

**ISLE OF PALMS
WATER AND SEWER COMMISSION
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

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Established "1925"

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Isle of Palms Water and Sewer Commission
Isle of Palms, South Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Isle of Palms Water and Sewer Commission, South Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Isle of Palms Water and Sewer Commission, South Carolina's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Isle of Palms Water and Sewer Commission, South Carolina, as of June 30, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Isle of Palms Water and Sewer Commission, South Carolina and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Isle of Palms Water and Sewer Commission, South Carolina's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Isle of Palms Water and Sewer Commission, South Carolina's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Isle of Palms Water and Sewer Commission, South Carolina's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–11 and 32–35 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion

or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Isle of Palms Water and Sewer Commission, South Carolina's basic financial statements. The accompanying financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2024, on our consideration of the Isle of Palms Water and Sewer Commission, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Isle of Palms Water and Sewer Commission, South Carolina's 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 Isle of Palms Water and Sewer Commission, South Carolina's internal control over financial reporting and compliance.

HRG CPAs, LLC

Mt. Pleasant, SC
January 25, 2024

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Commission of Public Works of the City of Isle of Palms DBA Isle of Palms Water and Sewer Commission ("The Commission") financial performance provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2023. This information should be read in conjunction with the financial statements.

Financial Highlights

The Commission continues with the same positive trend in financial position as displayed in fiscal year 2023. The Commission is well within its debt covenants and the more stringent financial policies and guidelines set by the Commission and management. The following are financial highlights for the fiscal year 2023:

- Total assets at year-end were \$57.71 million and exceeded liabilities that were \$18.16 million. Of the total net position, \$8.7 million was unrestricted. Total net position increased from fiscal year-end 2022 to 2023 by \$1,465,696.
- Operating revenues decreased by 1.48 % from \$7.08 million to \$6.97 million in fiscal year 2023. The decrease was due to decreased impact fees for the fiscal year.

Operating expenses before depreciation increased by \$34,503 or 1.03% compared to fiscal year 2022. Ongoing factors affecting the increase in operating expenses were increases in purchased water and utilities service costs along with general increases across the board for other expenses. Operating expenses including depreciation increased by \$93,067 or 1.69 %.

- Income from operations for the year was \$1.45 million representing a decrease in income from operations of \$(196,513) from fiscal year 2022. Change in net position decreased by \$(185,064) from fiscal year 2022. Total change in net position was \$1,531,029 in fiscal year 2023.
- Debt service coverage of 410% exceeded the 125% required by the bond covenant.
- Ratios of total operating revenues to total operating expenses were 1.26 for fiscal year 2023 and 1.30 for fiscal year 2022.
- The Commission increased all water and sewer fees in fiscal year 2023 in conjunction with a 2023 updated rate study. Large scale projects in the Capital Improvements Program, that has been developed to address both water and sewer issues brought about by the changing needs of the Island, were updated and finalized in anticipation of proceeding to the design phases in fiscal year 2022. The Commission finalized a bond issue in October 2020 to fund the projects associated with the decommissioning of the Wild Dunes WWTP and consolidation and expansion of the Forest Trails WWTP. The Commission began construction in January 2022 and anticipates its completion by April 2024. Following the completion of the Forest Trail Waterworks Treatment Plant, Wild Dunes Wastewater Treatment Plant will be decommissioned by June 2024.

Overview of Annual Financial Statements

The Commission's annual financial report consists of the Management's Discussion and Analysis (MD & A), the Basic Financial Statements and Other Required Supplementary Information. The MD & A serves as an introduction to the financial statements and should be read in conjunction with the basic audited financial statements. The basic financial statements include notes which explain in detail some of the information included in the basic financial statements.

The basic financial statements report information about the Commission using the full accrual basis of accounting in a manner similar to those used by private sector companies. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The basic financial statements include statements of net position, statements of revenue, expenses and changes in net position, statements of cash flows, and notes to the financial statements. The Commission accounts for its activities using a single *proprietary (enterprise) fund*. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Financial Highlights – (Continued)

Overview of Annual Financial Statements

The *statements of net position* provide information about the types and amounts of resources and obligations at year-end. The statements of net position present information about all of the Commission's assets and liabilities, with the difference being reported as net position. Over time, a change in net position is one indicator of whether the financial position of the Commission is improving or deteriorating.

The statements of net position provide information about the Commission at year-end, while the *statements of revenues, expenses, and changes in net position* present the results of the business activities over the course of the fiscal year. Information is provided about how net position changed during the year. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user charges and fees, profitability and credit worthiness.

The *statements of cash flows* provide information about the Commission's cash receipts, cash payments and changes in cash resulting from operations, investments, and noncapital financing activities as well as capital and related financing activities. From the statements of cash flows, the reader can obtain comparative information on the source and use of cash and the change in the cash balance for each of the last two fiscal years.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Commission's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. *Supplementary information* such as debt service coverage is also provided.

The basic financial statements were prepared by the Commission's staff from the detailed books and records of the Commission. The basic financial statements were audited and adjusted, if material, during the independent external audit process.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning.

Condensed Financial Statements

Condensed Statement of Net Position

	June 30, 2023	June 30, 2022	Variance \$	% Change	Increase/ Decrease
Assets					
Current Assets and restricted assets	\$ 12,204,035	\$ 21,532,760	\$ (9,328,725)	(76.44)%	Decrease
Noncurrent assets:					
Capital assets, net of depreciation	45,509,826	34,782,743	10,727,083	23.57%	Increase
Total Assets	57,713,861	56,315,503	1,398,358	2.42%	Increase
Deferred Outflow of Resources					
Deferred Pension Charge	340,098	402,889	(62,791)	(18.46)%	Decrease
Total Deferred Outflows of Resources	340,098	402,889	(62,791)	(18.46)%	Decrease
Total Assets and Deferred Outflow of Resources					
	58,053,959	56,718,392	1,335,567	2.30%	Increase
Liabilities					
Current Liabilities	828,242	246,004	582,238	70.30%	Increase
Liabilities payable from restricted assets	34,258	36,389	(2,131)	(6.22)%	Decrease
Noncurrent liabilities	17,299,967	17,703,178	(403,211)	(2.33)%	Decrease
Total Liabilities	18,162,467	17,985,571	176,896	0.97%	Increase
Deferred Inflows of Resources					
Deferred Pension Costs	66,840	373,965	(307,125)	(459.49)%	Decrease
Total Deferred Inflows of Resources	66,840	373,965	(307,125)	(459.49)%	Decrease
Net Position					
Investment in Capital Assets	30,166,939	28,215,808	1,951,131	6.47%	Increase
Restricted	486,838	552,171	(65,333)	(13.42)%	Decrease
Unrestricted Reserve: Debt Service	118,560	118,560	0	0.00%	N/A
Unrestricted Reserve: Plant Improvement	347,050	347,050	0	0.00%	N/A
Unrestricted	8,705,265	9,125,267	(420,002)	(4.82)%	Decrease
Total Net Position	39,824,652	38,358,856	1,465,796	3.68%	Increase
Total Liabilities and Net Position					
	\$ 58,053,959	\$ 56,718,392	\$ 1,335,567	2.30%	Increase

Financial Analysis – (Continued)
Condenses Financial Statements
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2023	June 30, 2022	Variance \$	% Change	Increase/ Decrease
Operating Revenue					
Water, sales and service	\$ 3,243,195	\$ 3,123,592	\$ 119,603	3.69%	Increase
Wastewater, sales and service	3,180,954	3,017,749	163,205	5.13%	Increase
Other operating revenues	551,988	938,242	(386,254)	(69.98)%	Decrease
Total Operating Revenues	6,976,137	7,079,583	(103,446)	(1.48)%	Decrease
Operating Expenses					
Expenses before depreciation	3,358,542	3,324,139	34,403	1.02%	Increase
Depreciation	2,163,429	2,104,865	58,564	2.71%	Increase
Total Operating Expenses	5,521,971	5,429,004	92,967	1.68%	Increase
Operating Income	1,454,166	1,650,579	(196,413)	(13.51)%	Decrease
Non-operating Revenue (Expenses), Net	11,630	(70,279)	81,909	704.29%	Increase
Income Before Capital Contributions	1,465,796	1,580,300	(114,504)	(7.81)%	Decrease
Capital Contributions	0	70,460	(70,460)	(100.00)%	Decrease
Depreciation on Assets Acquired with Proceeds from Federal Grants	65,333	65,333	0	0.00%	N/A
Total Capital Contributions	65,333	65,333	0	0.00%	N/A
Change in Net Position	1,531,129	1,716,093	(184,964)	(12.08)%	Decrease
Net Position, Beginning of Year	38,358,856	36,708,096	1,650,760	4.30%	Increase
Assets Released from Restriction	(65,333)	(65,333)	\$0	0.00%	N/A
Net Position, End of Year	\$ 39,824,652	\$ 38,358,856	\$ 1,465,796	3.68%	Increase

General Trends and Significant Events

Water sales and services increased by 3.69% and wastewater sales and services increased by 5.13%. The increase in water sales and services was due, in part, to the increase in rates. The decrease in other operating revenue was due to decreased impact fees collected for the fiscal year.

Financial Condition

Total assets increased by \$1,398,258, or 2.42%, as a result of increases in capital assets from new construction. Restricted net assets decreased by \$65,333, or 13.42%, and unrestricted net assets decreased by \$420,102 or 4.82%.

Results of Operations

Operating Revenues: The majority of the Commission's operating revenue comes from water and wastewater sales and service. A smaller portion of the revenue is made up of other operating revenue that consists of impact fees, tap fees, new customer charges, rental income, penalty charges, fireline charges, operating interest income and some miscellaneous fees.

Results of Operations – (Continued)

Capital Contributions: Effective July 1, 2003, the Commission adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which became effective for periods beginning after July 1, 2003. The types of nonexchange transactions the Commission engages in are primarily capital grants and contributed systems. GASB Statement No. 33 requires governments to recognize capital contributions to proprietary funds as revenues rather than contributed capital.

Capital contributions collected by the Commission are made up of three components: cash, grant reimbursements and contributed systems. The first component, cash, comes from various fees such as impact, tap and change-in-use. Water and wastewater tap fees are charged at the time of application for service to recover the costs to install the service. Impact fees are charged to recover the cost associated with expansion of major components of the water and wastewater systems. Change-in-use fees are charged to water and wastewater customers who require increased water and wastewater flow capacity. The second component is from grant reimbursements from other governments and the third component is from systems usually contributed by developers or other governments.

Expenses: The Commission operates the Isle of Palms Reverse Osmosis Water Treatment Plant which treats groundwater with a finished water capacity of 1.2 million gallons per day (MGD). The Commission also has the ability to purchase 1.5 million gallons per day (MGD) of surface water from Charleston CPW for a total delivery capacity of 2.7 million gallons per day (MGD). The Commission owns and operates two wastewater treatment facilities; Wild Dunes and Forest Trails. Combined permitted capacity is 1.37 million gallons per day (MGD).

Total operating expenses of the Commission increased by \$34,403 in fiscal year 2023 with personnel services accounting for 24.8% of total operating expenses. For fiscal year 2022, personnel services accounted for 24.8% of total operating expenses. Increases in operating expenses were due primarily to changes in personnel services related to salaried and benefits. Additionally, pension costs increased due to the continued implementation of GASB 68/71.

Total operating expenses for water and wastewater operations for the last two years are listed below.

2023 & 2022 Operating Expenses

	June 30, 2023	% of Total	June 30, 2022	% of Total	Variance \$	% Change
Amortization	2,655	0.0%	7,711	0.1%	\$(5,056)	(65.57)%
Bad debt Expense	0	0.0%	0	0.0%	\$0	0.0%
Depreciation	2,163,429	39.2%	2,104,865	38.8%	\$58,564	2.78%
DHEC Fees	66,054	1.2%	66,665	1.2%	\$(611)	(0.92)%
Insurance	83,914	1.5%	74,341	1.4%	\$9,573	12.88%
Lab expenses	71,913	1.3%	73,913	1.4%	\$(2,000)	(2.71)%
Office expenses and supplies	38,866	0.7%	29,656	0.5%	\$9,210	31.06%
Other operating expenses	212,385	3.82%	282,258	5.2%	\$(69,873)	(24.76)%
Personnel services	1,369,014	24.8%	1,348,617	24.8%	\$20,397	1.51%
Professional and contracted services	182,372	3.3%	188,937	3.5%	\$(6,565)	(3.47)%
Purchased water - Charleston CPW	416,018	7.5%	380,436	7.0%	\$35,582	9.35%
Repairs and maintenance	505,815	9.2%	499,382	9.2%	\$6,433	1.29%
Telephone	28,326	0.5%	33,031	0.6%	\$(4,705)	(14.24)%
Utilities	235,194	4.3%	213,149	3.9%	\$22,045	10.34%
Vehicle expenses	71,276	1.3%	63,193	1.2%	\$8,083	12.79%
Water/sewer chemicals and supplies	74,840	1.4%	62,848	1.2%	\$11,992	19.08%
Total Operating Expenses	\$5,521,971	100%	\$5,429,004	100%	\$93,069	1.71%

Rate Covenant

The Commission has covenanted to maintain rates and charges for our products and services which at all times shall be sufficient to pay operation and maintenance expense to keep the system in good repair and working order, to provide for the punctual payment of the principal and interest on all outstanding debt, to maintain the required amounts in the debt service and debt service reserve accounts, to build and maintain a reserve for depreciation for contingencies and improvements, and to discharge all obligations imposed by the bond ordinance. The Commission has further covenanted to collect rates and charges which, together with other income, will reasonably yield annual net earnings of at least 125% of the annual principal and interest requirement. The net earnings available for debt service for fiscal year 2022 and 2021 was 377% and 276% of the annual principal and interest requirement, respectively.

Capital Assets and Long-Term Debt

At June 30, 2023, the Commission had \$15.36 million in bonds outstanding versus \$15.96 million at June 30, 2022, a decrease of 3.8%. This was attributable to a new bond issued in October 2022 in the amount of \$16 million to be used for a construction of a new wastewater treatment plant, as well as paying down the original bond from 2012. The Commission continues to carry credit ratings of Aa2 by Moody's. These credit ratings did not change for the fiscal year 2023. At June 30, 2023, the Commission had \$74.8 million invested in a broad range of capital assets including buildings, water and sewer lines, and water and sewer treatment plants. This amount represents a net increase (including additions and deletions) of \$12,890,512, or 20.8%, over June 30, 2022.

Historical Operating Results and Coverage

Below are the historical operating results of the System for the fiscal years 2019 through 2023, together with the debt service coverage in each year.

	2019	2020	2021	2022	2023
Operating Revenues	\$ 6,306,404	\$ 6,256,161	\$ 6,822,912	\$ 7,079,583	\$ 6,976,137
Non-Operating Revenues	185,161	246,324	32,669	30,499	385,510
Total Revenues	\$ 6,491,565	\$ 6,502,485	\$ 6,855,581	\$ 7,110,082	\$ 7,360,647
Operating Expenses (Excludes Depreciation)	\$ 3,043,794	\$ 2,950,664	\$ 3,445,489	\$ 3,424,915	\$ 3,358,642
Net Revenues Available For Debt Service	\$ 3,447,771	\$ 3,551,821	\$ 3,410,092	\$ 3,685,167	\$ 4,002,005
Debt Service Requirements	\$ 994,725	\$ 649,100	\$ 1,233,422	\$ 978,375	\$ 976,000
Debt Service Coverage	347%	547%	276%	377%	410%

General Statistics – Water System

The System has water meters for each customer. The table below presents the total annual and average monthly metered usage for the residential, commercial and irrigation customers for fiscal year ended June 30, 2023.

	Number of Customers	Annual Water Usage (Gallons)	Use/Cust Gal/Month	Classes of Customers
Residential	3,851	271,012,000	5,865	80.0%
Commercial	122	32,498,000	22,198	2.6%
Irrigation and Pool	733	112,691,000	12,815	15.2%
Firelines	107	-	-	2.2%
Total	4,813	416,201,000	40,878	100%

The average residential usage for the System in fiscal year 2023 was 5,865 gallons per month.

General Statistics – Water System –(Continued)

Water Flow Rates

The total water flow for the System for the fiscal year 2023 was 449.5 million gallons, and the average daily flow was 1.231 million gallons. The table below sets forth the total annual meter flow and the average daily meter flow in millions of gallons per day (“MGD”) for the fiscal years 2017 – 2023.

<u>Year</u>	<u>Total Pumped (MG)</u>	<u>Average Daily Flow (MGD)</u>
2017	452.0	1.238
2018	427.4	1.171
2019	435.5	1.193
2020	434.4	1.187
2021	464.0	1.271
2022	474.7	1.301
2023	449.5	1.231

General Statistics – Sewer System

Wastewater Flow Rates

The total wastewater flow for the System for the fiscal year 2023 was 182.909 million gallons, and the average daily flow was 0.501 million gallons. The maximum daily flow does not exceed the rated hydraulic capacity. The system’s current permitted capacity is 1.37 MGD. The table below sets forth the total wastewater flow and the average daily wastewater flow for calendar years 2017 through 2023.

<u>Year</u>	<u>Total Flow (MG)</u>	<u>Average daily Flow (MGD)</u>
2017	181.056	0.496
2018	183.756	0.503
2019	174.658	0.479
2020	174.422	0.490
2021	189.243	0.519
2022	180.562	0.495
2023	182.909	0.501

Other Potentially Significant Matters

- FEMA Grant Award – The Commission was awarded a \$2,250,000 FEMA grant, after the June 30, 2018 fiscal year, to assist with the demolition, flood proofing, and consolidation of the Wild Dunes Wastewater Treatment Facility with the new Forest Trails Wastewater Treatment Facility. This project is now underway. Additional FEMA grant money was received on October 2, 2023, for \$2,363,181.75 and on November 28, 2023 for \$293,340.31. To date, FEMA grant money received is \$2,726,982.51. Additional funds became available December 27, 2022, in the amount of \$2,132,851 for a total award of \$4,357,500.
- Bond 2020 Proceeds – On October 29, 2020, The Commission received bond proceeds of \$14,770,000 and premium of \$1,348,938.70 for a total of \$16,118,938.70 for construction on the Forest Trail Wastewater Plant Consolidation.
- Rate Study - The Commission is currently working with a rate consultant who has reviewed how customers are charged and will soon be proposing a rate structure to confirm that the Commission will be on solid financial footing to proceed with planned large capital improvements. Additionally, the rate consultant reviewed the cost allocation methodology that is currently implemented at the Commission. The information provided by the consultant will be used to make any necessary adjustments to rates, fees, as well as cost allocations.
- SCIP Grant Award: On April 24, 2023, the Commission was awarded \$4,576,256 for a South Carolina Infrastructure Investment Program Grant Award for three capital projects: 1) Reverse Osmosis Concentrate Outfall Relocation, 2) Forest Trails Outfall Replacement and 3) Sewer Basin N installation, which is the first sewer basis installation of the sewer master plan.
- Wild Dunes Wastewater Pump Station: The Commission will finish construction on the pump station at Wild Dunes to pump all wastewater from Wild Dunes to the Forest Trails Wastewater Treatment Plant. The existing Wild Dunes Wastewater Treatment Plant will be demolished.

Final Comments

This financial report is designed to provide a general overview of the Commission's finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Comptroller, Commission of Public Works, P. O. Box 528, Isle of Palms, South Carolina 29451.

**ISLE OF PALMS WATER AND SEWER COMMISSION
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2023 AND 2022**

EXHIBIT 1

	2023	2022
ASSETS		
Cash and Cash Equivalents	\$ 11,075,481	\$ 20,357,043
Cash and Cash Equivalents - Restricted	370,458	350,276
Accounts Receivable	630,840	712,768
Inventories	74,478	66,649
Prepaid Expenses	52,778	46,024
Capital Assets, Net of Accumulated Depreciation (Note 6)	45,509,826	34,782,743
TOTAL ASSETS	57,713,861	56,315,503
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Charge	340,098	402,889
TOTAL DEFERRED OUTFLOWS OF RESOURCES	340,098	402,889
LIABILITIES		
Accounts Payable	685,555	99,364
Accrued Interest Payable	34,258	36,389
Accrued Paid Time Off/Vacation Payable	142,686	146,640
Net Pension Liabilities	1,941,540	1,741,387
Long-Term Obligations:		
Due Within One Year	560,000	535,000
Due in More Than One Year	14,798,427	15,426,791
TOTAL LIABILITIES	18,162,466	17,985,571
DEFERRED INFLOWS OF RESOURCES		
Deferred Pension Credits	68,840	373,965
TOTAL DEFERRED INFLOWS OF RESOURCES	68,840	373,965
NET POSITION		
Investment in Capital Assets	30,166,939	28,215,808
Restricted (Note 9)	486,838	552,171
Unrestricted Reserve: Debt Service (Note 10)	118,560	118,560
Unrestricted Reserve: Plant Improvement (Note 10)	347,050	347,050
Unrestricted (Note 10)	8,705,265	9,125,267
TOTAL NET POSITION	\$ 39,824,652	\$ 38,358,856

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

ISLE OF PALMS WATER AND SEWER COMMISSION
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
AS OF JUNE 30, 2023 AND 2022

EXHIBIT 2

	2023	2022
OPERATING REVENUE		
Residential Sale of Water	\$ 3,004,658	\$ 2,912,386
Residential Sale of Sewer	2,785,556	2,659,538
Commercial Sale of Water	238,537	211,206
Commercial Sale of Sewer	395,398	358,211
Other Operating Revenues	551,988	938,242
TOTAL OPERATING REVENUE	6,976,137	7,079,583
OPERATING EXPENSES (SCHEDULE 1)	5,521,971	5,429,004
OPERATING INCOME	1,454,166	1,650,579
NONOPERATING REVENUE (EXPENSE)		
Interest Income	384,510	30,499
Gain (Loss) on Sale of Fixed Assets	-	-
Debt Service - Interest	(372,880)	(100,778)
Debt Service - Service Charge	-	-
TOTAL NONOPERATING REVENUE (EXPENSE)	11,630	(70,279)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,465,796	1,580,300
Capital Contributions	-	70,460
Depreciation on Assets Acquired with Proceeds from Federal Grants	65,333	65,333
TOTAL CAPITAL CONTRIBUTIONS	65,333	135,793
CHANGE IN NET POSITION	1,531,129	1,716,093
NET AS PREVIOUSLY REPORTED	38,358,856	36,708,096
Assets Released From Restrictions	(65,333)	(65,333)
TOTAL NET POSITION, END OF YEAR	\$ 39,824,652	\$ 38,358,856

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

**ISLE OF PALMS WATER AND SEWER COMMISSION
STATEMENTS OF CASH FLOWS
AS OF JUNE 30, 2023 AND 2022**

EXHIBIT 3

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 7,058,065	\$ 7,064,726
Cash Paid to Suppliers and Employees	(2,834,545)	(3,525,350)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,223,520	3,539,376
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(12,891,035)	(8,167,535)
Principal Paid on Bond Obligations	(535,000)	(640,000)
Interest Paid on Bond Obligations	(443,375)	(456,750)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(13,869,410)	(9,264,285)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	384,510	30,499
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	384,510	30,499
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,261,380)	(5,694,410)
CASH AND CASH EQUIVALENTS AT JULY 1, 2022	20,707,319	26,401,729
CASH AND CASH EQUIVALENTS AT JUNE 30, 2023	\$ 11,445,939	\$ 20,707,319

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

**ISLE OF PALMS WATER AND SEWER COMMISSION
STATEMENTS OF CASH FLOWS
AS OF JUNE 30, 2023 AND 2022**

EXHIBIT 3

	2023	2022
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 1,454,166	\$ 1,650,579
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	2,163,429	2,104,865
Amortization	2,655	7,711
Pension and OPEB Expense	(44,181)	(41,336)
(Increase) Decrease in Accounts Receivable	81,928	(14,857)
(Increase) Decrease in Prepaid Expenses	(6,754)	(801)
(Increase) Decrease in Inventories	(7,829)	9,125
Increase (Decrease) in Accounts Payable	586,191	67,721
Increase (Decrease) in Other Accrued Liabilities	(2,131)	(269,995)
Increase (Decrease) in Paid Time Off	(3,954)	26,364
Total Adjustments	2,769,354	1,888,797
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,223,520	3,539,376
RECONCILIATION TO BALANCE SHEETS		
Unrestricted Cash and Cash Equivalents	11,075,481	20,357,043
Restricted Cash and Cash Equivalents	370,458	350,276
TOTAL CASH AND CASH EQUIVALENTS	\$ 11,445,939	\$ 20,707,319

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

**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1. DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of Entity

The Commissioners of the Commission of Public Works for the City of Isle of Palms, DBA the Isle of Palms Water and Sewer Commission (The Commission) was created and empowered by the City of Isle of Palms, South Carolina (the City) and the State of South Carolina in 1992 under South Carolina Code of Laws section 5-31-210. The City of Isle of Palms voters elect five Commissioners who govern the Commission. The Commissioners have six-year staggered terms.

The Commission will continue to have a fiscal dependency upon the City of Isle of Palms, requiring the City to approve all debt issuance and grants, however, there is no financial benefit or burden of relationship. Based on accounting standards, the Commission is not a component unit of the City.

Significant Accounting Policies:

Basis of Presentation and Accounting

The Commission's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Commission applies all relevant Government Accounting Standards Board (GASB) pronouncements.

All activities of the Commission are accounted for within a single enterprise fund. The accounting and financial reporting treatment applied to the Commission is determined by its measurement focus. The transactions of the Commission are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the *Statement of Net Position*. Net Position (total assets and deferred outflows less total liabilities and deferred inflows) is segregated into three classes: net investment in capital assets, restricted, and unrestricted. The Operating Statement (*Statements of Revenues, Expenses, and Change in Net Position*) present increases (revenues and capital contributions) and decreases (expenses) in net position.

The GASB standards require the presentation of a Management's Discussion and Analysis, which precedes the basic financial statements.

The Commission has established criteria for determining the scope of the reporting entity for financial statement presentation, in accordance with GASB standards. Accordingly, an accountability perspective has been the basis for defining the financial reporting entity. These financial statements present the government and all activities for which the Commission is accountable.

Budgetary Accounting

The Commission adopts an annual operating budget, which includes capital expenditures. The operating budget analyzes the Commission's plans to receive and disburse funds for expenses incurred for operation, maintenance, capital outlay for certain administrative and general functions, certain interest, and other charges for the fiscal year. All unexpended and unencumbered appropriations remaining in the budget lapse at the end of the fiscal year. Until the accomplishment or abandonment of the purpose of an appropriation for a capital project, the appropriation does not lapse. Budgets are adopted on a basis which approximates generally accepted accounting principles, except that the budgetary basis includes depreciation expense and identifies debt service payments and capital expenditures as uses or expenses and contributed capital as revenues. The approach used in the Commission's rate making model is consistent with the budgetary basis of accounting.

(Continued on Next Page)

**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1. DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Cash and Cash Equivalents, Deposits and Investments, and Related Restrictions

Cash and cash equivalents, for purposes of the *Statement of Cash Flows*, include restricted and unrestricted cash on hand or on deposit, certain bank money market funds, interest in the State's Treasurer's Pool, repurchase agreements, and investments with an original maturity of three months or less.

The Commission is permitted to invest through various investment advisors in a pool managed by the South Carolina State Treasurer, certificates of deposit, repurchase agreements, guaranteed insurance contracts and U.S. or State of South Carolina general obligations. It is the Commission's policy to only invest in these permitted instruments. Investments are stated at fair value, equal to the value of shares in the above-mentioned pool. 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 per share.

Fair Value Measurements

The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Gains or losses that result from market fluctuation are reported in the current period. As of June 30, 2023, all of the Commission's investment in the South Carolina Local Government Investment Pool (SCLGIP), an investment pool, is valued using significant other observable inputs (Level 2 inputs).

Restricted asset accounts are established to account for assets reserved for specific purposes. Certain construction and capital project accounts, and debt service fund accounts are reserved and restricted by certain bond ordinance and Federal Grant Fund loan agreements. Capacity (impact) fees are restricted by State legislation. The restricted capital projects accounts represent 1) impact fees charged to new customers to recover the costs associated with unutilized capacity or to build new capacity, 2) special assessments to provide capital improvements, 3) unspent bond and revolving loan proceeds for capital purposes, 4) related investment income on such accounts and 5) other customer contributions for which related capital assets have not been funded.

Reserve/restricted funds may be established at the discretion of the Commissioners from time to time. The action establishing such reserve funds will define the restricted/unrestricted nature of the fund, the segregation of the fund, the use and disbursement policy, the accounting and management of the fund, and the inclusion or exclusion of the fund balance towards any fund balance goal. The Commission has established the following reserve/restricted funds: capital reserve, impact fee reserve, and maintenance bond deposit funds.

Accounts Receivable and Charge-Off

Customer receivables represent various volume, availability, impact and special assessment service fees earned but not yet collected. Unbilled (cycle billings) receivables at year end are estimated to record revenues earned through year end. Receivables are reported net of applicable allowances for uncollectible accounts and bad debt expense. Bad debt expense in the amount of \$0 and \$0 were written off in 2022 and 2021, respectively.

Inventory

Inventories consist of construction material, repair parts, and chemicals. Materials and supply inventories held for use are stated at cost.

Bond Issue Costs

Bond issue costs consist of the Underwriter's Discount Fee, insurance premium on policy guaranteeing payment of the bonds, payments for legal services, payments to rating services for rating the bonds, and various other costs directly associated with the issuance of the revenue bonds.

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**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1. DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Accumulated Unused Paid Time Off

The Commission’s policy is to allow employees to accumulate unused paid time off benefits up to a maximum of 464 hours.

Claims and Judgments

The Commission records these activities and obligations on the accrual basis when the event occurs and obligation arises.

Property, Plant, and Equipment

Property, plant, equipment, and capacity purchases are classified as capital assets and are recorded at cost, if purchased or constructed, and the cost exceeds \$5,000. Assets acquired through contributions from developers or other entities are capitalized at their acquisition value, if available, or at an engineer's estimated fair value, or cost to construct at the date of the contribution. Costs of studies that directly result in specific construction projects are capitalized. Computer software developed or acquired for internal use, is capitalized and depreciated over anticipated useful life.

Interest costs during construction are capitalized for qualified property. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds. Interest is not capitalized on assets acquired or constructed with gifts and grants (contributions, special assessments) that are restricted by the donor or grantor to acquisition of those assets.

Losses from impairments of capital assets are recognized for capital assets no longer used or damaged, or for which their service utility is significantly diminished. Insurance recoveries, which are received or certain as to recovery, are offset against such impairment losses.

Certain repair, maintenance, studies and other expenses funded by the capital budget, which do not meet the requirements for capitalization, are presented in the *Statements of Revenues, Expenses, and Changes in Net Position* as repairs and maintenance funded by the capital budget.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful life: utility plant and systems, excluding equipment, 20-60 years; water capacity rights, if no contract life, 20-40 years; buildings 30-40 years; site improvement 20-30 years; utility plant equipment and tools 2-20 years; generators 5-25 years; computers 2-15 years, furniture and fixtures 3-30 years; and vehicles 5-10 years.

	Years
Buildings	10 - 30
Water System	50
Sewer System	50
Vehicles, Furniture and Equipment	5 - 10

Revenue Recognition and Rate Structure

The Commission recognizes revenues from services on the accrual basis and as earned. Water and sewer services are supplied to customers under a rate structure designed to produce revenues adequate to provide for operating and maintenance costs, depreciation expense on capital replacement assets, certain debt service and capital costs related to non-replacement assets.

(Continued on Next Page)

ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1. DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Risk Management

The Commission pays premiums to the South Carolina Insurance Reserve Fund and State Accident Fund to cover risks that may occur during operation. The risks of loss to which the Commission is exposed include loss of property, general tort liability and workmen's compensation claims. The South Carolina Insurance Reserve Fund is self-sustaining through member premiums and reinsured in the commercial market for property losses.

Use of Estimates

Preparation of the Commission's financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Commission's deferred loss on refunding qualifies for reporting in this category and results from the difference in carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In addition, three items relating to the Commission's Retirement Plan qualify for reporting in this category and are combined in the Statements of Net Position under the heading "Deferred Pension Charge". The first item, experience losses, results from periodic studies by the actuary of the Retirement Plan, which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience losses are recorded as deferred outflows of resources and are amortized into pension expense over the expected remaining service lives of the plan members. The second item, differences between projected investment return on pension investments and actual return on those investments, is deferred and amortized against pension expense over a five-year period, resulting in recognition as a deferred outflow of resources. Additionally, any contributions made by the Commission to the pension plan before year-end but subsequent to the measurement date of the Commission's net pension liability are reported as deferred outflows of resources.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Two items relating to the Commission's Retirement Plan qualify for reporting in this category and are combined in the Statements of Net Position under the heading "Deferred Pension Credits". The first item, experience gains, results from periodic studies by the actuary of the Retirement Plan, which adjust the net pension liability for actual experience for certain trend information that was previously assumed. The second item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions. Both of these items are recorded as deferred inflows of resources and are amortized into pension expense over the expected remaining lives of the plan members.

Net OPEB Liability

For purposes of measuring the net OPEB (other postemployment benefits) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, the information about the fiduciary net position of the Isle of Palms Water and Sewer Commission OPEB Plan and additions to/deduction from the OPEB Plan's fiduciary net position have been determined on the same basic as they are reported by the OPEB Plan. For this purpose, the Commission recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1. DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS 's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position Classification

Net position is classified and displayed in three components within the Statements of Net Position. These three classifications are as follows:

Net Investment in Capital Assets Component of Net Position—This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position.

Restricted Component of Net Position—This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted Component of Net Position—This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

Capital Contributions

Contributions include impact fees, developer contributions of systems, and other capacity and supplemental support by other utilities and governments. Impact fees represent charges against new development to recover capital costs previously incurred for available system capacity or to develop new service capacity. Developers contribute completed systems they have constructed under state and local guidelines. Developers generally do not desire and are not permitted to operate water and wastewater systems. Contributed capital is recorded at acquisition value.

Impact fees and developer contributions of systems represent imposed nonexchange transactions and voluntary nonexchange transactions, respectively. Impact fees are recognized in the *Statements of Revenues, Expenses, and Changes in Net Position* when legally enforceable or probable of legal enforcement, or if no restrictions, when use of the resources is first permitted. Impact fees received from developers and commercial entities are permitted to be used upon receipt, and subject to refund prior to initiation of construction. Accordingly, impact fees are recognized in the financial statements upon receipt. An allowance is recorded in anticipation of refunds, when applicable. Historically, refunds of impact fees have been negligible and assessed as highly remote.

NOTE 2. FUNDS CREATED IN ACCORDANCE WITH BOND RESOLUTION

The Water and Sewer System Bond Resolution adopted by the City of Isle of Palms authorized the issuance of Water and Sewer Revenue bonds aggregating \$36,255,602. The resolution provided for the establishment and operation of the following funds held by the Commission unless otherwise stated:

Operation and Maintenance Fund - Revenues derived and used from the System are to pay the cost and expenses of operating and maintaining the System.

Revenue Fund - Deposits all revenues.

(Continued on Next Page)

**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2. FUNDS CREATED IN ACCORDANCE WITH BOND RESOLUTION – (CONTINUED)

The Debt Service Fund - A Commission designated trustee holds this fund. The fund provides solely for the payment of the principal of redemption premium, if any, and interest on each series of bonds as the same respectively falls due.

The Debt Service Reserve Fund - A trustee designated by the Commission holds this fund. Monies used in this fund are as follows:

- To prevent a default in the payment of, the principal of, or interest on each series of bonds, due to the fact that monies in the Debt Service Fund are insufficient for such purposes.
- To pay the principal of, interest on, and redemption premium, if any, of the bonds in the event that all outstanding bonds be redeemed as a whole.
- To effect partial redemption of the bonds, provided that such redemption is undertaken in accordance with the provisions of the ordinance permitting a partial redemption of bonds and the balance remaining in the Debt Service Reserve Fund following such partial redemption shall not be less than the reserve fund requirement.
- To effect the retirement of bonds through purchase under the conditions herein prescribed.

Capital Improvement Fund - The use of these monies are solely for the purpose of:

- Restoring or replacing depreciated or obsolete properties of the System.
- The payment of costs of improvements, betterment, and extensions to the System other than those necessary to maintain the System in good repair and working order.
- The payment of extraordinary maintenance and repairs provided, however, if necessary, monies in the Capital Improvements Fund may be used to fund any deficiency in the Debt Service Fund or Debt Service Reserve Fund and be used for any of the purposes for which such Funds were established.

Rebate Fund - The fund itself and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Commission or any holder of a bond. The Commission shall deposit in the Rebate Fund within 60 days after the end of any bond year an amount such that the amount held in the Rebate Fund after deposit is equal to cumulative rebate amount. The amount deposited in the Rebate Fund shall be made from the revenues of the Commission to the extent monies are available.

Construction Fund - A custodian holds this fund. The monies used in the Construction Fund shall be to defray the cost of the project and to pay any sort of acquisition and construction with respect to the facilities so financed.

Contingency Fund - Monies in the Contingency Fund are to build up a reasonable reserve for improvements, betterment, and extensions to the System other than the expenses which are reasonably necessary to maintain the System in good repair and working order, and to defray the cost of unforeseen contingencies.

NOTE 3. CASH DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. The Commission's policy is to request collateral for all bank deposits in excess of insured amounts, excepting uncollateralized amounts up to \$250,000 per custodian with major banking institutions with high credit rating and primary financial indicators with federal and state regulator limits. There is no limit placed on the maximum amount deposited with one institution. As of June 30, 2023, and 2022 all deposit accounts are collateralized. The carrying balances of deposits at June 30, 2023 and 2022 were \$1,530,573 and \$11,185,333 with corresponding bank balances of \$1,554,839 and \$12,173,994 respectively.

		2023		2022
Carrying Balance	\$	1,530,573	\$	11,185,333
Corresponding Bank Balances	\$	1,554,839	\$	12,173,194

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**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 3. CASH DEPOSITS AND INVESTMENTS

Investments

For an investment, custodial credit risk is the exposure that a counterparty fails, absent collateral, the Commission is unable to recover its investment value. The Commission has no policy restricting the amounts, or percentages of investments that may be invested in authorized investments. Investments at June 30, 2023 and 2022 were respectively comprised of \$9,544,658 and \$9,171,460 funds held by the State Treasurer's Local Government Investment Pool, and \$370,458 and \$350,276 funds held by US Bank for debt service. The fair value and cost of these investments were the same.

The Commission invested certain funds with the South Carolina State Treasurer's Office, which established the South Carolina Local Government Investment Pool (SCLGIP) pursuant to Section 6-5-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs under the custody of any county treasurer or any governing body political subdivision of the State may be deposited. The SCLGIP is permitted to purchase obligations of the United States, its agencies and instrumentalities, and any corporation within the United States if such obligations bear any of the three highest ratings of at least two nationally recognized rating services. The investment in the SCLGIP is valued at fair value. The SCLGIP is not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The risk is managed within the portfolio using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rates movements given a .50 basis point change in interest rates. It takes into account that expected cash flows will fluctuate as interest rate changes and provides a measure of risk that changes proportionately with market rates. The Pool's investment policy requires that the weighted average maturity and weighted average duration of the actively managed fixed income portfolio should be consistent with the liquidity requirement of the pool. Information regarding interest rate risk is as follows:

		2023		2022
SC Local Government Pool	\$	9,544,658	\$	9,171,460
US Bank (Debt Service)		370,458		350,276
Total	\$	9,915,116	\$	9,521,736

NOTE 4. 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 Commission 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 Commission'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.

**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 5. LONG-TERM OBLIGATIONS

Revenue Bonds

The Commission issues bonds to provide funds for the acquisition and construction of major capital facilities. Revenue Bonds are directed obligations to be paid solely from revenues derived from operation of the system and pledging the revenue to such payment.

Details on the Commission's debt outstanding as of June 30, 2023 are as follows:

Revenue Bonds	Principal Outstanding at Year End
\$14,770,000 Revenue Bond Series 2020 issued in October 2020 for cost of facilities and wastewater treatment plant. Principal is payable annually and interest, at 2% to 5%, semi-annually. Annual debt service requirements range from approximately \$535,000 to \$970,000 through December 2040.	\$ 14,235,000
Total Revenue Bonds	\$ 14,235,000

Interest paid on the debt currently issued by the City is exempt from federal income tax. The Commission 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 Commission had no arbitrage liability at June 30, 2023.

Debt Service Requirements to Maturity

Year Ended June 30,	Principal	Interest	Totals
2024	\$ 560,000	\$ 416,000	\$ 976,000
2025	590,000	387,250	977,250
2026	620,000	357,000	977,000
2027	650,000	325,250	975,250
2028	685,000	291,875	976,875
2029-2040	11,130,000	1,581,625	12,711,625
Totals	\$ 14,235,000	\$ 3,359,000	\$ 17,594,000

Presented below is a summary of changes in long-term obligations for the year ended June 30, 2023:

Long-Term Obligations	July 1, 2022	Additions	Reductions	June 30, 2023	Due Within One Year
2020 Revenue Bond	14,770,000	-0-	535,000	14,235,000	560,000
Total	\$ 14,770,000	\$ -0-	\$ 535,000	\$ 14,235,000	\$ 560,000
Add: Unamortized premium				1,220,347	
Less: Unamortized discount				(96,920)	
Total Reported on Statement of Net Position				\$ 15,358,427	

The Commission incurred interest expense of approximately \$372,880 and \$100,778, respectively.

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ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant, and equipment at June 30, 2023 follows:

	<u>Balance July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2023</u>
Nondepreciable				
Land	\$ 603,709	\$ -	\$ -	\$ 603,709
Construction in Progress	7,913,182	12,210,319	(204,356)	19,919,145
Total Capital Assets Not Being Depreciated	<u>8,516,891</u>	<u>12,210,319</u>	<u>(204,356)</u>	<u>20,522,854</u>
Depreciable				
Buildings	1,013,154	-	-	1,013,154
Water System	25,055,151	290,631	-	25,345,782
Sewer System	21,286,906	447,616	-	21,734,522
Office Furniture	71,812	-	-	71,812
Trucks and Equipment	963,977	-	-	963,977
Computer System	616,675	2,251	-	618,926
Communications Equipment	55,275	-	-	55,275
Water, AMI Sensus Meter	1,821,414	25,845	-	1,847,259
Reverse Osmosis Treatment Facility	2,517,070	118,206	-	2,635,276
Total Capital Assets Being Depreciated	<u>53,401,434</u>	<u>884,549</u>	<u>-</u>	<u>54,285,983</u>
Less: Accumulated Depreciation	<u>(27,135,582)</u>	<u>(2,163,429)</u>	<u>-</u>	<u>(29,299,011)</u>
Net Depreciable Property Plant and Equipment	<u>26,265,852</u>	<u>(1,278,880)</u>	<u>-</u>	<u>24,986,972</u>
Net Property Plant and Equipment	<u>\$ 34,782,743</u>	<u>10,931,439</u>	<u>(204,356)</u>	<u>\$ 45,509,826</u>

Depreciation charged to operations was \$2,163,429 and \$2,104,865 in 2023 and 2022, respectively. The Commission received monies from both the State of South Carolina and FEMA (See Note 10) to install water and sewer lines, ground storage tank, generators and hurricane shutters. The depreciation on these assets was \$65,333 and \$65,333 in 2023 and 2022, respectively.

NOTE 7. PENSION AND RETIREMENT PLAN

The Commission 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 and 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

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**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 7. PENSION AND RETIREMENT PLAN – (CONTINUED)

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.

Plan Membership

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

- SCRS – Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012 is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.

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 requirement that the total of the member’s age and the member’s creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

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

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS.

An increase in the contribution rates adopted by the 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

(Continued on Next Page)

**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 7. PENSION AND RETIREMENT PLAN – (CONTINUED)

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.

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

	SCRS Rates		
	2021	2022	2023
Employer Rate			
Retirement	15.56%	16.41%	17.41%
Incidental Death Benefit	0.15%	0.15%	0.15%
Accidental Death Contributions	N/A	N/A	N/A
Total	15.71%	16.56%	17.56%
Employee Rate	9.00%	9.00%	9.00%

Net Pension Liability

The most recent annual actuarial valuation report adopted by the PEBA Board and Budget and Control Board is as of July 1, 2017. The net pension liability of the System was therefore determined based on the July 1, 2018 actuarial valuations, using membership data as of July 1, 2018, projected forward to the end of the fiscal year, and financial information of the pension trust fund as of June 30, 2022, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by the System’s consulting actuary, Gabriel, Roeder, Smith and Company.

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, 2022, NPL amounts and the change in NPL amounts for SCRS and PORS are as follows:

System	Total Pension Liability	Plan Fiduciary Net position	Employer’s Net Pension Liability(Asset)	Plan Fiduciary Net Position as A Percentage of The Total Pension
SCRS	\$56,454,779,872	\$32,212,626,932	\$24,42,152,940	57.1%

At June 30, 2023, the Commissions reported liabilities of approximately \$1,941,540 for its proportionate share of the NPLs for the SCRS Plan. The NPLs were measured as of June 30, 2022, and the total pension liabilities for the Plans used to calculate the NPLs were determined based on the most recent actuarial valuation report as of July 1, 2017 that was projected forward to the measurement date. The Commissions’ proportion of the NPLs were based on a projection of the Commission’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, 2022, the Commission’s SCRS proportion was 0.008009 percent, which decreased slightly from the prior year.

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**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 7. PENSION AND RETIREMENT PLAN – (CONTINUED)

For the year ended June 30, 2023, the Commission recognized pension expense of approximately \$123,000 for the SCRS. Components of collective pension expense for the year ended June 30, 2023, are presented below:

	SCRS
Service cost (annual cost of current service)	\$ 85,617
Interest on the total pension liability	302,601
Changes in plan benefits	-
Plan administrative costs	1,441
Plan member contributions	(78,771)
Expected return on plan assets	(186,507)
Recognition of current year amortization - Difference between expected and actual experience & assumption changes	39,932
Recognition of current year amortization - Difference between projected and actual investment earnings	(1,599)
Other	208
	208
Total	\$ 162,922

At June 30, 2023, the Commission reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>SCRS:</u>		
Differences Between Expected and Actual Experience	\$ 16,868	\$ 8,461
Assumption changes	62,270	-
Net difference Between Projected and Actual Earnings		
On Pension Plan Investments	2,995	-
Changes in proportion and differences between employer		
Contributions and proportionate share of contributions	77,965	58,379
Town's Contributions Subsequent to the Measurement Date	180,000	-
Total SCRS	\$ 340,098	\$ 66,840

Approximately \$180,000 that were reported as deferred outflows of resources related to the Commission's contributions subsequent to the measurement date to the SCRS, will be recognized as a reduction of the NPL in the year ended June 30, 2023.

**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 7. PENSION AND RETIREMENT PLAN – (CONTINUED)

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

Year Ended June 30,	SCRS
2022	\$ 2,347
2023	2,347
2024	2,347
2025	1,800
Total	\$ 8,841

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.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2022.

Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increase	3.0% to 11.0% (varies by service)*
Benefit adjustments	Lesser of 1.00% or \$500 annually
*Includes inflation at 2.25%	

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 2022.

Former Job Classes	Males	Females
Educators	2020 PRSC Males multiply by 95%	2020 PRSC Females multiply by 94%
General Employees and Members of the General Assembly	2020 PRSC Males multiply by 97%	2020 PRSC Females multiply by 107%
Public Safety and Firefighters	2020 PRSC Males multiply by 127%	2020 PRSC Females multiply by 107%

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

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**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 7. PENSION AND RETIREMENT PLAN – (CONTINUED)

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 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.79 percent real rate of return and a 2.25 percent inflation component.

Actuarial Assumptions and Methods-(Continued)

Allocation/Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Public Equity	46%	6.79%	3.12%
Bonds	26%	(0.35)%	(0.09)%
Private Equity	9%	8.75%	0.79%
Private Debt	7%	6.00%	0.42%
Real Assets	12%		
Real Estate	9%	4.12%	0.37%
Infrastructure	3%	5.88%	0.18%
Total Expected Real Return	100%		4.79%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.04%

Discount Rate

The discount rate used to measure the total pension liability was 7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine that total pension liability.

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6 percent) or 1% point higher (8 percent) than the current rate.

System	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Proportionate share of the net pension liability of the SCRS	\$ 2,489,312	\$ 1,941,554	\$ 1,486,165

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. 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.

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**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8. OTHER POSTEMPLOYMENT BENEFITS

Upon retirement from the Commission, 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 Commission's Personnel Manual establish the requirements for post-employment healthcare benefits. Presently there is one retired participants who opted to retain health insurance through the Health Plan. For the fiscal year ended June 30, 2023, there were no material liabilities or expenditures to be required with GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions".

NOTE 9. HEALTH INSURANCE

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

NOTE 10. RESTRICTED NET ASSETS

The Commission received monies from both the State of South Carolina and FEMA to install water and sewer lines, ground storage tank and generators starting in 1993 to the June 30, 2021 in the amount of \$2,163,846, which they are amortizing over 10 to 50 years. During the June 30, 2022, fiscal year the Commission received \$70,460 from FEMA which will be amortized over 10 years and increased the restricted net assets to \$2,262,243. The amount of restricted net assets is as follows:

	2023	2022
Additional Paid-In Capital	\$ 2,262,243	\$ 2,262,243
Depreciation on Assets Acquired with Proceeds Received	(1,775,405)	(1,710,072)
Total Contributed Capital	\$ 486,838	\$ 552,171

NOTE 11. UNRESTRICTED NET ASSETS

The Commission's unrestricted net assets consist of the following:

	2023	2022
Reserve:		
Debt Service	\$ 118,560	\$ 118,560
Plant Improvement	347,050	347,050
Investment in Capital Assets	30,166,939	28,215,808
Subtotal	30,632,549	28,215,808
Unreserved	8,705,265	9,125,267
Total	\$ 39,337,814	\$ 37,806,685

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**ISLE OF PALMS WATER AND SEWER COMMISSION
SCHEDULE OF OPERATING EXPENSES
AS OF JUNE 30, 2023 AND 2022**

SCHEDULE 1

	2023	2022
OPERATING EXPENSES		
Amortization	\$ 2,655	\$ 7,711
Bad Debt Expense	-	-
Depreciation	2,163,429	2,104,865
DHEC Fees	66,054	66,665
Insurance	83,914	74,341
Lab Expenses	71,913	73,913
Office Expenses and Supplies	38,866	29,656
Other Operating Expenses	212,285	282,260
Personal Services	1,369,014	1,348,617
Professional and Contracted Services	182,372	188,937
Purchase Water - Charleston CPW	416,018	380,436
Repairs and Maintenance	505,815	499,382
Telephone	28,326	33,031
Utilities	235,194	213,149
Vehicle Expenses	71,276	63,193
Water and Sewer Chemicals and Supplies	74,840	62,848
	\$ 5,521,971	\$ 5,429,004
TOTAL OPERATING EXPENSES		

STATISTICAL SECTION

**ISLE OF PALMS WATER AND SEWER COMMISSION
COMPARABLE BUDGET AND ACTUAL REVENUES AND EXPENSES
AS OF JUNE 30, 2023**

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Difference</u>
OPERATING REVENUE			
Residential Sale of Water	\$ 1,850,000	\$ 3,004,658	1,154,658
Residential Sale of Sewer	2,400,000	2,785,556	385,556
Commercial Sale of Water	180,000	238,537	58,537
Commercial Sale of Sewer	250,000	395,398	145,398
Other Operating Revenues	1,480,490	551,988	(928,502)
TOTAL OPERATING REVENUE	<u>6,160,490</u>	<u>6,976,137</u>	<u>815,647</u>
OPERATING EXPENSES			
Amortization	6,200	2,655	(3,545)
Bad Debts	-	-	(0)
Depreciation	1,550,000	2,163,429	613,429
DHEC Fees	33,520	66,054	32,534
Insurance	75,000	83,914	8,914
Lab Expenses	78,500	71,913	(6,587)
Office Expenses and Supplies	36,600	38,866	2,266
Other Operating Expenses	200,500	212,285	11,785
Personal Services	1,318,600	1,369,014	50,414
Professional and Contracted Services	241,295	182,372	(58,923)
Purchase Water - Charleston CPW	394,200	416,018	21,818
Repairs and Maintenance	449,302	505,815	56,513
Telephone	40,000	28,326	(11,674)
Utilities	334,300	235,194	(99,106)
Vehicle Expenses	56,600	71,276	14,676
Water and Sewer Chemicals and Supplies	65,000	74,840	9,840
TOTAL OPERATING EXPENSES	<u>4,879,617</u>	<u>5,521,971</u>	<u>642,354</u>
OPERATING INCOME	<u>1,280,873</u>	<u>1,454,166</u>	<u>173,293</u>
NONOPERATING REVENUE (EXPENSE)			
Interest Income	1,500	384,510	383,010
Gain (Loss) on Sale of Fixed Assets	-	-	(0)
Debt Service - Interest	(1,096,750)	(372,880)	723,870
Debt Service - Service Charge	-	-	(0)
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>(1,095,250)</u>	<u>11,630</u>	<u>1,106,880</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>\$ 185,623</u>	<u>\$ 1,465,796</u>	<u>1,280,173</u>
Depreciation on Assets Acquired with Proceeds from Federal Grants	<u>-</u>	<u>65,333</u>	<u>(65,333)</u>
Total Capital Contributions	<u>-</u>	<u>65,333</u>	<u>65,333</u>
Change in Net Position	<u>\$ 185,623</u>	<u>\$ 1,531,129</u>	<u>\$ 1,345,506</u>

**ISLE OF PALMS WATER AND SEWER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ISLE OF PALMS WATER AND SEWER COMMISSIONS'
CONTRIBUTIONS TO THE SOUTH CAROLINA RETIREMENT SYSTEM**

FOR THE YEAR ENDED JUNE 30, 2023

	Year Ended June 30,				
	2023	2022	2021	2020	2019
Contractually Required Contribution	\$ 180,000	\$ 157,929	\$ 141,533	\$ 127,595	\$ 112,405
Contribution in Relation to the Contractually Required Contribution	<u>180,000</u>	<u>157,929</u>	<u>141,533</u>	<u>127,595</u>	<u>112,405</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Isle of Palms Water and Sewer Commissions' Covered-Employee Payroll	\$ 1,025,057	\$ 953,677	\$ 909,594	\$ 821,633	\$ 893,949
Contributions as a Percentage of Covered-Employee Payroll	17.56%	16.56%	15.56%	15.53%	12.57%

**ISLE OF PALMS WATER AND SEWER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ISLE OF PALMS WATER AND SEWER COMMISSIONS'**

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

FOR THE YEAR ENDED JUNE 30, 2023

	Year Ended June 30,				
	2023	2022	2021	2020	2019
Isle of Palms Water and Sewer Commissions' Proportion of the Net Pension Liability	0.008009%	0.008047%	0.007365%	0.008299%	0.008572%
Isle of Palms Water and Sewer Commissions' Proportion Share of the Net Pension Liability	\$ 1,941,540	\$ 1,741,387	\$ 1,881,812	\$ 1,894,983	\$ 1,920,602
Isle of Palms Water and Sewer Commissions' Covered-Employee Payroll	\$ 1,025,057	\$ 953,677	\$ 909,954	\$ 821,633	\$ 893,949
Isle of Palms Water and Sewer Commissions' Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.41%	182.60%	206.80%	230.64%	214.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57.1%	60.7%	50.7%	54.4%	54.1%

Note to Schedule:

The amount presented for each fiscal year were determined as of the preceeding fiscal year.

COMPLIANCE SECTION



Established "1925"

George L. Garmendia, CPA
Heather M. Aydlette, CPA
James R. Swindal, III, CPA

Members
American Institute of CPAs
S.C. Association of CPAs

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

To the Commissioners of the
Isle of Palms Water and Sewer Commission
Isle of Palms, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Isle of Palms Water and Sewer Commission, South Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Isle of Palms Water and Sewer Commission, South Carolina's basic financial statements, and have issued our report thereon dated January 25, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Isle of Palms Water and Sewer Commission, South Carolina's internal control over financial reporting (internal control) as a basis for designing 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 Isle of Palms Water and Sewer Commission, South Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of Isle of Palms Water and Sewer Commission, South Carolina's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

HRG CPAs, LLC

Mt. Pleasant, SC

January 25, 2024



Established "1925"

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE

To the Commissioners of the
Isle of Palms Water and Sewer Commission
Isle of Palms, South Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Isle of Palms Water and Sewer Commission, South Carolina's compliance with the types of compliance requirement identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Isle of Palms Water and Sewer Commission, South Carolina's major federal programs for the year ended June 30, 2023. Isle of Palms Water and Sewer Commission, South Carolina's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Isle of Palms Water and Sewer Commission, South Carolina complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Isle of Palms Water and Sewer Commission, South Carolina and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Isle of Palms Water and Sewer Commission, South Carolina's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Isle of Palms Water and Sewer Commission, South Carolina's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Isle of Palms Water and Sewer Commission, South Carolina's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Isle of Palms Water and Sewer Commission, South Carolina's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Isle of Palms Water and Sewer Commission, South Carolina's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Isle of Palms Water and Sewer Commission, South Carolina's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Isle of Palms Water and Sewer Commission, South Carolina's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with

a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

HRG CPAs, LLC

Mt. Pleasant, SC
January 25, 2024

**ISLE OF PALMS WATER AND SEWER COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023**

Federal Grantor/Pass-Through Grantor/ Program of Cluster Title	Federal CPDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Homeland Security				
Passed through the South Carolina				
Department of Homeland Security:				
Hazard Mitigation Grant -				
Wastewater Treatment Plants Project	97.039	57-0906962	\$ -	\$ 4,053,367
Total U.S Department of Homeland Security			<u>-</u>	<u>4,053,367</u>
		Total federal expenditures	<u>\$ -</u>	<u>\$ 4,053,367</u>

**ISLE OF PALMS WATER AND SEWER COMMISSION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023**

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Commission of Public Works for the City of Isle of Palms, DBA the Isle of Palms Water and Sewer Commission (The Commission) under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements of Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Isle of Palms Water and Sewer Commission, It is not intended to and does not present the financial position, changes in net position or cash flows of the Commission.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3. INDIRECT COST RATE

The Commission has elected not to use the 10% de minimus indirect cost rate allowed under Uniform Guidance.

**ISLE OF PALMS WATER AND SEWER COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Any material weakness identified?	<u> </u>	yes	<u> X </u>	no	
Any significant deficiencies identified?	<u> </u>	yes	<u> X </u>	no	none reported

Noncompliance material to financial statements noted?	<u> </u>	yes	<u> X </u>	no	
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Federal Awards

Internal control over major programs:

Any material weakness identified?	<u> </u>	yes	<u> X </u>	no	
Any significant deficiencies identified?	<u> </u>	yes	<u> X </u>	no	none reported

Type of auditor's report issued on compliance for major federal awards: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	<u> </u>	yes	<u> X </u>	no	
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**ISLE OF PALMS WATER AND SEWER COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

**Section 2 Findings Relating to the Financial Statement Audit as Required to be Reported in
Accordance with Generally Accepted *Government Auditing Standards***

A. Internal Control

None Reported

B. Compliance Findings

None Reported

Section 3 Findings and Questioned Costs for Federal Awards

A. Internal Control

None Reported

B. Compliance Findings

None Reported