

Report on Audit of Financial Statements of

James Island Public Service District

for the year ended June 30, 2017

Commissioners

Billy Cubby Wilder	Chair
Sandi Engelman	Vice Chair
Kay Kernodle	Secretary
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Independent Auditor's Report

To the Commissioners
James Island Public Service District
James Island, South Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of James Island Public Service District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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 District'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 District'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.

Opinion

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 and each major fund of the James Island Public Service District, as of June 30, 2017, 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.

Emphasis of Matter

As discussed in Note 16, the District made adjustments that resulted in the restatement of beginning net assets at July 1, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 and other required supplementary information on pages 43-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the James Island Public Service District's basic financial statements. The schedule of operating expenses – proprietary fund on page 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of operating expenses – proprietary fund 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 schedule of operating expenses – proprietary fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Scott and Company LLC

Columbia, South Carolina
January 11, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) serves as an introduction to the financial statements of the James Island Public Service District (District) for the fiscal year ended June 30, 2017. It is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

The MD&A represents management's examination and analysis of the District's financial condition and performance and should be read in conjunction with the financial statements as presented in the financial section of this report.

Financial Highlights

- ❖ Total assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$27,520,168. Net position increased \$188,357 or 0.7%.
- ❖ Governmental activities net position was (\$2,499,243), an increase of \$285,771 and business-type net position amounted to \$30,019,411, a slight decrease of \$97,414.
- ❖ Total fund balance of the District's governmental funds was \$4,835,134, an increase of \$747,669 or 18.2%. The General Fund increased by \$600,179 or 16.5% and the debt service fund increased \$147,490 or 33.3%.
- ❖ The District's total revenues amounted to \$14,793,204 during the year ended June 30, 2017. Revenues of governmental activities totaled \$7,441,428, a decrease of 0.6%, and revenues of business-type activities were \$6,936,669, a decrease of 7.2%.
- ❖ During the year ended June 30, 2017, the District's total expenses amounted to \$14,604,847. Expenses of governmental activities totaled \$7,155,657, a decrease of 1.2%, and expenses of business-type activities were \$7,034,083, an increase of 1.7%.
- ❖ There was a slight increase in the District's investment in capital assets for the current fiscal year for governmental activities in the amount of \$28,603 or 0.8%, and in increase of \$314,403, or 0.9%, for business-type activities.
- ❖ At June 30, 2017, the District's had \$11,714,364 in outstanding bonds payable, notes payable, and capital lease obligations compared to \$10,595,926 last year, an increase of 10.6%.
- ❖ The District continues to maintain its AA- bond rating from Standard & Poor's on the Revenue Refunding Bonds, Series 2014.

Financial Statements

The first two statements in the financial statements are the **government-wide financial statements**. They provide both short and long-term full accrual information about the District's financial condition as a whole, focusing on the government's operational accountability. The next statements are **fund financial statements** with necessary reconciliation information. These statements focus on the activities of the major funds and provide more detail than the government-wide statements. There are two parts to the fund financial statements: 1) the governmental funds statements, reports on a modified accrual basis; and 2) the proprietary fund statements, reported on a full accrual basis. The next section of the financial statements is

the **notes to the financial statements**. The notes explain in detail some of the data contained on those statements.

Government-wide financial statements

The focus of the Statement of Net Position is designed to be similar to bottom line results for the District and its governmental and business-type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. One way to measure the District's financial health or financial position is to determine the increases or decrease in the net position indicating financial improvement or deterioration. However, other nonfinancial factors, such as changes in the property tax base and the condition of the District's infrastructure, will also need to be considered in order to assess the overall health of the District.

Basically, the District is divided into two kinds of activities:

- *Governmental Activities* – Basic services of the District including Fire, Solid Waste, Street Signs and Lighting. Property taxes finance the majority of these services.
- *Business-Type Activities* – Private sector type operations where by the District charges a fee to customers to help recover all or most of the cost of operations, including depreciation. Services reported here include Wastewater Collection and Transportation.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, other funds may be established in order to control and manage money for particular purposes or to show legal responsibilities are being met for using certain taxes, grants and other money. The District's two kinds of funds, governmental and proprietary, use different accounting approaches.

- *Governmental Funds* – Focus is on how money flows into and out of funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called the "modified accrual basis of accounting", which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides.
- *Proprietary Funds* – While the total column on the Business-type Fund Financial Statement is the same as the Business-type column at the Government-Wide Financial Statement, the Governmental Major Funds Total column requires reconciliation because of the different measurement focus (current financial resources versus total economic resources) which is reflected on the page following each statement.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 20-42 of this report.

Other information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information in the form of budgetary comparison schedules relative to the District's General Fund and pension schedules. The required supplementary information is presented after the notes to the financial statements and can be found on pages 43-48 of this report.

Government-Wide Financial Analysis

Statement of Net Position As of June 30, 2017 (in thousands)				
	Governmental Activities	Business- type Activities	Total	Total
	2017	2017	2017	2016
Current and other assets	\$ 10,584	\$ 6,810	\$ 17,394	\$ 15,960
Capital assets (net)	3,488	36,599	40,087	39,744
Total Assets	\$ 14,072	\$ 43,409	\$ 57,481	\$ 55,704
Deferred outflows of resources	\$ 1,612	\$ 488	\$ 2,100	\$ 891
Current liabilities	\$ 682	\$ 1,611	\$ 2,293	\$ 2,330
Long-term liabilities	12,445	12,234	24,679	21,613
Total Liabilities	\$ 13,127	\$ 13,845	\$ 26,972	\$ 23,943
Total deferred inflows of resources	\$ 5,056	\$ 33	\$ 5,089	\$ 5,320
Net Position:				
Net investment in capital assets	\$ 2,885	26,446	29,331	29,153
Restricted for debt service	590	1,609	2,199	2,113
Unrestricted	(5,974)	1,964	(4,010)	(3,934)
Total Net Position	\$ (2,499)	\$ 30,019	\$ 27,520	\$ 27,332

Current Year Analysis and Impacts

In the governmental activities column above, the total liabilities exceed total assets by \$2,499,243 (Total Net Position). In the business-type activities column, the total assets exceed total liabilities by \$30,019,411. A significant portion of total net position is capital assets, primarily the wastewater system, land, buildings, vehicles and equipment.

Normal Impacts

There are six basic (normal) transactions that will affect the comparability of the Statement of Net Position summary presentation.

- Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted net position.
- Borrowing for Capital – which will increase long-term assets and long-term debt.
- Spending Borrowed Proceeds on New Capital – this reduces current assets and increases capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the invested in capital assets, net of related debt.
- Spending of Non-borrowed Current Assets on New Capital – which will (a) reduce current assets and increase capital assets and (b) reduce unrestricted net position and increase invested capital assets, net of related debt.
- Principal Payment of Debt – which will (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net position and increase invested in capital assets, net of related debt.
- Reduction of Capital Assets through Depreciation – which will reduce capital assets and invested in capital assets, net of related debt.

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Statement of Activities
As of June 30, 2017
(in thousands)

	Governmental Activities	Business- type Activities	Total	Total
<u>Program Revenues</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2016</u>
Service Revenues:				
Charges for Services	\$	\$ 6,743	\$ 6,743	\$ 6,163
General Revenues:				
Property Taxes	7,299		7,299	7,437
Merchants Inventory and Motor Carrier Tax	26		26	26
Interest Income	1	3	4	2
Gain/(Loss) on sale of capital assets		6	6	(47)
Lawsuit proceeds				400
Other Income	116		116	40
Capital Contributions		185	184	1,360
Total Revenues	<u>\$ 7,441</u>	<u>\$ 6,937</u>	<u>\$ 14,378</u>	<u>\$ 15,381</u>
 <u>Functions/Programs</u>				
Governmental Activities:				
General Government	\$ 1,122		\$1,122	1,570
Public Safety	4,074		4,074	4,065
Health	1,931		1,931	2,049
Interest on Long-Term Debt	29		29	11
Business-type Activities:				
Wastewater		7,034	7,034	6,916
Total Expenses	<u>\$ 7,156</u>	<u>\$ 7,034</u>	<u>\$ 14,190</u>	<u>\$ 14,611</u>
Net Increase/(Decrease)	286	(97)	189	770
Net Position, beginning, as restated	<u>(2,785)</u>	<u>30,117</u>	<u>27,332</u>	<u>26,562</u>
Net Position, ending	<u>\$ (2,499)</u>	<u>\$ 30,020</u>	<u>\$ 27,521</u>	<u>\$ 27,332</u>

Current Year Financial Analysis

As of year-end, the District reported changes in net position of \$188,357, which is a decrease of \$581,00 from fiscal year 2016. The Governmental activities reported an increase in net position of \$285,771 and the Business-type activities realized a decrease of \$97,414. The governmental activities decrease is due to significantly higher general government expenses over the prior year. Business-type activities decrease is due to a significant reduction in capital contributions over prior year.

Capital Assets and Debt Administration

Capital Assets

As of year-end, the District had \$40,086,853 in net capital assets (additions less retirements less depreciation), as reflected in the following schedule. Also, the District had \$61,610,314 in capital assets, before accumulated depreciation, which reflects a net increase of \$3,025,159 or 8.4% when compared to previous year. During the fiscal year, the District purchased \$455,699 for solid waste vehicles and machinery in the governmental activities and purchased \$5,027,369 in the business-type activities for vehicles and sewer system projects. These increases were offset by the sale of equipment of \$382,775 in the governmental activities and the completion of sewer projects of \$3,636,353 in the business-type activities.

	Capital Assets (in thousands)					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 212	\$ 212	\$ 340	\$ 340	\$ 552	\$ 552
Buildings/Fencing/Paving	1,133	1,102	518	518	1,651	1,620
Vehicles	4,210	4,055	1,129	1,009	5,339	5,064
Equipment	1,634	1,749	735	816	2,369	2,565
Wastewater System			51,358	46,572	51,358	46,572
Construction in Progress			341	3,978	341	3,978
Accumulated Depreciation	(3,701)	(3,656)	(17,823)	(16,949)	(21,524)	(20,605)
Net Capital Assets	<u>\$ 3,488</u>	<u>\$ 3,462</u>	<u>\$ 36,598</u>	<u>\$ 36,284</u>	<u>\$ 40,086</u>	<u>\$ 39,746</u>

More detailed information about the District's capital assets is presented in Note 7 to the financial statements.

Debt

As of year-end, the District had \$10,909,817 in outstanding bonds payable and capital lease obligations compared to \$10,138,050 last year, an increase of \$771,767 or 7.6%. This increase is due to a new State Revolving Fund loan for the continuation of pump station #11 upgrade and force main replacement within the sewer system.

Economic Factors and Next Year's Budgets

For the FY18 budget, property tax revenues were based on an increase of 2.2% increase in real and property values mainly due to natural growth and improvements in the economy. Improvements in the real estate market and a decrease in unemployment in Charleston County provides a greater outlook than previous years.

Property tax millage remained the same as FY17 at 53.9 mills. The General Fund expenditures increased just slightly over \$500,000 over the FY17 budget which is attributed to our continuation of the employee merit program and preliminary funds to offset salary increases as a result of a salary study to be conducted during the second quarter of the budget year.

Our focus continues to replace old and outdated equipment in the Debt Service Fund through the vehicle replacement schedule. The District is projected to spend over \$4,000,000 on new vehicles and equipment over the next five years. Efforts are continuing to secure land for the replacement of Fire Station 1 to be built. Once purchased, construction should take approximately 18-24 months to complete.

The Proprietary Fund revenues include an 8% rate increase based on a cost of service analysis in May 2016 and the increased costs in capital projects to repair and replace the system. Revenues were based on these increases but no increase in customer usage is projected. Expenses were budgeted just over \$1.1 million over FY17 budget due to higher wastewater treatment rates, increases in normal operating expenses and the completion of the Sanitary Sewer System Evaluation.

Financial Contact

This financial report is designed to present our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about the report or need additional financial information, contact Susan Gladden, Chief Financial Officer @ 1739 Signal Point Road/PO Box 12140, Charleston, South Carolina 29422-2140 or 843-998-6176.

James Island Public Service District
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Petty cash	\$ -	\$ 200	\$ 200
Cash and cash equivalents	4,603,921	4,844,228	9,448,149
Due from Charleston County	297,961	-	297,961
Net receivables	5,542,713	377,599	5,920,312
Internal balances	39,848	(39,848)	-
Inventory and prepaids	99,436	18,505	117,941
Total current assets	<u>10,583,879</u>	<u>5,200,684</u>	<u>15,784,563</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	1,608,819	1,608,819
Capital assets:			
Capital assets, net of accumulated depreciation	3,275,816	35,917,125	39,192,941
Nondepreciable assets	212,173	681,738	893,911
Total capital assets	<u>3,487,989</u>	<u>36,598,863</u>	<u>40,086,852</u>
Total assets	<u>14,071,868</u>	<u>43,408,366</u>	<u>57,480,234</u>
Deferred Outflows of Resources			
Deferred loss on bond refunding	-	37,149	37,149
Contributions to retirement plan after measurement date	561,268	137,215	698,483
Difference between expected and actual retirement plan experience	83,979	25,085	109,064
Change in proportionate share of net pension liability	284,861	85,089	369,950
Net difference between projected and actual investment experience	681,495	203,563	885,058
Total deferred outflows of resources	<u>1,611,603</u>	<u>488,101</u>	<u>2,099,704</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 102,466	\$ 136,857	\$ 239,323
Accrued salaries & benefits	123,438	47,942	171,380
Accrued interest payable	59,719	50,894	110,613
Customer deposits	-	194,800	194,800
Current portion of long-term debt	16,420	1,083,449	1,099,869
Current portion of note payable	115,869	-	115,869
Current portion of capital leases	143,072	60,789	203,861
Current portion of compensated absences	122,712	36,048	158,760
Total current liabilities	<u>683,696</u>	<u>1,610,779</u>	<u>2,294,475</u>
Non-current liabilities:			
Long-term debt payable	250,880	9,068,824	9,319,704
Capital leases	192,716	154,456	347,172
Net other post employment liability	3,051,441	524,561	3,576,002
Note payable	627,889	-	627,889
Net pension liability	8,095,811	2,418,229	10,514,040
Accrued compensated absences	224,028	66,945	290,973
Total liabilities	<u>13,126,461</u>	<u>13,843,794</u>	<u>26,970,255</u>
Deferred Inflows of Resources			
Deferred property taxes	4,944,897	-	4,944,897
Difference between expected and actual retirement plan experience	8,778	2,622	11,400
Change in proportionate share of net pension liability	102,578	30,640	133,218
Total deferred inflows of resources	<u>5,056,253</u>	<u>33,262</u>	<u>5,089,515</u>
Net Position			
Net investment in capital assets	2,884,901	26,446,590	29,331,491
Restricted for debt service	590,396	1,608,819	2,199,215
Unrestricted	<u>(5,974,540)</u>	<u>1,964,002</u>	<u>(4,010,538)</u>
Total net position	<u>\$ (2,499,243)</u>	<u>\$ 30,019,411</u>	<u>\$ 27,520,168</u>

The accompanying notes are an integral part of the financial statements.

James Island Public Service District
Statement of Activities
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:					
General government	\$ 2,099,030	\$ -	\$ (2,099,030)	\$ -	\$ (2,099,030)
Public safety - fire	4,074,182	-	(4,074,182)	-	(4,074,182)
Health - solid waste	953,389	-	(953,389)	-	(953,389)
Interest charges	29,059	-	(29,059)	-	(29,059)
Total governmental activities	7,155,660	-	(7,155,660)	-	(7,155,660)
Business-Type Activities:					
Wastewater	7,034,083	6,743,160	-	(290,923)	(290,923)
Total	\$ 14,189,743	\$ 6,743,160	(7,155,660)	(290,923)	(7,446,583)
General Revenues:					
Property taxes			7,298,312	-	7,298,312
Merchant's inventory and motor carrier taxes			26,008	-	26,008
Interest income			1,280	2,601	3,881
Gain (loss) on sale of capital assets			-	6,058	6,058
Other financing (uses) sources			-	-	-
Other income			115,831	-	115,831
Capital contributions			-	184,850	184,850
Total general revenues			7,441,431	193,509	7,634,940
Change in net position			285,771	(97,414)	188,357
Net position, beginning as restated			(2,785,014)	30,116,825	27,331,811
Net position, ending			\$ (2,499,243)	\$ 30,019,411	\$ 27,520,168

The accompanying notes are an integral part of the financial statements.

James Island Public Service District
Balance Sheet
Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 4,009,381	\$ 594,540	\$ 4,603,921
Receivables:			
Due from Charleston County	258,467	39,494	297,961
Taxes receivable (net of allowances)	5,172,764	369,949	5,542,713
Due from wastewater fund	39,848	-	39,848
Due from debt service fund	44,967	-	44,967
Prepaid expenditures	85,909	-	85,909
Inventory	13,527	-	13,527
Total assets	<u>\$ 9,624,863</u>	<u>\$ 1,003,983</u>	<u>\$ 10,628,846</u>
Liabilities			
Accounts payable	\$ 102,466	\$ -	\$ 102,466
Accrued salaries & benefits	123,438	-	123,438
Due to other funds	-	44,967	44,967
Total liabilities	<u>225,904</u>	<u>44,967</u>	<u>270,871</u>
Deferred Inflows of Resources			
Deferred property taxes	5,154,221	368,620	5,522,841
Total liabilities and deferred inflows of resources	<u>5,380,125</u>	<u>413,587</u>	<u>5,793,712</u>
Fund Balance			
Nonspendable - inventory and prepaid expenditures	99,436	-	99,436
Restricted for debt service	-	590,396	590,396
Unassigned	4,145,302	-	4,145,302
Total Fund Balances	<u>4,244,738</u>	<u>590,396</u>	<u>4,835,134</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 9,624,863</u>	 <u>\$ 1,003,983</u>	 <u>\$ 10,628,846</u>

The accompanying notes are an integral part of the financial statements.

**James Island Public Service District
Reconciliation of Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2017**

Total Governmental Fund Balances	\$ 4,835,134
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds: property taxes receivable	577,944
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds (net of accumulated depreciation of \$3,656,429).	3,487,989
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds:	
Bonds and capital leases payable	(603,088)
Accrued compensated absences payable	(346,740)
Net other post-employment liability	(3,051,441)
Note payable	(743,758)
Net pension liability	(8,095,811)
Accrued interest payable	(59,719)
Difference in pension related deferred inflows and outflows	1,500,247
Net position of governmental activities	<u>\$ (2,499,243)</u>

The accompanying notes are an integral part of the financial statements.

James Island Public Service District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Debt Service	Total Governmental Funds
Revenues			
Property taxes	\$ 6,780,036	\$ 498,165	\$ 7,278,201
Intergovernmental revenues	26,008	-	26,008
Other income	123,552	3,377	126,929
Total revenues	<u>6,929,596</u>	<u>501,542</u>	<u>7,431,138</u>
Expenditures			
Current:			
General government	804,640	-	804,640
Public safety - fire	3,838,362	-	3,838,362
Health - solid waste	1,837,689	-	1,837,689
Capital expenditures	455,698	-	455,698
Debt Service:			
Principal	-	127,620	127,620
Interest	-	31,303	31,303
Capital leases - principal	-	182,070	182,070
Capital leases - interest	-	13,059	13,059
Total expenditures	<u>6,936,389</u>	<u>354,052</u>	<u>7,290,441</u>
(Deficiency) excess of revenues over expenditures	<u>(6,793)</u>	<u>147,490</u>	<u>140,697</u>
Other Financing Sources:			
Proceeds from sale of assets	72,922	-	72,922
Proceeds from note payable	<u>534,050</u>	<u>-</u>	<u>534,050</u>
Net change in fund balance	600,179	147,490	747,669
Fund balance, June 30, 2016 as restated	<u>3,644,559</u>	<u>442,906</u>	<u>4,087,465</u>
Fund balance, June 30, 2017	<u>\$ 4,244,738</u>	<u>\$ 590,396</u>	<u>\$ 4,835,134</u>

The accompanying notes are an integral part of the financial statements.

James Island Public Service District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in governmental fund balances	\$ 747,669
Governmental funds report capital outlays as expenditures. In the Statement of Activities, this cost is allocated over the estimated useful lives of the assets as depreciation. This is the amount by which capital outlay expense exceeded depreciation during the current year.	111,344
In the Statement of Activities, the gain or loss on disposal of capital assets is reported. Conversely, governmental funds do not report any gain or loss on disposal of capital assets.	(82,741)
Some expenses are reflected in the Statement of Activities but not in the governmental funds:	
Compensated absences	1,831
Accrued interest	(29,059)
Other post-employment benefits	(351,660)
Change in pension liability related amounts	(183,223)
Other financing sources which do not provide current resources:	
Proceeds from note payable	(534,050)
Revenues in the Statement of Activities that do not provide current financial resources. are not reported as revenues in the funds:	
Property taxes	295,970
Repayment of bond and capital lease principal is an expenditure in the funds but is a reduction of liabilities in the Statement of Net Position.	309,690
Change in Net Position of Governmental Activities	<u>\$ 285,771</u>

The accompanying notes are an integral part of the financial statements.

James Island Public Service District
Statement of Net Position
Proprietary Fund - Wastewater
June 30, 2017

Assets

Current assets:

Petty cash	\$ 200
Cash and cash equivalents	4,844,228
Customer receivables (net of allowance)	377,599
Prepaid expenses	18,505
Total current assets	<u>5,240,532</u>

Non-current assets:

Restricted cash and cash equivalents	1,608,819
Capital assets (net of accumulated depreciation)	36,598,863
Total non-current assets	<u>38,207,682</u>

Total assets

43,448,214

Deferred Outflows of Resources

Deferred loss on bond refunding	37,149
Contributions to retirement plan after measurement date	137,215
Difference between expected and actual retirement plan experience	25,085
Difference between projected and actual investment experience	203,563
Change in proportionate share of net pension liability	85,089
Total deferred outflows of resources	<u>488,101</u>

Total assets and deferred outflows of resources

\$ 43,936,315

The accompanying notes are an integral part of the financial statements.

James Island Public Service District
Statement of Net Position
Proprietary Fund - Wastewater
June 30, 2017

Liabilities and Net Position

Current liabilities:

Accounts payable	\$ 136,857
Accrued salaries and benefits	47,942
Interest payable	50,894
Customer deposits	194,800
Current portion of long-term debt	1,083,449
Current portion of capital leases payable	60,789
Current portion of compensated absences	36,048
Due to general fund	39,848
Total current liabilities	<u>1,650,627</u>

Non-current liabilities:

Long-term debt	9,068,824
Capital leases payable	154,456
Net other post employment liability	524,561
Net pension liability	2,418,229
Accrued compensated absences	66,945
Total noncurrent liabilities	<u>12,233,015</u>
Total liabilities	<u>13,883,642</u>

Deferred Inflows of Resources

Difference between projected and actual investment experience	2,622
Change in proportionate share of net pension liability	30,640
	<u>33,262</u>

Net Position

Net investment in capital assets	26,446,590
Restricted for debt service	1,608,819
Unrestricted	1,964,002
Total net position	<u>30,019,411</u>

Total liabilities, deferred inflows of resources and net position

\$ 43,936,315

The accompanying notes are an integral part of the financial statements.

James Island Public Service District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund - Wastewater
For the Year Ended June 30, 2017

Operating Revenues

Charges for services:	
District customer charges	\$ 3,802,778
Transportation customer charges	1,241,293
Full charge customer charges	921,778
Wholesale charges - Folly Beach	378,352
Other fees & charges	259,468
Miscellaneous fees	150
Tap fees	78,137
Impact fees	45,373
Total operating revenues	<u>6,727,329</u>

Operating Expenses

Personnel services	1,915,491
Operations and maintenance	3,375,225
Administrative	282,391
Depreciation	1,076,579
Total operating expenses	<u>6,649,686</u>

Operating income	<u>77,643</u>
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Nonoperating Revenues (Expenses)

Gain on sale of assets	6,058
Other income	15,831
Interest income	2,601
Interest expense	(384,397)
Total non-operating revenues (expenses)	<u>(359,907)</u>

Capital contributions	<u>184,850</u>
Change in net position	(97,414)

Net Position

June 30, 2016	<u>30,116,825</u>
June 30, 2017	<u>\$ 30,019,411</u>

The accompanying notes are an integral part of the financial statements.

James Island Public Service District
Statement of Cash Flows
Proprietary Fund - Wastewater
For the Year Ended June 30, 2017

Cash flows from operating activities:

Cash received from customers	\$ 6,735,262	
Cash paid to suppliers for goods and services	(5,089,837)	
Cash paid to employees for services	(1,684,032)	
Net cash used by operating activities		\$ (38,607)

Cash flows from noncapital financing activities:

FEMA recovery proceeds	6,968	
Other income	3,996	
Net cash provided by noncapital financing activities		10,964

Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	(1,142,689)	
Proceeds from sale of assets	6,058	
Proceeds from revolving loans	2,976,857	
Principal paid on revenue bonds	(569,995)	
Principal paid on capital lease obligations	(59,898)	
Principal paid on loan payable	(451,705)	
Interest paid on long-term debt	(414,913)	
Net cash used by capital and related financing activities		343,715

Cash flows from investing activities:

Interest received	2,601	
Net cash provided by investing activities		2,601
Net increase in cash and cash equivalents		318,673

Cash and cash equivalents, beginning of year	6,134,574
Cash and cash equivalents, end of year	\$ 6,453,247

Reconciliation of Cash and Cash Equivalents to Balance Sheet:

Petty cash	\$ 200	
Cash and cash equivalents	4,844,228	
Restricted cash and cash equivalents	1,608,819	
Total cash and cash equivalents		\$ 6,453,247

Reconciliation of Operating Income to Net Cash Used by Operating Activities:

Operating income		\$ 77,643
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	\$ 1,076,579	
Changes in assets and liabilities:		
Decrease in customer receivables	23,991	
Decrease in prepaid expenses	213,070	
Decrease in accounts payable	(185,840)	
Decrease in customer deposits	(16,058)	
Decrease in accrued salaries, benefits and compensated absences	(12,531)	
Increase in net other post-employment benefit payable	82,488	
Decrease in due to other funds	(1,459,451)	
Increase in net pension liability	161,502	
Total Adjustments		(116,250)
Net cash used by operating activities		\$ (38,607)

The accompanying notes are an integral part of the financial statements.

James Island Public Service District
Notes to Financial Statements

The James Island Public Service District (District) was formed under Act Number 498 of the 1961 General Assembly of the State of South Carolina. The District is governed by an elected seven-member Commission and operates under a Commission/manager form of government which provides the following services: fire protection, solid waste and wastewater collection. The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting. The District applies all relevant GASB pronouncements. The more significant accounting policies of the District are described below.

1 – Summary of Significant Accounting Policies

a. Reporting Entity

The District has established criteria for determining the reporting entity for financial statement presentation, in accordance with generally accepted governmental accounting principles. The reporting entity has been defined to include only those functions over which the District exercises budgetary control (i.e., fire department, solid waste department, maintenance department, wastewater department and the administrative department). There are no component units for the District.

b. Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance and revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds in the financial statements in this report are grouped into two broad fund categories.

Governmental funds include the general and debt service funds. The proprietary fund consists of the enterprise (wastewater) funds.

c. Basis of Presentation - Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. *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 services. Fiduciary funds are excluded from the government-wide financial statements.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same method used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the governmental funds and the government-wide statements. The primary effect, if any, of internal activity has been eliminated from the government-wide financial statements.

James Island Public Service District
Notes to Financial Statements

1 – Summary of Significant Accounting Policies (continued) –

c. continued –

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program and general revenues for each segment of the business-type activity of the District and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges for services paid by the recipients of the services offered by the program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Net position reported as unrestricted is available for use in general obligations. It is reported as restricted when constraints are placed on net position use by external creditors (such as through debt covenants), grantors, contributors or laws or regulations of the other governments or when imposed by law through enabling legislation. Restricted net position is used prior to unrestricted net position when permissible. 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.

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund financial statements report detailed information about the District. 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. Non-major funds, if any, are aggregated and presented in a single column.

d. Basis of Presentation - Major Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis of accounting, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, with the exception of interest on long-term debts.

The major government funds are:

- (1) General Fund: This is the District's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- (2) Debt Service Fund: This fund is used to accumulate debt service revenues collected by the County Treasurer for Charleston County and to remit the principal and interest due on general obligation bonds and capital leases. These debt issues were sold to finance construction of various projects and to pay for capital equipment such as fire and solid waste trucks.

e. Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within 60 days after year end and available to pay obligations of the current period): property taxes and interest. This includes investment earnings.

James Island Public Service District
Notes to Financial Statements

1 – Summary of Significant Accounting Policies (continued) –

e. continued –

Property taxes and special assessments that are not collected within sixty days, though measurable, are not available soon enough in the subsequent year to finance current obligations. Therefore, property tax and special assessment receivables are recorded as deferred inflows until they become available. Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time.

- f. The measurement focus of governmental fund accounting is on decreases in current financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Unmatured interest and principal on general long-term debts are recognized when paid. Depreciation and amortization are not recognized in the governmental funds.
- g. Governmental fund balance reporting: The governmental fund balances are reported as one or more of the following categories:
- (1) Non-spendable - not in spendable form or legally or contractually required to be maintained intact;
 - (2) Restricted - use restricted by external creditors or imposed by law or enabling legislation;
 - (3) Committed - amounts that can only be used for specific purposes pursuant to constraints imposed by action of the District's commissioners;
 - (4) Assigned - represents resources assigned by the District but not as restrictive as Committed;
 - (5) Unassigned - represents the portion of the fund balance that has not been restricted, committed or assigned for specific purposes within the general fund.

Restricted fund balance, then committed, then assigned fund balance is used prior to unassigned fund balance when permissible.

- h. The District uses an enterprise fund to report its financial position and the results of its wastewater operations. A fund is a separate fiscal and accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain government functions or activities. Enterprise funds account for business-like activities that provide goods and services to the public financed primarily through user charges, similar to those found in the private sector. The measurement focus of proprietary funds is upon determination of change in net position, financial position, and cash flows.

Proprietary fund statements reflect net position, and revenues, expenses and changes in net position using the economic resources measurement focus, and the accrual basis of accounting. Under the accrual basis concept, revenues are recognized when earned and expenses are recognized when incurred.

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. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

- i. Cash and cash equivalents: For purposes of the statement of cash flows, the wastewater proprietary fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

James Island Public Service District
Notes to Financial Statements

1 – Summary of Significant Accounting Policies (continued) –

- j. Accounts receivable: The proprietary fund's receivables represent charges for services provided net of an allowance for uncollectible accounts of \$67,000.
- k. Property taxes receivable: Property taxes receivable in the general fund and debt service fund consist of uncollected property taxes from the following years, less an allowance for estimated uncollected taxes of \$299,000 and \$22,000, respectively.

<u>As of June 30, 2017</u>		
<u>Tax Year</u>	<u>General Fund</u>	<u>Debt Service Fund</u>
2017	\$ 5,177,362	\$ 370,509
Prior Years	294,402	21,440
Total	5,471,764	391,949
Less allowance	(299,000)	(22,000)
Net Property Taxes Receivable	<u>\$ 5,172,764</u>	<u>\$ 369,949</u>

- l. Inventory and Prepaid Items: The general fund inventory is valued at cost using the first in first out method. The prepaid items represent an expense that is applicable to a future period. The cost of the fuel inventory is recorded as an expenditure at the time it is used. These prepayments are equally offset by fund balance reserves which indicate that this portion of the fund balance does not constitute available spendable resources.
- m. Capital Assets: The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. When purchased, such assets are recorded as expenditures in the governmental fund and capitalized in the government-wide financial statements. The valuation bases for general capital assets are historical costs, or if historical cost is not available, estimated historical cost based on replacement cost. The District capitalizes only those individual capital assets exceeding \$5,000 in cost which have a useful life exceeding one year.

Capital assets in the business-type fund are capitalized following the same criteria as in governmental activities. Donated capital assets, if any, are capitalized and accounted for as capital contributions at estimated fair market value on the date donated.

Depreciation of all capitalized assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	50 years
Wastewater system (constructed and purchased)	20 – 60 years
Office furniture and equipment	5 – 10 years
Vehicles, machinery and equipment	5 – 15 years

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

James Island Public Service District
Notes to Financial Statements

1 – Summary of Significant Accounting Policies (continued) –

- o. **Compensated Absences:** Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums. After November 1, 2010, annual leave exceeding the maximum accrual and not used will be forfeited. The portion of this liability which is not expected to be liquidated with expendable available financial resources is not reported as a fund liability in accordance with Interpretation No. 6 of the Governmental Accounting Standards Board – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements. The amount applicable to the proprietary fund is charged to expense and as a corresponding liability is recognized. Sick leave is not accrued since the benefits are not vested and are not payable upon termination.
- p. **Net Pension Liability:** The net pension liability is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the respective pension plan's fiduciary net position.
- q. **Deferred Inflows/Outflows of Resources:** Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District's deferred outflows include contributions to its retirement plan made after the measurement date, the difference between expected and actual retirement plan experience, the difference in projected and actual investment earnings, the change in proportionate share of net pension liability and the deferred loss on bond refunding.

Deferred inflows of resources represent 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. In the Statement of Net Position, the District's deferred inflows consist of the net difference between projected and actual investment earnings in its pension plan, the difference between expected and actual retirement plan experience and deferred property taxes. In the Governmental Fund financial statements, the District accounts for delinquent taxes receivable collected more than 60 days following the end of its fiscal year as deferred inflows of resources.

- r. **Net position:** In the governmental-wide financial statement and proprietary fund financial statements, net positions are classified as follows:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction or improvement of the assets.

Restricted net position is restricted by external creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net position is all resources that do not meet the definition of "net investment in capital assets" or "restricted net position".

- s. **Recent Accounting Pronouncements:** GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of others entities. The provision in Statement 75 are effective for fiscal years beginning after June 15, 2017. The District will implement the new guidance with the 2018 financial statements and is currently evaluating the impact of this Statement.

James Island Public Service District
Notes to Financial Statements

1 – Summary of Significant Accounting Policies (continued) –

s. continued –

GASB Statement No. 77, Tax Abatement Disclosures, requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The District implemented the new guidance with the 2017 financial statements, and it had no effect on the District's financial statements.

GASB Statement 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73* (GASB 82) was issued to address certain issues that have been raised with respect to GASB 67, *Financial Reporting for Pension Plans*, GASB 68, *Accounting and Financial Reporting for Pensions*, and GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an actuarial Standard Practice for Financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management is currently evaluating the impact that GASB 82 may have on its financial statements, if any.

2 – Compliance and Accountability

Budget Requirements

The District is required by law to adopt an annual budget. The District legally adopts a budget for the General Fund and the Proprietary Fund (Wastewater). The following procedures are followed in establishing the budgetary data reflected in the financial statements: (a) Prior to June 30th of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The general fund budget includes proposed expenditures based on the modified accrual basis of accounting and the means of financing them, and (b) the Commission adopts the proposed budget.

3 – Due to/from Other Funds

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statements as "internal balances." The amount due to the general fund from the wastewater fund of \$39,848 was used to cover expenses of the wastewater fund. The amount due to the general fund from the debt service fund of \$44,967 was used to cover expenditures of the debt service fund.

James Island Public Service District
Notes to Financial Statements

4 – Deposits

A reconciliation of cash and cash equivalents reflected on the Statement of Net Position is as follows:

Total carrying amount of cash	\$ 11,057,168
Cash and cash equivalents	\$ 9,448,349
Restricted cash and cash equivalents	1,608,819
Total cash and cash equivalents	<u>\$ 11,057,168</u>

Custodial Credit Risk for deposits exists when, in the event of the failure of the depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in the possession of the outside party. The District follows state law which requires depository financial institutions to provide Federal Deposit Insurance Corporation (FDIC) insurance or pledge collateral obligations sufficient to cover its deposits and investments as described in the following paragraph. All of the District's deposit balances on June 30, 2017 were insured or collateralized with securities held by the District or by its agent in the District's name.

All of the District's deposits are made in Commission designated official depositories and are secured as required by state laws. State of South Carolina statutes authorize the District to invest in the following: 1) obligations of the State of South Carolina or any of its political subdivisions; 2) obligations of the United States and agencies thereof; 3) bank or savings and loan deposits and certificates of deposit to the extent insured by the FDIC; 4) repurchase agreements collateralized by securities of the type described in 1) and 2) preceding; and 5) no-load open and closed-end portfolios of certain investment companies or trusts which hold issues of the U. S. government.

The credit risks for deposits and investments are categorized into three categories of risk: 1) insured or registered with securities held by the District or its agent in the District's name; 2) uninsured and unregistered with securities held by the counter-party's trust department or agent in the District's name; 3) uninsured and unregistered with securities held by the counter-party or by its trust department or agent but not in the District's name. At year end the carrying amount of the District's deposits and investments was \$11,057,168 and the bank balances were \$12,366,791. The District's bank balances were covered by FDIC insurance of \$750,000 and \$12,468,766 specific collateral pledged.

5 – Restricted Cash and Cash Equivalents

The revenue bond agreements in the proprietary fund require the establishment of the following funds: debt service, debt service reserve, depreciation and contingency. The District is required to fund these accounts out of revenues and impact fees generated by the wastewater system. These funds cannot be used for any other purpose. The cash reserves required by the various revenue bonds consist of the following at June 30, 2017.

Debt Service Reserves	-2010	\$ 52,544
	-2011	143,681
	-2013	158,216
	-2014	90,341
Depreciation	-1996	333,900
Contingency Funds	-1992	770,430
Contingency Funds	-1992	27,980
Contingency Funds	-1996	31,727
Total		<u>\$ 1,608,819</u>

James Island Public Service District
Notes to Financial Statements

6 – Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Ad valorem taxes are levied during September by an intermediary government which is responsible for the collection of the taxes and may be paid without penalty until January 15 of the following year. Penalties are assessed on unpaid taxes on the following dates: January 16 – 3%; February 1 – an additional 7%; March 16 –an additional 5%. On March 16, the intermediary government turns unpaid taxes over to its delinquent tax office and the properties are subject to sale. Personal property taxes on vehicles are levied on a monthly basis and are based on the assessed values on January 1 of each year.

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James Island Public Service District
Notes to Financial Statements

7 – Capital Assets and Depreciation

A summary of the changes in the governmental activities capital assets are summarized as follows:

	<u>Balance June 30, 2016</u>	<u>Transfers/ Additions</u>	<u>Sales/Other Disposals</u>	<u>Balance June 30, 2017</u>
Assets not being depreciated:				
Land	\$ 212,173	\$ -	\$ -	\$ 212,173
Assets being depreciated:				
Buildings	1,035,423	38,540	(8,041)	1,065,922
Fencing, Paving & Landscaping	66,654	-	-	66,654
Vehicles	4,054,650	351,274	(195,490)	4,210,434
Machinery & Fire Equipment	1,190,809	48,066	(147,144)	1,091,731
Furniture & Office Equipment	91,683	17,819	(10,174)	99,328
Communication System	464,423	-	(21,926)	442,497
Totals	<u>7,115,815</u>	<u>455,699</u>	<u>(382,775)</u>	<u>7,188,739</u>
Less: Accumulated Depreciation	<u>(3,656,429)</u>	<u>(344,355)</u>	<u>(300,034)</u>	<u>(3,700,750)</u>
Net Capital Assets	<u>\$ 3,459,386</u>	<u>\$ 111,344</u>	<u>\$ (82,741)</u>	<u>\$ 3,487,989</u>

Depreciation and amortization has been charged to functions as follows in the Governmental Activities:

General Government	\$ 16,755
Public Safety	192,960
Health	134,640
Total	<u>\$ 344,355</u>

A summary of the changes in the business-type activities capital assets are summarized as follows:

	<u>Balance June 30, 2016</u>	<u>Transfers/ Additions</u>	<u>Sales/Other Disposals</u>	<u>Balance June 30, 2017</u>
Assets not being depreciated:				
Land and Easements	\$ 340,496	\$ -	\$ -	\$ 340,496
Construction in Progress	3,977,595	-	(3,636,353)	341,242
Subtotals	<u>4,318,091</u>	<u>-</u>	<u>(3,636,353)</u>	<u>681,738</u>
Assets being depreciated:				
Buildings	518,496	-	-	518,496
Sewer System	37,446,579	4,639,526	(38,250)	42,047,855
Contributed Systems	8,945,813	184,850	-	9,130,663
Purchased Systems	179,566	-	-	179,566
Equipment	63,676	-	(21,130)	42,546
Vehicles	1,009,175	175,184	(55,723)	1,128,636
Communication System	751,750	27,809	(87,484)	692,075
Total Assets	<u>53,233,146</u>	<u>5,027,369</u>	<u>(3,838,940)</u>	<u>54,421,575</u>
Less: Accumulated Depreciation	<u>(16,948,686)</u>	<u>(1,076,579)</u>	<u>(202,553)</u>	<u>(17,822,712)</u>
Net Capital Assets	<u>\$36,284,460</u>	<u>\$ 3,950,790</u>	<u>\$ (3,636,387)</u>	<u>\$36,598,863</u>

The District capitalizes interest incurred on all construction projects. During the current year, no interest was capitalized.

8 – Employee Benefit Plans

Pensions

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

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (“GAAP”). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

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

Plan Descriptions

- The South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.
- The State Optional Retirement Program (“State ORP”) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

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.
- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State ORP, which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

James Island Public Service District
Notes to Financial Statements

8 – Employee Benefit Plans (continued) –

PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required by SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (.15 percent), if applicable, which is retained by SCRS.

Benefits

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

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

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.

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

Contributions

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

James Island Public Service District
Notes to Financial Statements

8 – Employee Benefit Plans (continued) -

Required <u>employee</u> contribution rates for fiscal years 2017 and 2016 are as follows:			
	<u>2017</u>	<u>2016</u>	
SCRS			
Employee Class Two	8.66%	8.16%	of earnable compensation
Employee Class Three	8.66	8.16	of earnable compensation
State ORP Employee	8.66%	8.16%	of earnable compensation
Required <u>employer</u> contribution rates for fiscal year 2017-2016 are as follows:			
SCRS			
Employer Class Two	11.41%	10.91%	of earnable compensation
Employer Class Three	11.41	10.91	of earnable compensation
Employer Incidental Death Benefit	0.15	0.15	of earnable compensation
State ORP Employee			
Employer Contribution	11.41%	10.91%	of earnable compensation ¹
Employer Incidental Death Benefit	0.15	0.15	of earnable compensation
¹ Of this employer contribution of 11.41% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.			

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the System study was most recently issued as of July 1, 2015.

The most recent annual actuarial valuation reports adopted by the PEBA Board are as of July 1, 2016. The net pension liability of each defined benefit pension plan was therefore determined by the System's consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), based on the July 1, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2015, valuations for SCRS.

Actuarial cost method	SCRS
	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.5% to 12.5% (varies by service)
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or \$500

James Island Public Service District
Notes to Financial Statements

8 – Employee Benefit Plans (continued) –

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

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67 less that System's fiduciary net position.

System	Total Pension Liability	Plan Fiduciary Net Position	District's Net Pension Liability	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
SCRS	\$45,356,214,752	\$23,996,362,354	\$ 10,514,040	52.9%

As of June 30, 2017, the District's proportional share of the NPL amounts for SCRS is presented below:

System	Proportionate Share of Net Pension Liability
SCRS	\$ 10,514,040

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The District's proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB Statement No. 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the year ending June 30, 2017 and June 30, 2016, the District's percentage of the SCRS net pension liability was 0.049145% for both years. The District's change in proportionate share of net pension liability and related deferred outflows of resources will be amortized into pension expense over the respective remaining service lives.

Discount Rate

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

James Island Public Service District
Notes to Financial Statements

8 – Employee Benefit Plans (continued) –

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments as used in the July 1, 2015 actuarial valuations was based upon the 30 year capital market outlook at the end of the third quarter 2015. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission ("RSIC") using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

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

For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Conservative Fixed Income	12.0%		
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Core Fixed Income	10.0%	1.72	0.17
Diversified Credit	17.0%		
Mixed Credit	5.0%	3.52	0.17
Emerging Markets Debt	5.0%	4.91	0.25
Private Debt	7.0%	4.47	0.31
Opportunistic	20.0%		
GTAA/Risk Parity	10.0%	3.90	0.39
HR (Low Beta)	10.0%	3.87	0.39
Real Assets	8.0%		
Real Estate	5.0%	4.32	0.22
Commodities	3.0%	4.53	0.13
Global Equity	43.0%		
Global Public Equity	34.0%	6.52	2.22
Private Equity	9.0%	9.30	0.84
Total Expected Real Return	100.0%		5.10
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			7.85%

James Island Public Service District
Notes to Financial Statements

8 – Employee Benefit Plans (continued) –

Sensitivity Analysis

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

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$ 13,117,034	\$ 10,514,040	\$ 8,346,802

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2017, the District recognized pension expense of \$1,074,076. At June 30, 2017, the District reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 698,483	\$ -
Differences in actual and expected retirement plan experience	109,064	(11,400)
Net differences between projected and actual earnings on plan investments	885,058	-
Change in proportionate share of net pension liability	369,950	(133,218)
	<u>\$ 2,062,555</u>	<u>\$ (144,618)</u>

The District reported \$698,483 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the District's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2017. Average remaining service lives of all employees provided with pensions through the pension plans at June 30, 2017 was 4.116 years for SCRS.

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRS
2017	2018	\$ 233,925
2018	2019	303,941
2019	2020	469,689
2020	2021	211,899
Net Balance of Deferred Outflows / (Inflows) of Resources		<u>\$ 1,219,454</u>

James Island Public Service District
Notes to Financial Statements

8 – Employee Benefit Plans (continued) -

Deferred Compensation Plan

The District offers its employees several deferred compensation plans under programs administered by the S. C. Deferred Compensation Commission. The multiple-employer plans were created in accordance with Internal Revenue Code Sections 457 and 401(k). The plans, available to all full-time District employees at their option, permit the employees to defer a portion of their earnings to future years. The deferred compensation is available to the employee only upon termination, retirement, disability, death or an approved hardship. The District's only duty is that of due care required of any ordinary prudent investor; it does not have any liability for losses under the plan.

9 – Other Post-Employment Benefits (OPEB)

Description

The District provides post-employment health, life and dental care benefits for certain retirees and their dependents. Substantially all employees who retire under the state retirement plan are eligible to continue their coverage with the District paying 100% of health insurance premiums if the retiree is 65 years of age and a portion if under 65 years of age. The retiree pays 100% of life and dental insurance premiums and all health insurance premiums for family coverage. At July 1, 2015, the measurement date, there were 150 covered participants. Of this number, 106 participants are current employees and 44 are retirees. The District's regular insurance providers underwrite the retirees' insurance policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. The District may amend the terms of the plan.

Effective November 1, 2010, the District limited the amount it contributes to the health premium, and the contribution is subject to annual appropriation.

Funding Policy

The District finances the plan on a pay-as-you-go basis. For the year ended June 30, 2017, the District had 26 retirees receiving benefits and recognized expense of \$173,001 for healthcare, which is net of retiree contributions of \$62,234. The net expense is allocated \$109,155 to the General Fund and \$63,846 to the enterprise fund.

Annual OPEB Cost

The District's annual other post-employment benefits cost (expense) is calculated based on the annual required contribution (ARC) of the employer, which is actuarially determined based upon the requirements and parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. The ARC represents the amount of funding required that, if paid on an annual basis, is projected to cover the normal cost for each year plus the amount necessary to amortize any unfunded actuarial liability over a period not to exceed 30 years.

The District's annual OPEB cost for the fiscal year ending June 30, 2017 is as follows:

Annual required contribution	\$ 605,593
Interest on OPEB obligation	125,674
Adjustment to ARC	<u>(124,118)</u>
Annual OPEB cost (expense) end of year	607,149
Net estimated employer contributions	<u>(173,001)</u>
Increase in net OPEB obligation	434,148
 Net OPEB obligation beginning of year	 <u>3,141,854</u>
Net OPEB obligation end of year	<u>\$ 3,576,002</u>

James Island Public Service District
Notes to Financial Statements

9 – Other Post-Employment Benefits (OPEB) (continued) –

The District's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2017 and the preceding two fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	% Contributed	Net OPEB Obligation
June 30, 2015	549,544	408,605	74.4%	2,751,433
June 30, 2016	590,747	200,326	33.9%	3,141,854
June 30, 2017	607,149	173,001	28.6%	3,576,002

Funded Status

The funded status of the District's retiree health care plan, under GASB Statement No. 45 as of June 30, 2017 is as follows:

Actuarial Valuation Date as of	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	Ratio of UAAL to Annual Covered Payroll (b-a)/d
June 30, 2015	\$0	\$7,336,407	\$7,336,407	0.0%	\$4,482,988	163.6%

Under the reporting parameters, the District's retiree health care plan is 0.0% funded with the actuarial accrued liability exceeding the actuarial assets by \$7,336,407 at June 30, 2015. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 153.8%.

Actuarial Methods and Assumptions

The Projected Unit Credit Cost Method is used to calculate the GASB ARC for the District's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. Projections of health benefits are based on the plan as understood by the District and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the District's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Inflation Rate	2.75% per annum
Investment Rate of Return	4.00% per annum, net of expenses
Actuarial Cost Method	Projected Unit Credit Cost Method
Amortization Method	Level as a percentage of payroll
Amortization Period	30-year open amortization
Payroll Growth	3.50% per annum
Medical Trend	Initial rate of 7.50%, declining to ultimate rate of return of 5.00% after 10 years

James Island Public Service District
Notes to Financial Statements

9 – Other Post-Employment Benefits (OPEB) (continued) –

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the District's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

10 – Contingencies

The District is contingently liable for lawsuits and claims that may arise in the course of its operations. Management believes the ultimate resolution of any such matters will not materially affect the District's financial position.

The District serves a geographic area which is subject to annexation by a local municipality. In the event an area is annexed by the municipality, there could be a significant impact on the operations of the District. South Carolina law requires a municipality which annexes properties currently served by another political subdivision to assume responsibility for payment of the pro-rata bonded debt outstanding on the area(s) annexed.

11 – Risk Management

The District is exposed to various risks of loss related to torts, theft, loss for damage to assets, errors or omissions, and natural disasters. The District is a member of the State of South Carolina Insurance Reserve Fund, which is a public entity risk pool currently operating as an insurance program and risk management facility for local governments. The District pays annual insurance premiums to the State Insurance Reserve Fund for its general insurance coverages. The State Insurance Reserve Fund is self-sustaining through member insurance premiums and reinsures through commercial companies for certain claims.

In addition, the District insures for the risk of job related injury or illness to its employees through South Carolina State Accident Fund, a public entity risk pool operating for the benefit of local governments. The District pays an annual premium to the Worker's Compensation Trust for its insurance coverage.

The District is also subject to risks of loss from providing health, life, accident, dental and other medical benefits for employees, retirees and their dependents. The District utilizes a state health insurance plan administered by the South Carolina Budget and Control Board. The state reinsures through commercial companies for these risks.

For all of the above programs, the District has not significantly reduced insurance coverages from the previous year, and settled claims in excess of insurance coverage for the last three years were immaterial. For each of the insurance programs, the District has effectively transferred all risk with no liability for unfunded claims.

12 – Long-Term Debt

The District reports long-term debt of governmental funds at face value in the government-wide statements. Long-term debt and other obligations financed by proprietary funds are reported as proprietary fund liabilities. For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond or capital lease proceeds are reported as an "other financing source" net of the applicable premiums or discount. Issuance costs, if any, paid or withheld from the proceeds, are reported as debt service expenditures. For business-type funds, bond premiums or discounts and any deferred refunding costs (if applicable) are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium, discount or deferred refunding costs.

James Island Public Service District
Notes to Financial Statements

12 – Long-Term Debt (continued) -

Governmental Activities:

For governmental activities, compensated absences are generally liquidated by the general fund and included as a long term liability in the government-wide financial statements. The District issues General Obligation Bonds to provide funds for the acquisition and construction of major capital facilities. These bonds are direct obligations and pledge the full faith and credit of the District. All of the general obligation bonds are held by the Farmers Home Administration.

Business-Type Activities:

For business-type activities, compensated absences are liquidated by the proprietary fund and included as a long term liability in the enterprise fund and business-type activities.

In 1980, the District began issuing revenue bonds payable from the revenues generated by the wastewater proprietary fund which pays for the construction and expansion of the wastewater transportation system.

A summary of the changes in the long-term debts payable for the year ended June 30, 2017, is as follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amount</u> <u>Due in 2018</u>
<u>Governmental Activity</u>					
General obligation debt	\$ 281,131	\$ -	\$ (13,833)	\$ 267,298	\$ 14,562
Capital leases	517,858	-	(182,070)	335,788	143,072
Net other post-employment benefits	2,699,781	351,660	-	3,051,441	-
Net pension liability	6,886,168	1,209,643	-	8,095,811	-
Note Payable	403,723	534,050	(194,015)	743,758	115,869
Compensated absences	348,571	247,434	(249,265)	346,740	122,712
Governmental Activity	<u>11,137,232</u>	<u>2,342,787</u>	<u>(639,183)</u>	<u>12,840,836</u>	<u>396,215</u>
<u>Business-Type Activity</u>					
Revenue bonds	1,795,583	-	(578,559)	1,217,024	594,903
State Revolving Fund loan	6,410,790	2,976,857	(451,705)	8,935,942	488,546
Capital leases	275,143	-	(59,898)	215,245	60,789
Net other post-employment benefits	442,073	82,488	-	524,561	-
Net pension liability	1,949,745	385,969	-	2,335,714	-
Compensated absences	104,201	5,880	(7,088)	102,993	36,048
Business-Type Activity	<u>10,977,535</u>	<u>3,451,194</u>	<u>(1,097,250)</u>	<u>13,331,479</u>	<u>1,180,286</u>
Total	<u>\$ 22,114,767</u>	<u>\$ 5,793,981</u>	<u>\$ (1,736,433)</u>	<u>\$ 26,172,315</u>	<u>\$ 1,576,501</u>

James Island Public Service District
Notes to Financial Statements

12 – Long-Term Debt (continued) -

Debt Service Requirements to Maturity

The principal and interest requirements to retire the District's long-term obligations, exclusive of compensated absences, capital leases, net pension liability and the unfunded OPEB liability, are as follows:

<u>Governmental Activities</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	\$ 14,478	\$ 16,420	\$ 30,898
2019	13,610	17,289	30,899
2020	12,695	18,204	30,899
2021	11,732	17,291	29,023
2022	10,812	11,810	22,622
2023-2027	43,573	85,823	129,396
2028-2032	23,569	90,884	114,453
2033-2037	169	9,578	9,747
Total	\$ 130,638	\$ 267,299	\$ 397,937

<u>Business-Type Activities</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	\$ 246,943	\$ 1,083,449	\$ 1,330,392
2019	219,040	525,508	744,548
2020	207,195	537,352	744,547
2021	195,043	549,498	744,541
2022	182,597	561,952	744,549
2023-2027	714,654	3,008,089	3,722,743
2028-2032	354,581	3,146,680	3,501,261
2033-2037	64,169	740,438	804,607
Total	\$ 2,184,222	\$ 10,152,966	\$ 12,337,188

The revenue bonds outstanding for the business-type activity at June 30, 2017, are as follows:

<u>Title of Issues</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	
				<u>Original</u>	<u>Outstanding</u>
Sol Legare Project	03/31/92	03/28/32	5.750%	\$ 437,000	\$ 264,782
Grimball Road Expansion	11/14/96	11/14/36	5.125%	538,000	382,749
Revenue Refunding Bonds, Series 2014	09/16/14	06/30/18	2.00-3.00%	2,130,000	569,493
Totals				\$3,105,000	\$1,217,024

The State Revolving Fund loan outstanding for the business-type activity at June 30, 2017, is as follows:

<u>Title of Issues</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Amount</u>
				<u>Original</u>	<u>Outstanding</u>
Pump Stations 11 & 54 Upgrade	10/31/14	05/01/35	2.000%	4,242,522	3,519,453
Pump Station #11 Phase 2	09/01/16	09/01/36	1.800%	2,527,659	1,939,509
Schooner Road Extension	02/26/10	05/01/30	2.250%	717,520	505,898
Harbor View Circle Force Main	07/01/11	04/01/31	2.250%	586,757	442,404
Pump Station 33 Rehab	07/01/11	07/01/31	2.250%	1,250,352	947,523
Force Main Replacement	10/01/13	07/01/33	2.250%	1,870,339	1,580,155
Totals				\$11,195,149	\$8,935,942

James Island Public Service District
Notes to Financial Statements

12 – Long-Term Debt (continued) –

The revenues of the proprietary fund are pledged as collateral on all of the revenue bonds. The interest rate on the 2014 Sewer System Revenue Refunding bonds is 2.00% in 2015 and 3.00% for the remaining years. The District has complied with all material covenants and restrictions.

The governmental activities general obligation bonds outstanding at June 30, 2017, are as follows:

<u>Title of Issues</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Amount</u>
				<u>Original</u>	<u>Outstanding</u>
Fire Station 4	02/17/81	02/17/21	5.00%	142,000	27,809
Fire Station 3	11/14/96	11/14/36	5.50%	363,000	239,490
Totals				505,000	267,299

13 – Capital Leases Obligations

The District has various leases on equipment used in business-type activities and governmental activities which are being accounted for as capital leases. The leased assets have been capitalized at a cost of \$429,141 in the proprietary fund and \$1,275,534 in governmental activities. Depreciation expense of \$48,968 is included in the proprietary fund and \$79,621 in the Statement of Activities for the governmental activities. Accumulated amortization of \$157,279 is included in the proprietary fund and \$604,382 in the Statement of Net Position for governmental activities. These leases financed equipment purchased during prior fiscal years. Under the terms of the leases, the District is responsible for all operating costs associated with the equipment. The future minimum lease payments, including interest, by year ended June 30, are as follows:

<u>Governmental Activity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 143,072	\$ 7,950	\$ 151,022
2019	146,663	4,359	151,022
2020	46,081	663	46,744
2021	-	-	-
2022	-	-	-
2023-2027	-	-	-
Total	\$335,816	\$ 12,972	\$348,788

<u>Business-Type Activity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 60,789	\$ 3,297	\$ 64,086
2019	61,703	2,383	64,086
2020	62,630	1,456	64,086
2021	14,919	514	15,433
2022	15,204	259	15,463
Total	\$ 215,245	\$ 7,909	\$ 223,154

James Island Public Service District
Notes to Financial Statements

13 – Capital Lease Obligations (continued) -

Capital leases outstanding for the governmental activities at June 30, 2017, are as follows:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	
				<u>Original</u>	<u>Outstanding</u>
Fire Pumper Truck	10/09/07	10/01/17	3.810%	\$ 375,000	\$ -
Pierce Fire Truck	02/22/10	02/01/20	3.420%	439,979	156,627
Freightliner Garbage Truck	01/15/13	01/01/20	2.250%	146,955	42,899
Knuckleboom	07/11/13	07/01/20	1.440%	313,600	136,289
Totals				<u>\$1,275,534</u>	<u>\$335,815</u>

Capital leases outstanding for the business-type activities at June 30, 2017, are as follows:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	
				<u>Original</u>	<u>Outstanding</u>
Freightliner Front End Loader	07/11/13	07/01/20	1.440%	\$ 326,400	\$ 141,880
Ford Truck and Diesel Generator	12/01/15	11/30/21	1.710%	102,741	73,365
Totals				<u>\$ 429,141</u>	<u>\$ 215,245</u>

14 – Commitment

In September 2016, the District secured a line of credit through the South Carolina Rural Infrastructure Authority for various wastewater projects for \$2,527,659 with an interest rate of 1.80%. At June 30, 2017 costs incurred on these projects totaled \$2,040,846. At June 30, 2017, there had been a draw on the line in the amount of \$2,018,823 and repayments on the line of \$79,314. The outstanding commitment on the line at June 30, 2017 is \$588,150.

15 – Non-Cash Transactions: Proprietary Fund

The Statement of Cash Flows for the enterprise fund only reflects transactions that affect its cash flows during the year. During the current year, the District had capital assets contributed of \$184,850.

James Island Public Service District
Notes to Financial Statements

16. - Prior Period Adjustment

The District improperly recorded a loan from the bank for the year ended June 30, 2016. For the general fund, proceeds from capital leases were recorded for \$987,332 with a corresponding debit to funds held in escrow. The amount recorded in 2016 should have been \$453,282 and it should have been recorded as proceeds from notes payable with a corresponding entry to capital outlay. The \$987,332 should not have been recorded and the balance reported for this amount should have been \$0. The remainder of this amount of \$534,050 has been properly recorded in the financials for the year ended June 30, 2017. Fund balance in the general fund financial statements has been restated to reflect this adjustment as follows:

Fund Balance

Beginning fund balance, as previously stated	\$4,631,891
Restatement relating to above amounts	<u>(987,332)</u>
Beginning fund balance, as restated	<u>\$3,644,559</u>

In the government-wide government activities financial statements, capital leases were recorded for \$987,332 with a corresponding entry to funds held in escrow. The amount recorded should have been \$453,282 as a note payable, with a corresponding debit to expense. The \$987,332 should not have been recorded and the balance reported for this amount should have been \$0. The remaining \$534,050 has been properly accounted for in the government-wide financial statements for the year ended June 30, 2017. Beginning balance for net position in the government-wide governmental activities financial statements has been restated to reflect this adjustment as follows:

Net Position

Beginning net position, as previously stated	(\$2,331,732)
Restatement relating to above amounts	<u>(453,282)</u>
Beginning net position, as restated	<u>(\$2,785,014)</u>

17 – Subsequent Events

In preparing these financial statements, the District's management has evaluated events and transactions for potential recognition or disclosure through January 11, 2018, the date the financial statements were available for issuance.

On August 4, 2017, James Island Public Service District entered into an agreement with U.S. Bancorp Government Leasing and Finance, Inc. to lease vehicles and equipment for the total principal amount of \$2,300,000 at an interest rate of 2.080% with payments starting in February 2018 and going until August 2024.

James Island Public Service District
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2017
(UNAUDITED)

	Original	Final	Actual	Variance Favorable (Unfavorable)
Beginning budgetary fund balance	\$ 4,631,891	\$ 4,631,891	\$ 3,644,559	\$ (987,332.0)
Resources (inflows):				
Taxes	6,541,133	6,541,133	6,780,036	238,903
Intergovernmental	26,233	26,233	26,008	(225)
Other income	50,000	50,000	123,552	73,552
Amounts available for appropriation	6,617,366	6,617,366	6,929,596	312,230
General Government				
Salaries	367,449	367,449	332,787	34,662
Group health & workers' compensation insurance	34,094	34,094	26,635	7,459
Retirement contributions	40,640	40,640	37,082	3,558
Payroll taxes	28,110	28,110	24,823	3,287
Commission expenses	2,500	2,500	10,402	(7,902)
Professional services	40,660	40,660	49,433	(8,773)
Fuel	975	975	1,002	(27)
Repairs and maintenance	20,383	20,383	14,640	5,743
Office supplies and expenses	13,060	13,060	14,449	(1,389)
Advertising	5,300	5,300	2,193	3,107
Dues and subscriptions	2,475	2,475	3,730	(1,255)
Travel	1,550	1,550	-	1,550
Employee relations	3,838	3,838	4,462	(624)
Telephone and communication	7,474	7,474	12,892	(5,418)
Insurance	4,068	4,068	1,014	3,054
Training, education and conferences	4,700	4,700	1,506	3,194
Operating leases	1,992	1,992	1,872	120
Contingency	10,000	10,000	-	10,000
Total	589,268	589,268	538,922	50,346
Maintenance				
Salaries	146,537	146,537	155,928	(9,391)
Group health & workers' compensation insurance	27,685	27,685	23,986	3,699
Retirement contributions	16,207	16,207	17,439	(1,232)
Payroll taxes	11,210	11,210	11,402	(192)
Fuel	2,886	2,886	1,859	1,027
Repairs and maintenance	10,051	10,051	21,500	(11,449)
Office supplies and expenses	750	750	855	(105)
Dues and subscriptions	160	160	135	25
Professional services	545	545	138	407
Supplies and other expenses	740	740	12,980	(12,240)
Telephone and communications	2,732	2,732	5,702	(2,970)
Insurance	2,434	2,434	1,722	712
Training, education and conferences	2,700	2,700	1,680	1,020
Travel and transportation	3,000	3,000	1,685	1,315
Uniforms	2,660	2,660	2,085	575
Utilities	8,000	8,000	6,622	1,378
Total	238,297	238,297	265,718	(27,421)
 Subtotal - General Government	 827,565	 827,565	 804,640	 22,925

See accompanying independent auditor's report.

James Island Public Service District
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2017
(UNAUDITED)

	Original	Final	Actual	Variance Favorable (Unfavorable)
Subtotals brought forward	\$ 827,565	\$ 827,565	\$ 804,640	\$ 22,925
Public Safety - Fire				
Salaries	2,341,489	2,341,489	2,242,320	99,169
Group health & workers' compensation insurance	705,363	705,363	703,932	1,431
Retirement contributions	258,969	258,969	260,265	(1,296)
Payroll taxes	179,124	179,124	167,320	11,804
Fuel and fluids	32,613	32,613	24,998	7,615
Repairs and maintenance	111,703	111,703	136,622	(24,919)
Office supplies and expenses	6,116	6,116	9,008	(2,892)
Professional services	13,066	13,066	13,321	(255)
Advertising	2,200	2,200	5,594	(3,394)
Dues and subscriptions	3,366	3,366	2,136	1,230
Supplies and other	146,767	146,767	134,151	12,616
Telephone and communication	43,383	43,383	45,509	(2,126)
Insurance	32,042	32,042	23,368	8,674
Training, education and conferences	25,493	25,493	25,152	341
Travel and transportation	3,895	3,895	1,743	2,152
Uniforms	14,788	14,788	10,652	4,136
Utilities	35,148	35,148	32,271	2,877
Total	3,955,525	3,955,525	3,838,362	117,163
Health - Solid Waste				
Salaries	944,967	944,967	1,004,358	(59,391)
Group health & workers' compensation insurance	206,301	206,301	206,401	(100)
Retirement contributions	102,633	102,633	109,167	(6,534)
Payroll taxes	70,989	70,989	70,622	367
Fuel and fluids	119,708	119,708	125,596	(5,888)
Repairs and maintenance	229,044	229,044	236,424	(7,380)
Office supplies and expenses	1,700	1,700	979	721
Professional services	2,772	2,772	1,520	1,252
Supplies and other	22,561	22,561	20,533	2,028
Advertising	3,300	3,300	5,823	(2,523)
Telephone and communication	10,807	10,807	14,092	(3,285)
Insurance	25,434	25,434	24,325	1,109
Operating lease	464	464	313	151
Training, education and conferences	400	400	-	400
Uniforms	10,349	10,349	12,760	(2,411)
Utilities	5,046	5,046	4,776	270
Total	1,756,475	1,756,475	1,837,689	(81,214)
Capital outlay	16,970	16,970	455,698	(438,728)
Total Expenditures (Outflows)	6,556,535	6,556,535	6,936,389	(379,854)
Other financing sources - note payable proceeds	-	-	534,050	(534,050)
Other financing sources - sale of assets	-	-	72,922	(72,922)
Ending budgetary fund balance	\$ 4,692,722	\$ 4,692,722	\$ 4,244,738	\$ 447,984

Note: This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America. This is the same basis of accounting as the governmental funds included in the basic financial statements.

See accompanying independent auditor's report.

James Island Public Service District
Schedule of Funding Progress and Employer Contributions for Other
Post Employment Benefits-
Defined Benefit Health Care Plan
For the Year Ended June 30, 2017
UNAUDITED

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2-1)	Funded Ratio (1/2)	Covered Payroll (3)	UAAL as a Percentage of Covered Payroll ((2-1)/3)
7/1/2008	-	6,024,106	6,024,106	0%	4,333,412	139%
7/1/2009	-	5,493,663	5,493,663	0%	4,227,757	130%
7/1/2010	-	5,493,663	5,493,663	0%	4,331,393	127%
7/1/2011	-	5,824,192	5,824,192	0%	4,319,558	135%
7/1/2012	-	5,824,192	5,824,192	0%	4,481,867	130%
7/1/2013	-	6,006,367	6,006,367	0%	4,534,662	132%
7/1/2014	-	6,006,367	6,006,367	0%	4,506,844	133%
7/1/2015	-	7,336,407	7,336,407	0%	4,767,460	154%
7/1/2016	-	7,336,407	7,336,407	0%	4,300,749	171%
7/1/2017	-	7,336,407	7,336,407	0%	4,482,988	164%

Schedule of Employer Contributions

Fiscal Year ended June 30,	Annual Required Contribution	Actual Contribution	Percent Funded
2008	481,068	133,622	27.78%
2009	504,234	151,532	30.05%
2010	510,638	133,185	26.08%
2011	510,638	146,492	28.69%
2012	532,649	123,301	23.15%
2013	527,688	139,872	26.51%
2014	514,598	147,640	28.69%
2015	540,909	408,605	75.54%
2016	589,385	200,326	33.99%
2017	605,593	173,001	28.57%

See accompanying independent auditor's report.

James Island Public Service District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30,
Last Three Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
South Carolina Retirement System			
The District's proportion of the net pension liability	0.049145%	0.046509%	0.047850%
The District's proportionate share of the net pension liability	\$10,514,040	\$9,320,586	\$8,251,489
The District's covered payroll	\$4,767,460	\$4,506,844	\$4,534,662
The District's proportionate share of the net pension liability as percentage of covered payroll	221%	207%	182%
Plan fiduciary net position as a percentage of the total pension liability	52.91%	56.99%	59.92%

Note: The amounts shown on this schedule are as of June 30 of the preceding year.

**James Island Public Service District
Schedule of the District's Contributions
South Carolina Retirement System
As of June 30,
Last Ten Fiscal Years**

	2017	2016	2015	2014	2013
Contractually required contribution	\$ 698,483	\$ 519,209	\$ 477,254	\$ 463,262	\$ 454,505
Contributions in relation to the contractually required contribution	698,483	519,209	477,254	463,262	454,505
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
<hr/>					
The District's covered payroll	\$ 4,482,958	\$ 4,767,460	\$ 4,506,844	\$ 4,534,662	\$ 4,481,867
Contributions as a percentage of the covered payroll	15.58%	10.89%	10.59%	10.22%	10.14%
	2012	2011	2010	2009	2008
Contractually required contribution	\$ 402,039	\$ 306,435	\$ 393,616	\$ 402,807	\$ 363,871
Contributions in relation to the contractually required contribution	402,039	306,435	393,616	402,807	363,871
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
<hr/>					
The District's covered payroll	\$ 4,319,558	\$ 4,331,393	\$ 4,227,757	\$ 4,333,412	\$ 4,105,074
Contributions as a percentage of the covered payroll	9.31%	7.07%	9.31%	9.30%	8.86%

See accompanying independent auditor's report.

James Island Public Service District
Schedule of Operating Expenses - Proprietary Fund
For the Year Ended June 30, 2017

Personnel Services

Salaries, wages and allowances	\$ 1,138,742
Payroll taxes	88,560
Retirement system contributions	377,503
Group insurance and workmen's compensation	226,665
Other post-employment benefits	82,488
Training and education	1,533
Total	<u>1,915,491</u>

Operations and Maintenance

Wastewater treatment and transportation charges	2,097,888
Maintenance of system and equipment	766,239
Fuel	27,100
Technical supplies	22,497
Utilities	176,366
Engineering and professional services	234,430
Training and education	785
Uniforms	12,837
Insurance	37,083
Total	<u>3,375,225</u>

Administrative

Professional services	51,546
Office supplies	106,692
Postage	30,404
Memberships and subscriptions	4,165
Advertising and printing	6,387
Bad debts	21,140
Insurance and other	3,827
Telephone and communication	58,230
Total	<u>282,391</u>

Depreciation and Amortization

1,076,579

Total Operating Expenses

\$ 6,649,686

See accompanying independent auditor's report.