

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

LIST OF ELECTED AND APPOINTED OFFICIALS

YEAR ENDED JUNE 30, 2017

MAYOR

Pat O'Neil

TOWN COUNCIL MEMBERS

Chauncey Clark, Mayor Pro Tem

Sarah Church

Mark Howard

Rita Langley

Tim Reese

Bachman Smith, IV

APPOINTED OFFICIALS

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina (the "Town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
October 27, 2017

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

As management of the Town of Sullivan's Island ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. We would encourage readers to not only consider the information presented here, but also the information provided in the financial statements and notes to the financial statements to enhance their understanding the Town's overall financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the fiscal year by approximately \$15,483,000 (*net position*). Of this amount, approximately \$7,951,000 and \$7,532,000 were related to the Town's governmental and business-type activities, respectively. In addition, the Town's unrestricted net position (may be used to meet the government's ongoing obligations to citizens and creditors) was approximately \$3,253,000 for its governmental activities and approximately \$1,625,000 for its business-type activities.
- The government's total net position increased by approximately \$752,000 for governmental activities and decreased by approximately \$340,000 for business-type activities, as total revenues of approximately \$8,294,000 exceeded total expenses of approximately \$7,951,000.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$7,372,000, a decrease of approximately \$1,224,000 compared to the prior year's fund balance. Approximately 89% of this total amount, or approximately \$6,578,000, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, \$1,075,000 of the General Fund's unassigned portion of the Fund's balance was allocated to the Emergency Reserve.
- At the end of the current fiscal year, approximately \$414,000 of the General Fund's unassigned portion of the Fund's balance was allocated to the Capital Improvement Reserve Fund.
- At the end of the current fiscal year, unassigned, unallocated fund balance of the General Fund was approximately \$3,804,000, or approximately 52% of total General Fund expenditures of approximately \$7,326,000 for the year ended June 30, 2017.
- The Town's total capital assets increased by approximately \$736,000 (5%) during the current fiscal year primarily due to depreciation expense of approximately \$698,000 offset by capital asset additions of approximately \$1,434,000. Capital asset additions included primarily construction for the new Town Hall.
- The Town's total debt decreased by approximately \$1,197,000 (10%) during the current year due to scheduled principal payments on prior outstanding debt and early retirement of the 2004 General Obligation Bond.

OVERVIEW OF FINANCIAL STATEMENTS

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

Financial Statements

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

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

The *statement of net position* presents information on all of the Town's assets, deferred outflows (if any), liabilities and deferred inflows (if any), with the differences between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

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

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

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The following table provides a summary of the Town’s net position for 2017 compared to 2016.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and Other Assets	\$ 7,552,151	9,299,026	2,033,745	2,171,888	9,585,896	\$ 11,470,914
Capital Assets, Net	7,749,294	6,712,753	6,768,561	7,068,739	14,517,855	13,781,492
Contributed Capital, Net	-	-	770,505	880,261	770,505	880,261
Total Assets	15,301,445	16,011,779	9,572,811	10,120,888	24,874,256	26,132,667
Deferred Outflows of Resources:						
Deferred Pension Charges	809,643	366,620	92,139	61,410	901,782	428,030
Liabilities:						
Long-Term Obligations	3,702,881	4,776,676	1,646,822	1,824,579	5,349,703	6,601,255
Net Pension Liability	4,271,899	3,671,388	416,647	357,716	4,688,546	4,029,104
Other Liabilities	181,156	728,237	69,502	127,363	250,658	855,600
Total Liabilities	8,155,936	9,176,301	2,132,971	2,309,658	10,288,907	11,485,959
Deferred Inflows of Resources:						
Deferred Pension Credits	3,880	3,131	452	639	4,332	3,770
Net Position:						
Net Investment in Capital						
Assets	4,135,069	5,682,203	5,906,492	6,139,097	10,041,561	11,821,300
Restricted	563,419	770,678	-	115,891	563,419	886,569
Unrestricted	3,252,784	746,086	1,625,035	1,617,013	4,877,819	2,363,099
Total Net Position	\$ 7,951,272	7,198,967	7,531,527	7,872,001	15,482,799	\$ 15,070,968

The Town’s total assets of approximately \$24,874,000 decreased approximately \$1,258,000 over the prior year. The majority of the decrease is due to a \$1,885,000 decrease in current assets offset by a \$736,000 increase in capital assets. Total liabilities decreased by approximately \$1,197,000 from the prior year primarily due to approximately a \$1,252,000 decrease in long-term obligations.

The Town’s net position increased by approximately \$412,000 during the current fiscal year due to current year revenues exceeding current year expenses. Please see discussion following the next table regarding this increase.

The Town’s assets exceeded liabilities by approximately \$15,483,000 at June 30, 2017. The largest portion of the Town’s net position of approximately \$10,042,000 (approximately 65%) reflects its investment in capital assets (i.e., land, buildings, furniture and equipment, water/sewer infrastructure, etc.) less any related outstanding debt/lease purchase obligations used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town’s net position of approximately \$563,000 (approximately 4%) represents resources that are subject to external restrictions on how they may be used. This portion of net position is restricted primarily for special revenue programs which are restricted by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The remaining portion of the Town’s net position is unrestricted net position of approximately \$4,878,000 (approximately 32%) may be used to meet the government’s ongoing obligations to citizens and creditors.

The following table shows the changes in the Town’s net position for fiscal year 2017 compared to 2016:

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	\$ 594,912	591,968	2,180,446	1,983,211	2,775,358	\$ 2,575,179
General Revenues:						
Taxes	4,777,889	4,638,834	-	-	4,777,889	4,638,834
Other	152,866	400,898	6,164	2,923	159,030	403,821
Total Revenues	<u>5,525,667</u>	<u>5,631,700</u>	<u>2,186,610</u>	<u>1,986,134</u>	<u>7,712,277</u>	<u>7,617,834</u>
Expenses:						
Public Works	707,727	673,020	-	-	707,727	673,020
Public Safety	2,298,696	1,994,475	-	-	2,298,696	1,994,475
General Government	2,283,057	1,589,254	-	-	2,283,057	1,589,254
Interest on Long-Term Obligations	65,254	105,321	-	-	65,254	105,321
Water	-	-	1,015,858	1,029,682	1,015,858	1,029,682
Sewer	-	-	929,854	953,970	929,854	953,970
Total Expenses	<u>5,354,734</u>	<u>4,362,070</u>	<u>1,945,712</u>	<u>1,983,652</u>	<u>7,300,446</u>	<u>6,345,722</u>
Change in Net Position Before Transfers	170,933	1,269,630	240,898	2,482	411,831	1,272,112
Transfers In (Out)	581,372	-	(581,372)	-	-	-
Change in Net Position	<u>752,305</u>	<u>1,269,630</u>	<u>(340,474)</u>	<u>2,482</u>	<u>411,831</u>	<u>1,272,112</u>
Net Position - Beginning of Year	7,198,967	5,929,337	7,872,001	7,869,519	15,070,968	13,798,856
Net Position - End of Year	<u>\$ 7,951,272</u>	<u>7,198,967</u>	<u>7,531,527</u>	<u>7,872,001</u>	<u>15,482,799</u>	<u>\$ 15,070,968</u>

Governmental Activities: Governmental activities increased the Town’s net position by approximately \$752,000 in the current year.

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

- Total governmental activities revenues decreased by approximately \$106,000, or 2% over the prior year.
- Total governmental activities expenses increased by approximately \$993,000, or 23%, over the prior year due in part to the non-capitalized assets and increased depreciation expense related to the new Town Hall.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities: Net position for business-type activities (water and sewer services) increased by approximately \$340,000 due in part to the transfer out to the Governmental Activities.

Council passed the budgets for the business-type activities with the expectation of a deficit due to the transfer but raised rates to partially offset the deficit. The change in net position before transfers was approximately \$241,000. The additional rate increase was also for the purpose of funding future capital projects.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance of approximately \$7,372,000, a decrease of approximately \$1,224,000 from the prior year fund balance. The decrease in fund balance was primarily the result of construction costs related to the new Town Hall.

Approximately 52% or \$3,804,000 of the total governmental fund balance of approximately \$7,372,000 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending because it is nonspendable (1) for prepaid expenses and inventory (\$116,000), restricted (2) for tourism related expenditures or operating expenses incurred to serve tourists (\$463,000), for expenditures related to other outside restrictions (\$101,000), committed for (3) expenditures related to the Tree Fund (\$94,000) and (4) future capital projects (\$2774,000), and assigned (5) by Council in the amount received from the Estate of William Bradley (\$20,000).

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the total fund balance was approximately \$6,815,000. As a measure of the General Fund's liquidity, it may be useful to compare total unreserved fund balance to total General Fund expenditures. Total unassigned fund balance of the General Fund (\$6,513,000) represents approximately 90% of total General Fund expenditures for 2017. Of the unassigned fund balance, Council has established a reserve for emergency expenditures which at the end of 2017 has a balance of \$1,075,000 and a reserve for capital improvements of \$414,500.

Points of interest for the General Fund were as follows:

- During 2017, the General Fund's fund balance decreased by approximately \$1,078,000.
- During 2017, the Town spent approximately \$1,012,000 on construction of the new town hall.
- Payments of principal on debt increased approximately \$443,000 due to scheduled principal payments.

Proprietary Fund. The Town's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Net position of the Water and Sewer Enterprise Funds at the end of the fiscal year amounted to approximately \$7,532,000. Please see the earlier discussion of the business-type activities change in net position in the government-wide financial analysis section of this MD&A for more details.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE TOWN’S FUNDS (CONTINUED)

Fiduciary Funds. The Town’s Volunteer Fire Department Fund is used by the Town to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by fire insurance companies. Agency funds are custodial in nature and do not present results of operations. The Fiduciary Fund had amounts held for custody of others of approximately \$233,000 at June 30, 2017.

General Fund Budgetary Highlights: If budget amendments are made they generally fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The Town did not amend the budget during 2016.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town’s investment in capital assets as of June 30, 2017 and June 30, 2016, amounted to approximately \$14,518,000 and \$13,781,000 (net of accumulated depreciation), respectively. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, sewer/water lines, and other infrastructure. The Town’s capital assets (net of depreciation) as of June 30, 2017 and 2016 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 211,231	37,392	-	-	211,231	\$ 37,392
Construction in Progress	-	4,396,537	-	-	-	4,396,537
Building and Improvements	5,408,697	186,787	-	-	5,408,697	186,787
Machinery and Equipment	1,795,678	567,920	-	-	1,795,678	567,920
Vehicles and Vehicle Equipment	1,993,809	1,242,260	-	-	1,993,809	1,242,260
Vehicles, Machinery, and Equipment						
Fire and Emergency Command System	555,601	281,857	178,690	203,285	734,291	485,142
Water/Sewer System	-	-	6,589,871	6,865,454	6,589,871	6,865,454
Total	\$ 9,965,016	6,712,753	6,768,561	7,068,739	16,733,577	\$ 13,781,492

The total decrease in the Town’s investment in capital assets for the current fiscal year was approximately \$1,559,000 or approximately 14%. Major capital asset events during the current fiscal year included the following:

- Capital asset additions of approximately \$1,376,000 for governmental activities which consisted primarily of the following:
 - Construction in progress for the new Town Hall of approximately \$1,012,000.
 - Purchase of land improvements for Town Hall for approximately \$174,000.
 - Purchase of a new police and fire vehicles for approximately \$109,000.
- Capital asset additions of approximately \$58,000 for business-type activities which consisted primarily of the following:
 - Purchase of Water Plant fence in the amount of approximately \$41,000.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

- Depreciation expense of approximately \$340,000 for governmental activities and \$358,000 of depreciation expense for business-type activities.

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

Debt Administration

As of June 30, 2017 and June 30, 2016, the Town had total outstanding debt of approximately \$5,247,000 and \$6,503,000, respectively. Of the Town’s total long-term obligations, approximately \$3,380,000 was general obligation debt which is backed by the full faith and credit of the Town. The Town’s total debt as of June 30, 2017 and 2016 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Debt:						
General Obligation Bonds	\$ 3,380,000	4,315,000	-	-	3,380,000	\$ 4,315,000
Revenue Bond	-	-	1,574,764	1,715,959	1,574,764	1,715,959
Capital Leases	234,225	378,162	57,810	93,944	292,035	472,106
Total Debt	<u>\$ 3,614,225</u>	<u>4,693,162</u>	<u>1,632,574</u>	<u>1,809,903</u>	<u>5,246,799</u>	<u>\$ 6,503,065</u>

The total decrease in the Town’s debt obligations for the current fiscal year was approximately \$1,256,000 or 19%. Major events during the current fiscal year included the following:

- The Town’s governmental activities made scheduled principal payments on debt obligations of approximately \$1,079,000.
- The Town’s business-type activities made scheduled principal payments on debt obligations of approximately \$177,000.

The State of South Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The Town’s statutory debt limit at June 30, 2017 was approximately \$5,744,000. The Town had \$3,380,000 of bonded debt subject to the 8% limit and thus resulted in the Town having an unused legal debt margin of approximately \$2,364,000.

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

ECONOMIC FACTORS AND 2017-2018 BUDGETS AND RATES FOR THE TOWN

The Town’s elected officials and staff considered many factors when setting the fiscal year 2018 budget. The state of the economy, tourism activity, anticipated building activity, future capital needs, and the best interests of the Town’s residents were all taken into account. Key budget highlights were as follows:

- Able to decrease the millage rate to cover the debt service for the 2014 General Obligation Bond.
- There was an increase in the total water and sewer rates for the purchase of equipment.
- Continue reducing intrusion and infiltration of rain water and ground water into the sewer system.
- Continuation of the water line replacement project.
- Police vehicles were budgeted to be replaced during FY 2018 per the Town’s vehicle replacement policy.
- Maintenance equipment was budgeted to be replaced during FY 2018.

REQUESTS FOR TOWN INFORMATION

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

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Basic Financial Statements

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2017

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 6,500,794	1,775,261	\$ 8,276,055
Cash and Cash Equivalents - Restricted	532,639	15,950	548,589
Investments	150,052	-	150,052
Taxes Receivable, Net	32,774	-	32,774
Other Receivables, Net	219,428	222,327	441,755
Prepaid Expenses	116,463	20,207	136,670
Capital Assets:			
Non-Depreciable	211,231	-	211,231
Depreciable, Net	7,538,063	6,768,561	14,306,624
Capacity Capital Contribution, Net	-	770,505	770,505
TOTAL ASSETS	15,301,444	9,572,811	24,874,255
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	809,643	92,139	901,782
LIABILITIES			
Accounts Payable	74,967	35,249	110,216
Accrued Interest	11,233	4,203	15,436
Other Accrued Liabilities	94,955	14,100	109,055
Customer Deposits	-	15,950	15,950
Non-Current Liabilities:			
Net Pension Liability	4,271,899	416,647	4,688,546
Long-Term Obligations - Due Within One Year	593,966	195,021	788,987
Long-Term Obligations - Due in More Than One Year	3,108,915	1,451,801	4,560,716
TOTAL LIABILITIES	8,155,935	2,132,971	10,288,906
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	3,880	452	4,332
NET POSITION			
Net Investment in Capital Assets	4,135,069	5,906,492	10,041,561
Restricted For:			
Tourism Related Expenditures	462,637	-	462,637
Other	100,781	-	100,781
Unrestricted	3,252,785	1,625,035	4,877,820
TOTAL NET POSITION	\$ 7,951,272	7,531,527	\$ 15,482,799

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
Public Works	\$ 707,727	-	-	-	(707,727)	-	\$ (707,727)
Public Safety	2,298,696	142,308	-	-	(2,156,388)	-	(2,156,388)
General Government	2,283,056	452,604	-	-	(1,830,452)	-	(1,830,452)
Interest on Long Term Obligations	65,254	-	-	-	(65,254)	-	(65,254)
Total Governmental Activities	5,354,733	594,912	-	-	(4,759,821)	-	(4,759,821)
Business-Type Activities:							
Water	1,015,858	1,069,084	-	-	-	53,226	53,226
Sewer	929,854	1,111,362	-	-	-	181,508	181,508
Total Business-Type Activities	1,945,712	2,180,446	-	-	-	234,734	234,734
TOTAL - PRIMARY GOVERNMENT	\$ 7,300,445	2,775,358	-	-	(4,759,821)	234,734	(4,525,087)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Property Taxes					2,738,520	-	2,738,520
Local Option Sales Taxes					256,738	-	256,738
Hospitality Taxes					393,149	-	393,149
Accommodation Taxes					58,333	-	58,333
Business License Taxes					793,935	-	793,935
Franchise Taxes					537,214	-	537,214
Intergovernmental					75,205	-	75,205
Interest Income					9,574	3,144	12,718
Gain on Disposal of Capital Assets					-	3,020	3,020
Miscellaneous					68,086	-	68,086
Transfers In (Out)					581,372	(581,372)	-
Total General Revenues and Transfers					5,512,126	(575,208)	4,936,918
CHANGE IN NET POSITION					752,305	(340,474)	411,831
NET POSITION, Beginning of Year					7,198,967	7,872,001	15,070,968
NET POSITION, End of Year					7,951,272	7,531,527	\$ 15,482,799

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
ASSETS		
Cash and Cash Equivalents	\$ 6,406,626	-
Cash and Cash Equivalents - Restricted	181,967	-
Investments	150,052	-
Taxes Receivable, Net	32,774	-
Accounts Receivable, Net	107,463	9,799
Prepaid Expenses	116,463	-
TOTAL ASSETS	6,995,345	9,799
LIABILITIES		
Accounts Payable	74,967	-
Other Accrued Liabilities	94,955	-
TOTAL LIABILITIES	169,922	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue, Property Taxes	10,000	-
TOTAL DEFERRED INFLOWS OF RESOURCES	10,000	-
FUND BALANCES		
Nonspendable:		
Prepaid Expenses	116,463	-
Restricted:		
Tourism Related Expenditures	-	9,799
Victims Services	65,211	-
Confederate Memorial	452	-
Land Trust	35,118	-
Committed:		
Tree Bank	-	-
Capital Projects	2,774,545	-
Assigned:		
William Bradley Memorial Fund	20,000	-
Unassigned	3,803,634	-
TOTAL FUND BALANCES	6,815,423	9,799
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 6,995,345	9,799

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

LOCAL ACCOMMODATIONS TAX FUND	LOCAL HOSPITALITY TAX FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	94,168	\$ 6,500,794
66,434	284,238	-	532,639
-	-	-	150,052
-	-	-	32,774
5,262	96,904	-	219,428
-	-	-	116,463
71,696	381,142	94,168	7,552,150
-	-	-	74,967
-	-	-	94,955
-	-	-	169,922
-	-	-	10,000
-	-	-	10,000
-	-	-	116,463
71,696	381,142	-	462,637
-	-	-	65,211
-	-	-	452
-	-	-	35,118
-	-	94,168	94,168
-	-	-	2,774,545
-	-	-	20,000
-	-	-	3,803,634
71,696	381,142	94,168	7,372,228
71,696	381,142	94,168	\$ 7,552,150

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TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

JUNE 30, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 7,372,228
Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:	
Property taxes that will be collected in the future but are not available soon enough to pay for the current period's expenditures are deferred in the funds.	10,000
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets was \$9,965,016 and the accumulated depreciation was \$2,215,722.	7,749,294
The Town's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State pension plans are not recorded in the governmental funds but are recorded in the Statement of Net Position.	(3,466,136)
Accrued interest payable was recognized for governmental activities but is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.	(11,233)
Long-term obligations, including bonds payable and lease purchases, are not due or payable in the current period and therefore are not reported in the governmental funds.	
Long -Term Debt	(3,380,000)
Lease Purchases	(234,225)
Compensated Absences	(88,656)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>7,951,272</u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2017

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
REVENUES		
Property Taxes	\$ 2,738,520	-
Local Option Sales Taxes	256,738	-
Accommodations Taxes	-	9,936
Hospitality Taxes	-	-
Licenses	1,331,149	-
Magistrate and Recorder Fines	131,915	-
State Shared Revenues	102,673	-
Permits	415,546	-
Victims' Services	10,393	-
Interest	8,832	-
Other	68,086	-
TOTAL REVENUES ALL SOURCES	5,063,852	9,936
EXPENDITURES		
Current:		
Public Works	672,394	-
Public Safety	2,063,089	-
General Government	1,613,151	4,466
Capital Outlay	1,809,541	-
Debt Service:		
Principal	1,078,937	-
Interest	88,967	-
TOTAL EXPENDITURES	7,326,079	4,466
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,262,227)	5,470
OTHER FINANCING SOURCES (USES)		
Transfers In	1,184,446	-
Transfers Out	-	(8,777)
TOTAL OTHER FINANCING SOURCES (USES)	1,184,446	(8,777)
NET CHANGES IN FUND BALANCES	(1,077,781)	(3,307)
FUND BALANCES, Beginning of Year	7,893,204	13,106
FUND BALANCES, End of Year	\$ 6,815,423	9,799

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

LOCAL ACCOMMODATIONS TAX FUND	LOCAL HOSPITALITY TAX FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	-	\$ 2,738,520
-	-	-	256,738
20,929	-	-	30,865
-	393,149	-	393,149
-	-	-	1,331,149
-	-	-	131,915
-	-	-	102,673
-	-	37,058	452,604
-	-	-	10,393
97	556	89	9,574
-	-	-	68,086
21,026	393,705	37,147	5,525,666
-	-	-	672,394
-	-	-	2,063,089
-	-	-	1,617,617
-	-	-	1,809,541
-	-	-	1,078,937
-	-	-	88,967
-	-	-	7,330,545
21,026	393,705	37,147	(1,804,879)
-	-	-	1,184,446
(30,000)	(564,297)	-	(603,074)
(30,000)	(564,297)	-	581,372
(8,974)	(170,592)	37,147	(1,223,507)
80,670	551,734	57,021	8,595,735
71,696	381,142	94,168	\$ 7,372,228

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TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2017

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (1,223,507)

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

Bond principal payments and lease purchase payments are expenditures in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position. 1,078,937

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and payable and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due and payable. This adjustment relates to the change in accrued interest from the prior year. 23,713

Changes in the Town's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources for the current year are not reported in the governmental funds but are reported in the Statement of Activities. (158,237)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (5,142)

Governmental funds report capital asset additions as expenditures of \$1,376,289. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation of \$339,748. This is the amount by which capital asset additions exceeded depreciation expense in the current period. 1,036,541

TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 752,305

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

JUNE 30, 2017

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,197,481	577,780	\$ 1,775,261
Cash and Cash Equivalents - Restricted	15,950	-	15,950
Accounts Receivable, Net	85,889	136,438	222,327
Prepaid Expenses	9,171	11,036	20,207
Total Current Assets	<u>1,308,491</u>	<u>725,254</u>	<u>2,033,745</u>
Noncurrent Assets:			
Capital Assets:			
Depreciable, Net	2,513,473	4,255,088	6,768,561
Capacity Capital Contribution, Net	770,505	-	770,505
Total Noncurrent Assets	<u>3,283,978</u>	<u>4,255,088</u>	<u>7,539,066</u>
TOTAL ASSETS	<u>4,592,469</u>	<u>4,980,342</u>	<u>9,572,811</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	46,043	46,096	92,139
LIABILITIES			
Current Liabilities:			
Accounts Payable	23,154	12,095	35,249
Accrued Interest	313	3,890	4,203
Other Accrued Liabilities	6,957	7,143	14,100
Customer Deposits	15,950	-	15,950
Compensated Absences Liability	7,124	7,124	14,248
Lease Purchase Payable - Current Portion	18,427	18,427	36,854
Revenue Bond Payable - Current Portion	-	143,919	143,919
Total Current Liabilities	<u>71,925</u>	<u>192,598</u>	<u>264,523</u>
Noncurrent Liabilities:			
Net Pension Liability	207,440	209,207	416,647
Lease Purchase Payable - Net of Current Portion	10,478	10,478	20,956
Revenue Bond Payable - Net of Current Portion	-	1,430,845	1,430,845
TOTAL LIABILITIES	<u>289,843</u>	<u>1,843,128</u>	<u>2,132,971</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	225	227	452
NET POSITION			
Net Investment in Capital Assets	3,255,073	2,651,419	5,906,492
Unrestricted	1,093,371	531,664	1,625,035
TOTAL NET POSITION	<u>\$ 4,348,444</u>	<u>3,183,083</u>	<u>\$ 7,531,527</u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2017

	WATER	SEWER	TOTAL
OPERATING REVENUES			
Charges for Services	\$ 1,027,904	1,098,539	\$ 2,126,443
Meter Connections, Sewer Tie-In Fees, and Other Revenue	41,180	12,823	54,003
TOTAL OPERATING REVENUES	1,069,084	1,111,362	2,180,446
OPERATING EXPENSES			
Salaries	201,411	206,946	408,357
Payroll Taxes	14,494	14,898	29,392
Hospitalization Insurance	28,579	28,579	57,158
Retirement	53,891	21,165	75,056
Gas and Oil - Vehicles	3,787	3,787	7,574
Diesel Fuel and Equipment	-	15,677	15,677
Repairs and Maintenance - Diesel Equipment	1,952	-	1,952
Vehicle Repairs	3,276	3,491	6,767
Supplies and Tools	4,579	17,165	21,744
Office Supplies	7,086	7,137	14,223
Lab Supplies	2,354	7,595	9,949
Telephone	5,169	5,169	10,338
Power and Lights	4,429	54,937	59,366
Insurance	18,987	21,507	40,494
System Repairs and Improvements	180,779	180,688	361,467
Sludge Disposal	-	32,687	32,687
Grit Disposal	-	926	926
Property and Equipment < \$5000	-	1,191	1,191
Dues and Certifications	7,532	3,064	10,596
Training and Seminars	1,410	748	2,158
Professional Engineering Fees	58,973	29,773	88,746
Lab Analysis, Inspection, and Chemicals	7,158	33,967	41,125
Wholesale Water Purchase	156,482	-	156,482
Depreciation and Amortization Expense	251,766	216,363	468,129
Miscellaneous	1,219	2,545	3,764
TOTAL OPERATING EXPENSES	1,015,313	910,005	1,925,318
OPERATING INCOME (LOSS)	53,771	201,357	255,128
NONOPERATING REVENUES (EXPENSES)			
Gain on Sale of Assets	1,510	1,510	3,020
Interest Income	1,712	1,432	3,144
Interest Expense	(545)	(19,849)	(20,394)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,677	(16,907)	(14,230)
INCOME (LOSS) BEFORE TRANSFERS	56,448	184,450	240,898
Transfers Out	(581,372)	-	(581,372)
CHANGE IN NET POSITION	(524,924)	184,450	(340,474)
NET POSITION, Beginning of Year	4,873,368	2,998,633	7,872,001
NET POSITION, End of Year	\$ 4,348,444	3,183,083	\$ 7,531,527

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

YEAR ENDED JUNE 30, 2017

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 1,116,576	1,063,651	\$ 2,180,227
Cash Payments to Suppliers for Goods and Services	(468,797)	(470,393)	(939,190)
Cash Payments to Employees	(285,909)	(258,531)	(544,440)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>361,870</u>	<u>334,727</u>	<u>696,597</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfer from (to) Other Funds	(581,372)	-	(581,372)
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(581,372)</u>	<u>-</u>	<u>(581,372)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Sale of Assets	1,510	1,510	3,020
Purchase of Capital Assets	(43,455)	(14,740)	(58,195)
Principal Paid on Long-Term Obligations	(18,067)	(159,262)	(177,329)
Interest Paid on Long-Term Obligations	(778)	(19,864)	(20,642)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(60,790)</u>	<u>(192,356)</u>	<u>(253,146)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	1,712	1,432	3,144
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,712</u>	<u>1,432</u>	<u>3,144</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(278,580)	143,803	(134,777)
CASH AND CASH EQUIVALENTS, Beginning of Year	1,492,011	433,977	1,925,988
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 1,213,431</u>	<u>577,780</u>	<u>\$ 1,791,211</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:			
Operating Income	\$ 53,771	201,357	\$ 255,128
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:			
Depreciation and Amortization Expense	251,766	216,363	468,129
Non-cash Pension Expense	13,779	14,236	28,015
Change Due to (Increase) Decrease in Operating Assets:			
Other Receivable	51,192	(47,711)	3,481
Prepaid Expenses	(82)	(33)	(115)
Change Due to Increase (Decrease) in Operating Liabilities:			
Other Payables	(4,642)	(49,271)	(53,913)
Compensated Absences	(214)	(214)	(428)
Customer Deposits	(3,700)	-	(3,700)
Net Cash Provided by Operating Activities	<u>\$ 361,870</u>	<u>334,727</u>	<u>\$ 696,597</u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

JUNE 30, 2017

ASSETS

Cash and Cash Equivalents	\$	232,918
TOTAL ASSETS	\$	232,918

LIABILITIES

Due To Volunteer Fire Department	\$	232,918
TOTAL LIABILITIES	\$	232,918

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

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

Investments

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

- (a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
- (b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
- (e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Investments (Continued)

- (f) Repurchase agreements when collateralized by securities as set forth in this section.
- (g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

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

- South Carolina Local Government Investment Pool ("Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. In accordance with GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are carried at fair value determined annually based upon quoted market prices for identical or similar investments. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by Pool participants at any time and may be withdrawn upon 24 hours' notice. Financial statements for the Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211-1960.
- Government mutual funds are generally open-ended funds that invest in short term debt securities (including obligations of the United States and related agencies) that generally have a weighted average maturity of less than one year and do not invest more than 5% in any one issuer, except for government securities and repurchase agreements.

2. Receivables and Payables

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Inventories and Prepaids

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

4. Capital Assets

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

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date of donation. As allowed by GASB #34, the Town has elected to prospectively report public domain (“infrastructure”) general capital assets. Therefore, infrastructure capital assets acquired prior to July 1, 2003 have not been recorded, except for those accounted for in the proprietary funds. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. The Town maintains a minimum capitalization threshold of \$5,000 for all capital assets.

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

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

5. Compensated Absences

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. *Accrued Liabilities and Long-Term Obligations*

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

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

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

7. *Deferred Outflows and Inflows of Resources*

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Fund Balance

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

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

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

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

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

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

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

At the conclusion of the most recent annual financial audit, Council will determine the amount of the surplus to allocate to the Emergency Reserve until the maximum amount allowed has been obtained. The balance as of June 30, 2017 is \$1,075,000.

In the unassigned fund balance, the Town also has a Capital Improvements Reserve. No less than 20% of any year's surplus shall be allocated to this reserve. At the conclusion of the most recent annual financial audit, Council will determine the amount of the surplus to allocate to the Capital Improvements Reserve. The balance as of June 30, 2017 is \$414,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Fund Balance (Continued)

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

9. Net Position

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

10. Pensions

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

11. Accounting Estimates

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Fair Value

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

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

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

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

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

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

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

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

13. Comparative Data

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

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

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

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

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

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits might not be recovered. The Town does not have a deposit policy for custodial credit risk, but follows the investment policy statutes of the State of South Carolina. As of June 30, 2017, none of the Town's bank balances of approximately \$8,958,000 (with a carrying value of approximately \$8,850,000) were exposed to custodial credit risk.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

A. Deposits and Investments (Continued)

Investments

As of June 30, 2017, the Town had the following investments and maturities (as defined by GASB #40):

Investment Type	Fair Value Level (1)	Fair Value	Maturity	Credit Rating
State Local Government Investment Pool	N/A	\$ 207,233	^	Unrated
JPMorgan Prime Money Market Fund Service	Level 1	150,052	< 1 year	Unrated
Total		\$ 357,285		

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

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

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

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town’s investment policy requires that a third party hold collateral in the Town’s name and shall provide the Town with evidence of ownership. None of the Town’s security investments were exposed to custodial credit risk at June 30, 2017.

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

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

A. Deposits and Investments (Continued)

Investments (Continued)

Reconciliation to Financial Statements

<u>Statement of Net Position</u>	<u>Amount</u>
Unrestricted Current Assets:	
Cash and Cash Equivalents	\$ 8,276,055
Investments	150,052
Restricted Current Assets:	
Cash and Cash Equivalents, Restricted	<u>548,589</u>
	8,974,696
<u>Statement of Assets and Liabilities - Fiduciary Fund - Agency Fund</u>	
Unrestricted Current Assets:	
Cash and Cash Equivalents	<u>232,918</u>
Total per the financial statements	<u><u>\$ 9,207,614</u></u>
<u>Notes</u>	<u>Amount</u>
Carrying Value of Deposits	\$ 8,850,329
Investments	<u>357,285</u>
Total per the notes	<u><u>\$ 9,207,614</u></u>

B. Receivables and Deferred Inflows of Resources

The Town’s 2016 property taxes were levied on October 1, 2016 and were due beginning on this date based on the assessed valuation as of January 1, 2016. Property taxes were considered late on January 16, 2017. Motor vehicle property tax is levied and collected on a portion of taxable vehicles monthly. Penalties and charges are assessed if taxes are not paid by the following dates:

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

Assessed values are established by the Charleston County Tax Assessor and the South Carolina Tax Commission. The Town’s operating tax rate for the 2016 property tax year was 224.1 mills (186 mills for Charleston County and 39.3 mills for the Town). Town property taxes are billed and collected by Charleston County under a joint billing and collection agreement.

The Town had receivables of approximately \$222,000 related to business-type activities at June 30, 2017 which consisted mainly of outstanding charges to customers for water and sewer services. No allowance for uncollectible accounts was considered necessary.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

B. Receivables and Deferred Inflows of Resources (Continued)

The Town had net receivables related to governmental activities at June 30, 2017, of the following:

	General Fund	State Accommodations Tax Fund	Local Accommodations Tax Fund	Hospitality Tax Fund	Totals
Property Taxes	\$ 32,774	-	-	-	\$ 32,774
Accommodations Taxes	-	9,799	5,262	-	15,061
Hospitality Taxes	-	-	-	96,904	96,904
Franchise Fees	25,031	-	-	-	25,031
Local Options Sales Tax	23,784	-	-	-	23,784
Miscellaneous	58,648	-	-	-	58,648
Net Receivables	\$ 140,237	9,799	5,262	96,904	\$ 252,202

There were no material allowances for uncollectible amounts.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2017, the General Fund had \$10,000 in deferred inflows of resources related to property taxes that were not available.

C. Interfund Receivables, Payables, and Transfers

At June 30, 2017, there were no interfund receivables or payables.

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

Fund	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 1,184,446	\$ -
State Accommodations Tax Fund	-	8,777
Local Accommodations Tax Fund	-	30,000
Local Hospitality Tax Fund	-	564,297
Major Enterprise Funds:		
Water Fund	-	581,372
Totals	\$ 1,184,446	\$ 1,184,446

The transfers to the General Fund were primarily from the Local Accommodations Tax and Local Hospitality Tax Funds to cover a portion of tourism related operating expenditures in accordance with State law and Town ordinances. The transfer from the Water Fund was made to fund the debt service payments on the 2003 GO Bonds.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land and Improvements	\$ 37,392	173,839	-	-	\$ 211,231
Construction In Progress	4,396,537	1,011,765	-	(5,408,302)	-
Total Capital Assets, Non-Depreciable	<u>4,433,929</u>	<u>1,185,604</u>	<u>-</u>	<u>(5,408,302)</u>	<u>211,231</u>
Capital Assets, Depreciable:					
Buildings and Improvements	503,466	57,945	-	4,847,286	5,408,697
Machinery and Equipment	505,171	23,406	-	376,147	904,724
Playground Equipment	706,085	-	-	184,869	890,954
Vehicles	1,884,475	109,334	-	-	1,993,809
Fire and Emergency Command Center	555,601	-	-	-	555,601
Total Capital Assets, Depreciable	<u>4,154,798</u>	<u>190,685</u>	<u>-</u>	<u>5,408,302</u>	<u>9,753,785</u>
Less: Accumulated Depreciation for:					
Buildings and Improvements	316,679	101,128	-	-	417,807
Machinery and Equipment	407,493	64,353	-	-	471,846
Playground Equipment	235,843	68,797	-	-	304,640
Vehicles	642,215	92,799	-	-	735,014
Fire and Emergency Command Center	273,744	12,671	-	-	286,415
Total Accumulated Depreciation	<u>1,875,974</u>	<u>339,748</u>	<u>-</u>	<u>-</u>	<u>2,215,722</u>
Total Capital Assets, Depreciable, Net	<u>2,278,824</u>	<u>(149,063)</u>	<u>-</u>	<u>5,408,302</u>	<u>7,538,063</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,712,753</u>	<u>1,036,541</u>	<u>-</u>	<u>-</u>	<u>\$ 7,749,294</u>

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

Functions/Programs	Amount
Governmental Activities:	
Public Works	\$ 151,775
Public Safety	11,780
General Government	176,193
Total Depreciation Expense - Governmental Activities	<u>\$ 339,748</u>

The cost of vehicles and equipment under lease purchase was approximately \$572,000 at June 30, 2017. Accumulated amortization on these assets was approximately \$251,000 at June 30, 2017. Amortization of these assets has been included with depreciation expense.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Depreciable					
Water System	\$ 4,631,062	40,795	-	-	\$ 4,671,857
Sewer System	6,697,074	9,414	-	-	6,706,488
Lab Equipment	20,869	-	-	-	20,869
Vehicles and Equipment	898,653	7,986	-	-	906,639
Total Capital Assets, Depreciable	<u>12,247,658</u>	<u>58,195</u>	<u>-</u>	<u>-</u>	<u>12,305,853</u>
Less: Accumulated Depreciation for:					
Water System	2,094,086	129,233	-	-	2,223,319
Sewer System	2,368,596	196,559	-	-	2,565,155
Lab Equipment	18,687	607	-	-	19,294
Vehicles and Equipment	697,550	31,974	-	-	729,524
Total Accumulated Depreciation	<u>5,178,919</u>	<u>358,373</u>	<u>-</u>	<u>-</u>	<u>5,537,292</u>
Total Capital Assets, Being Depreciated, Net	<u>7,068,739</u>	<u>(300,178)</u>	<u>-</u>	<u>-</u>	<u>6,768,561</u>
Business-Type Activities Capital Assets, Net	<u>\$ 7,068,739</u>	<u>(300,178)</u>	<u>-</u>	<u>-</u>	<u>\$ 6,768,561</u>

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

Functions/Programs	Amount
Business-Type Activities:	
Water	\$ 142,010
Sewer	216,363
Total Depreciation Expense - Business-Type Activities	<u>\$ 358,373</u>

The cost of vehicles and equipment under lease purchase was approximately \$189,000 at June 30, 2017. Accumulated amortization on these assets was approximately \$77,000 at June 30, 2017. Amortization of these assets has been included with depreciation expense.

Capacity Capital Contribution

The Town entered into a contract with the Commissioners of Public Works in July 1994 to purchase water for a 30-year period. As part of this agreement, the Town paid approximately \$1,986,000 as an initial capacity capital contribution from the Water Fund. The Town has paid additional contributions of approximately \$636,000 since fiscal year 2005, for a total of approximately \$2,622,000 as of June 30, 2017. This asset is being amortized over 30 years. The accumulated amortization is approximately \$1,851,000, and the net unamortized asset is approximately \$771,000 as of June 30, 2017. The amortization expense for fiscal year 2017 was approximately \$110,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

E. Long-Term Obligations

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

Details on the Town's outstanding debt issues and lease purchase obligations for the governmental activities and business-type activities as of June 30, 2017 are as follows:

General Obligation Bonds

Principal Outstanding
at Year End

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

\$ 3,380,000

Revenue Bonds

\$553,000 Waterworks and Sewer System Revenue Bond, Series 2010 (November 2010) refinanced the remaining balance on the \$800,000 Revenue Bonds (July 2004) which originally were issued to finance the substantial upgrades to the Town's Wastewater Treatment Plant. These obligations are secured and funded with the revenues and resources of the Water and Sewer Enterprise Funds. Principal is payable annually through July 1, 2019, and interest is due semi-annually at a rate of 2.95%. Debt service requirements range from \$68,086- 74,266 per year through July 1, 2019. In accordance with the bond agreement, the Town must maintain a debt service coverage ratio of at least 1.20 at all times. The Town was in compliance with this bond covenant at June 30, 2017.

\$ 144,000

\$1,680,000 Waterworks and Sewer System Revenue Bond, Series 2014 (September 2014) were issued to finance the Wastewater Collection System Rehabilitation - Phase I. As of June 30, 2016, \$1,574,436 had been drawn of the \$1,680,000. These obligations are secured and funded with the revenues and resources of the Water and Sewer Enterprise Funds. Principal and interest is due quarterly through July 1, 2035 at a rate of 1.00%. Debt service requirements are \$21,738.56 per quarter through April 1, 2035. In accordance with the bond agreement, the Town must maintain a debt service coverage ratio of at least 1.20 at all times. The Town was in compliance with this bond covenant at June 30, 2017.

\$ 1,430,764

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

E. Long-Term Obligations (Continued)

	Principal Outstanding at Year End
<u>Lease Purchases</u>	
\$145,000 Lease Purchase (September 2014) was obtained to finance the purchase of three vehicles and one all terrain vehicle for the public safety department, and two vehicles for the water and sewer departments. These assets serve as collateral for this lease. Principal and interest are payable annually with interest at a rate of 1.32%. Total debt service requirements are \$49,615 annually through September 2017 and are funded with resources from the General Fund, Water Fund, and Sewer Fund.	\$ 48,967
\$127,000 lease purchase (October 2015) was made to purchase vehicles. Principal and interest are payable annually with interest at a rate of 1.49%. Total debt service requirements are \$43,601 annually through September 2018 and are funded with resources from the General Fund, Water Fund, and Sewer Fund.	\$ 85,292
\$235,000 lease purchase (June 2016) was made to purchase vehicles. Principal and interest are payable annually with interest at a rate of 1.43%. Total debt service requirements are \$80,584 annually through June 2019 and are funded with resources from the General Fund.	\$ 157,776

A summary of changes in long-term obligations for the Town's governmental and business-type activities for the year ended June 30, 2017 is presented below.

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
GO Bond Debt:					
GO Bond - 10/03	\$ 570,000	-	570,000	-	\$ -
GO Bond - 02/14	3,745,000	-	365,000	3,380,000	375,000
Total GO Bond Debt	4,315,000	-	935,000	3,380,000	375,000
Capital Leases:					
CL - 06/14	13,015	-	13,015	-	-
CL - 09/14	65,092	-	32,333	32,759	32,760
CL - 10/15	65,055	-	21,365	43,690	21,683
CL - 6/16	235,000	-	77,224	157,776	78,328
Total Lease Purchases	378,162	-	143,937	234,225	132,771
Compensated Absences	83,514	86,338	81,196	88,656	86,195
Total Governmental Activities	\$ 4,776,676	86,338	1,160,133	3,702,881	\$ 593,966

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

E. Long-Term Obligations (Continued)

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Debt:					
Revenue Bond - 11/10 - Sewer	\$ 213,000	-	69,000	144,000	\$ 71,000
Revenue Bond - 09/14 - Sewer	1,502,959	-	72,195	1,430,764	72,919
Total Revenue Bond Debt	<u>1,715,959</u>	<u>-</u>	<u>141,195</u>	<u>1,574,764</u>	<u>143,919</u>
Water Lease Purchases:					
CL - 09/14	15,999	-	7,895	8,104	8,104
CL - 10/15	30,973	-	10,172	20,801	10,323
Total Water Lease Purchases	<u>46,972</u>	<u>-</u>	<u>18,067</u>	<u>28,905</u>	<u>18,427</u>
Sewer Lease Purchases:					
CL - 09/14	15,999	-	7,895	8,104	8,104
CL - 10/15	30,973	-	10,172	20,801	10,323
Total Sewer Lease Purchases	<u>46,972</u>	<u>-</u>	<u>18,067</u>	<u>28,905</u>	<u>18,427</u>
Compensated Absences	<u>14,676</u>	<u>12,521</u>	<u>12,949</u>	<u>14,248</u>	<u>14,248</u>
Total Business-Type Activities	<u>\$ 1,824,579</u>	<u>12,521</u>	<u>190,278</u>	<u>1,646,822</u>	<u>\$ 195,021</u>

The Town paid interest of approximately \$89,000, and \$21,000 for its governmental and business-type activities, respectively.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or Town shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or Town voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of June 30, 2017, the Town had \$3,380,000 of bonded debt subject to the 8% limit of approximately \$5,744,000 resulting in an unused legal debt margin of approximately \$2,364,000.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

E. Long-Term Obligations (Continued)

Debt Service Requirements to Maturity

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

Year Ending June 30,	Principal	Interest	Total
<u>Governmental Activities</u>			
2018	\$ 507,771	64,180	\$ 571,951
2019	491,454	55,554	547,008
2020	400,000	47,070	447,070
2021	415,000	39,870	454,870
2022	430,000	32,400	462,400
2023-2027	1,370,000	49,770	1,419,770
Totals	<u>\$ 3,614,225</u>	<u>288,844</u>	<u>\$ 3,903,069</u>
<u>Business-Type Activities</u>			
2018	\$ 109,775	20,134	\$ 129,909
2019	165,606	16,816	182,422
2020	147,391	13,640	161,031
2021	75,137	11,817	86,954
2022	75,892	11,063	86,955
2023-2027	391,039	43,733	434,772
2028-2032	411,062	23,709	434,771
2033-2037	256,672	4,190	260,862
Totals	<u>\$ 1,632,574</u>	<u>145,102</u>	<u>\$ 1,777,676</u>

F. Net Position

The Town used the proceeds from the 2003 General Obligation Bond (see Note III.E) to fund the water line replacement and upgrade project. The \$390,000 balance outstanding at June 30, 2017 is included in the calculation of the governmental activities unrestricted net position in the Statement of Net Position, but the cost of the water lines are included in the business-type activities net investment in capital assets. Consequently, unrestricted net position, and the net investment in capital assets of the Town are not equal to a simple combination of those net position components of the governmental and business-type activities.

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. For all of these risks, the Town is a member of the South Carolina Municipal Insurance Reserve Fund (“SCMIRF”), a public entity risk pool operating as a common risk management and insurance program for local governments for general risk. The Town pays an annual premium for this coverage. For the year ended June 30, 2017, the Town made premium payments totaling approximately \$189,000. SCMIRF’s net position from its most recently issued audited financial statements at December 31, 2016 totaled approximately \$9,434,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

IV. OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

Participation in Public Entity Risk Pools for Property and Casualty Insurance (Continued)

The Town has also joined together with other municipalities in the state to form the South Carolina Municipal Insurance Trust ("SCMIT"), a public entity risk pool operating as a common risk management and insurance program for worker's compensation. The Town pays an annual premium to SCMIT. For the year ended June 30, 2017, the Town made premium payments totaling approximately \$88,000. The Trust uses reinsurance agreements to reduce its exposure to large workers' compensation losses. SCMIT's net position from its most recently issued audited financial statements at December 31, 2016 totaled approximately \$50,507,000.

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

Participation in Public Entity Risk Pool for Health Insurance

The Town has also joined together with other local governments in the South Carolina Employee Insurance Program ("EIP") to provide medical, dental, and life insurance for its employees. This is also a public entity risk pool operating as a common risk management and insurance program. Effective July 1, 2012, the South Carolina General Assembly transferred administration of the EIP to the South Carolina Public Employee Benefit Authority ("PEBA"). For the year ended June 30, 2017, the Town made premium payments totaling approximately \$463,000. The EIP's net position from its most recently issued audited financial statements at June 30, 2016 were approximately \$282,169,000.

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

B. Retirement Plans

The Town participates in the State of South Carolina's retirement plans, which are administered by the South Carolina Public Employee Benefit Authority ("PEBA"), 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 State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review.

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

Plan Description

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Description (Continued)

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

Plan Membership

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

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

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.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Benefits (Continued)

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

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

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

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the SFAA for approval an increase in the SCRS and PORS ("Plans") employer and employee contribution rates, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for the SCRS and 5 percent for the PORS. An increase in the contribution rates adopted by the PEBA Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the PEBA Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the PEBA Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Contributions (Continued)

	SCRS Rates			PORS Rates		
	2015	2016	2017	2015	2016	2017
Employer Contribution Rate: [^]						
Retirement	10.75%	10.91%	11.41%	13.01%	13.34%	13.84%
Incidental Death Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.20%	0.20%	0.20%
	<u>10.90%</u>	<u>11.06%</u>	<u>11.56%</u>	<u>13.41%</u>	<u>13.74%</u>	<u>14.24%</u>
Employee Contribution Rate	<u>8.00%</u>	<u>8.16%</u>	<u>8.66%</u>	<u>8.41%</u>	<u>8.74%</u>	<u>9.24%</u>

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

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

Year Ended June 30,	SCRS Contributions		PORS Contributions	
	Required	% Contributed	Required	% Contributed
2017	\$ 130,769	100%	\$ 171,715	100%
2016	123,158	100%	154,165	100%
2015	\$ 114,326	100%	\$ 145,526	100%

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

Year Ended June 30,	SCRS Payroll	PORS Payroll	Total Payroll
2017	\$ 1,131,221	1,205,861	\$ 2,337,082
2016	1,113,545	1,122,019	2,235,564
2015	\$ 1,048,865	1,085,206	\$ 2,134,071

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. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future.

South Carolina state statute requires than an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015. As a result of the experience study, the actuary recommended adjustments to the actuarial assumptions, which included salary increase, payroll growth, mortality, retirement, terminations, refunds, disability, inflation, and asset valuation method. The experience study also recommended reducing the long-term investment rate of return assumption, which is a prescribed assumption that is set in state statute by the General Assembly, from 7.50 to 7.25 percent.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Actuarial Assumptions and Methods (Continued)

With the exception of the rate of return, all recommended assumption and method changes were adopted by both the PEBA Board and SFAA, as co-fiduciaries. The General Assembly did not change the assumed annual rate of return during the 2016 legislative session so that assumption currently remains at 7.50 percent. The newly adopted assumptions and methods will be first used to perform the July 1, 2016 actuarial valuation, the results of which will be used in determining the total pension liability as of the June 30, 2017 measurement date.

The June 30, 2016 total pension liability, net pension liability, and sensitivity information were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (“GRS”) and are based on the July 1, 2015 actuarial valuations as adopted by the PEBA Board and the SFAA which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the Plan’s fiscal year ended June 30, 2016 using generally accepted actuarial principles. Information included in these notes are based on the certification provided by GRS.

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

	SCRS	PORS
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Investment Rate of Return*	7.50%	7.50%
Projected Salary Increases*	3.5% to 12.5% (varies by service)	4.0% to 10.0% (varies by service)
Benefit Adjustments	Lesser of 1% or \$500 annually	Lesser of 1% or \$500 annually

* Includes inflation at 2.75%.

The post-retiree mortality assumption is dependent upon the member’s job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2015 valuations for the SCRS and PORS are as follows:

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

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015 actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Long-term Expected Rate of Return (Continued)

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

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

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

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. NPL totals, as of June 30, 2016 measurement date, for the SCRS and PORS are presented in the following table:

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

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

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

At June 30, 2017, the Town reported liabilities of approximately \$2,456,000 and \$2,232,000 for its proportionate share of the net pension liabilities for the SCRS and PORS ("Plans"), respectively. The net pension liabilities were measured as of June 30, 2016, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report as of July 1, 2015 that was projected forward to the measurement date. The Town's proportion of the net pension liabilities were based on a projection of the Town's long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2016 measurement date, the Town's SCRS proportion was .01150 percent, which was an increase of 0.00038 percent from its proportion measured as of June 30, 2015. At the June 30, 2016 measurement date, the Town's PORS proportion was .08801 percent, which was a decrease of 0.00010 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of approximately \$246,000 and \$243,000 for the SCRS and PORS, respectively. At June 30, 2017, the Town reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	\$ 25,461	\$ 2,667
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	206,642	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	75,828	-
Town Contributions Subsequent to the Measurement Date	130,769	-
Total SCRS	<u>438,700</u>	<u>2,667</u>
PORS		
Differences Between Expected and Actual Experience	33,124	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	253,132	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	5,111	1,665
Town Contributions Subsequent to the Measurement Date	171,715	-
Total PORS	<u>463,082</u>	<u>1,665</u>
Total SCRS and PORS	<u>\$ 901,782</u>	<u>\$ 4,332</u>

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

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

Approximately \$131,000 and \$172,000 that were reported as deferred outflows of resources related to the Town’s contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liabilities in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS and PORS will increase (decrease) pension expense as follows:

Year Ended June 30,	SCRS	PORS	Total
2018	\$ 84,489	65,826	\$ 150,315
2019	71,181	64,147	135,328
2020	101,146	102,278	203,424
2021	48,448	57,451	105,899
Total	<u>\$ 305,264</u>	<u>289,702</u>	<u>\$ 594,966</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of the Town’s proportionate share of the net pension liability of the Plans to changes in the discount rate, calculated using the discount rate of 7.50 percent, as well as what it would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate:

System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
The Town's proportionate share of the net pension liability of the SCRS	\$ 3,064,004	2,456,169	\$ 1,950,170
The Town's proportionate share of the net pension liability of the PORS	2,925,721	2,232,377	1,609,277
Total Pension Liability	<u>\$ 5,989,725</u>	<u>4,688,546</u>	<u>\$ 3,559,447</u>

Plans Fiduciary Net Position

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Payable to Plans

The Town reported payables of approximately \$17,100 and \$22,900 to the PEBA as of June 30, 2017, representing required employer and employee contributions for the month of June 2017 for the SCRS and PORS, respectively. These amounts are included in Other Accrued Liabilities on the financial statements and were paid in July 2017.

Plan Developments

House Bill 3726 was signed by the Governor of the State on April 25, 2017 and is effective immediately. This new law increases the employer SCRS and PORS contribution rates to 13.56% and 16.24%, respectively, beginning July 1, 2017. Employer rates will continue to increase annually by 1% through July 1, 2022, which would result in the SCRS and PORS employer rate totaling 18.56% and 21.24%, respectively, for fiscal year 2023 and thereafter. The legislation (a) would also increase and cap the employee SCRS and PORS contribution rates to 9.00% and 9.75%, respectively, provides, after June 30, 2027 for a decrease in employer and employee contribution rates in equal amounts if the ratio between the actuarial value of assets and the actuarial value of liabilities is equal to or greater than 85%, (b) lower the assumed annual rate of return on pension investments from 7.50% to 7.25%, and (c) for some years reduce the funding period of unfunded liabilities from 30 years to 20 years.

C. Commitments and Contingencies

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

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

Required Supplementary Information

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2017

	BUDGETED AMOUNTS		ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property Taxes	\$ 2,532,410	2,532,410	2,738,520	\$ 206,110
Local Option Sales Tax	223,000	223,000	256,738	33,738
Licenses and Franchise Fees	1,245,500	1,245,500	1,331,149	85,649
Magistrate and Recorder Fines	40,000	40,000	131,915	91,915
State Shared Revenues	101,600	101,600	102,673	1,073
Permits	434,000	434,000	415,546	(18,454)
Victims' Services Fund	8,000	8,000	10,393	2,393
Interest Income	6,000	6,000	8,832	2,832
Other	175,200	175,200	68,086	(107,114)
TOTAL REVENUES ALL SOURCES	4,765,710	4,765,710	5,063,852	298,142
EXPENDITURES				
Maintenance	847,040	847,040	691,650	155,390
Police	1,104,235	1,104,235	1,196,951	(92,716)
Fire	1,209,940	1,209,940	1,107,400	102,540
Recreation	164,000	164,000	142,897	21,103
Building	329,500	329,500	321,132	8,368
Administrative	3,068,367	3,068,367	3,866,049	(797,682)
TOTAL EXPENDITURES	6,723,082	6,723,082	7,326,079	(602,997)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURE	(1,957,372)	(1,957,372)	(2,262,227)	(304,855)
OTHER FINANCING SOURCES (USES)				
Transfers In	1,111,372	1,111,372	1,184,446	73,074
Proceeds from Lease Purchases	105,000	105,000	-	(105,000)
TOTAL OTHER FINANCING SOURCES (USES)	1,216,372	1,216,372	1,184,446	(31,926)
NET CHANGES IN FUND BALANCES	(741,000)	(741,000)	(1,077,781)	(336,781)
FUND BALANCES, Beginning of Year	7,893,204	7,893,204	7,893,204	-
FUND BALANCES, End of Year	\$ 7,152,204	7,152,204	6,815,423	\$ (336,781)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	Year Ended June 30,			
	2017	2016	2015	2014
Town of Sullivan's Island's Proportion of the Net Pension Liability	0.011%	0.011%	0.011%	0.011%
Town's Proportionate Share of the Net Pension Liability	\$ 2,456,169	3,840,320	3,386,522	\$ 3,528,096
Town of Sullivan's Island's Covered Payroll	\$ 1,113,545	1,048,865	987,670	\$ 919,628
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	220.57%	366.14%	342.88%	383.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	52.91%	56.99%	59.92%	56.39%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year. Only four years of data were available; thus, only four years were presented.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE TOWN OF SULLIVAN'S ISLAND'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM

LAST FOUR FISCAL YEARS

	Year Ended June 30,			
	2017	2016	2015	2014
Contractually Required Contribution	\$ 130,769	123,158	114,326	\$ 104,693
Contributions in Relation to the Contractually Required Contribution	130,769	123,158	114,326	104,693
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
Town of Sullivan's Island's Covered Payroll	\$ 1,131,221	1,113,545	1,048,865	\$ 987,670
Contributions as a Percentage of Covered Payroll	11.56%	11.06%	10.90%	10.60%

Notes to Schedule:

Only four years of data were available; thus, only four years were presented.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	Year Ended June 30,			
	2017	2016	2015	2014
Town of Sullivan's Island's Proportion of the Net Pension Liability	0.088%	0.088%	0.088%	0.088%
Town's Proportionate Share of the Net Pension Liability	\$ 2,232,377	1,920,354	1,678,474	\$ 1,817,479
Town of Sullivan's Island's Covered Payroll	\$ 1,122,019	1,085,206	1,054,506	\$ 1,062,319
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	198.96%	176.96%	159.17%	171.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.44%	64.57%	67.55%	62.98%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year. Only four years of data were available; thus, only four years were presented.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE TOWN OF SULLIVAN'S ISLAND'S CONTRIBUTIONS
POLICE OFFICERS RETIREMENT SYSTEM

LAST FOUR FISCAL YEARS

	Year Ended June 30,			
	2017	2016	2015	2014
Contractually Required Contribution	\$ 171,715	154,165	145,526	\$ 135,399
Contributions in Relation to the Contractually Required Contribution	171,715	154,165	145,526	135,399
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
Town of Sullivan's Island's Covered Payroll	\$ 1,205,861	1,122,019	1,085,206	\$ 1,054,506
Contributions as a Percentage of Covered Payroll	14.24%	13.74%	13.41%	12.84%

Notes to Schedule:

Only four years of data were available; thus, only four years were presented.

Supplementary Information

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2017

	2017		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
MAINTENANCE			
Operating Expenditures:			
Salaries	\$ 178,000	140,664	\$ 37,336
Payroll Taxes	15,000	10,510	4,490
Health Insurance	25,000	14,040	10,960
Retirement	16,000	15,394	606
Gas and Oil - Vehicles	10,000	7,039	2,961
Diesel Fuel	2,750	1,933	817
Vehicle Repairs	8,000	9,794	(1,794)
Supplies and Materials	25,000	19,013	5,987
Uniforms	3,000	1,499	1,501
Property & Equipment <\$5,000	7,500	129,656	(122,156)
Telephone	660	660	-
Power and Lights	40,000	37,038	2,962
Insurance	18,000	14,827	3,173
Equipment Repairs	50,000	38,462	11,538
System Repairs and Improvements	81,280	25,564	55,716
Garbage Disposal Service - Subcontract	197,000	157,574	39,426
Container Servicing	11,000	6,495	4,505
Causeway & Beach Path Maintenance	52,000	40,975	11,025
Miscellaneous	101,000	1,257	99,743
Total Operating Expenditures	841,190	672,394	168,796
Capital Expenditures:			
Lease Purchase Payments	5,850	5,850	-
Capital Outlay	-	13,406	(13,406)
TOTAL EXPENDITURES	847,040	691,650	155,390
POLICE			
Operating Expenditures:			
Salaries	542,000	555,424	(13,424)
Payroll Taxes	40,000	40,143	(143)
Health Insurance	85,000	75,938	9,062
Retirement	76,000	73,676	2,324
Contract Labor	30,000	29,103	897
Gas and Oil - Vehicles	35,000	28,458	6,542
Diesel Fuel	1,000	576	424
Vehicle Repairs	16,000	16,604	(604)
Supplies and Materials	12,000	14,819	(2,819)
Telephone	9,500	7,906	1,594
Power and Lights	4,200	10,982	(6,782)
Uniforms	8,000	12,247	(4,247)
Insurance	50,000	52,010	(2,010)
800 MHZ Radios	12,000	12,452	(452)
Property & Equipment <\$5,000	22,000	56,884	(34,884)
System Repairs and Improvements	8,000	16,540	(8,540)
Dues and Certifications	300	122	178
Training and Seminars	6,000	4,540	1,460
Dispatching Services	1,000	7,328	(6,328)
Miscellaneous	7,000	4,866	2,134
Total Operating Expenditures	\$ 965,000	1,020,618	\$ (55,618)

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2017

	2017		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
POLICE (CONTINUED)			
Capital Expenditures:			
Lease Purchase Payments	\$ 34,235	66,999	\$ (32,764)
Capital Outlay	105,000	109,334	(4,334)
TOTAL EXPENDITURES	1,104,235	1,196,951	(92,716)
FIRE			
Operating Expenditures:			
Salaries	604,000	621,173	(17,173)
Payroll Taxes	48,000	44,989	3,011
Health Insurance	94,000	82,459	11,541
Retirement	85,000	87,112	(2,112)
Gas and Oil - Vehicles	10,000	4,772	5,228
Diesel Fuel	5,000	2,719	2,281
Vehicle Repairs	20,000	9,481	10,519
Supplies and Materials	20,000	19,299	701
Telephone	7,000	5,131	1,869
Uniforms	10,000	8,798	1,202
Power and Lights	10,000	9,808	192
Insurance	57,000	59,066	(2,066)
Building Repairs	127,904	12,414	115,490
800 MHZ Radios	24,000	25,317	(1,317)
Property & Equipment <\$5,000	7,500	14,554	(7,054)
System Repairs and Improvements	11,000	19,400	(8,400)
Dues and Certifications	1,000	55	945
Training and Seminars	9,500	5,311	4,189
Dispatching Services	-	7,328	(7,328)
Miscellaneous	6,000	3,285	2,715
Total Operating Expenditures	1,156,904	1,042,471	114,433
Capital Expenditures:			
Lease Purchase Payments	53,036	64,335	(11,299)
Capital Outlay	-	594	(594)
TOTAL EXPENDITURES	1,209,940	1,107,400	102,540
RECREATION			
Operating Expenditures:			
Power and Lights	9,000	5,712	3,288
Insurance	5,000	5,295	(295)
Maintenance Recreation Area	10,000	15,272	(5,272)
Miscellaneous	20,000	26,271	(6,271)
Total Operating Expenditures	44,000	52,550	(8,550)
Capital Expenditures:			
Capital Outlay	120,000	90,347	29,653
TOTAL EXPENDITURES	\$ 164,000	142,897	\$ 21,103

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2017

	2017		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
BUILDING			
Operating Expenditures:			
Salaries	\$ 207,000	208,618	\$ (1,618)
Payroll Taxes	16,000	15,601	399
Health Insurance	25,000	23,408	1,592
Retirement	25,000	25,841	(841)
Gas and Oil - Vehicles	4,000	4,221	(221)
Office Supplies	3,000	689	2,311
Supplies - Building Official	2,000	434	1,566
Telephone	4,000	3,321	679
Utilities	3,000	1,102	1,898
Insurance	1,000	1,008	(8)
System Repair and Maintenance	3,000	2,981	19
Dues and Certifications	2,000	1,160	840
Training and Seminars	3,000	2,883	117
Board of Zoning Appeals	2,000	7,587	(5,587)
Design and Review Board	5,000	6,825	(1,825)
Tree Commission	1,500	371	1,129
Trimming and Pruning	9,000	10,280	(1,280)
Equipment	14,000	4,748	9,252
Total Operating Expenditures	329,500	321,078	8,422
Capital Expenditures:			
Capital Outlay	-	54	(54)
TOTAL EXPENDITURES	329,500	321,132	8,368
ADMINISTRATIVE			
Operating Expenditures:			
Salaries	445,000	449,735	(4,735)
Payroll Taxes	34,000	33,372	628
Health Insurance	46,000	65,287	(19,287)
Retirement	49,000	66,807	(17,807)
Office Supplies	26,500	28,632	(2,132)
Advertising	12,000	10,469	1,531
Telephone	17,000	21,302	(4,302)
Power and Lights	9,000	23,858	(14,858)
Insurance	95,000	91,892	3,108
System Repairs and Improvements	76,000	78,120	(2,120)
Dues and Certifications	4,500	5,026	(526)
Training and Seminars	10,200	4,441	5,759
Professional Engineering Fees	60,000	64,325	(4,325)
Victim's Rights Fund	8,000	30,000	(22,000)
Professional Services	180,000	133,309	46,691
Town Hall Relocation Expenses	71,000	64,122	6,878
Property & Equipment <\$5,000	10,000	22,527	(12,527)
Bonds Debt Services	1,013,782	1,018,272	(4,490)
Council Expenditures	30,000	29,049	951
Gas and Oil	4,000	3,546	454
Planning Expense	400	4,048	(3,648)
Miscellaneous	20,000	9,656	10,344
Total Operating Expenditures	\$ 2,221,382	2,257,795	\$ (36,413)

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2017

	2017		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
ADMINISTRATIVE (CONTINUED)			
Capital Expenditures:			
Lease Purchase Payments	\$ -	12,448	\$ (12,448)
Capital Outlay	846,985	1,595,806	(748,821)
TOTAL EXPENDITURES	<u>3,068,367</u>	<u>3,866,049</u>	<u>(797,682)</u>
TOTAL GENERAL FUND EXPENDITURES	<u>\$ 6,723,082</u>	<u>7,326,079</u>	<u>\$ (602,997)</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2017

	2017		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Sewer Service Charges	\$ 1,040,401	1,098,539	\$ 58,138
Other Revenue	9,000	12,823	3,823
TOTAL OPERATING REVENUES	1,049,401	1,111,362	61,961
OPERATING EXPENSES			
Salaries	224,305	206,946	17,359
Payroll Taxes	17,159	14,898	2,261
Hospitalization Insurance	34,042	28,579	5,463
Retirement	24,201	21,165	3,036
Gas and Oil - Vehicles	7,000	3,787	3,213
Diesel Fuel and Equipment	8,300	15,677	(7,377)
Vehicle Repairs	5,000	3,491	1,509
Supplies and Tools	12,000	17,165	(5,165)
Office Supplies	8,700	7,137	1,563
Lab Supplies	5,500	7,595	(2,095)
Telephone	5,600	5,169	431
Power and Lights	58,000	54,937	3,063
Insurance	19,000	21,507	(2,507)
System Repairs and Improvements	232,500	180,688	51,812
Sludge Disposal	52,000	32,687	19,313
Grit Disposal	1,400	926	474
Property and Equipment < \$5000	-	1,191	(1,191)
Depreciation and Amortization Expense	-	216,364	(216,364)
Dues and Certifications	8,000	3,064	4,936
Training and Seminars	5,000	748	4,252
Professional Engineering Fees	6,000	29,773	(23,773)
Professional Services	5,000	-	5,000
Bond Payments	277,000	-	277,000
Lab Analysis, Inspection, and Chemicals	28,000	33,967	(5,967)
Miscellaneous	2,625	2,544	81
Total Operating Expenses	1,046,332	910,005	136,327
OPERATING INCOME (LOSS)	3,069	201,357	198,288
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(60,569)	-	60,569
NONOPERATING REVENUES			
Interest Income	1,000	1,432	432
Proceeds from Sale of Capital Assets	-	1,510	1,510
NET INCOME (LOSS)	\$ (56,500)	204,299	\$ 260,799
RECONCILIATION TO GAAP BASIS:			
Non-Budgeted Revenues (Expenses)			
Interest Expense		(19,849)	
DECREASE IN NET POSITION		184,450	
NET POSITION, Beginning of Year		2,998,633	
NET POSITION, End of Year		\$ 3,183,083	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2017

	2017		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Water Sales	\$ 898,833	1,027,904	\$ 129,071
Meter Connections	22,750	41,180	18,430
TOTAL OPERATING REVENUES	921,583	1,069,084	147,501
OPERATING EXPENSES			
Salaries	224,306	201,411	22,895
Payroll Taxes	17,159	14,494	2,665
Hospitalization Insurance	34,042	28,579	5,463
Retirement	24,201	53,891	(29,690)
Gas and Oil - Vehicles	7,000	3,787	3,213
Diesel Fuel and Equipment	3,300	-	3,300
Repairs and Maintenance - Diesel Equipment	2,000	1,952	48
Vehicle Repairs	5,000	3,276	1,724
Supplies and Tools	13,500	4,579	8,921
Office Supplies	8,700	7,086	1,614
Lab Supplies	2,300	2,354	(54)
Telephone	5,600	5,169	431
Power and Lights	3,500	4,429	(929)
Insurance	17,000	18,987	(1,987)
System Repairs and Improvements	175,500	180,779	(5,279)
Depreciation and Amortization Expense	-	251,766	(251,766)
Dues and Certifications	9,000	7,532	1,468
Training and Seminars	4,500	1,410	3,090
Professional Engineering Fees	111,000	58,973	52,027
Professional Services	5,000	-	5,000
Lab Analysis, Inspection, and Chemicals	9,200	7,158	2,042
CPW Improvements	36,000	-	36,000
Wholesale Water Purchases	132,000	156,482	(24,482)
Miscellaneous	3,064	1,219	1,845
Total Operating Expenses	852,872	1,015,313	(162,441)
OPERATING INCOME (LOSS)	68,711	53,771	(14,940)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(41,211)	-	41,211
NONOPERATING REVENUES			
Interest Income	2,000	1,712	(288)
Gain on Sale of Capital Assets	-	1,510	1,510
Transfers Out to Other Funds	(582,000)	(581,372)	628
NET INCOME (LOSS)	\$ (552,500)	(524,379)	\$ 28,121
RECONCILIATION TO GAAP BASIS:			
Interest Expense		(545)	
INCREASE IN NET POSITION		(524,924)	
NET POSITION, Beginning of Year		4,873,368	
NET POSITION, End of Year		\$ 4,348,444	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES
GENERAL FUND

YEAR ENDED JUNE 30, 2017

	<u>2017</u>
COURT FINES	
Court Fines Collected	\$ 131,915
Court Fines Retained by Town	(131,915)
Court Fines Remitted to the State Treasurer	<u>\$ -</u>
COURT ASSESSMENTS	
Court Assessments Collected	\$ 33,174
Court Assessments Allocated to Victim Services	(3,702)
Court Assessments Remitted to the State Treasurer	<u>\$ 29,472</u>
COURT SURCHARGES	
Court Surcharges Collected	\$ 17,625
Court Surcharges Allocated to Victim Services	(6,690)
Court Surcharges Remitted to the State Treasurer	<u>\$ 10,935</u>
VICTIMS SERVICES	
Court Assessments Allocated to Victims Services	\$ 3,702
Court Surcharges Allocated to Victims Services	6,690
Funds Allocated to Victims Services	<u>\$ 10,392</u>
Victims Services Expenditures	(30,000)
Funds Available for Carry Forward	(19,608)
Victims Services Balance at Beginning of Year	<u>\$ 84,819</u>
Victims Services Balance at End of Year	<u>\$ 65,211</u>



Greene, Finney & Horton, LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

INDEPENDENT AUDITOR’S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan’s Island, South Carolina (the “Town”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated October 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

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

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

Compliance and Other Matters

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

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Purpose of this Report

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

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
October 27, 2017