date. Town Council assigns fund balance by an approved motion before the report issuance date.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

8. *Fund Balance (Continued)*

Unassigned – includes amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

In the unassigned fund balance, the Town has an Emergency Reserve that maintains a minimum balance of 20%, and no more than 30%, of the total audited cash disbursements (excluding any one-time event) for all combined Funds. No less than 25% of any year's surplus should be allocated to this reserve until the minimum amount has been obtained.

At the conclusion of the most recent annual financial audit, Council will determine the amount of the surplus to allocate to the Emergency Reserve until the maximum amount allowed has been obtained. The balance as of June 30, 2019 is \$1,245,000.

In the unassigned fund balance, the Town also has a Capital Improvements Reserve. No less than 20% of any year's surplus shall be allocated to this reserve. At the conclusion of the most recent annual financial audit, Council will determine the amount of the surplus to allocate to the Capital Improvements Reserve. The balance as of June 30, 2019 is \$550,500.

The Town generally requires restricted amounts to be spent first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, the Town generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are incurred.

9. *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 classified as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

10. *Pensions*

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note IV.B and the required supplementary information immediately following the notes to the financial statements for more information), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The Town recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Town's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the Town's fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

10. Pensions (Continued)

Incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

11. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions.

Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

12. Fair Value

The fair value measurement and disclosure framework provides for a three-tier fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Town can access at the measurement date.

Level 2 – Inputs to the valuation methodology, other than quoted prices included in Level 1, that are observable for an asset or liability either directly or indirectly and include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology that are unobservable for an asset or liability and include:

- Fair value is often based on developed models in which there are few, if any, observable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable values or reflective of future fair values. The Town believes that the valuation methods used are appropriate and consistent with GAAP. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no significant changes from the prior year in the methodologies used to measure fair value.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

13. Comparative Data

Comparative data (i.e. presentation of prior year totals by fund type) has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Town utilizes the following procedures in establishing the budgetary data reflected in the required supplementary information budgetary comparison schedule:

During the spring, the Town's Administration (with department input) develops a preliminary budget model for operational and capital expenditures, and develops revenue projections as a proposed means of financing the proposed expenditures.

Upon receipt of the budget estimates, the Council holds a first reading of the budget ordinance. Information about the budget ordinance is then published in the local newspaper. The ordinance sets the limit at the fund level, for which expenditures may not exceed appropriations. After two readings of the budget, the Town Council legally adopts the budget through the passage of the ordinance.

Budget accountability rests primarily with the operating departments of the Town. In accomplishing the programs and objectives for which the budget was authorized, department directors are responsible for ensuring that their respective expenditures do not exceed the prescribed funding levels.

For each assigned function, a department is obligated to stay within budget for its area. The Town Administrator has the authority to transfer funds across departments. Such transfers are entered on the Town's records (if any). All unused expenditure appropriations lapse at year-end. Town Council must approve any revisions that alter the total expenditures of the General Fund.

The Town prepares the budget on a basis of accounting other than GAAP. Major differences between the budgetary basis and GAAP are (a) the proceeds related to new lease purchase obligations entered into during the year are not budgeted, (b) revenues from grants, contributions, and other unusual sources are not budgeted, and (c) capital expenditures that are made using bond proceeds are not budgeted. Expenditures related to non-budgeted revenues are not budgeted. Lease payments are budgeted as part of the capital budgets for the applicable departments.

There were no amendments to the original budgeted amounts for the General Fund. The budgetary comparison schedule is as originally adopted by Town Council.

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits might not be recovered. The Town does not have a deposit policy for custodial credit risk, but follows the investment policy statutes of the State of South Carolina. As of June 30, 2019, approximately \$132,000 of the Town's bank balances of approximately \$10,502,000 (with a carrying value of approximately \$10,495,000) were exposed to custodial credit risk.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

A. Deposits and Investments (Continued)

Investments

As of June 30, 2019, the Town had the following investments and maturities (as defined by GASB #40):

Investment Type	Fair Value Level (1)	Fair Value	Maturity	Credit Rating
State Local Government Investment Pool	N/A	\$ 215,537	^	Unrated
First American Government Obligation Fund	Level 1	17,208,513	< 1 year	AAAm, Aaa-mf, AAAMmf
Total		<u>\$ 17,424,050</u>		

(1) See Note I.C.12 for the details of the Town's fair value hierarchy.

^ Investments in 2a 7-like funds are not required to disclose interest rate risk.

Credit ratings shown above are for Standard & Poors, Moody's, and Fitch, respectively.

Interest Rate Risk: The Town's investment policy states that no more than seventy (70) percent of the portfolio will have a maturity in excess of one (1) year. In addition, the Town's investment policy states that unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than five (5) years from the date of purchase.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's investment policy requires that a third party hold collateral in the Town's name and shall provide the Town with evidence of ownership. None of the Town's security investments were exposed to custodial credit risk at June 30, 2019.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's investment policy states that credit risk shall be mitigated by investing in safe institutions and by diversifying the fund so that the failure of any one issuer would not unduly harm the Town's cash flow.

Concentration of Credit Risk for Investments: The Town's investment policy limits investment in any one issuer greater than fifty (50) percent, with the exception of US government securities and the South Carolina Local Government Investment Pool. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures.

Certain cash and cash equivalents of the Town are legally restricted for specified purposes. The major types of restrictions at June 30, 2019 were those imposed by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

Reconciliation to Financial Statements

Statement of Net Position	Amount
Unrestricted Current Assets:	
Cash and Cash Equivalents	\$ 10,454,053
Investments	150,440
Restricted Current Assets:	
Cash and Cash Equivalents, Restricted	17,444,664
	<u>28,049,157</u>
 Statement of Assets and Liabilities - Fiduciary Fund - Agency Fund	
Unrestricted Current Assets:	
Cash and Cash Equivalents	21,300
Total per the financial statements	<u><u>\$ 28,070,457</u></u>
 Notes	
Carrying Value of Deposits	\$ 10,646,407
Investments	17,424,050
Total per the notes	<u><u>\$ 28,070,457</u></u>

B. Receivables and Deferred Inflows of Resources

The Town's 2018 property taxes were levied on October 1, 2018 and were due beginning on this date based on the assessed valuation as of January 1, 2018. Property taxes were considered late on January 16, 2019. Motor vehicle property tax is levied and collected on a portion of taxable vehicles monthly. Penalties and charges are assessed if taxes are not paid by the following dates:

January 16 through February 1	- 3% penalty for tax due
February 2 through March 15	- 10% penalty for tax due
March 16 - Lien Date	- 15% penalty for tax due plus \$15 for a delinquent execution charge
Unpaid Taxes After One Year	- Property is sold by the County Tax Collector at the annual tax sale held the first Monday in November each year.

Assessed values are established by the Charleston County Tax Assessor and the South Carolina Tax Commission. The Town's operating tax rate for the 2018 property tax year was 261.9 mills (211 mills for Charleston County and 50.9 mills for the Town, including 15.9 mills for debt service). Town property taxes are billed and collected by Charleston County under a joint billing and collection agreement.

The Town had receivables of approximately \$249,000 related to business-type activities at June 30, 2019 which consisted mainly of outstanding charges to customers for water and sewer services. No allowance for uncollectible accounts was considered necessary.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

B. Receivables and Deferred Inflows of Resources (Continued)

The Town had net receivables related to governmental activities at June 30, 2019, of the following:

	General Fund	Local Tax Fund	Totals
Property Taxes	\$ 27,910	-	\$ 27,910
Accommodations Taxes	-	7,168	7,168
Hospitality Taxes	-	91,614	91,614
Local Options Sales Tax	55,718	-	55,718
Miscellaneous	17,754	-	17,754
Net Receivables	<u>\$ 101,382</u>	<u>98,782</u>	<u>\$ 200,164</u>

There were no material allowances for uncollectible amounts.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2019, the General Fund had \$10,000 in deferred inflows of resources related to property taxes that were not available.

C. Interfund Receivables, Payables, and Transfers

At June 30, 2019, there were no interfund receivables or payables.

Transfers between funds for the year ended June 30, 2019, consisted of the following:

Fund	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 639,848	\$ 1,493,376
Local Tax Fund	-	630,082
Tree Bank Fund	-	9,766
Public Facilities - Capital Projects Fund	-	3,094,810
Public Facilities - Debt Service Fund	743,219	-
Major Enterprise Funds:		
Sewer Fund	3,844,967	-
Totals	<u>\$ 5,228,034</u>	<u>\$ 5,228,034</u>

The transfers to the General Fund were primarily from the Local Tax Fund to cover a portion of tourism related operating expenditures in accordance with State law and Town ordinances. The transfer from the Tree Bank Fund was made to reimburse the General Fund for new trees planted on the Island. The transfers from the General Fund and Public Facilities – Capital Projects Fund to the Sewer Fund were to cover construction costs related to the sewer rehabilitation project. The transfer to the Public Facilities – Debt Service Fund represents the lease payment made to the Corporation which was used to make the annual principal and interest payment on the Installment Purchase Revenue Bonds.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land and Improvements	\$ 211,231	-	-	(173,839)	\$ 37,392
Total Capital Assets, Non-Depreciable	<u>211,231</u>	<u>-</u>	<u>-</u>	<u>(173,839)</u>	<u>37,392</u>
Capital Assets, Depreciable:					
Buildings and Improvements	5,408,697	71,553	183,257	-	5,296,993
Machinery and Equipment	1,049,933	191,909	40,000	7,979	1,209,821
Playground Equipment	954,277	155,800	-	173,839	1,283,916
Vehicles	2,024,641	153,172	76,844	-	2,100,969
Fire and Emergency Command Center	555,601	-	-	(7,979)	547,622
Total Capital Assets, Depreciable	<u>9,993,149</u>	<u>572,434</u>	<u>300,101</u>	<u>173,839</u>	<u>10,439,321</u>
Less: Accumulated Depreciation for:					
Buildings and Improvements	559,738	142,645	132,405	-	569,978
Machinery and Equipment	512,882	103,417	40,000	7,979	584,278
Playground Equipment	365,860	74,406	-	-	440,266
Vehicles	836,092	158,057	76,844	-	917,305
Fire and Emergency Command Center	298,006	11,575	-	(7,979)	301,602
Total Accumulated Depreciation	<u>2,572,578</u>	<u>490,100</u>	<u>249,249</u>	<u>-</u>	<u>2,813,429</u>
Total Capital Assets, Depreciable, Net	<u>7,420,571</u>	<u>82,334</u>	<u>50,852</u>	<u>173,839</u>	<u>7,625,892</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,631,802</u>	<u>82,334</u>	<u>50,852</u>	<u>-</u>	<u>\$ 7,663,284</u>

Depreciation expense for the Town's governmental activities was charged to functions/programs as follows:

Functions/Programs	Amount
Governmental Activities:	
Public Works	\$ 26,845
Public Safety	195,441
General Government	267,814
Total Depreciation Expense - Governmental Activities	<u>\$ 490,100</u>

The cost of vehicles and equipment under lease purchase was approximately \$1,043,000 at June 30, 2019. Accumulated amortization on these assets was approximately \$289,000 at June 30, 2019. Amortization of these assets has been included with depreciation expense.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Non-Depreciable					
Construction in Progress	\$ 269,500	4,402,031	-	(660,902)	\$ 4,010,629
Total Capital Assets, Non-Depreciable	269,500	4,402,031	-	(660,902)	4,010,629
Capital Assets, Depreciable					
Water System	4,671,857	-	-	-	4,671,857
Sewer System	6,706,488	12,152	-	660,902	7,379,542
Lab Equipment	20,869	-	-	-	20,869
Vehicles and Equipment	1,338,994	18,644	178,515	-	1,179,123
Total Capital Assets, Depreciable	12,738,208	30,796	178,515	660,902	13,251,391
Less: Accumulated Depreciation for:					
Water System	2,348,579	125,067	-	-	2,473,646
Sewer System	2,761,365	194,718	-	(37,181)	2,918,902
Lab Equipment	19,904	609	-	-	20,513
Vehicles and Equipment	708,537	94,333	132,900	37,181	707,151
Total Accumulated Depreciation	5,838,385	414,727	132,900	-	6,120,212
Total Capital Assets, Being Depreciated, Net	6,899,823	(383,931)	45,615	660,902	7,131,179
Business-Type Activities Capital Assets, Net	\$ 7,169,323	4,018,100	45,615	-	\$ 11,141,808

Depreciation expense for the Town's Business-Type Activities was charged to functions/programs as follows:

Functions/Programs	Amount
Business-Type Activities:	
Water	\$ 145,149
Sewer	269,578
Total Depreciation Expense - Business-Type Activities	\$ 414,727

The cost of vehicles and equipment under lease purchase was approximately \$492,000 at June 30, 2019. Accumulated amortization on these assets was approximately \$319,000 at June 30, 2019. Amortization of these assets has been included with depreciation expense.

Capacity Capital Contribution

The Town entered into a contract with the Commissioners of Public Works in July 1994 to purchase water for a 30-year period. As part of this agreement, the Town paid approximately \$1,986,000 as an initial capacity capital contribution from the Water Fund. The Town has paid additional contributions of approximately \$636,000 since fiscal year 2005, for a total of approximately \$2,622,000 as of June 30, 2019. This asset is being amortized over 30 years. The accumulated amortization is approximately \$2,072,000, and the net unamortized asset is approximately \$551,000 as of June 30, 2019. The amortization expense for fiscal year 2019 was approximately \$110,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations

The Town issues bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds are direct obligations and pledge the full faith and credit of the Town. Revenue Bonds are obligations of the Town that are secured by revenue from a specific source. Lease Purchase obligations are special obligations of the Town payable from the general revenues of the Town. The full faith, credit and taxing powers of the Town are not pledged for the payment of revenue bonds or lease purchase obligations nor the interest thereon.

Details on the Town's outstanding debt issues and lease purchase obligations for the governmental activities and business-type activities as of June 30, 2019 are as follows:

General Obligation Bonds

Principal Outstanding
at Year End

\$4,100,000 General Obligation Bonds (February 2014) were issued to finance the construction of the new town hall and police building, park improvements, the purchase of a fire truck, and improvements to the Town's water and sewer system. Principal is payable annually and interest is payable semi-annually at a rate of 1.80%. Debt service requirements range from \$77,695 - 478,460 per year through March 1, 2025 and are funded with resources from the General Fund.

\$ 2,615,000

Revenue Bonds

\$19,490,000 Installment Purchase Revenue Bonds, Series 2018 (August 2018) were issued to fund upgrades and improvements to the wastewater treatment plant and sewer collection system. Principal is payable annually through December 1, 2048, and interest is due semi-annually at a rate ranging from 2.00% - 5.00%. Debt service requirements range from \$357,688 - 1,234,200 per year through December 1, 2048 and are funded with resources from the General Fund.

\$ 19,390,000

\$1,680,000 Waterworks and Sewer System Revenue Bond, Series 2014 (September 2014) were issued to finance the Wastewater Collection System Rehabilitation - Phase I. As of June 30, 2016, \$1,574,436 had been drawn of the \$1,680,000. These obligations are secured and funded with the revenues and resources of the Water and Sewer Enterprise Funds. Principal and interest is due quarterly through July 1, 2035 at a rate of 1.00%. Debt service requirements are \$21,738.56 per quarter through April 1, 2035. In accordance with the bond agreement, the Town must maintain a debt service coverage ratio of at least 1.10 at all times. The Town was in compliance with this bond covenant at June 30, 2019.

\$ 1,284,193

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

Principal Outstanding
at Year End

Lease Purchases

\$545,000 lease purchase (December 2017) was made to purchase vehicles. Principal and interest are payable annually with interest at a rate of 2.04%. Total debt service requirements are \$115,761 annually through June 2023 and are funded with resources from the Water Fund and Sewer Fund.

\$ 440,357

\$190,000 lease purchase (September 2018) was made to purchase vehicles. Principal and interest are payable annually with interest at a rate of 3.08%. Total debt service requirements are \$67,274 annually through June 2022 and are funded with resources from the General Fund.

\$ 190,000

A summary of changes in long-term obligations for the Town's governmental and business-type activities for the year ended June 30, 2019 is presented below.

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
GO Bond Debt:					
GO Bond - 02/14	\$ 3,005,000	-	390,000	2,615,000	\$ 400,000
Total GO Bond Debt	3,005,000	-	390,000	2,615,000	400,000
Revenue Bonds:					
Installment Purchase Revenue Bonds - 2018 Series	-	19,490,000	100,000	19,390,000	-
Total Revenue Bond Debt	-	19,490,000	100,000	19,390,000	-
Amortization of Premium					
Installment Purchase Revenue Bonds - 2018 Series	-	883,848	28,511	855,337	-
Total Premium	-	883,848	28,511	855,337	-
Capital Leases:					
CL - 10/15	22,006	-	22,006	-	-
CL - 6/16	79,448	-	79,448	-	-
CL - 9/18	-	190,000	-	190,000	61,422
Total Lease Purchases	101,454	190,000	101,454	190,000	61,422
Compensated Absences	93,737	106,292	100,192	99,837	99,837
Total Governmental Activities	\$ 3,200,191	20,670,140	720,157	23,150,174	\$ 561,259

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Debt:					
Revenue Bond - 11/10 - Sewer	\$ 73,000	-	73,000	-	\$ -
Revenue Bond - 09/14 - Sewer	1,357,844	-	73,651	1,284,193	74,391
Total Revenue Bond Debt	1,430,844	-	146,651	1,284,193	74,391
Sewer Lease Purchases:					
CL - 10/15	10,477	-	10,477	-	-
CL - 12/17	478,672	-	91,908	386,764	93,964
Total Sewer Lease Purchases	489,149	-	102,385	386,764	93,964
Water Lease Purchases:					
CL - 10/15	10,478	-	10,478	-	-
CL - 12/17	66,328	-	12,735	53,593	12,813
Total Water Lease Purchases	76,806	-	23,213	53,593	12,813
Compensated Absences	9,151	15,314	13,593	10,872	10,872
Total Business-Type Activities	\$ 2,005,950	15,314	285,842	1,735,422	\$ 192,040

The Town paid interest of approximately \$699,000, and \$27,000 for its governmental and business-type activities, respectively.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or Town shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or Town voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of June 30, 2019, the Town had \$2,615,000 of bonded debt subject to the 8% limit of approximately \$6,223,000 resulting in an unused legal debt margin of approximately \$3,608,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

Debt Service Requirements to Maturity

Presented below are the debt service requirements to maturity for the governmental and business-type activities.

Year Ending June 30,	Principal	Interest	Total
<u>Governmental Activities</u>			
2020	\$ 461,422	823,985	\$ 1,285,407
2021	478,314	814,893	1,293,207
2022	495,264	805,473	1,300,737
2023	445,000	795,723	1,240,723
2024	455,000	787,713	1,242,713
2025-2029	2,520,000	3,665,023	6,185,023
2030-2024	3,185,000	2,981,838	6,166,838
2035-2039	3,885,000	2,290,619	6,175,619
2040-2044	4,670,000	1,501,250	6,171,250
2045-2049	5,600,000	571,150	6,171,150
Totals	<u>\$ 22,195,000</u>	<u>15,037,667</u>	<u>\$ 37,232,667</u>
<u>Business-Type Activities</u>			
2020	\$ 181,168	22,780	\$ 203,948
2021	184,093	18,622	202,715
2022	187,070	15,645	202,715
2023	190,100	12,615	202,715
2024	77,423	9,531	86,954
2025-2029	398,928	35,843	434,771
2030-2024	419,355	15,416	434,771
2035-2039	86,413	541	86,954
Totals	<u>\$ 1,724,550</u>	<u>130,993</u>	<u>\$ 1,855,543</u>

F. Short-Term Obligations

During the year, the Town issued two series of GO Bonds totaling \$750,000. These bonds were issued for the purpose of making lease payments to the Corporation to fund the current year debt service payments on the 2018 IPRB Bonds. These bonds were fully repaid using debt service millage from the General Fund. A summary of changes in short-term obligations for the Town's governmental activities for the year ended June 30, 2019 is presented below.

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Short-Term Debt:				
GO Bond - 2018A Series	\$ -	362,000	362,000	\$ -
GO Bond - 2018B Series	-	388,000	388,000	-
Total Short-Term Debt	<u>\$ -</u>	<u>750,000</u>	<u>750,000</u>	<u>\$ -</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. For all of these risks, the Town is a member of the South Carolina Municipal Insurance Reserve Fund ("SCMIRF"), a public entity risk pool operating as a common risk management and insurance program for local governments for general risk. The Town pays an annual premium for this coverage. For the year ended June 30, 2019, the Town made premium payments totaling approximately \$228,000. SCMIRF's net position from its most recently issued audited financial statements at December 31, 2018 totaled approximately \$12,619,000.

The Town has also joined together with other municipalities in the state to form the South Carolina Municipal Insurance Trust ("SCMIT"), a public entity risk pool operating as a common risk management and insurance program for worker's compensation. The Town pays an annual premium to SCMIT. For the year ended June 30, 2019, the Town made premium payments totaling approximately \$84,000. The Trust uses reinsurance agreements to reduce its exposure to large workers' compensation losses. SCMIT's net position from its most recently issued audited financial statements at December 31, 2018 totaled approximately \$57,682,000.

For the above public entity risk pools for property and casualty insurance, there were no significant reductions in coverage in the past fiscal year and settled claims in excess of insurance coverage for the last three years were immaterial.

Participation in Public Entity Risk Pool for Health Insurance

The Town has also joined together with other local governments in the South Carolina Employee Insurance Program ("EIP") to provide medical, dental, and life insurance for its employees. This is also a public entity risk pool operating as a common risk management and insurance program. Effective July 1, 2012, the South Carolina General Assembly transferred administration of the EIP to the South Carolina Public Employee Benefit Authority ("PEBA"). For the year ended June 30, 2019, the Town made premium payments totaling approximately \$503,000. The EIP's net position from its most recently issued audited financial statements at June 30, 2018 were approximately \$360,220,000.

There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

B. Retirement Plans

The Town participates in the State of South Carolina's retirement plans, which are administered by the South Carolina Public Employee Benefit Authority ("PEBA"). The PEBA, created on July 1, 2012 and governed by an 11-member Board of Directors ("PEBA 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, the PEBA is responsible for administering the South Carolina Retirement Systems' ("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 scheduled 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 Retirement Systems Investment Commission ("RSIC") 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.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

The PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the System's Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. The PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

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

Plan Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- 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 the PORS. Magistrates are required to participate in the 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.

Plan 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/current annual salary. A brief summary of benefit terms for each system is presented below.

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Benefits (Continued)

- 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.

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

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

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

Plan Contributions

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

After June 30, 2027, if the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than eighty-five percent, then the PEBA Board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than eighty-five percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than eighty-five percent, then effective on the following July first, and annually thereafter as necessary, the PEBA Board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than eighty-five percent.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Contributions (Continued)

The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for the SCRS and the PORS, respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for the SCRS and 21.24 percent for the PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization period.

As noted earlier, both employees and the Town are required to contribute to the Plans at rates established and as amended by the PEBA. The Town's contributions are actuarially determined but are communicated to and paid by the Town as a percentage of the employees' annual eligible compensation. Required employer and employee contribution rates for the past three years are as follows:

	SCRS Rates			PORS Rates		
	2017	2018	2019	2017	2018	2019
Employer Contribution Rate: [^]						
Retirement	11.41%	13.41%	14.41%	13.84%	15.84%	16.84%
Incidental Death Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.20%	0.20%	0.20%
	<u>11.56%</u>	<u>13.56%</u>	<u>14.56%</u>	<u>14.24%</u>	<u>16.24%</u>	<u>17.24%</u>
Employee Contribution Rate	<u>8.66%</u>	<u>9.00%</u>	<u>9.00%</u>	<u>9.24%</u>	<u>9.75%</u>	<u>9.75%</u>

[^] Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

The required contributions and percentages of amounts contributed by the Town to the Plans for the past three years were as follows:

Year Ended June 30,	SCRS Contributions		PORS Contributions	
	Required	% Contributed	Required	% Contributed
2019	\$ 176,823	100%	\$ 245,820	100%
2018	153,274	100%	224,380	100%
2017	\$ 130,769	100%	\$ 171,715	100%

In an effort to help offset a portion of the burden of the increased contribution requirement for employers, the State General Assembly ("State") funded 1 percent of the SCRS and PORS contribution increases for the year ended June 30, 2018. The State's budget appropriated these funds directly to the PEBA for the South Carolina Retirement System Trust Fund and the Police Officers Retirement System Trust Fund. The amount of funds appropriated by the State (nonemployer contributing entity) for the year ended June 30, 2018 (measurement date) to the Town were approximately \$11,000 and \$12,000 for the SCRS and PORS, respectively.

The Town recognized contributions (on-behalf payments) from the State of approximately \$11,000 and \$12,000 for the year ended June 30, 2019. These contributions by the State are recognized as intergovernmental revenues and pension expenditures in the Town's governmental fund financial statements.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Contributions (Continued)

Eligible payrolls of the Town covered under the Plans for the past three years were as follows:

Year Ended June 30,	SCRS Payroll	PORS Payroll	Total Payroll
2019	\$ 1,214,443	1,426,394	\$ 2,640,837
2018	1,130,341	1,381,652	2,511,993
2017	\$ 1,131,221	1,205,861	\$ 2,337,082

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 regarding the net pension liability 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 this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), and are based on an actuarial valuation performed as of July 1, 2017. The TPL was rolled-forward from the valuation date to the Plans' fiscal year end, June 30, 2018, using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2018 for the SCRS and PORS.

	SCRS	PORS
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)	3.5% to 9.5% (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 future improvement in mortality using published Scale AA projected from the year 2016.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Actuarial Assumptions and Methods(Continued)

Former Job Class	Males	Females
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%

Long-Term Expected Rate of Return

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	47.0%		
Global Public Equity	33.0%	6.99%	2.31%
Private Equity	9.0%	8.73%	0.79%
Equity Options Strategies	5.0%	5.52%	0.28%
Real Assets	10.0%		
Real Estate (Private)	6.0%	3.54%	0.21%
Real Estate (REITs)	2.0%	5.46%	0.11%
Infrastructure	2.0%	5.09%	0.10%
Opportunistic	13.0%		
GTAA/Risk Parity	8.0%	3.75%	0.30%
Hedge Funds (non-PA)	2.0%	3.45%	0.07%
Other Opportunistic Strategies	3.0%	3.75%	0.11%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.05%	0.18%
Emerging Markets Debt	5.0%	3.94%	0.20%
Private Debt	7.0%	3.89%	0.27%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	0.94%	0.09%
Cash and Short Duration (Net)	2.0%	0.34%	0.01%
Total Expected Real Return	100.0%		5.03%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.28%

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

The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of the June 30, 2018 measurement date, for the SCRS and PORS, are presented in the following table:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 48,821,730,067	26,414,916,370	\$ 22,406,813,697	54.1%
PORS	\$ 7,403,972,673	4,570,430,247	\$ 2,833,542,426	61.7%

The TPL is calculated by the Systems' actuary, and each Plans' fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the Plans' funding requirements.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

At June 30, 2019, the Town reported liabilities of approximately \$2,444,000 and \$2,828,000 for its proportionate share of the NPL for the SCRS and PORS, respectively. The NPL were measured as of June 30, 2018, and the TPL for the Plans used to calculate the NPL were determined based on the most recent actuarial valuation report of July 1, 2017 that was projected forward to the measurement date. The Town's proportion of the NPL were based on a projection of the Town's long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2018 measurement date, the Town's SCRS proportion was 0.01091 percent, which was a decrease of 0.00026 percent from its proportion measured as of June 30, 2017. At the June 30, 2018 measurement date, the Town's PORS proportion was 0.09982 percent, which was a decrease of 0.00998 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of approximately \$237,000 and \$434,000 for the SCRS and PORS, respectively. At June 30, 2019, the Town reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	\$ 4,412	\$ 14,383
Change in Assumptions	96,967	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	38,824	-
Changes in Proportion and Differences Between the Employer's		
Contributions and Proportionate Share of Contributions	-	52,487
Employer Contributions Subsequent to the Measurement Date	176,823	-
Total SCRS	<u>317,026</u>	<u>66,870</u>
PORS		
Differences Between Expected and Actual Experience	87,148	-
Change in Assumptions	186,492	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	56,562	-
Changes in Proportion and Differences Between the Employer's		
Contributions and Proportionate Share of Contributions	204,292	-
Employer Contributions Subsequent to the Measurement Date	245,820	-
Total PORS	<u>780,314</u>	<u>-</u>
Total SCRS and PORS	<u>\$ 1,097,340</u>	<u>\$ 66,870</u>

Approximately \$177,000 and \$246,000 that were reported as deferred outflows of resources related to the Town's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the NPL in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS and PORS will increase (decrease) pension expense as follows:

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Year Ended June 30,	SCRS	PORS	Total
2020	\$ 85,482	238,559	\$ 324,041
2021	34,629	187,894	222,523
2022	(41,669)	85,588	43,919
2023	(5,109)	22,453	17,344
Total	<u>\$ 73,333</u>	<u>534,494</u>	<u>\$ 607,827</u>

Discount Rate

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in the SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina 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 TPL.

Sensitivity Analysis

The following table presents the sensitivity of the Town's proportionate share of the NPL of the Plans to changes in the discount rate, calculated using the discount rate of 7.25 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.25 percent) or 1% point higher (8.25 percent) than the current rate:

System	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability of the SCRS	\$ 3,123,066	2,444,069	\$ 1,958,651
Town's proportionate share of the net pension liability of the PORS	3,813,075	2,828,428	2,021,920
Total	<u>\$ 6,936,141</u>	<u>5,272,497</u>	<u>\$ 3,980,571</u>

Plans Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plans administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS and PORS. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

Payable to Plans

The Town reported a payable of approximately \$53,000 to the PEBA as of June 30, 2019, representing required employer and employee contributions for the month of June 2019 for the SCRS and PORS. This amount is included in Other Accrued Liabilities on the financial statements and was paid in July 2019.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION (CONTINUED)

C. Commitments and Contingencies

The Town receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the Town at June 30, 2019.

The Town is periodically the subject of litigation by a variety of plaintiffs. The Town management believes that such amounts claimed by these plaintiffs, net of the applicable insurance coverage, are immaterial.

The Town had outstanding construction commitments of approximately \$2,005,000 as of June 30, 2019 related to Phase II of the Sewer Rehabilitation Project.

D. Subsequent Events

In August 2019, the Town approved the design and construction of five wastewater lift stations totaling approximately \$2,270,000.

In September 2019, the Town issued \$790,000 in General Obligation Bonds. Proceeds from the issuance will be used to fund principal and interest payments on the IPRB Bonds.

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Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board, but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule
 - General Fund
- South Carolina Retirement System
 - Schedule of the Town's Proportionate Share of the Net Pension Liability
 - Schedule of Contributions
- South Carolina Police Officers Retirement System
 - Schedule of the Town's Proportionate Share of the Net Pension Liability
 - Schedule of Contributions

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2019

	BUDGETED AMOUNTS		ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property Taxes	\$ 2,755,000	2,755,000	3,730,811	\$ 975,811
Local Option Sales Tax	230,000	230,000	286,970	56,970
Licenses and Franchise Fees	1,350,500	1,350,500	1,681,221	330,721
Magistrate and Recorder Fines	100,000	100,000	237,931	137,931
State Shared Revenues	102,750	102,750	101,778	(972)
Permits	489,000	489,000	562,441	73,441
Victims' Services Fund	10,000	10,000	32,843	22,843
Interest Income	7,000	7,000	66,069	59,069
Other	90,100	90,100	189,068	98,968
TOTAL REVENUES ALL SOURCES	5,134,350	5,134,350	6,889,132	1,754,782
EXPENDITURES				
Maintenance	855,129	855,129	761,921	93,208
Police	1,329,252	1,329,252	1,527,238	(197,986)
Fire	1,218,369	1,218,369	1,279,893	(61,524)
Recreation	93,500	93,500	114,686	(21,186)
Building	415,000	415,000	394,804	20,196
Administrative	1,867,100	1,867,100	1,832,542	34,558
TOTAL EXPENDITURES	5,778,350	5,778,350	5,911,084	(132,734)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURE	(644,000)	(644,000)	978,048	1,622,048
OTHER FINANCING SOURCES (USES)				
Transfers In	433,000	433,000	639,848	206,848
Transfers Out	-	-	(1,493,376)	(1,493,376)
Proceeds from Lease Purchases	211,000	211,000	190,000	(21,000)
TOTAL OTHER FINANCING SOURCES (USES)	644,000	644,000	(663,528)	(1,307,528)
NET CHANGES IN FUND BALANCES	-	-	314,520	314,520
FUND BALANCES, Beginning of Year	7,493,824	7,493,824	7,493,824	-
FUND BALANCES, End of Year	\$ 7,493,824	7,493,824	7,808,344	\$ 314,520

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE TOWN OF SULLIVAN'S ISLAND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SOUTH CAROLINA RETIREMENT SYSTEM**

LAST SIX FISCAL YEARS

	Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
Town of Sullivan's Island's Proportion of the Net Pension Liability	0.109%	0.112%	0.011%	0.011%	0.011%	0.011%
Town's Proportionate Share of the Net Pension Liability	\$ 2,444,069	2,514,997	2,456,169	3,840,320	3,386,522	\$ 3,528,096
Town of Sullivan's Island's Covered Payroll	\$ 1,130,341	1,131,221	1,113,545	1,048,865	987,670	\$ 919,628
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.22%	222.33%	220.57%	366.14%	342.88%	383.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.10%	53.34%	52.91%	56.99%	59.92%	56.39%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year.
The Town implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.
The discount rate was lowered from 7.50% to 7.25% beginning with the year ended June 30, 2017 measurement date.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM**

LAST SIX FISCAL YEARS

	Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 176,823	153,274	130,769	123,158	114,326	\$ 104,693
Contributions in Relation to the Contractually Required Contribution:						
Contributions from the Town	165,464	141,915	130,769	123,158	114,326	104,693
Contributions from the State	11,359	11,359	-	-	-	-
Contribution Deficiency (Excess)	\$ -	-	-	-	-	\$ -
Town of Sullivan's Island's Covered Payroll	\$ 1,214,443	1,130,341	1,131,221	1,113,545	1,048,865	\$ 987,670
Contributions as a Percentage of Covered Payroll	14.56%	13.56%	11.56%	11.06%	10.90%	10.60%

Notes to Schedule:

The Town implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE TOWN OF SULLIVAN'S ISLAND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
POLICE OFFICERS RETIREMENT SYSTEM**

LAST SIX FISCAL YEARS

	Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
Town of Sullivan's Island's Proportion of the Net Pension Liability	0.100%	0.090%	0.088%	0.088%	0.088%	0.088%
Town's Proportionate Share of the Net Pension Liability	\$ 2,828,428	2,461,331	2,232,377	1,920,354	1,678,474	\$ 1,817,479
Town of Sullivan's Island's Covered Payroll	\$ 1,381,652	1,205,861	1,122,019	1,085,206	1,054,506	\$ 1,062,319
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	204.71%	204.11%	198.96%	176.96%	159.17%	171.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.73%	60.94%	60.44%	64.57%	67.55%	62.98%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year.
The Town implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.
The discount rate was lowered from 7.50% to 7.25% beginning with the year ended June 30, 2017 measurement date.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CONTRIBUTIONS
POLICE OFFICERS RETIREMENT SYSTEM**

LAST SIX FISCAL YEARS

	Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 245,820	224,380	171,715	154,165	145,526	\$ 135,399
Contributions in Relation to the Contractually Required Contribution						
Contributions from the Town	234,284	212,844	171,715	154,165	145,526	135,399
Contributions from the State	11,536	11,536	-	-	-	-
Contribution Deficiency (Excess)	\$ -	-	-	-	-	\$ -
Town of Sullivan's Island's Covered Payroll	\$ 1,426,394	1,381,652	1,205,861	1,122,019	1,085,206	\$ 1,054,506
Contributions as a Percentage of Covered Payroll	17.23%	16.24%	14.24%	13.74%	13.41%	12.84%

Notes to Schedule:

The Town implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.

The contractually required contribution rate was increased from 14.24% to 16.24% of eligible payroll for the year ended June 30, 2018.

Supplementary Information

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2019

	2019		
	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
MAINTENANCE			
Operating Expenditures:			
Salaries	\$ 170,500	159,117	\$ 11,383
Payroll Taxes	14,000	9,271	4,729
Health Insurance	18,000	14,289	3,711
Retirement	15,000	18,512	(3,512)
Gas and Oil - Vehicles	10,000	9,610	390
Diesel Fuel	2,750	-	2,750
Landscaping	7,000	6,817	183
Professional Services	137,000	3,653	133,347
Vehicle Repairs	8,000	5,354	2,646
Supplies and Materials	25,000	26,803	(1,803)
Uniforms	3,000	1,020	1,980
Property & Equipment <\$5,000	7,500	3,398	4,102
Telephone	660	660	-
Power and Lights	40,000	37,300	2,700
Insurance	16,000	15,141	859
System Repairs and Improvements	69,869	18,760	51,109
Garbage Disposal Service - Subcontract	197,000	193,679	3,321
Container Servicing	11,000	2,510	8,490
Causeway & Beach Path Maintenance	52,000	183,850	(131,850)
Miscellaneous	1,000	107	893
Total Operating Expenditures	805,279	709,851	95,428
Capital Expenditures:			
Lease Purchase Payments	5,850	5,850	-
Capital Outlay	44,000	46,220	(2,220)
TOTAL EXPENDITURES	855,129	761,921	93,208
POLICE			
Operating Expenditures:			
Salaries	615,000	698,010	(83,010)
Payroll Taxes	50,000	50,185	(185)
Health Insurance	88,000	92,890	(4,890)
Retirement	100,000	94,592	5,408
Contract Labor	30,000	37,343	(7,343)
Gas and Oil - Vehicles	35,000	34,394	606
Diesel Fuel	1,000	-	1,000
Vehicle Repairs	19,000	14,369	4,631
Supplies and Materials	15,000	12,491	2,509
Telephone	9,500	16,872	(7,372)
Power and Lights	22,000	18,355	3,645
Uniforms	15,000	21,406	(6,406)
Insurance	57,000	66,963	(9,963)
800 MHZ Radios	12,000	14,347	(2,347)
Property & Equipment <\$5,000	53,000	64,408	(11,408)
System Repairs and Improvements	9,000	18,833	(9,833)
Dues and Certifications	2,000	1,926	74
Training and Seminars	20,000	18,610	1,390
Miscellaneous	5,000	976	4,024
Total Operating Expenditures	\$ 1,157,500	1,276,970	\$ (119,470)

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2019

	2019		
	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
POLICE (CONTINUED)			
Capital Expenditures:			
Lease Purchase Payments	\$ 44,752	44,752	\$ -
Capital Outlay	127,000	205,516	(78,516)
TOTAL EXPENDITURES	1,329,252	1,527,238	(197,986)
FIRE			
Operating Expenditures:			
Salaries	660,000	691,523	(31,523)
Payroll Taxes	52,000	52,818	(818)
Health Insurance	84,000	95,461	(11,461)
Retirement	115,000	101,651	13,349
Gas and Oil - Vehicles	8,000	8,885	(885)
Diesel Fuel	5,000	-	5,000
Vehicle Repairs	20,000	7,427	12,573
Supplies and Materials	20,000	18,670	1,330
Telephone	7,000	6,221	779
Uniforms	18,500	2,584	15,916
Power and Lights	10,000	6,342	3,658
Insurance	65,000	69,403	(4,403)
Building Repairs	7,500	35,538	(28,038)
800 MHZ Radios	24,000	26,971	(2,971)
Property & Equipment <\$5,000	10,500	12,105	(1,605)
System Repairs and Improvements	12,000	8,832	3,168
Dues and Certifications	1,000	573	427
Training and Seminars	9,500	4,166	5,334
Miscellaneous	9,500	50,864	(41,364)
Total Operating Expenditures	1,138,500	1,200,034	(61,534)
Capital Expenditures:			
Lease Purchase Payments	39,869	39,869	-
Capital Outlay	40,000.00	39,990	10
TOTAL EXPENDITURES	1,218,369	1,279,893	(61,524)
RECREATION			
Operating Expenditures:			
Power and Lights	9,000	3,696	5,304
Insurance	6,000	7,763	(1,763)
Maintenance Recreation Area	58,000	61,663	(3,663)
Miscellaneous	20,500	41,564	(21,064)
TOTAL EXPENDITURES	\$ 93,500	114,686	\$ (21,186)

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2019

	2019		
	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
BUILDING			
Operating Expenditures:			
Salaries	\$ 266,000	248,199	\$ 17,801
Payroll Taxes	20,000	18,555	1,445
Health Insurance	34,000	31,090	2,910
Retirement	40,000	37,665	2,335
Gas and Oil - Vehicles	5,500	2,228	3,272
Office Supplies	3,500	3,755	(255)
Supplies - Building Official	2,000	636	1,364
Telephone	4,000	3,086	914
Utilities	6,000	3,981	2,019
Insurance	1,000	1,974	(974)
System Repair and Maintenance	3,500	824	2,676
Dues and Certifications	2,500	2,395	105
Training and Seminars	5,000	10,292	(5,292)
Board of Zoning Appeals	2,500	2,646	(146)
Design and Review Board	5,000	800	4,200
Tree Commission	1,500	11,046	(9,546)
Trimming and Pruning	9,000	9,550	(550)
Equipment	4,000	6,059	(2,059)
Miscellaneous	-	23	(23)
TOTAL EXPENDITURES	415,000	394,804	20,196
ADMINISTRATIVE			
Operating Expenditures:			
Salaries	484,000	452,950	31,050
Payroll Taxes	36,000	35,066	934
Health Insurance	55,000	61,826	(6,826)
Retirement	70,000	56,904	13,096
Office Supplies	26,500	31,018	(4,518)
Advertising	12,000	13,791	(1,791)
Telephone	21,000	18,505	2,495
Power and Lights	50,000	32,789	17,211
Insurance	95,000	96,210	(1,210)
System Repairs and Improvements	65,000	61,540	3,460
Dues and Certifications	5,000	5,010	(10)
Training and Seminars	10,200	10,078	122
Professional Engineering Fees	75,000	75,537	(537)
Victim's Rights Fund	8,000	37,500	(29,500)
Professional Services	200,000	139,607	60,393
Town Hall Relocation Expenses	125,000	48,042	76,958
Property & Equipment <\$5,000	10,000	12,684	(2,684)
Bonds Debt Services	435,000	459,494	(24,494)
Council Expenditures	25,000	40,583	(15,583)
Operating Leases	9,000	9,911	(911)
Gas and Oil	5,000	3,659	1,341
Planning Expense	4,000	13,771	(9,771)
Miscellaneous	28,400	39,474	(11,074)
Total Operating Expenditures	\$ 1,854,100	1,755,949	\$ 98,151

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2019

	2019		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
ADMINISTRATIVE (CONTINUED)			
Capital Expenditures:			
Lease Purchase Payments	\$ 13,000	12,448	\$ 552
Capital Outlay	-	64,145	(64,145)
TOTAL EXPENDITURES	1,867,100	1,832,542	34,558
TOTAL GENERAL FUND EXPENDITURES	<u>\$ 5,778,350</u>	<u>5,911,084</u>	<u>\$ (132,734)</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES, EXPENSES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
SEWER FUND

YEAR ENDED JUNE 30, 2019

	2019		
	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
OPERATING REVENUES			
Sewer Service Charges	\$ 1,187,565	1,202,766	\$ 15,201
Other Revenue	9,000	8,487	(513)
TOTAL OPERATING REVENUES	1,196,565	1,211,253	14,688
OPERATING EXPENSES			
Salaries	271,957	248,968	22,989
Payroll Taxes	20,805	18,001	2,804
Hospitalization Insurance	40,222	31,524	8,698
Retirement	36,199	23,058	13,141
Gas and Oil - Vehicles	7,000	5,425	1,575
Diesel Fuel and Equipment	8,300	3,816	4,484
Vehicle Repairs	5,000	5,385	(385)
Supplies and Tools	12,000	12,876	(876)
Office Supplies	8,700	8,631	69
Lab Supplies	5,500	6,018	(518)
Telephone	5,600	7,895	(2,295)
Power and Lights	58,000	42,617	15,383
Insurance	19,000	25,210	(6,210)
System Repairs and Improvements	175,000	165,030	9,970
Sludge Disposal	52,000	25,776	26,224
Grit Disposal	1,400	2,859	(1,459)
Depreciation and Amortization Expense	-	269,578	(269,578)
Dues and Certifications	8,000	3,322	4,678
Training and Seminars	5,000	4,815	185
Professional Engineering Fees	85,000	64,030	20,970
Professional Services	5,000	5,000	-
Bond Payments	-	1,304	(1,304)
Lab Analysis, Inspection, and Chemicals	28,000	38,661	(10,661)
Miscellaneous	2,625	4,432	(1,807)
Total Operating Expenses	860,308	1,024,231	(163,923)
OPERATING INCOME (LOSS)	336,257	187,022	(149,235)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(416,257)	-	416,257
NONOPERATING REVENUES			
Interest Income	1,000	5,492	4,492
Gain on Sale of Capital Assets	-	19,242	19,242
Transfers In from Other Funds	80,000	3,844,967	3,764,967
NET INCOME (LOSS)	\$ 1,000	4,056,723	\$ 4,055,723
RECONCILIATION TO GAAP BASIS:			
Non-Budgeted Revenues (Expenses)			
Interest Expense		(26,062)	
DECREASE IN NET POSITION		4,030,661	
NET POSITION, Beginning of Year		3,451,750	
NET POSITION, End of Year		\$ 7,482,411	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES, EXPENSES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
WATER FUND

YEAR ENDED JUNE 30, 2019

	2019		
	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
OPERATING REVENUES			
Water Sales	\$ 958,508	1,073,283	\$ 114,775
Meter Connections	22,750	41,657	18,907
TOTAL OPERATING REVENUES	981,258	1,114,940	133,682
OPERATING EXPENSES			
Salaries	271,957	248,815	23,142
Payroll Taxes	20,805	17,994	2,811
Hospitalization Insurance	40,222	31,521	8,701
Retirement	36,199	28,534	7,665
Gas and Oil - Vehicles	7,000	5,420	1,580
Diesel Fuel and Equipment	2,000	-	2,000
Repairs and Maintenance - Diesel Equipment	2,000	1,499	501
Vehicle Repairs	5,000	2,080	2,920
Supplies and Tools	13,500	9,966	3,534
Office Supplies	8,700	9,113	(413)
Lab Supplies	2,300	3,725	(1,425)
Telephone	5,600	7,895	(2,295)
Power and Lights	3,500	3,541	(41)
Insurance	17,000	22,128	(5,128)
System Repairs and Improvements	140,500	65,948	74,552
Depreciation and Amortization Expense	-	254,905	(254,905)
Dues and Certifications	9,000	5,479	3,521
Training and Seminars	4,500	4,640	(140)
Professional Engineering Fees	105,000	76,369	28,631
Professional Services	5,000	5,000	-
Lab Analysis, Inspection, and Chemicals	9,200	11,753	(2,553)
CPW Improvements	36,000	-	36,000
Wholesale Water Purchases	132,000	107,029	24,971
Miscellaneous	3,064	2,253	811
Total Operating Expenses	880,047	925,607	(45,560)
OPERATING INCOME (LOSS)	101,211	189,333	88,122
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(203,211)	-	203,211
NONOPERATING REVENUES			
Interest Income	2,000	7,067	5,067
Transfers In from Other Funds	100,000	-	(100,000)
NET INCOME (LOSS)	\$ -	196,400	\$ 196,400
RECONCILIATION TO GAAP BASIS:			
Non-Budgeted Revenues (Expenses)			
Interest Expense		(1,058)	
INCREASE IN NET POSITION		195,342	
NET POSITION, Beginning of Year		4,624,339	
NET POSITION, End of Year		\$ 4,819,681	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

UNIFORM SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES (PER ACT 96)

YEAR ENDED JUNE 30, 2019

FOR THE STATE TREASURER'S OFFICE:

COUNTY / MUNICIPAL FUNDS COLLECTED BY CLERK OF COURT	General Sessions	Magistrate Court	Municipal Court	Total
Court Fines and Assessments:				
Court fines and assessments collected			283,368	283,368
Court fines and assessments remitted to State Treasurer			(183,381)	(183,381)
Total Court Fines and Assessments retained			99,987	99,987
Surcharges and Assessments retained for victim services:				
Surcharges collected and retained			39,261	39,261
Assessments retained			81,169	81,169
Total Surcharges and Assessments retained for victim services			120,430	120,430

FOR THE DEPARTMENT OF CRIME VICTIM COMPENSATION (DCVC):

VICTIM SERVICE FUNDS COLLECTED	Municipal	County	Total
Carryforward from Previous Year – Beginning Balance	25,000		25,000
Victim Service Revenue:			
Victim Service Fines Retained by City/County Treasurer			
Victim Service Assessments Retained by City/County Treasurer	12,984		12,984
Victim Service Surcharges Retained by City/County Treasurer	19,859		19,859
Interest Earned			
Grant Funds Received			
Grant from:			
General Funds Transferred to Victim Service Fund			
Contribution Received from Victim Service Contracts:			
(1) Town of			
(2) Town of			
(3) City of			
Total Funds Allocated to Victim Service Fund + Beginning Balance (A)	57,843		57,843
Expenditures for Victim Service Program:	Municipal	County	Total
Salaries and Benefits	-		-
Operating Expenditures	37,500		37,500
Victim Service Contract(s):			
(1) Entity's Name			
(2) Entity's Name			
Victim Service Donation(s):			
(1) Domestic Violence Shelter:			
(2) Rape Crisis Center:			
(3) Other local direct crime victims service agency:			
Transferred to General Fund	-		-
Total Expenditures from Victim Service Fund/Program (B)	37,500		37,500
Total Victim Service Funds Retained by Municipal/County Treasurer (A-B)			
Less: Prior Year Fund Deficit Repayment			
Carryforward Funds – End of Year	20,343		20,343

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO UNIFORM SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES (PER ACT 96)

YEAR ENDED JUNE 30, 2019

NOTE 1 – ACT 96 OF 2017

Act 96 of 2017 created the South Carolina Crime Victims Services Division of the South Carolina Attorney General's office. Part II of the Act amended SC 14-1-206 (E) and (I), and 14-1 208 (E) and (I), relating to fees and fines collected by circuit court, magistrate court, and municipal court, respectively, so as to require the South Carolina Crime Victim Services Division to create a Uniform Supplemental Schedule Form detailing all fines and assessments collected by those clerks of court, the amount remitted to the county or municipal treasurer, and the amount remitted to the State Treasurer.

NOTE 2 – PROVISIO 93.35 ON CARRYFORWARD FUNDS

Proviso 93.35 requires counties and municipalities to spend at least ninety percent of the Victim Assistance Fines, Fees, and Assessment Funds collected this fiscal year on eligible expenses related to providing direct victim services to crime victims. A county or municipality may carry forward funds up to \$25,000 or ten percent of funds collected in the prior fiscal year, whichever is higher. If a county or municipality does not spend at least ninety percent of the funds collected during the fiscal year that the funds are received then the county or municipality must remit any unspent funds that are greater than the allowed carry forward funds, regardless of the year collected to the State Victim Assistance Program (SVAP) with the Department of Public Safety, Office of Highway Safety and Justice Programs within 120 days after the end of the fiscal year.

During the year ended June 30, 2018, the Town did not meet the requirements of Proviso 93.35. As a result, the Town remitted \$56,421 to the SVAP during the year ended June 30, 2019. The carryforward balance from the previous year was adjusted to reflect this remittance. The Town was in compliance with the Proviso for the year ended June 30, 2019.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF PROPERTY TAX RATES BY FISCAL YEAR

YEAR ENDED JUNE 30, 2019

FISCAL YEAR ENDED JUNE 30,	MILLS LEVIED FOR TOWN OPERATIONS AND DEBT
2016	38.10
2017	39.30
2018	40.10
2019	50.90 (1)
2020	51.40

- (1) Town Council approved an increase in the combined millage rate of 10.8 mills for the year ended June 30, 2019. The operating millage rate increased by 0.8 mills and the debt service millage rate increased by 10.0 mills in order to fund debt service requirements on bonds issued for the purpose of improving the Town's wastewater treatment plan and sewer system.



Greene Finney, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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*

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Council
Town of Sullivan's Island
Sullivan's 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, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina (the "Town"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 13, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's 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*.

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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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
September 13, 2019