

City of Isle of Palms, South Carolina
Report on Financial Statements
Year Ended June 30, 2017

**Basic Financial Statements,
Required Supplementary Information,
Other Supplementary Financial Information,
And Independent Auditors' Report**

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City of Isle of Palms, South Carolina

List of Elected and Appointed Officials

For the Year Ended June 30, 2017

MAYOR

Dick Cronin

CITY COUNCIL MEMBERS

Barbara Bergwerf

Marty Bettelli

Jimmy Carroll

Sandy Ferencz

Patrick Harrington

Ted Kinghorn

Carol Rice

Jimmy Ward

APPOINTED OFFICIALS

City Administrator

Assistant to Administrator

City Treasurer

City Clerk

Clerk of Court

Building Official

Director of Building, Planning, and Zoning

Fire Chief

Chief of Police

Public Works Director

Recreation Director

Linda Lovvorn Tucker

Desirée Fragoso

Debbie Schimsa Suggs

Marie Copeland

Amy Lee

William Seabrook

Douglas Kerr

Ann M. Graham

Thomas E. Buckhannon, III

Donnie Pitts

Norma Jean Page



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of City Council
City of Isle of Palms
Isle of Palms, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Isle of Palms, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Isle of Palms' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Isle of Palms, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules, on pages 3 – 14, 58 – 62, and 63 – 66, respectively, 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 City of Isle of Palms' basic financial statements. The accompanying supplementary information, such as the combining and individual non-major fund financial statements, schedule of budget to actual detailed revenues and expenditures, schedule of expenditures by type, and schedule of fines, assessments, and surcharges, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017 on our consideration of the City of Isle of Palms' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Isle of Palms' internal control over financial reporting and compliance.

McCay Kiddy LLC

Mount Pleasant, South Carolina
November 20, 2017

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management’s Discussion and Analysis
Year Ended June 30, 2017

The management of the City of Isle of Palms (“City”) offers readers of the City’s financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017 (“FY 2017” or “2017”) compared to fiscal year ended June 30, 2016 (“FY 2016” or “2016”). The intent of this discussion and analysis is to look at the City’s financial performance as a whole. Readers are encouraged to not only consider the information presented here but also the information provided in the financial statements and notes to the financial statements to enhance their understanding of the City’s overall financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by approximately \$24,798,000 (*net position*). Of this amount, approximately \$19,252,000 and \$5,546,000 were related to the City’s governmental and business-type activities, respectively. In addition, the City’s unrestricted net position (which may be used to meet the City’s ongoing obligations to citizens and creditors) was approximately \$2,096,000 for its governmental activities and approximately \$717,000 for its business-type activities.
- The City’s total revenues of approximately \$16,524,000 exceeded total expenses of approximately \$13,665,000, resulting in an increase from the prior fiscal year of approximately \$2,860,000 in net position.
- At the close of 2017, the City’s governmental funds reported combined ending fund balances of approximately \$17,418,000, an increase of approximately \$2,485,000 over the prior year’s fund balances. Approximately 16% of the total fund balance, or roughly \$2,762,000, is available for spending at the City’s discretion (*unassigned fund balance*).
- The City added capital assets of approximately \$1,172,000 during the current fiscal year. Capital asset additions included vehicles, solar parking meters, radios, soccer field lights, land improvements related to a golf cart path and construction of a vehicle wash at the Public Works department. Capital asset additions were offset by depreciation expense of approximately \$1,368,000 and \$124,000 for governmental and business-type activities, respectively. As depreciation expense was more than the capital asset additions for the year, total capital assets decreased by approximately \$316,000 (1%) from FY 2016.
- The City’s total debt decreased by \$990,000 (11%) during the current fiscal year due primarily to normally scheduled debt service payments.
- Standard and Poor’s increased the City’s bond rating from “AA” to “AA+” in September 2014. The City continues to hold an “Aa2” rating from Moody’s.

OVERVIEW OF FINANCIAL STATEMENTS

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

Financial Statements

This discussion and analysis is intended to serve as an introduction to the City’s financial statements. The City’s financial statements are comprised of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statements present two different views of the City through the use of government-wide statements and fund financial statements.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

Government-Wide Financial Statements. The financial statements include two statements that present different views of the City. These are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The *statement of net position* presents information on all of the City's assets and deferred outflows of resources (if any) and liabilities and deferred inflows of resources (if any), with the differences between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The government-wide financial statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include general government; public safety; building, planning and engineering; public works; recreation; and non-departmental services. Taxes, business licenses, building permits, and state and federal grant revenues finance most of these activities. The business-type activities are the City's marina operations. The government-wide financial statements can be found as listed in the table of contents.

Fund Financial Statements. The fund financial statements provide a more detailed look at the City's most significant activities. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

The City maintains twelve (12) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, Capital Projects Fund, Municipal Accommodations Fee Fund, State Accommodations Tax Fund, Hospitality Tax Fund, Beach Restoration Fund, and Beach Preservation Fee Fund – since they are considered major funds. Information from the other five (5) governmental funds is combined into aggregated presentations – non-major governmental funds. Individual fund data for each of these non-major governmental funds are provided in the form of combining schedules elsewhere in this report. The governmental fund financial statements can be found as listed in the table of contents.

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

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. *Agency Funds* are used to account for assets the City holds on behalf of others. The City's 1% Volunteer Fire Department Fund is used by the City to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by insurance companies. Agency funds are custodial in nature and do not present results of operations. The financial statement of the fiduciary fund can be found as listed in the table of contents.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as listed in the table of contents.

Other Information – In addition to the financial statements and accompanying notes, this report includes certain required supplementary information. Budgetary comparison schedules have been provided for the General Fund and all of the major special revenue funds with legally adopted budgets to demonstrate compliance with their budgets. Pension schedules have been included to provide information regarding the City's participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. Required supplementary information can be found as listed in the table of contents.

Supplementary information, including non-major governmental funds, is presented immediately following the required supplementary information. These schedules can be found as listed in the table of contents.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

Figure A-1				
Major Features of the City's Government-Wide and Fund Financial Statements				
	<u>Government-Wide Financial Statements</u>	<u>Fund Financial Statements</u>		
	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>	
Scope	Entire City government (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary.	Activities the City operates similar to private businesses, in the City's case, all activities related to the marina.	Instances in which the City is the trustee or agent for someone else's resources, in the City's case, 1% Volunteer Fire Department Fund.
Required Financial Statements	* Statement of Net Position * Statement of Activities	* Balance Sheet * Statement of Revenues, Expenditures, and Changes in Fund Balances	* Statement of Net Position * Statement of Revenues, Expenses and Changes in Net Position * Statement of Cash Flows	* Statement of Fiduciary Assets and Liabilities
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of Balance Sheet Information	All balance sheet elements - both financial and capital, and short-term and long-term.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the City's net position as of June 30, 2017 compared to June 30, 2016:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and Other Assets	\$ 23,256,898	\$ 15,833,291	\$ 750,473	\$ 555,163	\$ 24,007,371	\$ 16,388,454
Capital Assets, Net	17,620,043	17,815,941	5,428,834	5,549,498	23,048,877	23,365,439
Total Assets	40,876,941	33,649,232	6,179,307	6,104,661	47,056,248	39,753,893
Deferred Outflows of Resources:						
Deferred Pension Charges	2,111,114	1,108,179	-	-	2,111,114	1,108,179
Liabilities						
Long-Term Obligations	7,903,164	8,549,084	600,000	900,000	8,503,164	9,449,084
Net Pension Liability	9,911,089	8,465,220	-	-	9,911,089	8,465,220
Other Liabilities	5,891,342	938,260	33,440	26,864	5,924,782	965,124
Total Liabilities	23,705,595	17,952,564	633,440	926,864	24,339,035	18,879,428
Deferred Inflows of Resources:						
Deferred Pension Credits	30,353	44,237	-	-	30,353	44,237
Net Position						
Net Investment in Capital Assets	9,933,406	9,451,961	4,828,834	4,649,498	14,762,240	14,101,459
Restricted	7,237,394	5,971,684	-	-	7,237,394	5,971,684
Unrestricted	2,081,307	1,336,965	717,033	528,299	2,798,340	1,865,264
Total Net Position	\$ 19,252,107	\$ 16,760,610	\$ 5,545,867	\$ 5,177,797	\$ 24,797,974	\$ 21,938,407

The City's total assets of approximately \$47,056,000 increased from the prior year due to an increase in cash and other assets, particularly related to beach restoration funding received for the offshore project to be completed in fiscal year 2018. Total liabilities as of June 30, 2017 increased by approximately \$5,460,000 due to an increase in other liabilities primarily resulting from the private stakeholder contributions held in anticipation of the beach restoration project.

The City's net position increased approximately \$2,860,000 during the current fiscal year as current year revenues exceeded current year expenses. Please see discussion following the next table regarding this increase.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$24,798,000 as of June 30, 2017. Approximately 59% of total net position (\$14,762,000) reflects the City's investment in capital assets (i.e., land, buildings, furniture and equipment, infrastructure, etc.) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 29% of net position (\$7,222,000) represents resources that are subject to external restrictions on how they may be used. This portion of the net position is restricted primarily for special revenue programs which are restricted by the revenue source. The remaining portion of the City's net position (11% or \$2,814,000) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current and prior fiscal year, the City is able to report positive balances in all three categories of net position.

The following table shows the changes in the City's net position for 2017 compared to 2016:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,702,628	\$ 4,429,631	\$ 409,343	\$ 396,417	\$ 5,111,971	\$ 4,826,048
Capital Grants and Contributions	535,137	154,882	-	-	535,137	154,882
General Revenues:						
Taxes	10,038,469	9,818,689	-	-	10,038,469	9,818,689
Other	819,391	327,173	19,224	1,607	838,615	328,780
Total Revenues	16,095,625	14,730,375	428,567	398,024	16,524,192	15,128,399
Expenses:						
General Government	2,486,199	2,057,420	-	-	2,486,199	2,057,420
Public Safety	6,699,725	6,340,252	-	-	6,699,725	6,340,252
Building, Planning and Engineering	411,261	414,296	-	-	411,261	414,296
Public Works	1,675,456	1,634,127	-	-	1,675,456	1,634,127
Recreation	1,285,175	1,240,226	-	-	1,285,175	1,240,226
Non-Departmental	522,373	511,349	-	-	522,373	511,349
Interest on Long-Term Obligations	241,514	327,221	-	-	241,514	327,221
Marina	-	-	342,922	358,037	342,922	358,037
Total Expenses	13,321,703	12,524,891	342,922	358,037	13,664,625	12,882,928
Change in Net Position Before Transfers	2,773,922	2,205,484	85,645	39,987	2,859,567	2,245,471
Transfer In (Out)	(282,425)	(268,000)	282,425	268,000	-	-
Change in Net Position	2,491,497	1,937,484	368,070	307,987	2,859,567	2,245,471
Net Position - Beginning of Year	16,760,610	14,823,126	5,177,797	4,869,810	21,938,407	19,692,936
Net Position - End of Year	\$ 19,252,107	\$ 16,760,610	\$ 5,545,867	\$ 5,177,797	\$ 24,797,974	\$ 21,938,407

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

Governmental Activities:

Governmental activities had a net increase in net position of approximately \$2,491,000 in 2017.

Compared to the prior year, total governmental activities revenue increased by approximately \$1,365,000 or 9%. Key changes compared to the prior year were as follows:

- Intergovernmental revenues increased by approximately \$453,000 due primarily to funding received from the Charleston County stormwater program related to the construction of a vehicle wash station at the Public Works Department.
- Revenues from grants and contributions increased by approximately \$380,000 due primarily to FEMA and State of SC grants related to disaster recovery.
- Parking revenues increased approximately \$149,000 due to increased hourly rates and the addition of parking kiosks in the municipal parking lots.

Revenues from tourism, including accommodations and hospitality taxes, increased by approximately \$101,000 or 2% from the prior year.

Expenses related to total governmental activities increased by approximately \$797,000, or 6%, from the prior year. Key changes as compared to the prior year were as follows:

- Salary and fringe expense increased by approximately \$153,000 or 3% due to increases in employee pay, primarily resulting from cost of living and merit increases.
- Capital outlay expenses increased approximately \$372,000, primarily related to the new vehicle wash station.

Business-Type Activities:

Net position related to business-type activities (i.e., the marina) increased by approximately \$368,000. This increase was due in part to budgeted transfers in of \$282,000 from the State Accommodations Tax Fund which were used to fund costs related to debt service and professional services. The Marina also generated revenue (lease income) in excess of expenses (primarily interest on debt, depreciation, dock insurance, and professional services) equal to approximately \$86,000.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At June 30, 2017, the City's governmental funds reported a combined ending fund balance of approximately \$17,418,000, an increase of approximately \$2,485,000, or 17%, over the prior year's combined fund balance.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

Approximately 16% of the total governmental fund balance (\$2,762,000) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is not available for new discretionary spending because it has already been constrained: (1) for tourism-related expenditures or operating expenses incurred to serve tourists (\$4,640,000), (2) for recovery efforts on future disasters (\$2,368,000), (3) for beach maintenance (\$400,000), (4) for capital projects (\$3,423,000), (5) for debt service (\$274,000), (6) for beach preservation (\$2,221,000) and (7) for other purposes primarily related to either police department initiatives, island beautification, drainage initiatives, recreation center improvements, victims' services, narcotics programs, and inventories (\$1,330,000).

The General Fund is the primary operating fund of the City. At June 30, 2017, the total fund balance was approximately \$5,903,000. As a measure of the General Fund's liquidity, it is useful to compare total unassigned fund balance to total General Fund expenditures. Total unassigned fund balance of the General Fund (\$2,762,000) represents approximately 27% of total General Fund expenditures (\$10,051,000).

Highlights for General Fund revenues and other financing sources were as follows:

- Property tax revenue is stable. The City's millage rate was unchanged from the prior year rate of 24.7 mills.
- Total General Fund revenues were up by approximately \$672,000 from the prior year. The most significant changes were:
 - Parking revenues increased approximately \$149,000 due to increased hourly rates and the addition of parking kiosks in the municipal parking lots.
 - Revenues from grants and contributions increased by approximately \$288,000 or 1700%. The increase primarily related to FEMA and State of SC funds awarded related to disaster recovery, including funds for emergency berm restoration on the beach.
- In order to maintain the level of service that residents and visitors expect, the City supplemented General Fund revenues with tourism-related revenues where appropriate. In FY 2017, \$1,243,000 of tourism-related revenue including the accommodations and hospitality tax funds were transferred into the General Fund to help pay for public safety and public works efforts required for tourism. This is an increase of \$16,000 over FY 2016.

Total General Fund expenditures of \$10,051,000 decreased by \$1,852,000, or 16%, over FY 2016:

- Salary and fringe expense increased by approximately \$284,000 or 4% due to increases in employee pay, primarily resulting from cost of living and merit increases.
- Prior year expenditures included \$2,235,000 that was directly attributable to the payoff/refunding of the 2006 General Obligation Bonds (which were used to finance the construction of Fire Station 2) which was refinanced at a lower interest rate. No such refinancing was done during the current year, and this resulted in a decrease of debt service expenditures of approximately \$2,274,000.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

The total fund balance of the remaining governmental funds (Capital Projects, Special Revenue, and Non-major Funds) increased by approximately \$2,203,000 from the prior year. Highlights for these funds were as follows:

- The Capital Projects Fund expended approximately \$510,000 during the fiscal year for the purchase of vehicles, equipment and various other capital assets. The General Fund transferred approximately \$1,177,000 into the Capital Projects Fund for future capital expenditures. The ending fund balance in the Capital Projects Fund was approximately \$4,541,000.
- Municipal and state accommodations revenues saw little change over the prior year. Accommodations funds were expended for various tourism-related efforts, including operation of the public restrooms, parking management, purchases of police, fire and public works vehicles, debt service on the recreation center and marina, and special events such as the 4th of July fireworks show. The Municipal Accommodations Fee Fund and the State Accommodations Tax Fund together also transferred approximately \$1,140,000 to the General Fund to offset personnel and other costs in the Police, Fire and Public Works Departments. At June 30, 2017, the Municipal Accommodations Fee Fund had a fund balance of approximately \$1,600,000 while the State Accommodations Tax Fund had a fund balance of approximately \$2,167,000 and the new Beach Preservation Fee Fund had a fund balance of approximately \$2,221,000.
- The fund balance for the Hospitality Tax Fund at June 30, 2017 was approximately \$873,000. In 2017, these funds were used to support personnel expenses in the General Fund, Public Safety equipment purchases, debt service on the Fire Station No. 2 GO bond and City-wide expenses related to landscaping and street sweeping.

Proprietary Fund. The City's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Net position of the Marina Enterprise Fund at the end of FY 2017 amounted to approximately \$5,546,000. Please see "Business-Type Activities" discussion in the previous section for details.

Fiduciary Fund. The Volunteer Fire Department Fund is used by the City to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by fire insurance companies. Agency funds are custodial in nature and do not present results of operations. The Fiduciary Fund had amounts held in custody for others of approximately \$202,000 at June 30, 2017.

General Fund Budgetary Highlights: If budget amendments are made, they generally fall into one of three categories: amendments made to adjust the estimates used to prepare the original budget ordinance once exact information is available; amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and increases in appropriations that become necessary to maintain services. The City did not make any budget amendments during FY 2017.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets as of June 30, 2017 amounted to approximately \$23,048,000. Capital assets primarily include land, construction in progress, buildings, improvements, vehicles, furniture, equipment, and other infrastructure. The City's capital assets (net of depreciation) as of June 30, 2017 and 2016 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 4,272,896	\$ 4,272,896	\$ 3,035,786	\$ 3,035,786	\$ 7,308,682	\$ 7,308,682
Construction in Progress	616,551	190,052	-	-	616,551	190,052
Land Improvements	1,779,147	1,794,353	1,995,820	2,062,230	3,774,967	3,856,583
Buildings and Improvements	9,131,526	9,661,337	242,812	254,618	9,374,338	9,915,955
Vehicles and Vehicle Equipment	1,292,964	1,486,709	-	-	1,292,964	1,486,709
Equipment	524,753	407,680	6,035	7,078	530,788	414,758
Furniture and Fixtures	2,206	2,914	-	-	2,206	2,914
Docks	-	-	148,381	189,786	148,381	189,786
Total	\$ 17,620,043	\$ 17,815,941	\$ 5,428,834	\$ 5,549,498	\$ 23,048,877	\$ 23,365,439

The total decrease in the City's capital assets for FY 2017 was approximately \$317,000 or 1%. The decrease resulted because depreciation expense for the year was higher than capital asset additions for the year. Major capital asset events during FY 2017 included the following:

- Capital asset additions of approximately \$1,175,000 consisted primarily of:
 - Police, fire, public works and recreation vehicles for \$216,000
 - Solar parking meters for \$23,000
 - Police and fire radios and equipment for \$244,000
 - Land improvements of \$207,000 including soccer field lights and a golf cart path
 - Building improvements of \$32,000
 - Construction in progress of \$426,000 including the vehicle wash station at Public Works
- Depreciation expense of approximately \$1,368,000 for governmental activities and \$124,000 for business-type activities.

Additional information on the City's capital assets can be found in Notes I and III in the notes to the financial statements.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management’s Discussion and Analysis
Year Ended June 30, 2017

Debt

As of June 30, 2017, the City had total outstanding debt of approximately \$8,090,000. All of this debt consisted of general obligation bonds (“GOB”) which are backed by the full faith and credit of the City. The City’s total debt as of June 30, 2017 and 2016 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
General Obligation Bonds	\$ 7,490,000	\$8,180,000	\$ 600,000	\$ 900,000	\$ 8,090,000	\$ 9,080,000
Total	<u>\$ 7,490,000</u>	<u>\$8,180,000</u>	<u>\$ 600,000</u>	<u>\$ 900,000</u>	<u>\$ 8,090,000</u>	<u>\$ 9,080,000</u>

The total decrease in the City’s debt for FY 2017 was \$990,000 or 11%.

The State of South Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The City’s statutory debt limit at June 30, 2017 was approximately \$15,934,000. The City had \$6,305,000 of bonded debt subject to the 8% limit and, thus, as of June 30, 2017 had an unused legal debt margin of approximately \$9,629,000.

The City continues to hold an “Aa2” rating from Moody’s and a bond rating of AA+ from Standard & Poor’s.

Additional information regarding the City’s long-term obligations and pension amounts can be found in Note III and Note IV.B, respectively, in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The City’s elected officials and staff considered many factors when setting the fiscal year 2018 (“FY 2018” or “2018”) budget. The state of the economy, tourism activity, anticipated building activity, future capital needs and the best interests of the City’s residents were all taken into account.

- **Millage and Property Tax Revenues:** The City’s 2018 budget projects property tax revenue approximately equal to actual FY 2017 collections. There was no change to the City’s millage rate in 2017.
- **Business Licenses and Building Permits:** The City’s 2018 budget for revenues from business licenses and building permits was based on 2017 actual results.
- **Tourism-Related Revenues:** Total revenues from State Accommodations Tax, Municipal Accommodations Fee, Hospitality Tax and the Beach Preservation Fee are budgeted based on the most recent collections. The total FY 2018 budget for these revenues is \$4,752,000, which is a 4% decrease over the FY 2017 budget.
- **Salaries and Wages:** The 2018 budget includes a 4.7% provision for cost of living and merit-based salary and wage adjustments.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Management's Discussion and Analysis
Year Ended June 30, 2017

- **Drainage and Stormwater Compliance:** The 2018 budget includes \$1,657,000 for construction of drainage improvements in the area of 46th – 52nd Avenues and \$100,000 for drainage ditch maintenance.
- **Beach Restoration:** The 2018 budget includes \$15,004,000 for an offshore beach restoration project on the northeast end of the island. This effort is expected to begin in late 2017 or early 2018.

REQUESTS FOR CITY INFORMATION

This financial report is designed to provide a general overview of the City of Isle of Palms' finances for all those with an interest in the government's financing. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, Post Office Drawer 508, Isle of Palms, South Carolina 29451. General information about the City can be obtained from the website at www.iop.net.



Government-Wide Financial Statements

City of Isle of Palms, South Carolina
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 9,945,910	\$ 685,611	\$ 10,631,521
Cash and Cash Equivalents - Restricted	11,454,827	-	11,454,827
Taxes Receivable, Net	161,602	-	161,602
Other Receivables, Net	1,524,218	64,862	1,589,080
Due from Other Governments	147,832	-	147,832
Inventory	22,509	-	22,509
Capital Assets:			
Non-Depreciable	4,889,447	3,035,786	7,925,233
Depreciable, Net	12,730,596	2,393,048	15,123,644
Total Assets	\$ 40,876,941	\$ 6,179,307	\$ 47,056,248
Deferred Outflows of Resources			
Deferred Pension Charges	\$ 2,111,114	\$ -	\$ 2,111,114
Liabilities			
Accounts Payable	\$ 563,980	\$ 13,590	\$ 577,570
Other Accrued Liabilities	302,066	15,500	317,566
Court Assessments/Victim's Rights Liabilities	31,574	-	31,574
Accrued Interest	82,207	4,350	86,557
Unearned Revenue	4,911,515	-	4,911,515
Net Pension Liabilities	9,911,089	-	9,911,089
Long-Term Obligations:			
Due Within One Year	901,638	300,000	1,201,638
Due In More Than One Year	7,001,526	300,000	7,301,526
Total Liabilities	\$ 23,705,595	\$ 633,440	\$ 24,339,035
Deferred Inflows of Resources			
Deferred Pension Credits	\$ 30,353	\$ -	\$ 30,353
Net Position			
Net Investment in Capital Assets	\$ 9,933,406	\$ 4,828,834	\$ 14,762,240
Restricted for:			
Tourism Related Expenditures	4,639,881	-	4,639,881
Beach Preservation	2,221,184	-	2,221,184
Debt Service	273,817	-	273,817
Victim's Services	13,571	-	13,571
Narcotics Program	13,253	-	13,253
Beautification	75,688	-	75,688
Unrestricted	2,081,307	717,033	2,798,340
Total Net Position	\$ 19,252,107	\$ 5,545,867	\$ 24,797,974

See accompanying notes and independent auditors' report.

City of Isle of Palms, South Carolina
Statement of Activities
Year Ended June 30, 2017

Functions/Programs			Program Revenues		Net (Expense) Revenue and Changes In Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total Primary Government
			Grants and Contributions				
Primary Government:							
Governmental Activities:							
General Government	\$ 2,486,199	\$ -	\$ -	\$ 535,137	\$ (1,951,062)	\$ -	\$ (1,951,062)
Public Safety	6,699,725	273,989	-	-	(6,425,736)	-	(6,425,736)
Building, Planning, and Engineering	411,261	3,464,053	-	-	3,052,792	-	3,052,792
Public Works	1,675,456	-	-	-	(1,675,456)	-	(1,675,456)
Recreation	1,285,175	256,293	-	-	(1,028,882)	-	(1,028,882)
Non-Departmental	522,373	708,293	-	-	185,920	-	185,920
Interest on Long Term Obligations	241,514	-	-	-	(241,514)	-	(241,514)
Total Governmental Activities	13,321,703	4,702,628	-	535,137	(8,083,938)	-	(8,083,938)
Business-Type Activities:							
Marina	342,922	409,343	-	-	-	66,421	66,421
Total Primary Government	\$ 13,664,625	\$ 5,111,971	\$ -	\$ 535,137	(8,083,938)	66,421	(8,017,517)
General Revenues:							
Taxes:							
Property Taxes Levied for General Purposes					3,595,263	-	3,595,263
Property Taxes Levied for Debt Service Purposes					682,377	-	682,377
Local Option Sales Taxes					731,540	-	731,540
Hospitality Taxes					746,402	-	746,402
Accommodations Taxes					4,282,887	-	4,282,887
Intergovernmental					629,909	-	629,909
Interest Income					122,022	3,433	125,455
Gain on Disposal of Capital Assets					20,774	-	20,774
Miscellaneous					46,686	15,791	62,477
Transfers In (Out)					(282,425)	282,425	-
Total General Revenues and Transfers					10,575,435	301,649	10,877,084
Changes In Net Position					2,491,497	368,070	2,859,567
Net Position, Beginning of Year					16,760,610	5,177,797	21,938,407
Net Position, End of Year					\$ 19,252,107	\$ 5,545,867	\$ 24,797,974

Fund Financial Statements

City of Isle of Palms, South Carolina
Balance Sheet – Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Municipal Accom- modations Fee Fund</u>
Assets			
Cash and Cash Equivalents	\$ 5,859,954	\$ 4,071,018	\$ -
Cash and Cash Equivalents - Restricted	287,856	-	1,520,338
Taxes Receivable, Net	72,293	-	-
Accounts Receivable	451,968	3,025	238,437
Due From:			
Other Governments	147,832	-	-
Other Funds	221,638	721,945	29,147
Inventory	22,509	-	-
Total Assets	<u>\$ 7,064,050</u>	<u>\$ 4,795,988</u>	<u>\$ 1,787,922</u>
Liabilities			
Accounts Payable	\$ 67,459	\$ 154,758	\$ 34,141
Other Accrued Liabilities	302,066	-	-
Court Assessments/Victim's Rights Liabilities	31,574	-	-
Due To:			
Other Funds	702,531	100,000	154,104
Unearned Revenue	28,350	-	-
Total Liabilities	<u>1,131,980</u>	<u>254,758</u>	<u>188,245</u>
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	29,494	-	-
Total Deferred Inflows of Resources	<u>29,494</u>	<u>-</u>	<u>-</u>
Fund Balances			
Nonspendable:			
Inventory	22,509	-	-
Restricted:			
Victims' Services	-	-	-
Narcotics Program	-	-	-
Debt Service	273,817	-	-
Tourism Related Expenditures	-	-	1,599,677
Beach Preservation	-	-	-
Beautification	75,688	-	-
Committed:			
Recovery Effort on Future Disasters	2,367,727	-	-
Assigned:			
Drainage Improvements	-	1,117,575	-
Beach Maintenance	400,409	-	-
Recreation Center	-	-	-
Capital Projects	-	3,318,321	-
Other	-	105,334	-
Unassigned	2,762,426	-	-
Total Fund Balances	<u>5,902,576</u>	<u>4,541,230</u>	<u>1,599,677</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,064,050</u>	<u>\$ 4,795,988</u>	<u>\$ 1,787,922</u>

See accompanying notes and independent auditors' report.

City of Isle of Palms, South Carolina
Balance Sheet – Governmental Funds
June 30, 2017

	State Accom- modations Tax Fund	Hospitality Tax Fund	Beach Restoration Fund
Assets			
Cash and Cash Equivalents	\$ -	\$ -	\$ -
Cash and Cash Equivalents - Restricted	1,793,856	791,235	4,948,592
Taxes Receivable, Net	-	89,309	-
Accounts Receivable	595,518	-	-
Due From:			
Other Governments	-	-	-
Other Funds	10,521	999	-
Inventory	-	-	-
Total Assets	\$ 2,399,895	\$ 881,543	\$ 4,948,592
Liabilities			
Accounts Payable	\$ 203,332	\$ 8,755	\$ 65,427
Other Accrued Liabilities	-	-	-
Court Assessments/Victim's Rights Liabilities	-	-	-
Due To:			
Other Funds	29,147	-	-
Unearned Revenue	-	-	4,883,165
Total Liabilities	232,479	8,755	4,948,592
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	-	-	-
Total Deferred Inflows of Resources	-	-	-
Fund Balances			
Nonspendable:			
Inventory	-	-	-
Restricted:			
Victims' Services	-	-	-
Narcotics Program	-	-	-
Debt Service	-	-	-
Tourism Related Expenditures	2,167,416	872,788	-
Beach Preservation	-	-	-
Beautification	-	-	-
Committed:			
Recovery Effort on Future Disasters	-	-	-
Assigned:			
Drainage Improvements	-	-	-
Beach Maintenance	-	-	-
Recreation Center	-	-	-
Capital Projects	-	-	-
Other	-	-	-
Unassigned	-	-	-
Total Fund Balances	2,167,416	872,788	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,399,895	\$ 881,543	\$ 4,948,592

See accompanying notes and independent auditors' report.

City of Isle of Palms, South Carolina
Balance Sheet – Governmental Funds
June 30, 2017

	<u>Beach Preservation Fee Fund</u>	<u>Total Non-Major Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$ -	\$ 14,938	\$ 9,945,910
Cash and Cash Equivalents - Restricted	2,009,121	103,829	11,454,827
Taxes Receivable, Net	-	-	161,602
Accounts Receivable	235,269	-	1,524,217
Due From:			
Other Governments	-	-	147,832
Other Funds	-	1,532	985,782
Inventory	-	-	22,509
Total Assets	<u>\$ 2,244,390</u>	<u>\$ 120,299</u>	<u>\$ 24,242,679</u>
Liabilities			
Accounts Payable	\$ 23,206	\$ 6,902	\$ 563,980
Other Accrued Liabilities	-	-	302,066
Court Assessments/Victim's Rights Liabilities	-	-	31,574
Due To:			
Other Funds	-	-	985,782
Unearned Revenue	-	-	4,911,515
Total Liabilities	<u>23,206</u>	<u>6,902</u>	<u>6,794,917</u>
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	-	-	29,494
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>29,494</u>
Fund Balances			
Nonspendable:			
Inventory	-	-	22,509
Restricted:			
Victims' Services	-	13,571	13,571
Narcotics Program	-	13,253	13,253
Debt Service	-	-	273,817
Tourism Related Expenditures	-	-	4,639,881
Beach Preservation	2,221,184	-	2,221,184
Beautification	-	-	75,688
Committed:			
Recovery Effort on Future Disasters	-	-	2,367,727
Assigned:			
Drainage Improvements	-	-	1,117,575
Beach Maintenance	-	-	400,409
Recreation Center	-	71,635	71,635
Capital Projects	-	-	3,318,321
Other	-	14,938	120,272
Unassigned	-	-	2,762,426
Total Fund Balances	<u>2,221,184</u>	<u>113,397</u>	<u>17,418,268</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,244,390</u>	<u>\$ 120,299</u>	<u>\$ 24,242,679</u>

See accompanying notes and independent auditors' report.

City of Isle of Palms, South Carolina
Reconciliation of Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2017

Total Fund Balances - Governmental Funds	\$	17,418,268
<p>Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:</p>		
Property taxes that will be collected in the future but are not available soon enough to pay for the current period's expenditures are, therefore, deferred in the funds.		29,494
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets was \$31,539,278 and the accumulated depreciation was \$13,919,235.		17,620,043
The City's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State pension plans are not recorded in the governmental funds but are recorded in the Statement of Net Position.		(7,830,328)
Accrued interest payable is recognized for governmental activities but was not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(82,205)
Long-term obligations (which includes debt and compensated absences) are not due or payable in the current period and, therefore, are not reported in the governmental funds.		
Debt		(7,490,000)
Compensated Absences		(413,165)
Total Net Position - Governmental Activities	\$	<u>19,252,107</u>

City of Isle of Palms, South Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Municipal Accom- modations Fee Fund</u>
Revenues			
Property Taxes	\$ 4,301,353	\$ -	\$ -
Local Option Sales Tax	731,540	-	-
Hospitality Taxes	-	-	-
Intergovernmental	273,606	471,200	1,489,974
Licenses and Permits	3,464,053	-	-
Fines and Forfeitures	263,440	-	-
Grant Revenue	304,587	-	-
Contribution of Cash	-	-	-
Revenue from Use of Property	708,293	-	-
Interest	39,535	29,278	12,559
Other	277,270	8,099	-
Total Revenues	<u>10,363,677</u>	<u>508,577</u>	<u>1,502,533</u>
Expenditures			
Current:			
General Government	1,226,401	73,965	47,114
Public Safety	5,480,077	12,281	49,305
Building, Planning, and Engineering	374,986	320	-
Public Works	1,174,104	77,992	95,047
Recreation	960,971	24,366	-
Non-Departmental	101,194	-	213,879
Capital Outlay	-	510,361	458,646
Debt Service:			
Principal	518,000	-	64,000
Interest	215,389	-	9,038
Total Expenditures	<u>10,051,122</u>	<u>699,285</u>	<u>937,029</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>312,555</u>	<u>(190,708)</u>	<u>565,504</u>
Other Financing Sources (Uses)			
Transfers In	1,242,992	1,176,837	-
Transfers Out	(1,276,837)	-	(566,813)
Sale of Capital Assets	3,677	-	5,495
Total Other Financing Sources (Uses)	<u>(30,168)</u>	<u>1,176,837</u>	<u>(561,318)</u>
Net Changes In Fund Balances	282,387	986,129	4,186
Fund Balances, Beginning of Year	\$ 5,620,189	\$ 3,555,101	\$ 1,595,491
Fund Balances, End of Year	<u>\$ 5,902,576</u>	<u>\$ 4,541,230</u>	<u>\$ 1,599,677</u>

See accompanying notes and independent auditors' report.

City of Isle of Palms, South Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

	State Accom- modations Tax Fund	Hospitality Tax Fund	Beach Restoration Fund
Revenues			
Property Taxes	\$ -	\$ -	\$ -
Local Option Sales Tax	-	-	-
Hospitality Taxes	-	746,402	-
Intergovernmental	1,708,042	-	-
Licenses and Permits	-	-	-
Fines and Forfeitures	-	-	-
Grant Revenue	-	-	-
Contribution of Cash	-	-	230,550
Revenue from Use of Property	-	-	-
Interest	15,583	3,762	13,092
Other	1,750	-	-
Total Revenues	1,725,375	750,164	243,642
Expenditures			
Current:			
General Government	611,513	-	243,642
Public Safety	4,566	39,363	-
Building, Planning, and Engineering	-	361	-
Public Works	12,768	72,409	-
Recreation	50,889	-	-
Non-Departmental	216,572	-	-
Capital Outlay	193,030	-	-
Debt Service:			
Principal	-	108,000	-
Interest	-	17,087	-
Total Expenditures	1,089,338	237,220	243,642
Excess (Deficiency) of Revenues Over Expenditures	636,037	512,944	-
Other Financing Sources (Uses)			
Transfers In	-	-	-
Transfers Out	(573,442)	(274,162)	-
Sale of Capital Assets	5,805	5,797	-
Total Other Financing Sources (Uses)	(567,637)	(268,365)	-
Net Changes In Fund Balances	68,400	244,579	-
Fund Balances, Beginning of Year	\$ 2,099,016	\$ 628,209	\$ -
Fund Balances, End of Year	\$ 2,167,416	\$ 872,788	\$ -

City of Isle of Palms, South Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

	<u>Beach Preservation Fee Fund</u>	<u>Total Non-Major Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property Taxes	\$ -	\$ -	\$ 4,301,353
Local Option Sales Tax	-	-	731,540
Hospitality Taxes	-	-	746,402
Intergovernmental	969,974	-	4,912,796
Licenses and Permits	-	-	3,464,053
Fines and Forfeitures	-	10,549	273,989
Grant Revenue	-	-	304,587
Contribution of Cash	-	-	230,550
Revenue from Use of Property	-	-	708,293
Interest	8,202	11	122,022
Other	-	15,860	302,979
Total Revenues	<u>978,176</u>	<u>26,420</u>	<u>16,098,564</u>
Expenditures			
Current:			
General Government	57,089	7,939	2,267,663
Public Safety	-	3,791	5,589,383
Building, Planning, and Engineering	-	-	375,667
Public Works	-	-	1,432,320
Recreation	-	15,791	1,052,017
Non-Departmental	-	-	531,645
Capital Outlay	7,450	2,250	1,171,737
Debt Service:			
Principal	-	-	690,000
Interest	-	-	241,514
Total Expenditures	<u>64,539</u>	<u>29,771</u>	<u>13,351,946</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>913,637</u>	<u>(3,351)</u>	<u>2,746,618</u>
Other Financing Sources (Uses)			
Transfers In	-	3,000	2,422,829
Transfers Out	-	(14,000)	(2,705,254)
Sale of Capital Assets	-	-	20,774
Total Other Financing Sources (Uses)	<u>-</u>	<u>(11,000)</u>	<u>(261,651)</u>
Net Changes In Fund Balances	913,637	(14,351)	2,484,967
Fund Balances, Beginning of Year	<u>\$ 1,307,547</u>	<u>\$ 127,748</u>	<u>\$ 14,933,301</u>
Fund Balances, End of Year	<u>\$ 2,221,184</u>	<u>\$ 113,397</u>	<u>\$ 17,418,268</u>

See accompanying notes and independent auditors' report.

**City of Isle of Palms, South Carolina
Reconciliation of the Statement of Revenues,
Expenditures, and Fund Balances of the
Governmental Funds to the Statement of Activities
Year Ended June 30, 2017**

Total Net Change In Fund Balances - Governmental Funds \$ 2,484,967

Amounts reported for the governmental activities in the Statement of Activities
are different because of the following:

Property taxes that will be collected in the future, but are not available soon enough
to pay for the current period's expenditures are, therefore, deferred in the funds. (23,713)

Bond principal payments are expenditures in the governmental funds, but the repayment reduces
long-term obligations in the Statement of Net Position. 690,000

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the
governmental funds because interest is recognized as an expenditure in the funds when it is due
and payable and thus requires the use of current financial resources. In the Statement of Activities,
however, interest expense is recognized as the interest accrues, regardless of when it is due and
payable. This adjustment relates to the change in accrued interest from the prior year. 9,272

Governmental funds report the City's pension contributions as expenditures, however in the Statement of
Activities, the cost of pension benefits earned net of employee contributions is reported as pension
expense. This is the amount by which the costs of benefits earned (\$1,087,601) exceeds employee
contributions (\$658,550). (429,051)

Some expenses reported in the Statement of Activities do not require the use of current financial
resources and, therefore, are not reported as expenditures in the governmental funds. (44,080)

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost
of those assets that are considered capital asset additions is allocated over their estimated useful lives as
depreciation expense. This is the amount by which depreciation expenses of \$1,367,635 exceeded capital
asset additions of \$1,171,737 in the current period. (195,898)

Total Change In Net Position of Governmental Activities \$ 2,491,497

City of Isle of Palms, South Carolina
Statement of Net Position
Proprietary Fund
June 30, 2017

	Marina <u>Enterprise Fund</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 685,611
Accounts Receivable	<u>64,862</u>
Total Current Assets	<u>750,473</u>
Noncurrent Assets	
Capital Assets:	
Land	3,035,786
Land Improvements	2,655,808
Building and Improvements	846,998
Docks	674,861
Equipment	283,042
Less: Accumulated Depreciation	<u>(2,067,661)</u>
Total Noncurrent Assets	<u>5,428,834</u>
Total Assets	<u>6,179,307</u>
Liabilities	
Current Liabilities	
Accounts Payable	13,590
Accrued Interest	4,350
Security Deposits	15,500
Bond Payable, Current Portion	<u>300,000</u>
Total Current Liabilities	<u>333,440</u>
Noncurrent Liabilities	
Bond Payable, Net of Current Portion	<u>300,000</u>
Total Liabilities	<u>633,440</u>
Net Position	
Net Investment in Capital Assets	4,828,834
Unrestricted	<u>717,033</u>
Total Net Position	<u><u>\$ 5,545,867</u></u>

City of Isle of Palms, South Carolina
Statement of Revenues, Expenditures, and
Changes in Net Position – Proprietary Fund
Year Ended June 30, 2017

	Marina <u>Enterprise Fund</u>
Operating Revenues	
Lease Income	\$ 409,343
Miscellaneous	15,791
Total Operating Revenues	<u>425,134</u>
 Operating Expenses	
Depreciation	123,783
Insurance	86,024
Professional Services	90,471
Utilities	660
Maintenance and Service Contracts	24,097
Advertising	4,401
Total Operating Expense	<u>329,436</u>
 Operating Income	<u>95,698</u>
 Non-Operating Revenues (Expenses)	
Interest Income	3,433
Interest Expense	<u>(13,485)</u>
Total Non-Operating Revenues (Expenses)	<u>(10,052)</u>
 Income Before Transfers	85,646
 Transfers In	<u>282,424</u>
 Change In Net Position	368,070
 Net Position, Beginning of Year	<u>5,177,797</u>
 Net Position, End of Year	<u>\$ 5,545,867</u>

City of Isle of Palms, South Carolina
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2017

	<u>Marina</u> <u>Enterprise Fund</u>
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 415,120
Cash Received from Miscellaneous Sources	15,791
Cash Payments to Suppliers for Goods and Services	<u>(196,902)</u>
Net Cash Provided By Operating Activities	<u>234,009</u>
Cash Flows From Non-Capital Financing Activities	
Transfer from Other Funds	282,424
Due from Other Funds	<u>2,675</u>
Net Cash Provided By Non-Capital Financing Activities	<u>285,099</u>
Cash Flows From Capital and Related Financing Activities	
Principal Paid on Bonds	(300,000)
Interest Paid on Bonds	<u>(15,660)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(315,660)</u>
Cash Flows From Investing Activities	
Purchases of Capital Assets	(3,119)
Investment Earnings	<u>3,433</u>
Net Cash Provided By Investing Activities	<u>314</u>
Net Decrease In Cash and Cash Equivalents	203,762
Cash and Cash Equivalents, Beginning of Year	<u>481,849</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 685,611</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities:	
Operating Income	\$ 95,698
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:	
Depreciation Expense	123,783
Change Due to (Increase) Decrease in Operating Assets:	
Other Receivable	5,777
Change Due to (Increase) Decrease in Operating Liabilities:	
Other Payables	<u>8,751</u>
Net Cash Provided by Operating Activities	<u><u>\$ 234,009</u></u>

City of Isle of Palms, South Carolina
Statement of Assets and Liabilities
Fiduciary Fund - Agency Fund
Year Ended June 30, 2017

	<u>Volunteer Fire Department</u>
Assets	
Cash and Cash Equivalents - Restricted	\$ 202,129
Total Assets	<u>\$ 202,129</u>
Liabilities	
Due to Volunteer Fire Department	\$ 202,129
Total Liabilities	<u>\$ 202,129</u>

City of Isle of Palms, South Carolina Notes to the Financial Statements

The City of Isle of Palms, South Carolina (the “City”) encompasses an area of approximately 4.5 square miles. Incorporated in 1953, the City has grown into a recreational center for the coastal area of South Carolina. It serves over 4,100 full-time City residents and about 300,000 to 500,000 tourists annually. The City operates under a Council form of government. The mayor and eight members of council (the “Council”) establish policy for the City. Administrative functions are directed by the City Administrator.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

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

Blended component units, although legally separate entities, are in substance, part of the government’s operations and data from these units are combined with data of the primary government in the fund financial statements. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City. Based on the criteria above, the City does not have any component units.

Major Operations

The City’s major operations include general government, public safety (police and fire protection), building, planning and engineering, public works, recreation, and marina.

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

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the City (the “Primary Government”). The effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

City of Isle of Palms, South Carolina

Notes to the Financial Statements

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

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

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

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

Fund financial statements report detailed information about the City. 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 are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

When both restricted and unrestricted resources are available for use, it is the City's practice to use restricted resources first, then unrestricted resources as they are needed.

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

City of Isle of Palms, South Carolina Notes to the Financial Statements

Governmental fund types are those through which most governmental functions of the City are financed. The City's expendable financial resources and related assets and liabilities (except for those accounted for in Proprietary and Fiduciary Funds) are accounted for through governmental funds. Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. The City's governmental fund types and major and non-major funds are as follows:

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

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

- i) The **Municipal Accommodations Fee Fund, a major fund** and a budgeted fund, is used to account for the accumulation of resources from the fee imposed on the rental of some accommodations within the City and the allocation of Charleston County Accommodations Fees received. These funds are restricted and thus can only be spent for tourism related expenditures.
- ii) The **State Accommodations Tax Fund, a major fund** and a budgeted fund, is used to account for the accumulation of resources from the accommodations taxes levied by the State of South Carolina and remitted to the City. These funds are restricted and thus can only be spent for advertising, promotion, and tourism related expenditures.
- iii) The **Hospitality Tax Fund, a major fund** and a budgeted fund, is used to account for and report the financial resources received and disbursed related to the City's 2% fee imposed on prepared food and beverage sales within the City. These funds are restricted and thus can only be spent for tourism related expenditures.
- iv) The **Beach Restoration Fund, a major fund** and a budgeted fund, is used to account for the accumulation of resources from the City, state/local grants, and private contributions (from affected homeowners) all of which are restricted for the nourishment, monitoring, and regulatory compliance related to the beach.
- v) The **Beach Preservation Fee Fund, a major fund** and an unbudgeted fund for fiscal year 2017, is used to account for the accumulation of resources from a 1% accommodations fee imposed on rental property effective January 1, 2015. These funds are restricted and can be used only to support beach restoration, preservation and maintenance, as well as maintenance of public beach access.
- vi) The **Special Revenue Funds, non-major funds**, are used to account for the specific revenue sources (other than major capital projects) that are restricted by donor, law, or administrative actions to expenditures for specified purposes. Most of these funds have a legally adopted budget and any remaining fund balance is generally restricted for the purpose of the specific revenue source. The City has the following non-major special revenue funds:

Federal Narcotics
Aisle of Palms

State Narcotics
Recreation Building

Victims' Assistance

The **Capital Projects Fund, a major fund** and a budgeted fund, is used to account for financial resources expended for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Fund or Special Revenue Funds). These funds are also used to carry on specified ongoing major improvement projects or major equipment acquisitions usually spanning more than one fiscal year.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are primarily charges for services and fees. Operating expenses for enterprise funds include the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items. Proprietary Fund types include the following funds:

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

The **Marina Enterprise Fund**, a budgeted fund, is used to account for the City's marina operations.

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

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

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and investments in the South Carolina Local Government Investment Pool to be cash equivalents. Securities with original maturities of more than three months when initially purchased are reported as investments.

Investments

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

- (a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
- (b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

City of Isle of Palms, South Carolina Notes to the Financial Statements

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

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

- South Carolina Local Government Investment Pool (the “Pool”) investments are invested with the South Carolina State Treasurer’s Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but has a policy that it will operate in a manner consistent with the SEC’s Rule 2a 7 of the Investment Company Act of 1940. In accordance with GASB Statement No. 31, *“Accounting and Financial Reporting for Certain Investments and for External Investment Pools,”* investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Financial statements for the Pool may be obtained by writing the Office of the State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211-1960.

2. Receivables and Payables

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

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

City of Isle of Palms, South Carolina
Notes to the Financial Statements

3. Inventories and Prepaids

Prepaid items and inventories in the governmental funds are reported under the consumption method as they are recorded as an expenditure at the time individual inventory items are consumed. Inventories are valued at cost (first-in, first-out). Inventories in the General Fund are offset by a fund balance constraint (nonspendable) to reflect that portion of fund balance does not represent available expendable resources.

4. Capital Assets

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

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. As allowed by GAAP, the City has elected to prospectively report public domain (“infrastructure”) general capital assets. Therefore, infrastructure capital assets acquired prior to July 1, 2000 have not been recorded. Public domain capital assets consist of roads, bridges, curbs and gutters, streets, and sidewalks, drainage systems, lighting systems and similar assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. The City maintains a minimum capitalization threshold of \$5,000 and capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Description	Governmental and Business- Type Activities
Buildings	20-50 years
Marina Docks and Related Capital Assets	10-40 years
Improvements	10-20 years
Vehicles, Fixtures, and Equipment	5-15 years

5. Compensated Absences

The City’s general leave policy allows the accumulation of unused vacation leave up to a maximum of thirty (30) days and unused sick leave up to a maximum of ninety (90) days. Employees terminating or retiring are paid for accumulated vacation leave based on their hourly rate of pay earned at the time of separation or retirement. Sick leave can only be used while employed with the City and will not be paid out at termination or retirement.

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, “*Accounting for Compensated Absences.*” The entire compensated absence liability and expense is reported in the government-wide financial statements. No portion of the liability is applicable to the Proprietary Fund as the City has no employees working in the marina operations. The governmental funds will also recognize compensated absences for terminations and retirements (matured liabilities) that occurred prior to year-end that are expected to be paid within a short time subsequent to year end, if they are material.

6. Accrued Liabilities and Long-Term Obligations

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

City of Isle of Palms, South Carolina

Notes to the Financial Statements

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

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

7. *Deferred Outflows and Inflows of Resources*

As defined by GASB Concept Statement No. 4 “*Elements of Financial Statements*,” deferred outflows of resources and deferred inflows of resources are the consumption of net assets by the government that are applicable to a future reporting period and an acquisition of net assets by the government that are applicable to a future reporting period, respectively.

In addition to assets, the Statement of Net Position and the Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has one type of deferred outflows of resources. The City reports *deferred pension charges* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. These *deferred pension charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position and the Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has two types of deferred inflows of resources: (1) The City reports *unavailable revenue – property taxes* only in the governmental funds Balance Sheet; it is deferred and recognized as an inflow of resources (property tax revenues) in the period the amounts become available. (2) The City also reports *deferred pension credits* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System. These *deferred pension credits* are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

8. *Fund Balance*

In accordance with GAAP, the City classifies its governmental fund balances as follows:

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

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

City of Isle of Palms, South Carolina

Notes to the Financial Statements

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

Assigned – includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed and that such assignments are made before the report issuance date. The City reserves the right to assign fund balance by a simple majority vote of Council. Council by an approved resolution in its June 26, 2012 meeting also formally granted the Mayor and City Administrator the right to assign fund balance (when deemed appropriate).

Unassigned – includes amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts of restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

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

9. Net Position

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

10. Pensions

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

City of Isle of Palms, South Carolina
Notes to the Financial Statements

11. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the City during the year to control expenditures. Encumbrances do not constitute expenditures or liabilities. Encumbrances and unused expenditure appropriations lapse at year end.

D. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

E. Comparative Data

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

F. Subsequent Events

Subsequent events are events or transactions that occur after the statement of net position date but before the financial statements are available to be issued. The City recognized in the financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net position, including estimates inherent in the process of preparing the financial statements. The City's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of net position but arose after the statement of net position and before the financial statements were available to be issued.

Management has evaluated subsequent events through the date the financial statements were available to be issued, and concluded there were no subsequent events to disclose.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a GAAP basis. During the months of February through May, the City's Administration, with other department input, develops a preliminary budget model for operational and capital expenditures, and develops revenue projections as a proposed means of financing the proposed expenditures. The City Treasurer and the City Administrator refine the budget model, develop objectives and update trends related to service efforts and accomplishments during the month of April. During May, the proposed budget is presented by the City Administrator to City Council. The budget includes proposed expenditures and the means for financing them.

Public meetings are conducted to obtain taxpayer comments. A target date in June is set for legal enactment of the budget through passage of an ordinance. The ordinance sets the limit at the fund level, for which expenditures may not exceed appropriations. After two readings of the budget, the City Council legally adopts the budget through the passage of the ordinance. After the City completes the formal budget process, the City prepares and issues the budget report.

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

City of Isle of Palms, South Carolina
Notes to the Financial Statements

For each assigned account, the department is obligated to stay within budget by each major expenditure category of personnel, operating, and capital. The City Administrator has the authority to transfer funds within departments and across departmental accounts. All unused expenditure appropriations lapse at year-end.

During the fiscal year, there were no amendments to the original adopted budget.

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City’s deposits might not be recovered. The City does not have a deposit policy for custodial credit risk, but follows the investment policy statutes of the State of South Carolina. As of June 30, 2017 none of the City’s bank balances were exposed to custodial credit risk.

Investments

As of June 30, 2017, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity (In Years)</u>
South Carolina Local Government Investment Pool	\$ 13,292,612	Unrated	^

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

Interest Rate Risk: The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates, but they do follow the investment policy statutes of the State of South Carolina.

The City does not typically buy security investments and thus has not developed a policy for credit risk, custodial credit risk, or concentration of credit risk for these types of investments.

Certain cash, cash equivalents and investments of the City are legally restricted for specified purposes. The major types of restrictions at June 30, 2017 were those imposed by the revenue source (i.e. hospitality tax, accommodation taxes, grants, etc.).

City of Isle of Palms, South Carolina
Notes to the Financial Statements

The following table reconciles the amounts reported as deposits and investments in the notes to the financial statements to cash and cash equivalents and investments reported in the financial statements:

Statement of Net Position	Amount
Cash and Cash Equivalents	\$ 10,631,521
Cash and Cash Equivalents - Restricted	11,454,827
Statement of Assets and Liabilities - Fiduciary Funds - Agency Fund	
Cash and Cash Equivalents	202,129
Total Cash and Investments per Financial Statements	<u><u>\$ 22,288,477</u></u>
Notes	
Carrying Value of Deposits	\$ 8,995,865
Investments	13,292,612
Total Deposits and Investments per Notes to the Financial Statements	<u><u>\$ 22,288,477</u></u>

B. Receivables and Unavailable/Unearned Revenue

Property Taxes and Other Receivables

The City's 2016 property taxes were levied on September 30, 2016 and were due beginning on this date based on the assessed valuation on real and personal property (including vehicles) of approximately \$194,000,000 for tax year 2016. Property taxes were considered late on January 17, 2017. Motor vehicle property tax is levied and collected on a portion of taxable vehicles monthly. Penalties and charges are assessed if taxes are not paid by the following dates:

- January 18 through February 1 - 3% penalty for tax due
- February 2 through March 16 - 10% penalty for tax due
- March 17 - Lien Date - 15% penalty for tax due plus \$15 for a delinquent execution charge
- Unpaid Taxes After One Year - Property is sold by the County Tax Collector at the annual tax sale held the first Monday in November each year.

Assessed values are established by the Charleston County Tax Assessor and the South Carolina Tax Commission. The City's total tax rate for the 2016 property tax year was 24.7 mills. City property taxes are billed and collected by Charleston County under a joint billing and collection agreement.

Amounts received by Charleston County, but not yet remitted to the City at year end, are included as Taxes Receivable on the governmental fund balance sheet and on the government-wide Statement of Net Position.

Local option sales taxes, collected by the State of South Carolina, but not yet remitted to the City at year end, are included as due from other governments on the governmental fund balance sheet and on the government-wide Statement of Net Position.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

The City's taxes receivable, other receivables, and due from other governments consist of the following as of June 30, 2017:

Description	General Fund	Capital Projects Fund	Municipal Accommodations		Beach Preservation Fee Fund	Hospitality Tax Fund	Marina Enterprise Fund	Totals
			Fee Fund	State Tax Fund				
Property Taxes	\$ 75,173	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,173
Allowance for Uncollectible	(2,880)	-	-	-	-	-	-	(2,880)
Local Option Sales Tax	147,832	-	-	-	-	-	-	147,832
Accommodations Taxes	37,270	-	238,437	595,518	235,269	-	-	1,106,494
Hospitality Taxes	-	-	-	-	-	89,309	-	89,309
Marina Operations	-	-	-	-	-	-	64,862	64,862
MASC Brokers Tax	215,912	-	-	-	-	-	-	215,912
FEMA Grant	102,739	-	-	-	-	-	-	102,739
Franchise Fees	54,764	-	-	-	-	-	-	54,764
State Aid to Subdivisions	23,338	-	-	-	-	-	-	23,338
Other	17,946	3,025	-	-	-	-	-	20,971
Net Receivables	<u>\$ 672,094</u>	<u>\$ 3,025</u>	<u>\$ 238,437</u>	<u>\$ 595,518</u>	<u>\$ 235,269</u>	<u>\$ 89,309</u>	<u>\$ 64,862</u>	<u>\$ 1,898,514</u>

Receivables of the Marina Enterprise Fund consist of amounts due from the Marina's tenants. There is no allowance for uncollectible amounts other than for property taxes.

Unavailable/Unearned Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and Enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned (unearned revenue).

At June 30, 2017, the components of unavailable revenue (deferred inflows of resources) and unearned revenue (liability) were as follows:

Description	Fund	Unavailable	Unearned	Total
Property Taxes	General	\$ 28,350	\$ -	\$ 28,350
Cash Contributions	Beach Restoration	-	4,883,165	4,883,165
Total Unavailable/Unearned Revenue		<u>\$ 28,350</u>	<u>\$ 4,883,165</u>	<u>\$ 4,911,515</u>

City of Isle of Palms, South Carolina
Notes to the Financial Statements

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

Interfund balances at June 30, 2017, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
Governmental Funds:		
General Fund	\$ 221,638	\$ (702,531)
Capital Projects Fund	721,945	(100,000)
Municipal Accommodations Fee Fund	29,147	(154,104)
State Accommodations Tax Fund	10,521	(29,147)
Hopitality Tax Fund	999	-
Non-major Funds	1,532	-
	<u>\$ 985,782</u>	<u>\$ (985,782)</u>

The Capital Projects receivable of \$721,945 from the General Fund relates to an assignment of funds for future capital projects. The General Fund payable, a portion of the Municipal Accommodations Fee Fund payable, and the State Accommodations Tax Fund receivable relate to the General Obligations Bond Series 2015 debt service payment. The General Fund receivable and the Municipal Accommodations Fee Fund payable relate primarily to a portion of the Public Works costs. All interfund balances are expected to be paid back within one year.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

Interfund Transfers

Transfers between funds for the year ended June 30, 2017, consisted of the following:

Fund	Transfer In	Transfer Out
Governmental Funds:		
General Fund	\$ 1,242,992	\$ (1,276,837)
Capital Projects Fund	1,176,837	-
Municipal Accommodations Fee Fund	-	(566,813)
State Accommodations Tax Fund	-	(573,442)
Hospitality Tax Fund	-	(274,162)
Non-major Funds	3,000	(14,000)
Proprietary Fund:		
Marina Enterprise Fund	282,425	-
Totals	<u>\$ 2,705,254</u>	<u>\$ (2,705,254)</u>

Transfers made out of the General Fund were primarily to fund future capital projects. Transfers made out of the Municipal Accommodations Fee Fund were mainly to finance debt service payments in the Beach Restoration Fund and to offset Public Safety and Public Works costs in the General Fund. Transfers made out of the Hospitality Tax Fund were to offset Public Safety costs in the General Fund. Transfers from the State Accommodations Tax Fund were primarily for marina debt service and beach maintenance.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 4,272,896	\$ -	\$ -	\$ -	\$ 4,272,896
Construction in Progress	190,052	426,499	-	-	616,551
Total Capital Assets, Non-Depreciable	4,462,948	426,499	-	-	4,889,447
Capital Assets, Depreciable:					
Land Improvements	3,701,523	206,783	(28,700)	-	3,879,606
Buildings and Improvements	15,168,319	31,833	-	-	15,200,152
Vehicles and Vehicle Equipment	4,805,449	216,130	(230,067)	-	4,791,512
Equipment	2,430,783	290,492	(15,604)	-	2,705,671
Furniture and Fixtures	72,890	-	-	-	72,890
Total Capital Assets, Depreciable	26,178,964	745,238	(274,371)	-	26,649,831
Less: Accumulated Depreciation for:					
Land Improvements	1,907,170	221,989	(28,700)	-	2,100,459
Buildings and Improvements	5,506,982	561,644	-	-	6,068,626
Vehicles and Vehicle Equipment	3,318,740	409,875	(230,067)	-	3,498,548
Equipment	2,023,103	173,419	(15,604)	-	2,180,918
Furniture and Fixtures	69,976	708	-	-	70,684
Total Accumulated Depreciation	12,825,971	1,367,635	(274,371)	-	13,919,235
Total Capital Assets, Depreciable, Net	13,352,993	(622,397)	-	-	12,730,596
Governmental Activities Capital Assets, Net	\$ 17,815,941	\$ (195,898)	\$ -	\$ -	\$ 17,620,043

Capital asset additions and depreciation expense for the City's governmental activities were charged to functions/programs as follows:

Functions/Programs	Capital Asset Additions	Depreciation Expense
Governmental Activities		
General Government	\$ 85,204	\$ 134,685
Public Safety	458,301	804,927
Building, Planning, and Engineering	-	17,534
Public Works	438,960	204,567
Recreation	189,272	205,922
Total - Governmental Activities	\$ 1,171,737	\$ 1,367,635

City of Isle of Palms, South Carolina
Notes to the Financial Statements

Capital asset activity for the City’s business-type activities for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 3,035,786	\$ -	\$ -	\$ -	\$ 3,035,786
Construction in Progress	-	-	-	-	-
Total Capital Assets, Non-Depreciable	<u>3,035,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,035,786</u>
Capital Assets, Depreciable:					
Land Improvements	2,655,808	-	-	-	2,655,808
Buildings and Improvements	846,998	-	-	-	846,998
Docks	674,861	-	-	-	674,861
Equipment	279,923	3,120	-	-	283,043
Total Capital Assets, Depreciable	<u>4,457,590</u>	<u>3,120</u>	<u>-</u>	<u>-</u>	<u>4,460,710</u>
Less: Accumulated Depreciation for:					
Land Improvements	593,578	66,409	-	-	659,987
Buildings and Improvements	592,380	11,806	-	-	604,186
Docks	485,076	41,405	-	-	526,481
Equipment	272,845	4,163	-	-	277,008
Total Accumulated Depreciation	<u>1,943,879</u>	<u>123,783</u>	<u>-</u>	<u>-</u>	<u>2,067,662</u>
Total Capital Assets, Depreciable, Net	<u>2,513,711</u>	<u>(120,663)</u>	<u>-</u>	<u>-</u>	<u>2,393,048</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,549,497</u>	<u>\$ (120,663)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,428,834</u>

E. Long-Term Obligations

The City issues bonds to provide funds for the acquisition and construction of major capital facilities. General Obligations bonds (“GOB”) are directed obligations and pledge the full faith and credit of the City.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

Details on the City's debt outstanding as of June 30, 2017 are as follows:

General Obligation Bonds	Principal Outstanding at Year End
<p>\$6,700,000 General Obligation Bonds Series 2008 ("Series 2008B") issued in August 2008 to defray the cost of constructing and equipping a new public safety building and renovating certain municipal facilities. Principal is payable annually and interest, at 4.14%, semi-annually. Annual debt service requirements range from approximately \$343,000 to \$540,000 through March 2028 and are being paid 100% by the General Fund.</p>	\$ 4,250,000
<p>\$2,235,000 General Obligation Refunding Bond Series 2016 ("Series 2016") issued in April 2016 to refund the remaining balance on the \$3,650,000 General Obligation Bond ("Series 2006") issued in August 2006 which originally financed the construction and equipping of Fire Station 2. Principal is payable annually and interest, at 1.88% semi-annually. Annual debt service requirements range from approximately \$180,000 to \$275,000 through June 2026 and are being paid 60% by the General Fund and 40% by the Municipal Accommodations Fee Fund.</p>	2,055,000
<p>\$1,500,000 General Obligation Refunding Bond Series 2015 ("Series 2015") issued in February 2015 to refund the remaining balance on the \$2,900,000 General Obligation Bond ("Series 2003") issued in July 2003 which originally financed the expansion of the recreation center (which was approved through voter referendum and thus not subject to the 8% debt limit). Principal is payable annually and interest, at 1.68%, semi-annually. Annual debt service requirements range from approximately \$160,000 to \$221,000 through June 2023 and are being paid 60% by the General Fund and 40% by the Municipal Accommodations Fee Fund.</p>	1,185,000
<p>\$1,450,000 General Obligation Refunding Bond Series 2013 ("Series 2013") issued in October 2013 to refund the remaining balance on the \$2,925,000 General Obligation Bond ("Series 2008A") issued in April 2008, which refunded the \$4,250,000 General Obligation Bond ("Series 1999") issued in January 1999 which originally purchased the Marina, was approved through voter referendum, and thus is not subject to the 8% debt limit. Principal is payable annually and interest, at 1.74%, semi-annually. Annual debt service requirements range from approximately \$285,000 to \$308,000 through February 2019 and are being paid by the Marina Enterprise Fund.</p>	<u>600,000</u>
<p>Total General Obligation Bonds</p>	<u><u>\$ 8,090,000</u></u>

General obligation bonds have been issued for both governmental and proprietary/enterprise activities. Bonds are reported in the Enterprise Fund if they are expected to be repaid from Enterprise Fund operations.

Interest paid on the debt currently issued by the City is exempt from federal income tax. The City sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities (via the Pool), especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The City had no arbitrage liability at June 30, 2017.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

Presented below is a summary of changes in long-term obligations for the year ended June 30, 2017, for the City's governmental and business-type activities:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
GOB Debt:					
GOB - Series 2008B	\$ 4,600,000	\$ -	\$ 350,000	\$ 4,250,000	\$ 350,000
GOB - Series 2015	1,345,000	-	160,000	1,185,000	160,000
GOB - Series 2016	2,235,000	-	180,000	2,055,000	185,000
Total GOB Debt	<u>8,180,000</u>	<u>-</u>	<u>690,000</u>	<u>7,490,000</u>	<u>695,000</u>
Accrued Compensated Absences	369,085	261,014	216,934	413,165	196,638
Total Governmental Activities	<u>\$ 8,549,085</u>	<u>\$ 261,014</u>	<u>\$ 906,934</u>	<u>\$ 7,903,165</u>	<u>\$ 891,638</u>
Business-Type Activities:					
GOB Debt:					
GOB - Series 2013	900,000	-	300,000	600,000	300,000
Total GOB Debt	<u>\$ 900,000</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 600,000</u>	<u>\$ 300,000</u>

Resources from the General Fund, Municipal Accommodations Fee Fund, State Accommodations Tax Fund, and Hospitality Tax Fund have been used to liquidate the governmental activities debt. Resources from the Marina Enterprise Fund and the State Accommodations Tax Fund have been used to liquidate the business-type activities debt. The accrued compensated absences liability has been liquidated through the General Fund.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or City voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent (35%). In 1976, the General Assembly reduced the general obligation debt limit, without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of June 30, 2017, the City had \$6,305,000 of bonded debt subject to the 8% limit of approximately \$15,934,000 available, resulting in an unused legal debt margin of approximately \$9,629,000.

The City incurred interest expense of approximately \$242,000 and \$13,000 for its governmental and business-type activities debt, respectively.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

Debt Service Requirements to Maturity

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

Governmental Activities

2018	\$ 705,000	\$ 234,492	\$ 939,492
2019	725,000	213,668	938,668
2020	760,000	192,488	952,488
2021	800,000	170,700	970,700
2022-2026	3,600,000	513,241	4,113,241
2027-2028	900,000	55,890	955,890
Totals	<u>\$ 7,490,000</u>	<u>\$ 1,380,479</u>	<u>\$ 8,870,479</u>

Business-Type Activities

2018	\$ 300,000	\$ 10,440	\$ 310,440
2019	300,000	5,220	305,220
Totals	<u>\$ 600,000</u>	<u>\$ 15,660</u>	<u>\$ 615,660</u>

F. Marina Revenue

The City-owned Marina earns revenues from the rental of Marina facilities as noted below:

- The City dock lease (marine operations) – rent income of approximately \$167,000 for the year ended June 30, 2017. The lease expires in January 31, 2045.
- Marina store lease – rent income of approximately \$74,000 for the year ended June 30, 2017. The lease expires in January 31, 2045.
- Marina restaurant lease – rent income of approximately \$146,000 for the year ended June 30, 2017 (which includes regular rent income of approximately \$87,000 plus additional rent of \$60,000 for gross income over target amount). There is one additional three year renewal option that could extend the lease term until October 31, 2020.
- Water sports dock lease – rent income of approximately \$22,000 for the year ended June 30, 2017. The lease expires on September 30, 2020.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

Estimated future annual lease income for the long-term leases in effect as of June 30, 2017 are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2018	\$ 352,287
2019	352,356
2020	352,356
2021	291,231
2022-2027	1,214,790
2028-2032	1,214,790
2033-2037	1,214,790
2038-2042	1,214,790
2043-2046	636,026
	<u>\$ 6,843,416</u>

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. For all of these risks, the City is a member of the South Carolina Municipal Insurance Reserve Fund (“SCMIRF”), a public entity risk pool operating as a common risk management and insurance program for local governments for general risk. The City pays an annual premium for this coverage. For the year ended June 30, 2017, the City’s premium costs totaled approximately \$251,000. SCMIRF’s net position from its most recently issued audited financial statements at December 31, 2016, totaled approximately \$9,434,000.

The City has also joined together with other municipalities in the state to form the South Carolina Municipal Insurance Trust (“SCMIT”), a public entity risk pool operating as a common risk management and insurance program for workers’ compensation. The City pays an annual premium to SCMIT. For the year ended June 30, 2017, the City made premium payments totaling approximately \$196,000. The Trust uses reinsurance agreements to reduce its exposure to large workers’ compensation losses. SCMIT’s net position from its most recently issued audited financial statements at December 31, 2016, totaled approximately \$50,507,000.

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

Health Insurance

The City provides a health insurance program for its employees through the SC State Health Plan (“Health Plan”). The City pays a monthly premium to the insurer for its health coverage (insured plan) with the insurer being responsible for claims.

City of Isle of Palms, South Carolina Notes to the Financial Statements

B. Retirement Plans

The City participates in the State of South Carolina's retirement plans, which are administered by the PEBA, which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors ("PEBA Board"), appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

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

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

Plan Membership

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

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

City of Isle of Palms, South Carolina

Notes to the Financial Statements

Plan Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of 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 requirements that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight- year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

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

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

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

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of eligible compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the PEBA 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 PEBA Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the PEBA 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.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

As noted above, both employees and the City are required to contribute to the Plans at rates established and as amended by the PEBA. The City's contributions are actuarially determined, but are communicated to and paid by the City as a percentage of the employees' annual eligible compensation as follows:

Required **employee** contribution rates are as follows:

<u>SCRS</u>	<u>2017</u>	<u>2016</u>
Employee Class Two	8.66%	8.16%
Employee Class Three	8.66%	8.16%

<u>PORS</u>		
Employee Class Two	9.24%	8.74%
Employee Class Three	9.24%	8.74%

Required **employer** contribution rates are as follows:

<u>SCRS</u>		
Employee Class Two	11.41%	10.91%
Employee Class Three	11.41%	10.91%
Employer Incidental Death Benefit	0.15%	0.15%

<u>PORS</u>		
Employee Class Two	13.84%	13.34%
Employee Class Three	13.84%	13.34%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

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

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2015. The net pension liability of each defined benefit pension plan was therefore determined 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 PEBA's consulting actuary, Gabriel, Roeder, Smith and Company.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

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 No. 67 less that System’s fiduciary net position. For the year ended June 30, 2016, NPL amounts and the change in NPL amounts for SCRS and PORS are as follows:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension
SCRS	\$45,356,214,752	\$23,996,362,354	\$21,359,852,398	52.9%
PORS	\$6,412,510,458	\$3,876,035,732	\$2,536,474,726	60.4%

At June 30, 2017, the City reported liabilities of approximately \$4,070,000 and \$5,841,000 for its proportionate share of the net pension liabilities for the SCRS and PORS (“Plans”), respectively. The net pension liabilities were measured as of June 30, 2016, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report as of July 1, 2014 that was projected forward to the measurement date. The City’s proportion of the net pension liabilities were based on a projection of the City’s long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At June 30, 2016, the City’s SCRS proportion was 0.019055 percent, which decreased slightly from the prior year. At June 30, 2016, the City’s PORS proportion was 0.23028 percent, which increased slightly from the prior year.

For the year ended June 30, 2017, the City recognized pension expense of approximately \$369,000 and \$718,000 for the SCRS and PORS, respectively. At June 30, 2017, the City reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
<u>SCRS:</u>		
Differences between expected and actual experience	\$ 42,192	\$ 4,420
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	342,428	-
Changes in proportion and differences between City contributions and proportionate share of contributions	58,696	25,933
City contributions subsequent to the measurement date	224,605	-
Total	<u>\$ 667,921</u>	<u>\$ 30,353</u>

City of Isle of Palms, South Carolina
Notes to the Financial Statements

<u>PORS:</u>	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 86,669	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	662,315	-
Changes in proportion and differences between City contributions and proportionate share of contributions	260,264	-
City contributions subsequent to the measurement date	433,945	-
Total	\$ 1,443,193	\$ -

Approximately \$244,000 and \$434,000 that were reported as deferred outflows of resources related to the City's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the SCRS and PORS will be recognized as an increase or (decrease) in pension expense as follows:

<u>Year ended June 30:</u>	SCRS	PORS	Total
2017	\$ 101,237	\$ 256,053	\$ 357,290
2018	79,183	251,660	330,843
2019	153,356	338,293	491,649
2020	79,185	163,243	242,428
	\$ 412,961	\$ 1,009,249	\$ 1,422,210

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.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

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

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

*Includes inflation at 2.75%

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%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 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.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

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.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
Global Equity	43.0%		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Global Tactical Asset Allocation			
Real Assets	8.0%		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	20.0%		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF(Low Beta)	10.0%	3.87%	0.39%
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%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	<u>100.0%</u>		<u>5.10%</u>
Inflation for Actuarial Purposes			<u>2.75%</u>
Total Expected Nominal Return			<u>7.85%</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

The following table presents the sensitivity of the City’s proportionate share of the net pension liability of the Plans as of June 30, 2016 to changes in the discount rate, calculated using the discount rate of 7.5 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.5 percent) or 1% point higher (8.5 percent) than the current rate:

System	1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$ 8,642,627	\$ 4,070,120	\$ 4,070,120
PORS	\$ 14,766,729	5,840,969	\$ 5,840,994

Plans’ Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA’s Retirement Benefits’ website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

Payable to Plans

The City reported payables of \$108,319 to the PEBA as of June 30, 2017, representing required employer and employee contributions related to 2017. These amounts are included in Other Accrued Liabilities on the financial statements and have been paid subsequent to year end.

C. Other Postemployment Benefits

Upon retirement from the City, employees who meet certain eligibility requirements have the option to retain health insurance through the Health Plan paying the applicable retiree rate. The Health Plan and the City’s Personnel Manual establish the requirements for post-employment healthcare benefits. Presently there are no retired participants.

GASB Statement No. 45 “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*” (“GASB No. 45”) establishes standards for the measurement, recognition and display of Other Post-Employment Benefits (“OPEB”) expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The City adopted GASB No. 45 in fiscal year 2010. No liability or expenditures are recorded as of June 30, 2017 due to the fact that the City’s current OPEB plan requires retirees to pay the full cost of an age adjusted retiree rate rather than a blended group rate.

GASB has issued Statement No. 75 “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*” (“GASB No. 75”), which will supersede GASB No. 45. Expected implementation of the standard will be in fiscal year June 30, 2018. At that time, other employment benefit liabilities and expenditures will be recorded.

City of Isle of Palms, South Carolina

Notes to the Financial Statements

D. Beach Restoration

During 2007, severe beach erosion occurred along approximately one-half mile of the City's seven mile beach. To address this problem, the City is managing a public-private jointly funded effort to restore the eroded beach, thereby protecting the City's greatest natural asset as well as millions of dollars of property. The City's monetary contribution to the project in 2008 consisted of \$200,000 budgeted for beach restoration and an additional \$1,700,000 obtained via a bank loan secured by future municipal accommodations fee revenues, which has been paid in full as of June 30, 2015. Private contributions of approximately \$7,108,000 were received from the affected property owners in 2008. In 2009, the City also received project support from Charleston County for \$900,000 and approximately \$671,000 from the South Carolina Department of Health and Environmental Control Office of Coastal Resource Management ("OCRM"). The OCRM grant was restricted to the area of the project where public access exists.

The City is recognizing the funds received for this public-private jointly funded project (beach restoration and focused erosion) as revenue as the expenditures are incurred (using the City's contribution and grant and loan proceeds first before utilizing the private donations). The most significant construction phase of the project was substantially completed as of July 2008 with certain required post-project monitoring functions completed during 2009 and 2010.

In 2011, the United States Army Corps of Engineers and the South Carolina Department of Health and Environmental Control Office of Ocean and Coastal Resource Management issued permits to the City to address erosional "hot spots." In March and April 2012, the City executed a Shoal Management Project in which land-based equipment moved 87,763 cubic yards of sand from the "borrow area" to the "fill area." Funding for this project was available in escrow from monies collected for the public-private jointly funded 2008 project. The City executed new agreements with the stakeholders to utilize this funding for the 2012 Shoal Management Project, and the project and all post-project monitoring have been completed.

In August and September of 2014, the City collected new signed agreements and approximately \$423,000 in new contributions from identified stakeholders towards the execution of a second land-based Shoal Management Project which took place in November 2014. The restricted cash account established for the 2008 project had a balance of approximately \$664,000 as of June 30, 2014, and City Council allocated an additional \$200,000 from its Beach Maintenance Fund. The City incurred renourishment costs of approximately \$1,047,000 in fiscal year 2015 and \$126,000 for the year ended June 30, 2016. Thus, the remaining unearned liability in the financial statements as of June 30, 2016 was approximately \$114,000 which is related to the remaining private contributions received that are restricted for future beach restoration projects.

In January 2017, the City began outreach to stakeholders concerning recapitalizing the beach restoration account to enable an estimated \$15,000,000 project once permitted by SC DHEC, OCRM and the Corps of Engineers. Letters were sent outlining the expected project and agreements were attached. Those expecting to participate in the funding formula were to execute the agreements and return along with their portion of the required funding participation. By spring of 2017, approximately \$5,000,000 in private funds were collected. In tandem with the City's anticipated \$2,900,000 participation in the project and the private property owners' contributions, the City successfully pursued grant funding of approximately \$3,000,000 from the South Carolina Department of Parks, Recreation and Tourism. Storm damage from both the 1,000-year flood and Hurricane Matthew produced the expectation of approximately \$2,500,000 in FEMA and State funding as well. With the majority of funding identified and all permits secured, the City awarded a contract to Great Lake Dredge and Dock to accomplish the project within the allowed window which ends March 30, 2018. The current project cost estimate is \$13,581,000.

Responding to significant beach erosion caused by Hurricanes Matthew and Irma, the City awarded separate emergency berm restoration projects following each disaster. FEMA and the State of SC have already reimbursed costs associated with Hurricane Matthew and similar reimbursement is expected for the work resulting from Hurricane Irma.

City of Isle of Palms, South Carolina
Notes to the Financial Statements

F. Commitments and Contingencies

The City receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the City at June 30, 2017.

F. Litigation

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



Required Supplementary Information (Unaudited)

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

- Budgetary Comparison Schedules
 - General Fund
 - Municipal Accommodations Fee Fund
 - State Accommodations Tax Fund
 - Hospitality Tax Fund
 - Beach Restoration Fund
- South Carolina Retirement System
 - Schedule of the City's Proportionate Share of the Net Pension Liability
 - Schedule of the City's Contributions
- South Carolina Police Officers Retirement System
 - Schedule of the City's Proportionate Share of the Net Pension Liability
 - Schedule of the City's Contributions

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Property Taxes	\$ 4,250,000	\$ 4,250,000	\$ 4,301,353	\$ 51,353
Local Option Sales Tax	680,000	680,000	731,540	51,540
Intergovernmental	244,000	244,000	578,193	334,193
Licenses and Permits	3,401,400	3,401,400	3,464,053	62,653
Fines and Forfeitures	160,000	160,000	263,440	103,440
Revenues From Use of Properties (Marina excluded)	738,000	738,000	708,293	(29,707)
Interest	6,000	6,000	39,535	33,535
Other Revenues	241,200	241,200	280,947	39,747
Total Revenues	<u>9,720,600</u>	<u>9,720,600</u>	<u>10,367,354</u>	<u>646,754</u>
Expenditures				
General Government:				
Mayor and Council	82,451	82,451	81,759	692
Administration	787,212	787,212	921,739	(134,527)
Judicial and Legal	305,788	305,788	222,903	82,885
Public Safety:				
Police Department	2,596,920	2,596,920	2,335,777	261,143
Fire Department	3,085,185	3,085,185	3,144,300	(59,115)
Building, Planning, and Engineering	422,884	422,884	374,986	47,898
Public Works	1,208,306	1,208,306	1,174,104	34,202
Recreation:				
Recreation Department	868,871	868,871	876,495	(7,624)
Recreation Programs	92,250	92,250	84,476	7,774
Non-Departmental:				
Parking Meters	112,826	112,826	101,194	11,632
Debt Service:				
Principal	518,000	518,000	518,000	-
Interest	215,390	215,390	215,389	1
Total Expenditures	<u>10,296,083</u>	<u>10,296,083</u>	<u>10,051,122</u>	<u>244,961</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(575,483)</u>	<u>(575,483)</u>	<u>316,232</u>	<u>891,715</u>
Other Financing Sources (Uses)				
Transfer In	1,152,818	1,152,818	1,242,992	90,174
Transfer Out	576,837	576,837	(1,276,837)	(1,853,674)
Total Other Financing Sources (Uses)	<u>1,729,655</u>	<u>1,729,655</u>	<u>(33,845)</u>	<u>(1,763,500)</u>
Net Changes In Fund Balances	1,154,172	1,154,172	282,387	(871,785)
Fund Balances, Beginning of Year	5,620,189	5,620,189	5,620,189	-
Fund Balances, End of Year	<u>\$ 6,774,361</u>	<u>\$ 6,774,361</u>	<u>\$ 5,902,576</u>	<u>\$ (871,785)</u>

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Municipal Accommodations Fee Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Accommodation Fee Revenue	\$ 1,040,000	\$ 1,040,000	\$ 969,974	\$ (70,026)
County Accommodations Fee Revenue	490,000	490,000	520,000	30,000
Interest	3,000	3,000	12,559	9,559
Total Revenues	<u>1,533,000</u>	<u>1,533,000</u>	<u>1,502,533</u>	<u>(30,467)</u>
Expenditures				
Current:				
General Government	103,460	103,460	47,114	56,346
Public Safety	39,300	39,300	49,305	(10,005)
Public Works	77,750	77,750	95,047	(17,297)
Non-Departmental:				
Public Restrooms	227,348	227,348	213,879	13,469
Capital Outlay	607,875	607,875	458,646	149,229
Debt Service:				
Principal	64,000	64,000	64,000	-
Interest	9,038	9,038	9,038	-
Total Expenditures	<u>1,128,771</u>	<u>1,128,771</u>	<u>937,029</u>	<u>191,742</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>404,229</u>	<u>404,229</u>	<u>565,504</u>	<u>161,275</u>
Other Financing Sources (Uses)				
Transfer Out	611,056	611,056	(566,813)	(1,177,869)
Sale of Capital Assets	-	-	5,495	5,495
Total Other Financing Sources (Uses)	<u>611,056</u>	<u>611,056</u>	<u>(561,318)</u>	<u>(1,172,374)</u>
Net Changes In Fund Balances	1,015,285	1,015,285	4,186	(1,011,099)
Fund Balances, Beginning of Year	<u>1,595,491</u>	<u>1,595,491</u>	<u>1,595,491</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 2,610,776</u>	<u>\$ 2,610,776</u>	<u>\$ 1,599,677</u>	<u>\$ (1,011,099)</u>

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - State Accommodations Tax Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Accommodations Tax Revenue	\$ 1,645,000	\$ 1,645,000	\$ 1,708,042	\$ 63,042
Interest	4,150	4,150	15,583	11,433
Other	2,000	2,000	1,750	(250)
Total Revenues	<u>1,651,150</u>	<u>1,651,150</u>	<u>1,725,375</u>	<u>74,225</u>
Expenditures				
Current:				
General Government	667,200	667,200	611,513	55,687
Public Safety	2,800	2,800	4,566	(1,766)
Public Works	11,000	11,000	12,768	(1,768)
Recreation:				
Recreation Department	51,000	51,000	50,889	111
Non-Departmental:				
Public Restrooms	281,104	281,104	216,572	64,532
Capital Outlay	196,250	196,250	193,030	3,220
Total Expenditures	<u>1,209,354</u>	<u>1,209,354</u>	<u>1,089,338</u>	<u>120,016</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>441,796</u>	<u>441,796</u>	<u>636,037</u>	<u>194,241</u>
Other Financing Sources (Uses)				
Transfer Out	672,863	672,863	(573,442)	(1,246,305)
Sale of Capital Assets	-	-	5,805	5,805
Total Other Financing Sources (Uses)	<u>672,863</u>	<u>672,863</u>	<u>(567,637)</u>	<u>(1,240,500)</u>
Net Changes In Fund Balances	1,114,659	1,114,659	68,400	(1,046,259)
Fund Balances, Beginning of Year	<u>2,099,016</u>	<u>2,099,016</u>	<u>2,099,016</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 3,213,675</u>	<u>\$ 3,213,675</u>	<u>\$ 2,167,416</u>	<u>\$ (1,046,259)</u>

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Hospitality Tax Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Hospitality Taxes	\$ 712,000	\$ 712,000	\$ 746,402	\$ 34,402
Interest	700	700	3,762	3,062
Total Revenues	<u>712,700</u>	<u>712,700</u>	<u>750,164</u>	<u>37,464</u>
Expenditures				
Current:				
Public Safety	49,800	49,800	39,363	10,437
Building, Planning, and Engineering	1,150	1,150	361	789
Public Works	76,800	76,800	72,409	4,391
Capital Outlay	69,000	69,000	-	69,000
Debt Service:				
Principal	108,000	108,000	108,000	-
Interest	17,087	17,087	17,087	-
Total Expenditures	<u>321,837</u>	<u>321,837</u>	<u>237,220</u>	<u>84,617</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>390,863</u>	<u>390,863</u>	<u>512,944</u>	<u>122,081</u>
Other Financing Sources (Uses)				
Transfer Out	546,250	546,250	(274,162)	(820,412)
Sale of Capital Assets	-	-	5,797	5,797
Total Other Financing Sources (Uses)	<u>546,250</u>	<u>546,250</u>	<u>(268,365)</u>	<u>(814,615)</u>
Net Changes In Fund Balances	937,113	937,113	244,579	(692,534)
Fund Balances, Beginning of Year	<u>628,209</u>	<u>628,209</u>	<u>628,209</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 1,565,322</u>	<u>\$ 1,565,322</u>	<u>\$ 872,788</u>	<u>\$ (692,534)</u>

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Beach Restoration Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Contributions	\$ 8,752,429	\$ 8,752,429	\$ 230,550	\$ (8,521,879)
Grant Income	3,378,951	3,378,951	-	-
Loan Proceeds	1,200,000	1,200,000	-	-
Interest	100	100	13,092	12,992
Total Revenues	<u>13,331,480</u>	<u>13,331,480</u>	<u>243,642</u>	<u>(8,508,887)</u>
Expenditures				
Current:				
General Government	<u>15,004,000</u>	<u>15,004,000</u>	<u>243,642</u>	<u>14,760,358</u>
Total Expenditures	<u>15,004,000</u>	<u>15,004,000</u>	<u>243,642</u>	<u>14,760,358</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,672,520)</u>	<u>(1,672,520)</u>	<u>-</u>	<u>6,251,471</u>
Other Financing Sources (Uses)				
Transfer In	<u>-</u>	<u>1,672,598</u>	<u>-</u>	<u>(1,672,598)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,672,598</u>	<u>-</u>	<u>(1,672,598)</u>
Net Changes In Fund Balances	(1,672,520)	78	-	4,578,873
Fund Balances, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ (1,672,520)</u>	<u>\$ 78</u>	<u>\$ -</u>	<u>\$ 4,578,873</u>

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of Net Pension Liability
South Carolina Retirement System
Year Ended June 30, 2017

	<u>Year Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
City of Isle of Palms' proportion of the net pension liability	0.019055%	0.018636%
City of Isle of Palms' proportionate share of the net pension liability	<u>\$ 4,070,120</u>	<u>\$ 3,534,218</u>
City of Isle of Palms' covered payroll during measurement period	<u>\$ 1,845,203</u>	<u>\$ 1,747,268</u>
City of Isle of Palms' proportionate share of the net pension liability as a percentage of its covered-employee payroll	220.58%	202.27%
Plan fiduciary net position as a percentage of the total pension liability	52.90%	57.00%

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Schedule of Contributions
South Carolina Retirement System
Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 224,605	\$ 204,079	\$ 190,452	\$ 181,973
Contributions in relation to the contractually required contribution	<u>(224,605)</u>	<u>(204,079)</u>	<u>(190,452)</u>	<u>(181,973)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Isle of Palms' covered-employee payroll	<u>\$ 1,942,949</u>	<u>\$ 1,845,203</u>	<u>\$ 1,747,268</u>	<u>\$ 1,718,609</u>
Contributions as a percentage of covered-employee payroll	11.56%	11.06%	10.90%	10.59%

*Note- This schedule will show information for 10 years. However, until a full 10 years is compiled, the City will show information for years for which information is available.

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of Net Pension Liability
South Carolina Police Officers Retirement System
Year Ended June 30, 2017

	Year Ended June 30,	
	2017	2016
City of Isle of Palms' proportion of the net pension liability	0.230280%	0.226240%
City of Isle of Palms' proportionate share of the net pension liability	\$ 5,840,969	\$ 4,931,002
City of Isle of Palms' covered payroll during measurement period	\$ 2,885,754	\$ 2,802,857
City of Isle of Palms' proportionate share of the net pension liability as a percentage of its covered-employee payroll	202.41%	175.93%
Plan fiduciary net position as a percentage of the total pension liability	60.40%	64.60%

City of Isle of Palms, South Carolina
Required Supplementary Information (Unaudited)
Schedule of Contributions
South Carolina Police Officers Retirement System
Year Ended June 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 433,945	\$ 403,373	\$ 375,863	\$ 324,766
Contributions in relation to the contractually required contribution	<u>(433,945)</u>	<u>(403,373)</u>	<u>(375,863)</u>	<u>(324,766)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Isle of Palms' covered-employee payroll	<u>\$ 3,047,364</u>	<u>\$ 2,885,754</u>	<u>\$ 2,802,857</u>	<u>\$ 2,526,375</u>
Contributions as a percentage of covered-employee payroll	14.24%	13.98%	13.41%	12.86%

*Note- This schedule will show information for 10 years. However, until a full 10 years is compiled, the City will show information for years for which information is available.

Supplementary Information

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS

SPECIAL REVENUE FUNDS

To account for the proceeds of specific revenue sources (other than fiduciary funds or capital project funds) that are received by the City of Isle of Palms ("City") that are either legally restricted or assigned for specified purposes.

FEDERAL AND STATE NARCOTICS FUNDS – To account for the accumulation of funds seized by the City from illegal drug trafficking. These funds are used by the City to deter illegal drug use through investigation and education.

VICTIMS' ASSISTANCE FUND – To account for monies set aside to assist victims of crimes in accordance with state law.

AIISLE OF PALMS FUND – To account for donations received for the planting of palm trees by the City and funds collected for the purchase of bricks, benches, and palm trees in connection with the Front Beach Enhancement Project.

RECREATION BUILDING FUND – To account for donations made to the City's Recreation Department.



City of Isle of Palms, South Carolina
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2017

	Federal Narcotics Fund	State Narcotics Fund	Victims' Assistance Fund	Aisle of Palms Fund	Recreation Building Fund	Total Non- Major Funds
Assets						
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 14,938	\$ -	\$ 14,938
Cash and Cash Equivalents - Restricted	5,911	7,342	12,039	-	78,537	103,829
Due from other funds	-	-	1,532	-	-	1,532
Total Assets	<u>\$ 5,911</u>	<u>\$ 7,342</u>	<u>\$ 13,571</u>	<u>\$ 14,938</u>	<u>\$ 78,537</u>	<u>\$ 120,299</u>
Liabilities						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 6,902	\$ 6,902
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,902</u>	<u>6,902</u>
Fund Balances						
Restricted	5,911	7,342	13,571	-	-	26,824
Assigned	-	-	-	14,938	71,635	86,573
Total Fund Balances	<u>5,911</u>	<u>7,342</u>	<u>13,571</u>	<u>14,938</u>	<u>71,635</u>	<u>113,397</u>
Total Liabilities and Fund Balances	<u>\$ 5,911</u>	<u>\$ 7,342</u>	<u>\$ 13,571</u>	<u>\$ 14,938</u>	<u>\$ 78,537</u>	<u>\$ 120,299</u>

City of Isle of Palms, South Carolina
Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2017

	Federal Narcotics Fund	State Narcotics Fund	Victims' Assistance Fund	Aisle of Palms Fund	Recreation Building Fund	Total Non- Major Funds
Revenues						
Fines and Forfeitures	\$ -	\$ -	\$ 10,549	\$ -	\$ -	\$ 10,549
Interest	1	1	2	-	7	11
Other	-	-	-	990	14,870	15,860
Total Revenues	<u>1</u>	<u>1</u>	<u>10,551</u>	<u>990</u>	<u>14,877</u>	<u>26,420</u>
Expenditures						
Current:						
General Government	-	-	-	7,939	-	7,939
Public Safety	532	522	2,737	-	-	3,791
Recreation	-	-	-	-	15,791	15,791
Capital Outlay	-	-	-	-	2,250	2,250
Total Expenditures	<u>532</u>	<u>522</u>	<u>2,737</u>	<u>7,939</u>	<u>18,041</u>	<u>29,771</u>
Excess of Revenues Over (Under) Expenditures	<u>(531)</u>	<u>(521)</u>	<u>7,814</u>	<u>(6,949)</u>	<u>(3,164)</u>	<u>(3,351)</u>
Other Financing Sources (Uses)						
Transfers In	-	-	-	-	3,000	3,000
Transfers Out	-	-	(14,000)	-	-	(14,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(14,000)</u>	<u>-</u>	<u>3,000</u>	<u>(11,000)</u>
Net Change In Fund Balances	(531)	(521)	(6,186)	(6,949)	(164)	(14,351)
Fund Balances, Beginning of Year	6,442	7,863	19,757	21,887	71,799	127,748
Fund Balances, End of Year	<u>\$ 5,911</u>	<u>\$ 7,342</u>	<u>\$ 13,571</u>	<u>\$ 14,938</u>	<u>\$ 71,635</u>	<u>\$ 113,397</u>

City of Isle of Palms, South Carolina
Schedule of Detailed Revenues and Expenditures
Budget and Actual - General Fund
Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Property Taxes	\$ 4,250,000	\$ 4,301,353	\$ 51,353
Local Option Sales Tax	680,000	731,540	51,540
Intergovernmental			
State Aid to Subdivisions	87,000	94,653	7,653
State Accommodations Tax Administrative Fee	112,000	114,897	2,897
State Shared Funds - Alcohol	45,000	49,400	4,400
Grants	-	304,587	304,587
Intergovernmental Transfers	-	14,656	14,656
Total Intergovernmental	244,000	578,193	334,193
Licenses and Permits			
Business Licenses	1,160,000	1,162,359	2,359
Residential Rental Licenses	510,000	493,866	(16,134)
Insurance Licenses	628,000	657,872	29,872
Public Utilities	813,000	814,753	1,753
Building Permits	262,000	302,871	40,871
Telecommunication Licenses	24,000	22,356	(1,644)
Transportation	1,000	6,406	5,406
Alarm Permits	1,500	1,790	290
Animal Licenses	1,900	1,780	(120)
Total Licenses and Permits	3,401,400	3,464,053	62,653
Fines and Forfeitures	160,000	263,440	103,440
Revenue From Use of Properties			
Parking Lot Revenue	350,000	317,838	(32,162)
Parking Meter Revenue	387,000	389,645	2,645
Residential Guest Parking Revenue	1,000	810	(190)
Total Revenue From Use of Properties	738,000	708,293	(29,707)
Interest			
Interest Income	6,000	39,535	33,535
Total Interest	6,000	39,535	33,535

City of Isle of Palms, South Carolina
Schedule of Detailed Revenues and Expenditures
Budget and Actual - General Fund
Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Other Revenues			
Recreation Program Income	82,000	91,709	9,709
Recreation Instructors Income	145,000	164,584	19,584
Sales of Assets	1,000	3,677	2,677
Miscellaneous	8,400	14,925	6,525
Cart Purchase Revenue	3,000	3,975	975
Boat Ramp Fees	1,700	2,000	300
Kennel Fees	100	77	(23)
Total Other Revenues	<u>241,200</u>	<u>280,947</u>	<u>39,747</u>
Total Revenues	<u>9,720,600</u>	<u>10,367,354</u>	<u>646,754</u>
Expenditures			
General Government			
<u>Mayor and Council:</u>			
Salaries	17,000	16,996	4
Payroll Taxes	1,301	1,301	-
Retirement	1,272	1,272	-
Group Health Insurance	42,376	42,633	(257)
Workers Compensation	410	399	11
Membership and Dues	50	50	-
Print and Office Supplies	500	658	(158)
Meetings and Seminars	9,000	6,651	2,349
Vehicle, Fuel, and Oil	250	-	250
Telephone	1,200	2,977	(1,777)
Insurance	2,092	1,999	93
Miscellaneous and Contingency	4,500	4,504	(4)
Citizens and Employee Services	2,500	2,319	181
Total Mayor and Council	<u>82,451</u>	<u>81,759</u>	<u>692</u>
<u>Administration:</u>			
Salaries	441,865	420,062	21,803
Salaries - Overtime	14,187	11,073	3,114
Salaries - Part-time	-	337	(337)
Payroll Taxes	34,888	31,385	3,503
Retirement	52,720	51,332	1,388
Group Health Insurance	37,317	32,743	4,574
Workers Compensation	4,309	5,247	(938)
Print and Office Supplies	11,300	10,783	517
Membership and Dues	5,985	5,734	251

City of Isle of Palms, South Carolina
Schedule of Detailed Revenues and Expenditures
Budget and Actual - General Fund
Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Meetings and Seminars	6,500	6,410	90
Vehicle, Fuel, and Oil	2,000	1,432	568
Electric and Gas	5,000	3,673	1,327
Telephone and Cable	9,956	9,878	78
Water and Sewer	2,120	1,670	450
Noncapital Tools and Equipment	1,250	1,075	175
Maintenance and Service Contracts	37,035	23,021	14,014
Machine and Equipment Repair	1,000	-	1,000
Cleaning and Sanitary Supplies	2,000	1,758	242
Storm Preparation & Cleanup	-	202,524	(202,524)
Medical and Lab	800	446	354
Insurance	19,434	19,143	291
Rent and Leases	9,010	8,423	587
Advertising	7,600	6,972	628
Employee Training	23,706	20,944	2,762
Professional Services	33,720	27,334	6,386
Miscellaneous and Contingency	17,910	12,169	5,741
Bank Service Charges	5,600	6,171	(571)
	<u>787,212</u>	<u>921,739</u>	<u>(134,527)</u>
 <u>Judicial and Legal:</u>			
Salaries - Full-time	61,701	63,473	(1,772)
Salaries - Over-time	2,814	7,426	(4,612)
Salaries - Part-time	18,000	15,441	2,559
Payroll Taxes	6,312	6,502	(190)
Retirement	9,539	9,902	(363)
Group Health Insurance	6,138	6,135	3
Workers Compensation	242	248	(6)
Print and Office Supplies	4,500	3,873	627
Membership and Dues	200	82	118
Meetings and Seminars	800	684	116
Telephone and Cable	3,540	3,816	(276)
Noncapital Tools and Equipment	800	614	186
Maintenance and Service Contracts	6,800	3,480	3,320
Insurance	552	566	(14)

City of Isle of Palms, South Carolina
Schedule of Detailed Revenues and Expenditures
Budget and Actual - General Fund
Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Employee Training	2,000	1,193	807
Professional Services	181,000	98,959	82,041
Miscellaneous and Contingency	850	509	341
Total Judicial and Legal	<u>305,788</u>	<u>222,903</u>	<u>82,885</u>
Total General Government	<u>1,175,451</u>	<u>1,226,401</u>	<u>(50,950)</u>

Public Safety

Police Department:

Salaries	1,412,034	1,261,563	150,471
Salaries - Over-time	108,354	138,565	(30,211)
Salaries - Part-time	-	3,861	(3,861)
Payroll Taxes	116,310	105,093	11,217
Retirement	209,094	192,481	16,613
Group Health Insurance	217,809	177,128	40,681
Workers Compensation	60,327	60,877	(550)
Print and Office Supplies	14,000	14,776	(776)
Membership and Dues	2,500	1,542	958
Meetings and Seminars	13,000	12,505	495
Vehicle, Fuel, and Oil	108,739	61,582	47,157
Vehicle Maintenance	44,000	35,661	8,339
Electric and Gas	31,000	30,017	983
Telephone and Cable	65,857	63,262	2,595
Water and Sewer	5,300	4,148	1,152
Noncapital Tools and Equipment	8,616	2,327	6,289
Maintenance and Service Contracts	54,804	43,716	11,088
Machine and Equipment Repair	8,500	4,960	3,540
Uniforms	20,715	19,902	813
Cleaning and Sanitary Supplies	1,750	1,772	(22)
Medical and Lab	4,000	3,846	154
Insurance	64,081	65,919	(1,838)
Rent and Leases	2,400	3,328	(928)
Employee Training	8,980	11,222	(2,242)
Professional Services	5,500	11,108	(5,608)
Contracted Services	5,000	350	4,650
Miscellaneous and Contingency	3,250	3,854	(604)
Canine Kennel Expenses	1,000	412	588
Total Police Department	<u>2,596,920</u>	<u>2,335,777</u>	<u>261,143</u>

City of Isle of Palms, South Carolina
Schedule of Detailed Revenues and Expenditures
Budget and Actual - General Fund
Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Fire Department:</u>			
Salaries - Full-time	1,608,937	1,600,542	8,395
Salaries - Over-time	268,110	334,068	(65,958)
Salaries - Part-time	20,000	24,594	(4,594)
Payroll Taxes	145,124	148,125	(3,001)
Retirement	269,350	284,061	(14,711)
Group Health Insurance	246,335	242,054	4,281
Workers Compensation	72,048	77,439	(5,391)
Print and Office Supplies	6,500	4,931	1,569
Membership and Dues	2,300	2,191	109
Vehicle, Fuel, and Oil	19,796	17,264	2,532
Vehicle Maintenance	70,000	72,219	(2,219)
Electric and Gas	44,500	42,074	2,426
Telephone and Cable	62,804	57,403	5,401
Water and Sewer	10,600	9,266	1,334
Noncapital Tools and Equipment	4,700	5,524	(824)
Maintenance and Service Contracts	62,149	56,918	5,231
Machine and Equipment Repair	10,000	9,020	980
Uniforms	22,500	14,649	7,851
Cleaning and Sanitary Supplies	4,000	3,799	201
Medical and Lab	15,000	17,939	(2,939)
Insurance	89,932	94,179	(4,247)
Rent and Leases	3,500	1,583	1,917
Employee Training	15,000	10,558	4,442
Professional Services	4,000	6,052	(2,052)
Miscellaneous and Contingency	6,000	6,629	(629)
Volunteer Point Allocation	2,000	1,219	781
	<u>3,085,185</u>	<u>3,144,300</u>	<u>(59,115)</u>
Total Fire Department			
	<u>5,682,105</u>	<u>5,480,077</u>	<u>202,028</u>
<u>Building, Planning, and Engineering</u>			
Salaries - Full-time	236,744	240,650	(3,906)
Salaries - Over-time	1,342	354	988
Payroll Taxes	18,214	17,742	472
Retirement	27,523	28,179	(656)
Group Health Insurance	33,805	34,279	(474)
Workers Compensation	2,403	2,815	(412)
Print and Office Supplies	12,500	9,979	2,521
Membership and Dues	1,000	662	338
Meetings and Seminars	1,000	15	985
Vehicle, Fuel, and Oil	3,830	3,890	(60)

City of Isle of Palms, South Carolina
Schedule of Detailed Revenues and Expenditures
Budget and Actual - General Fund
Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Vehicle Maintenance	1,000	221	779
Electric and Gas	5,000	3,673	1,327
Telephone and Cable	5,100	5,395	(295)
Water and Sewer	1,600	1,480	120
Noncapital Tools and Equipment	300	38	262
Maintenance and Service Contracts	7,500	7,436	64
Machine and Equipment Repair	500	-	500
Uniforms	500	362	138
Cleaning and Sanitary Supplies	500	417	83
Medical and Lab	100	121	(21)
Insurance	8,623	8,704	(81)
Rent and Leases	1,500	464	1,036
Employee Training	1,300	1,612	(312)
Professional Services	50,500	6,187	44,313
Miscellaneous and Contingency	500	311	189
Total Building, Planning, and Engineering	<u>422,884</u>	<u>374,986</u>	<u>47,898</u>
Public Works			
Salaries - Full-time	501,140	505,434	(4,294)
Salaries - Over-time	13,400	14,437	(1,037)
Payroll Taxes	39,362	39,198	164
Retirement	59,481	60,179	(698)
Group Health Insurance	66,924	66,112	812
Workers Compensation	30,023	31,766	(1,743)
Print and Office Supplies	1,000	587	413
Membership and Dues	500	462	38
Meetings and Seminars	250	-	250
Vehicle, Fuel, and Oil	63,474	51,241	12,233
Vehicle Maintenance	85,000	66,547	18,453
Electric and Gas	86,900	74,256	12,644
Telephone and Cable	10,344	10,797	(453)
Water and Sewer	1,700	1,927	(227)
Noncapital Tools and Equipment	5,500	4,368	1,132
Maintenance and Service Contracts	5,700	2,348	3,352
Machine and Equipment Repair	4,000	7,034	(3,034)
Uniforms	7,000	7,161	(161)
Cleaning and Sanitary Supplies	3,500	2,585	915
Medical and Lab	3,500	2,774	726
Street Signs	4,000	2,444	1,556
Insurance	30,198	31,754	(1,556)
Rent and Leases	150	147	3

City of Isle of Palms, South Carolina
Schedule of Detailed Revenues and Expenditures
Budget and Actual - General Fund
Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Employee Training	300	-	300
Professional Services	2,000	1,630	370
Temporary Labor	173,160	179,551	(6,391)
Contracted Services	1,000	568	432
Miscellaneous and Contingency	1,000	1,256	(256)
Garbage Cart - Procurement	7,800	7,541	259
Total Public Works	<u>1,208,306</u>	<u>1,174,104</u>	<u>34,202</u>

Recreation

Recreation Department:

Salaries - Full-time	336,918	345,866	(8,948)
Salaries - Over-time	8,901	17,608	(8,707)
Salaries - Part-time	200,320	184,353	15,967
Payroll Taxes	41,780	39,804	1,976
Retirement	42,867	42,493	374
Group Health Insurance	58,846	58,833	13
Workers Compensation	11,097	12,391	(1,294)
Print and Office Supplies	10,500	10,519	(19)
Membership and Dues	1,600	1,337	263
Meetings and Seminars	2,000	1,381	619
Vehicle, Fuel, and Oil	3,962	2,760	1,202
Vehicle Maintenance	2,000	433	1,567
Electric and Gas	37,000	34,600	2,400
Telephone and Cable	13,740	15,567	(1,827)
Water and Sewer	4,240	4,023	217
Noncapital Tools and Equipment	1,800	1,767	33
Maintenance and Service Contracts	32,585	45,164	(12,579)
Machine and Equipment Repair	2,500	2,746	(246)
Uniforms	1,950	1,739	211
Cleaning and Sanitary Supplies	4,750	5,296	(546)
Medical and Lab	800	675	125
Insurance	39,100	40,200	(1,100)
Rent and Leases	3,700	2,856	844
Employee Training	2,300	1,674	626
Professional Services	115	105	10
Miscellaneous and Contingency	3,500	2,305	1,195
Total Recreation Department	<u>868,871</u>	<u>876,495</u>	<u>(7,624)</u>

City of Isle of Palms, South Carolina
Schedule of Detailed Revenues and Expenditures
Budget and Actual - General Fund
Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Recreation Programs:</u>			
Five Year Old & Under Play Group	750	605	145
Gymnastics	2,500	2,543	(43)
Special Activities	20,500	20,553	(53)
Summer Camp	14,000	12,631	1,369
Themed Activities	2,000	1,084	916
Middle School Dance	5,500	1,725	3,775
Adult Sports	14,000	12,905	1,095
Youth Sports	30,000	30,006	(6)
Keenagers	3,000	2,424	576
	<u>92,250</u>	<u>84,476</u>	<u>7,774</u>
Total Recreation Programs	<u>92,250</u>	<u>84,476</u>	<u>7,774</u>
Total Recreation	<u>961,121</u>	<u>960,971</u>	<u>150</u>
<u>Non-Departmental</u>			
Parking Meters			
Salaries - Over-time	7,000	3,449	3,551
Salaries - Part-time	92,560	85,750	6,810
Payroll Taxes	7,616	6,824	792
Retirement	903	280	623
Workers Compensation	4,747	4,891	(144)
	<u>112,826</u>	<u>101,194</u>	<u>11,632</u>
Total Parking Meters	<u>112,826</u>	<u>101,194</u>	<u>11,632</u>
Total Non-Departmental	<u>112,826</u>	<u>101,194</u>	<u>11,632</u>
<u>Debt Service</u>			
Principal	518,000	518,000	-
Interest	215,390	215,389	1
	<u>733,390</u>	<u>733,389</u>	<u>1</u>
Total Debt Service	<u>733,390</u>	<u>733,389</u>	<u>1</u>
Total General Fund Expenditures	<u>\$ 10,296,083</u>	<u>\$ 10,051,122</u>	<u>\$ 244,961</u>

City of Isle of Palms, South Carolina
Schedule of Expenditures by Type - Actual
Year Ended June 30, 2017

	General Government		
	Mayor and Council	Administration	Judicial and Legal
Salaries - Full-time	\$ 16,996	\$ 420,062	\$ 63,473
Salaries - Over-time	-	11,073	7,426
Salaries - Part-time	-	337	15,441
Payroll Taxes	1,301	31,385	6,502
Retirement	1,272	51,332	9,902
Group Health Insurance	42,633	32,743	6,135
Workers Compensation	399	5,247	248
Print and Office Supplies	658	10,783	3,873
Membership and Dues	50	5,734	82
Membership and Seminars	6,651	6,410	684
Vehicle, Fuel, and Oil	-	1,432	-
Vehicle Maintenance	-	-	-
Electric and Gas	-	3,673	-
Telephone and Cable	2,977	9,878	3,816
Water and Sewer	-	1,670	-
Noncapital Tools and Equipment	-	1,075	614
Maintenance and Service Contracts	-	23,021	3,480
Machine and Equipment Repair	-	-	-
Uniforms	-	-	-
Cleaning and Sanitary Supplies	-	1,758	-
Storm Preparation & Cleanup	-	202,524	-
Medical and Lab	-	446	-
Street Signs	-	-	-
Insurance	1,999	19,143	566
Rent and Leases	-	8,423	-
Advertising	-	6,972	-
Employee Training	-	20,944	1,193
Professional Services	-	27,334	98,959
Temporary Labor	-	-	-
Contracted Services	-	-	-
Miscellaneous and Contingency	4,504	12,169	509
Volunteer Point Allocation	-	-	-
Citizens and Employee Services	2,319	-	-
Canine Kennel Expenses	-	-	-
Recreation Instruction Expense	-	-	-
Garbage Cart - Procurement	-	-	-
Bank Service Charges	-	6,171	-
Total Departmental Expenditures	\$ 81,759	\$ 921,739	\$ 222,903

City of Isle of Palms, South Carolina
Schedule of Expenditures by Type - Actual
Year Ended June 30, 2017

	<u>Public Safety</u>		<u>Building,</u>	<u>Public Works</u>
	<u>Police</u>	<u>Fire Department</u>	<u>Planning, and</u>	
	<u>Department</u>	<u>Fire Department</u>	<u>Engineering</u>	<u>Department</u>
Salaries - Full-time	\$ 1,261,563	\$ 1,600,542	\$ 240,650	\$ 505,434
Salaries - Over-time	138,565	334,068	354	14,437
Salaries - Part-time	3,861	24,594	-	-
Payroll Taxes	105,093	148,125	17,742	39,198
Retirement	192,481	284,061	28,179	60,179
Group Health Insurance	177,128	242,054	34,279	66,112
Workers Compensation	60,877	77,439	2,815	31,766
Print and Office Supplies	14,776	4,931	9,979	587
Membership and Dues	1,542	2,191	662	462
Membership and Seminars	12,505	-	15	-
Vehicle, Fuel, and Oil	61,582	17,264	3,890	51,241
Vehicle Maintenance	35,661	72,219	221	66,547
Electric and Gas	30,017	42,074	3,673	74,256
Telephone and Cable	63,262	57,403	5,395	10,797
Water and Sewer	4,148	9,266	1,480	1,927
Noncapital Tools and Equipment	2,327	5,524	38	4,368
Maintenance and Service Contracts	43,716	56,918	7,436	2,348
Machine and Equipment Repair	4,960	9,020	-	7,034
Uniforms	19,902	14,649	362	7,161
Cleaning and Sanitary Supplies	1,772	3,799	417	2,585
Storm Preparation & Cleanup	-	-	-	-
Medical and Lab	3,846	17,939	121	2,774
Street Signs	-	-	-	2,444
Insurance	65,919	94,179	8,704	31,754
Rent and Leases	3,328	1,583	464	147
Advertising	-	-	-	-
Employee Training	11,222	10,558	1,612	-
Professional Services	11,108	6,052	6,187	1,630
Temporary Labor	-	-	-	179,551
Contracted Services	350	-	-	568
Miscellaneous and Contingency	3,854	6,629	311	1,256
Volunteer Point Allocation	-	1,219	-	-
Citizens and Employee Services	-	-	-	-
Canine Kennel Expenses	412	-	-	-
Recreation Instruction Expense	-	-	-	-
Garbage Cart - Procurement	-	-	-	7,541
Bank Service Charges	-	-	-	-
Total Departmental Expenditures	\$ 2,335,777	\$ 3,144,300	\$ 374,986	\$ 1,174,104

City of Isle of Palms, South Carolina
Schedule of Expenditures by Type - Actual
Year Ended June 30, 2017

	<u>Recreation</u>	<u>Non-Departmental Parking Meters</u>	<u>Total</u>
Salaries - Full-time	\$ 345,866	\$ -	\$ 4,454,586
Salaries - Over-time	17,608	3,449	526,980
Salaries - Part-time	184,353	85,750	314,336
Payroll Taxes	39,804	6,824	395,974
Retirement	42,493	280	670,179
Group Health Insurance	58,833	-	659,917
Workers Compensation	12,391	4,891	196,073
Print and Office Supplies	10,519	-	56,106
Membership and Dues	1,337	-	12,060
Membership and Seminars	1,381	-	27,646
Vehicle, Fuel, and Oil	2,760	-	138,169
Vehicle Maintenance	433	-	175,081
Electric and Gas	34,600	-	188,293
Telephone and Cable	15,567	-	169,095
Water and Sewer	4,023	-	22,514
Noncapital Tools and Equipment	1,767	-	15,713
Maintenance and Service Contracts	45,164	-	182,083
Machine and Equipment Repair	2,746	-	23,760
Uniforms	1,739	-	43,813
Cleaning and Sanitary Supplies	5,296	-	15,627
Storm Preparation & Cleanup	-	-	202,524
Medical and Lab	675	-	25,801
Street Signs	-	-	2,444
Insurance	40,200	-	262,464
Rent and Leases	2,856	-	16,801
Advertising	-	-	6,972
Employee Training	1,674	-	47,203
Professional Services	105	-	151,375
Temporary Labor	-	-	179,551
Contracted Services	-	-	918
Miscellaneous and Contingency	2,305	-	31,537
Volunteer Point Allocation	-	-	1,219
Citizens and Employee Services	-	-	2,319
Canine Kennel Expenses	-	-	412
Recreation Instruction Expense	84,476	-	84,476
Garbage Cart - Procurement	-	-	7,541
Bank Service Charges	-	-	6,171
Total Departmental Expenditures	\$ 960,971	\$ 101,194	\$ 9,317,733
		Debt Service	733,389
			\$ 10,051,122

City of Isle of Palms, South Carolina
Schedule of Fines, Assessments, and Surcharges
Year Ended June 30, 2017

Court Fines	
Court Fines Collected	\$ 263,440
Court Fines and Assessments Retained by the City	(263,440)
Total Court Fines Remitted to the State Treasurer	<u><u>\$ -</u></u>
Court Surcharges	
Court Surcharges Collected	<u>\$ 59,027</u>
Total Court Surcharges Remitted to the State Treasurer	<u><u>\$ 59,027</u></u>
Court Pullouts	
Court Pullouts Collected	<u>\$ 1,100</u>
Total Court Pullouts Remitted to the State Treasurer	<u><u>\$ 1,100</u></u>
Victims' Assistance Fund	
Funds Available for Carryforward, Beginning of Year	\$ 19,757
Court Assessments and Surcharges Allocated to Victims' Assistance Fund	10,549
Interest Earned	2
Victims' Assistance Fund Expenditures	(2,737)
Victims' Assistance Transfers Out	(14,000)
Funds Available for Carryforward, End of Year	<u><u>\$ 13,571</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENTS AUDITORS' REPORT

The Honorable Mayor and Members of City Council
City of Isle of Palms
Isle of Palms, South Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Isle of Palms, South Carolina (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify and deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

McCay Kiddy LLC

Mount Pleasant, South Carolina

November 20, 2017