

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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, 2014

MAYOR

Michael Perkis

TOWN COUNCIL MEMBERS

Gerald "Jerry" Kaynard, Mayor Pro Tem

Chauncey Clark

Hartley Cooper

Susan Middaugh

Pat O'Neil

Mary Jane Watson

APPOINTED OFFICIALS

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



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, 2014, 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, 2014, 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.

Pending Implementation of GASB Statement on Pensions

As discussed in Note IV.C, the Governmental Accounting Standards Board recently issued Statement No. 68, “*Accounting and Financial Reporting for Pension*” (“*Statement*”). This Statement, which will be adopted by the Town for the fiscal year ended June 30, 2015, will require the Town to report a net pension liability on its applicable financial statements for its participation in the South Carolina Retirement System and the Police Officers’ Retirement System (“*Plans*”). Based on recent information provided by the South Carolina Public Employee Benefit Authority, it is anticipated that the Town’s share of the net pension liability associated with these Plans will decrease the Town’s beginning net position by approximately \$3,328,000 and \$634,000 for the governmental activities and business-type activities, respectively, and \$317,000 and \$317,000 for the Water Fund and Sewer Fund, respectively. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the budgetary comparison schedule – General Fund, 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 August 22, 2014 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
August 22, 2014

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

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, 2014. 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 \$13,235,000 (*net position*). Of this amount, approximately \$5,216,000 and \$8,019,000 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) were approximately \$3,597,000 for its governmental activities and approximately \$1,350,000 for its business-type activities.
- The government's total net position increased by approximately \$1,364,000 for governmental activities and decreased by approximately \$19,000 for business-type activities, as total revenues of approximately \$4,750,000 exceeded total expenses of approximately \$3,405,000.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$9,129,000, an increase of approximately \$5,183,000 over the prior year's fund balance. Approximately 49% of this total amount, or approximately \$4,449,000, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, \$1,025,000 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, \$337,000 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 \$3,087,000 or 71% of total General Fund expenditures for the year ended June 30, 2014.
- The Town's total capital assets decreased by approximately \$185,000 (2%) during the current fiscal year primarily due to depreciation expense of approximately \$467,000 offset by capital asset additions of approximately \$282,000. Capital asset additions included construction in progress for the new Town Hall, boardwalk improvements, equipment purchases and playground equipment.
- The Town's total debt increased by approximately \$3,834,000 (222%) during the current year due to a new general obligation bond of \$4.1 million and reduced by scheduled principal payments on prior outstanding debt. The proceeds of the new general obligation bond will primarily be used to construct the new Town Hall and purchase a ladder fire truck.

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, 2014

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, 2014

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, 2014

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 2014 compared to 2013.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and Other Assets	\$ 9,368,507	\$ 4,140,673	1,573,465	1,279,614	10,941,972	\$ 5,420,287
Capital Assets, Net	1,345,008	1,238,549	5,962,630	6,254,294	7,307,638	7,492,843
Contributed Capital, Net	-	-	1,097,548	1,316,635	1,097,548	1,316,635
Total Assets	10,713,515	5,379,222	8,633,643	8,850,543	19,347,158	14,229,765
Liabilities:						
Long-Term Obligations	5,261,741	1,335,799	404,328	490,474	5,666,069	1,826,273
Other Liabilities	235,307	190,766	210,473	322,336	445,780	513,102
Total Liabilities	5,497,048	1,526,565	614,801	812,810	6,111,849	2,339,375
Net Position:						
Net Investment in Capital						
Assets	1,082,134	1,057,596	6,669,092	7,095,883	6,836,226	7,078,479
Restricted	537,649	445,358	-	-	537,649	445,358
Unrestricted (1)	3,596,684	2,349,703	1,349,750	941,850	5,861,434	4,366,553
Total Net Position	\$ 5,216,467	\$ 3,852,657	8,018,842	8,037,733	13,235,309	\$ 11,890,390

(1) The total for Net Investment in Capital Assets and Unrestricted Net Position for both years does not add/foot across. See Note III.F for details.

The Town’s total assets of approximately \$19,347,000 increased approximately \$5,117,000 over the prior year. The increase is primarily due to an increase in cash from the 2014 General Obligation Bond (approximately \$4.1 million) and the sale of a Town owned lot for \$605,000. Total liabilities increased by approximately \$3,772,000 from the prior year primarily due to the issuance of the 2014 General Obligation Bond of \$4.1 million.

The Town’s net position increased by approximately \$1,345,000 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 \$13,235,000 at June 30, 2014. The largest portion of the Town’s net position of approximately \$6,836,000 (approximately 52%) 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 generally the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town’s net position of approximately \$538,000 (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.).

The remaining portion of the Town’s net position is unrestricted net position of approximately \$5,861,000 (approximately 37%) may be used to meet the government’s ongoing obligations to citizens and creditors.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the Town’s net position for fiscal year 2014 compared to 2013.

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for Services	\$ 401,311	\$ 393,835	\$ 1,739,806	\$ 1,557,488	\$ 2,141,117	\$ 1,951,323
Capital Grants and Contributions	56,930	58,117	-	126,260	56,930	184,377
General Revenues:						
Taxes	3,786,550	3,306,201	-	-	3,786,550	3,306,201
Other	961,689	188,235	2,172	2,564	963,861	190,799
Total Revenues	5,206,480	3,946,388	1,741,978	1,686,312	6,948,458	5,632,700
Expenses:						
Public Works	624,124	506,516	-	-	624,124	506,516
Public Safety	2,020,920	1,907,563	-	-	2,020,920	1,907,563
General Government	1,354,911	1,122,176	-	-	1,354,911	1,122,176
Interest on Long-Term Obligations	42,398	44,083	-	-	42,398	44,083
Water	-	-	758,607	816,268	758,607	816,268
Sewer	-	-	802,579	724,946	802,579	724,946
Total Expenses	4,042,353	3,580,338	1,561,186	1,541,214	5,603,539	5,121,552
Change in Net Position Before Transfers	1,164,127	366,050	180,792	145,098	1,344,919	511,148
Transfers In (Out)	199,683	(51,590)	(199,683)	51,590	-	-
Change in Net Position	1,363,810	314,460	(18,891)	196,688	1,344,919	511,148
Net Position - Beginning of Year	3,852,657	3,538,197	8,037,733	7,841,045	11,890,390	11,379,242
Net Position - End of Year	\$ 5,216,467	\$ 3,852,657	\$ 8,018,842	\$ 8,037,733	\$ 13,235,309	\$ 11,890,390

Governmental Activities: Governmental activities increased the Town’s net position by approximately \$1,364,000 in the current year.

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

- Total governmental activities revenues increased by approximately \$1,260,000, or 32%, over the prior year due in part to increases in revenue from property tax, business licenses, building permits, and property sales.
- Total governmental activities expenses increased by approximately \$462,000, over the prior year due in part to increased costs of Charleston County’s consolidated dispatch, the purchase of firefighters’ airpacks and police equipment, and an increase in salary and wages.
- In 2014, other revenue for the governmental activities includes approximately \$37,000 in revenue from Charleston County’s Accommodations Fund for the Town to hire off duty Charleston County Sheriff’s Deputies to aid the Town during special events and during the busy summer season.
- The transfers-out for the governmental activities is a combination of transfers to and from the business activities. Approximately \$200,000 was transferred from the business activities for the payment of the 2003 General Obligation Bond.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities: Net position for business-type activities (water and sewer services) decreased by approximately \$19,000.

Council passed the budgets for the business-type activities with the expectation a surplus would be generated. The surplus was for capital projects and to fund payments to Charleston Water System (CWS) for the Town's capital capacity.

Other contributing factors for the decrease in the net position for water and sewer were:

- Sludge disposal fees increased from approximately \$28,000 in FY 2013 to approximately \$55,000 in FY 2014.
- Continuing to transfer out the amount to cover the General Fund's debt service for the 2003 General Obligation Bond.

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 \$9,129,000, an increase of approximately \$5,183,000 from the prior year fund balance. The increase in fund balance was primarily the result of issuing a general obligation bond of approximately \$4.1 million, and selling one lot for \$605,000.

Approximately 49% or \$4,449,000 of the total governmental fund balance of approximately \$9,129,000 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 (\$91,000), restricted (2) for tourism related expenditures or operating expenses incurred to serve tourists (\$429,000), for expenditures related to capital projects (\$3,996,000), and other outside restrictions (\$109,000), committed for (3) expenditures related to the Tree Fund (\$35,000), and assigned (4) 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 \$8,665,000. 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 (\$4,449,000) represents approximately 51% of total General Fund expenditures for 2014. Of the unassigned fund balance, Council has established a reserve for emergency expenditures which at the end of 2014 has a balance of \$1,025,000 and a reserve for capital improvements of \$336,000.

Points of interest for the General Fund were as follows:

- The Town issued a general obligation bond of approximately \$4.1 million during 2014.
- During 2014 the General Fund's fund balance increased by approximately \$3,570,000.
- During 2014 the Town spent approximately \$159,000 on new boardwalks, police and maintenance equipment and playground equipment.
- Property taxes came in over \$54,000 more than projected.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE TOWN’S FUNDS (CONTINUED)

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 \$8,019,000. Please see the earlier discussion of the business-type activities change in net position in the government-wide financial analysis section of this MD&A for more details.

Fiduciary Funds. The Town’s Volunteer Fire Department Fund is used by the Town to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by fire insurance companies. Agency funds are custodial in nature and do not present results of operations. The Fiduciary Fund had amounts held for custody of others of approximately \$131,000 at June 30, 2014.

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 2014.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town’s investment in capital assets as of June 30, 2014 and June 30, 2013, amounted to approximately \$7,308,000 and \$7,493,000 (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, 2014 and 2013 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 37,392	\$ 37,392	-	-	37,392	\$ 37,392
Construction in Progress	106,828	-	-	-	106,828	-
Building and Improvements	223,398	243,059	-	-	223,398	243,059
Machinery and Equipment	465,955	367,441	-	-	465,955	367,441
Vehicles and Vehicle Equipment	212,546	279,502	-	-	212,546	279,502
Vehicles, Machinery, and Equipment	-	-	139,922	165,230	139,922	165,230
Fire and Emergency Command System	298,889	311,155	-	-	298,889	311,155
Water/Sewer System	-	-	5,822,708	6,089,064	5,822,708	6,089,064
Total	\$ 1,345,008	1,238,549	5,962,630	6,254,294	7,307,638	\$ 7,492,843

The total decrease in the Town’s investment in capital assets for the current fiscal year was approximately \$185,000 or approximately 2%. Major capital asset events during the current fiscal year included the following:

- Capital asset additions of approximately \$266,000 for governmental activities which consisted primarily of the following:
 - Construction in progress for the new Town Hall of approximately \$106,000.
 - Construction of new boardwalks for beach paths with cost of approximately \$102,000.
 - Purchase of new building department software for approximately \$11,000.
 - Purchase of a new telephone server for approximately \$9,500.
 - Purchase of two utility vehicles for approximately \$26,000.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

- Capital asset additions of approximately \$16,000 for business-type activities which consisted primarily of the following:
 - Purchase and installation of a fuel tank for the generator at the sewer plant.
- Depreciation expense of approximately \$160,000 for governmental activities and \$308,000 of depreciation expense for business-type activities.
- During April 2013, Town Council made the decision to sell four parcels of land in order to fund a portion of the cost of future capital projects. During FY 2014, one of those lots was sold for \$605,000. The lots have no book value per the financial statements even though they do have a market value. Since the book value is zero, there is no decrease in the line item for land.

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, 2014 and June 30, 2013, the Town had total outstanding debt of approximately \$5,565,000 and \$1,731,000, respectively. Of the Town’s total long-term obligations, approximately \$5,015,000 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, 2014 and 2013 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Debt:						
General Obligation Bonds	\$ 5,015,000	\$ 1,075,000	-	-	5,015,000	\$ 1,075,000
Revenue Bond	-	-	338,000	396,000	338,000	396,000
Capital Leases	159,125	180,954	53,086	79,046	212,211	260,000
Total Debt	<u>\$ 5,174,125</u>	<u>1,255,954</u>	<u>391,086</u>	<u>475,046</u>	<u>5,565,211</u>	<u>\$ 1,731,000</u>

The total increase in the Town’s debt obligations for the current fiscal year was approximately \$3,834,000 or 222%. Major events during the current fiscal year included the following:

- The Town issued a general obligation bond of approximately \$4.1 million.
- The Town’s governmental activities made scheduled principal payments on debt obligations of approximately \$219,000.
- The Town’s business-type activities made scheduled principal payments on debt obligations of approximately \$84,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt Administration (Continued)

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, 2014 was approximately \$5,143,000. The Town had \$5,015,000 of bonded debt subject to the 8% limit and thus resulted in the Town having an unused legal debt margin of approximately \$128,000.

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

ECONOMIC FACTORS AND 2014-2015 BUDGETS AND RATES FOR THE TOWN

The Town's elected officials and staff considered many factors when setting the fiscal year 2015 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:

- Property tax increase to help replenish the fund balance.
- There was an increase in water and sewer rates.
- Continue reducing intrusion and infiltration of rain water and ground water into the sewer system.
- Continuation of the water line replacement project.
- Four new vehicles are budgeted to be replaced for fiscal year 2015, including two patrol vehicles and two water and sewer vehicles.
- Approximately \$70,000 has been budgeted as a 25% match for a grant for a new rescue boat for the Fire Department.

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, 2014

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 4,367,235	1,328,298	\$ 5,695,533
Cash and Cash Equivalents - Restricted	4,399,709	21,800	4,421,509
Investments	150,002	-	150,002
Taxes Receivable, Net	52,007	-	52,007
Other Receivables, Net	308,325	205,009	513,334
Prepaid Expenses	88,729	18,358	107,087
Inventories	2,500	-	2,500
Capital Assets:			
Non-Depreciable	144,220	-	144,220
Depreciable, Net	1,200,788	5,962,630	7,163,418
Capacity Capital Contribution, Net	-	1,097,548	1,097,548
TOTAL ASSETS	10,713,515	8,633,643	19,347,158
LIABILITIES			
Accounts Payable	168,035	177,646	345,681
Accrued Interest	10,742	626	11,368
Other Accrued Liabilities	56,530	10,401	66,931
Customer Deposits	-	21,800	21,800
Long-Term Obligations:			
Due Within One Year	329,987	39,588	369,575
Due in More Than One Year	4,931,754	364,740	5,296,494
TOTAL LIABILITIES	5,497,048	614,801	6,111,849
NET POSITION			
Net Investment in Capital Assets	1,082,134	6,669,092	6,836,226
Restricted For:			
Tourism Related Expenditures	428,909	-	428,909
Other	108,740	-	108,740
Unrestricted	3,596,684	1,349,750	5,861,434
TOTAL NET POSITION	\$ 5,216,467	8,018,842	\$ 13,235,309

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, 2014

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	\$ 624,124	-	-	-	(624,124)		\$ (624,124)
Public Safety	2,020,920	67,627	-	-	(1,953,293)		(1,953,293)
General Government	1,354,911	333,684	-	56,930	(964,297)		(964,297)
Interest on Long Term Obligations	42,398	-	-	-	(42,398)		(42,398)
Total Governmental Activities	4,042,353	401,311	-	56,930	(3,584,112)		(3,584,112)
Business-Type Activities:							
Water	758,607	977,289	-	-		218,682	218,682
Sewer	802,579	762,517	-	-		(40,062)	(40,062)
Total Business-Type Activities	1,561,186	1,739,806	-	-		178,620	178,620
TOTAL - PRIMARY GOVERNMENT	\$ 5,603,539	2,141,117	-	56,930	(3,584,112)	178,620	(3,405,492)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Property Taxes					1,754,511	-	1,754,511
Local Option Sales Taxes					221,335	-	221,335
Hospitality Taxes					320,345	-	320,345
Accommodation Taxes					67,955	-	67,955
Business License Taxes					940,085	-	940,085
Franchise Taxes					482,319	-	482,319
Intergovernmental					87,272	-	87,272
Interest Income					9,050	2,172	11,222
Gain (Loss) on Disposal of Capital Assets					607,000	-	607,000
Miscellaneous					258,367	-	258,367
Transfers In (Out)					199,683	(199,683)	-
Total General Revenues and Transfers					4,947,922	(197,511)	4,750,411
CHANGE IN NET POSITION					1,363,810	(18,891)	1,344,919
NET POSITION, Beginning of Year					3,852,657	8,037,733	11,890,390
NET POSITION, End of Year					5,216,467	8,018,842	\$ 13,235,309

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, 2014

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
ASSETS		
Cash and Cash Equivalents	\$ 4,332,659	-
Cash and Cash Equivalents - Restricted	4,064,642	-
Investments	150,002	-
Taxes Receivable, Net	52,007	-
Accounts Receivable, Net	214,483	6,705
Prepaid Expenses	88,729	-
Inventory	2,500	-
TOTAL ASSETS	8,905,022	6,705
LIABILITIES		
Accounts Payable	168,035	-
Other Accrued Liabilities	56,530	-
TOTAL LIABILITIES	224,565	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue, Property Taxes	15,000	-
TOTAL DEFERRED INFLOWS OF RESOURCES	15,000	-
FUND BALANCES		
Nonspendable:		
Prepaid Expenses	88,729	-
Inventory	2,500	-
Restricted:		
Capital Projects	3,996,251	-
Tourism Related Expenditures	-	6,705
Victims Services	68,391	-
Confederate Memorial	5,231	-
Land Trust	35,118	-
Committed:		
Tree Bank	-	-
Assigned:		
William Bradley Memorial Fund	20,000	-
Unassigned	4,449,237	-
TOTAL FUND BALANCES	8,665,457	6,705
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,905,022	6,705

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
-	-	34,576	\$ 4,367,235
57,936	277,131	-	4,399,709
-	-	-	150,002
-	-	-	52,007
12,824	74,313	-	308,325
-	-	-	88,729
-	-	-	2,500
70,760	351,444	34,576	9,368,507
-	-	-	168,035
-	-	-	56,530
-	-	-	224,565
-	-	-	15,000
-	-	-	15,000
-	-	-	88,729
-	-	-	2,500
-	-	-	3,996,251
70,760	351,444	-	428,909
-	-	-	68,391
-	-	-	5,231
-	-	-	35,118
-	-	34,576	34,576
-	-	-	20,000
-	-	-	4,449,237
70,760	351,444	34,576	9,128,942
70,760	351,444	34,576	\$ 9,368,507

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

JUNE 30, 2014

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 9,128,942**

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

Property taxes and other revenues 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.	15,000
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 \$3,218,569 and the accumulated depreciation was \$1,873,561.	1,345,008
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.	(10,742)
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	(5,015,000)
Lease Purchases	(159,125)
Compensated Absences	(87,616)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 5,216,467**

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

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TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2014

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
REVENUES		
Property Taxes	\$ 1,754,511	-
Local Option Sales Taxes	221,335	-
Accommodation Taxes	-	6,705
Hospitality Taxes	-	-
Licenses	1,422,404	-
Magistrate and Recorder Fines	58,783	-
State Shared Revenues	112,625	-
Permits	386,014	-
Victims' Services	8,844	-
Interest	8,497	-
Other	258,367	-
TOTAL REVENUES ALL SOURCES	4,231,380	6,705
EXPENDITURES		
Current:		
Public Works	506,445	-
Public Safety	1,902,577	-
General Government	1,402,501	-
Capital Outlay	287,121	-
Debt Service:		
Principal	219,428	-
Interest	42,379	-
TOTAL EXPENDITURES	4,360,451	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(129,071)	6,705
OTHER FINANCING SOURCES (USES)		
Transfers In	479,683	-
Transfers Out	-	-
Proceeds from Bond Issuance	4,100,000	-
Proceeds from Lease Purchases	37,600	-
Proceeds from Sale of Capital Assets	607,000	-
TOTAL OTHER FINANCING SOURCES (USES)	5,224,283	-
NET CHANGES IN FUND BALANCES	5,095,212	6,705
FUND BALANCES, Beginning of Year	3,570,245	-
FUND BALANCES, End of Year	\$ 8,665,457	6,705

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
-	-	-	\$ 1,754,511
-	-	-	221,335
35,897	-	-	42,602
-	320,345	-	320,345
-	-	-	1,422,404
-	-	-	58,783
-	-	-	112,625
-	-	4,600	390,614
-	-	-	8,844
92	408	53	9,050
-	-	-	258,367
35,989	320,753	4,653	4,599,480
-	-	-	506,445
-	-	-	1,902,577
-	-	-	1,402,501
-	-	-	287,121
-	-	-	219,428
-	-	-	42,379
-	-	-	4,360,451
35,989	320,753	4,653	239,029
-	-	-	479,683
(30,000)	(250,000)	-	(280,000)
-	-	-	4,100,000
-	-	-	37,600
-	-	-	607,000
(30,000)	(250,000)	-	4,944,283
5,989	70,753	4,653	5,183,312
64,771	280,691	29,923	3,945,630
70,760	351,444	34,576	\$ 9,128,942

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, 2014

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 5,183,312**

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.	219,428
Bond and lease purchase proceeds provide current financial resources to governmental funds, but issuing debt or entering into lease purchases increases long-term obligations in the Statement of Net Position.	(4,137,600)
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.	(19)
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.	(7,770)
Governmental funds report capital asset additions as expenditures of \$266,012. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation of \$159,553. This is the amount by which capital asset additions exceeded depreciation expense in the current period.	106,459

TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,363,810**

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, 2014

	WATER	SEWER	TOTAL
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,077,634	250,664	\$ 1,328,298
Cash and Cash Equivalents - Restricted	21,800	-	21,800
Accounts Receivable, Net	117,767	87,242	205,009
Prepaid Expenses	8,341	10,017	18,358
Total Current Assets	<u>1,225,542</u>	<u>347,923</u>	<u>1,573,465</u>
Noncurrent Assets:			
Capital Assets:			
Depreciable, Net	2,827,080	3,135,550	5,962,630
Capacity Capital Contribution, Net	1,097,548	-	1,097,548
Total Noncurrent Assets	<u>3,924,628</u>	<u>3,135,550</u>	<u>7,060,178</u>
TOTAL ASSETS	<u>5,150,170</u>	<u>3,483,473</u>	<u>8,633,643</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	167,805	9,841	177,646
Accrued Interest	313	313	626
Other Accrued Liabilities	5,190	5,211	10,401
Customer Deposits	21,800	-	21,800
Compensated Absences Liability	6,621	6,621	13,242
Lease Purchase Payable - Current Portion	13,173	13,173	26,346
Total Current Liabilities	<u>214,902</u>	<u>35,159</u>	<u>250,061</u>
Noncurrent Liabilities:			
Lease Purchase Payable - Net of Current Portion	13,370	13,370	26,740
Revenue Bond Payable - Net of Current Portion	-	338,000	338,000
TOTAL LIABILITIES	<u>228,272</u>	<u>386,529</u>	<u>614,801</u>
NET POSITION			
Net Investment in Capital Assets	3,898,085	2,771,007	6,669,092
Unrestricted	1,023,813	325,937	1,349,750
TOTAL NET POSITION	<u>\$ 4,921,898</u>	<u>3,096,944</u>	<u>\$ 8,018,842</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, 2014

	WATER	SEWER	TOTAL
OPERATING REVENUES			
Charges for Services	\$ 931,426	746,079	\$ 1,677,505
Meter Connections, Sewer Tie-In Fees, and Other Revenue	45,863	16,438	62,301
TOTAL OPERATING REVENUES	977,289	762,517	1,739,806
OPERATING EXPENSES			
Salaries	187,158	188,087	375,245
Payroll Taxes	14,095	13,725	27,820
Hospitalization Insurance	21,404	23,911	45,315
Retirement	18,651	19,101	37,752
Gas and Oil - Vehicles	6,644	6,644	13,288
Diesel Fuel and Equipment	586	7,870	8,456
Repairs and Maintenance - Diesel Equipment	2,487	-	2,487
Vehicle Repairs	5,793	6,885	12,678
Supplies and Tools	14,624	14,802	29,426
Office Supplies	6,437	6,895	13,332
Lab Supplies	1,641	5,112	6,753
Telephone	5,496	5,496	10,992
Power and Lights	3,317	55,438	58,755
Insurance	15,750	18,156	33,906
System Repairs and Improvements	84,936	137,882	222,818
Sludge Disposal	-	54,583	54,583
Grit Disposal	-	1,075	1,075
Dues and Certifications	4,945	5,746	10,691
Training and Seminars	3,917	4,285	8,202
Professional Engineering Fees	-	15,872	15,872
Professional Services	5,000	5,000	10,000
Lab Analysis, Inspection, and Chemicals	4,939	28,826	33,765
Wholesale Water Purchase	114,217	-	114,217
Depreciation and Amortization Expense	234,287	161,851	396,138
Miscellaneous	1,846	3,218	5,064
TOTAL OPERATING EXPENSES	758,170	790,460	1,548,630
OPERATING INCOME (LOSS)	219,119	(27,943)	191,176
NONOPERATING REVENUES (EXPENSES)			
Interest Income	1,773	399	2,172
Interest Expense	(437)	(12,119)	(12,556)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,336	(11,720)	(10,384)
INCOME (LOSS) BEFORE TRANSFERS	220,455	(39,663)	180,792
Transfers Out	(199,683)	-	(199,683)
CHANGE IN NET POSITION	20,772	(39,663)	(18,891)
NET POSITION, Beginning of Year	4,901,126	3,136,607	8,037,733
NET POSITION, End of Year	\$ 4,921,898	3,096,944	\$ 8,018,842

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, 2014

	WATER	SEWER	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 945,151	764,786	\$ 1,709,937
Cash Payments to Suppliers for Goods and Services	(130,691)	(384,325)	(515,016)
Cash Payments to Employees	(242,401)	(245,917)	(488,318)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>572,059</u>	<u>134,544</u>	<u>706,603</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfer from (to) Other Funds	(199,683)	-	(199,683)
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(199,683)</u>	<u>-</u>	<u>(199,683)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets	-	(16,090)	(16,090)
Capacity Capital Contribution	(131,797)	-	(131,797)
Principal Paid on Debt and Lease Purchase	(12,980)	(70,980)	(83,960)
Interest Paid on Debt and Lease Purchase	(589)	(12,271)	(12,860)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(145,366)</u>	<u>(99,341)</u>	<u>(244,707)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	1,773	399	2,172
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,773</u>	<u>399</u>	<u>2,172</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	228,783	35,602	264,385
CASH AND CASH EQUIVALENTS, Beginning of Year	\$ 870,651	215,062	1,085,713
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 1,099,434</u>	<u>250,664</u>	<u>\$ 1,350,098</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Operating Income (Loss)	\$ 219,119	(27,943)	\$ 191,176
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Depreciation Expense	234,287	161,851	396,138
Change Due to (Increase) Decrease in Operating Assets:			
Other Receivable	(32,188)	2,269	(29,919)
Prepaid Expenses	140	313	453
Change Due to Increase (Decrease) in Operating Liabilities:			
Other Payables	151,744	(853)	150,891
Compensated Absences	(1,093)	(1,093)	(2,186)
Customer Deposits	50	-	50
Net Cash Provided by Operating Activities	<u>\$ 572,059</u>	<u>134,544</u>	<u>\$ 706,603</u>
SUPPLEMENTAL INFORMATION FOR NONCASH ACTIVITIES:			
Depreciation Expense	\$ 234,287	161,851	\$ 396,138
	<u>\$ 234,287</u>	<u>161,851</u>	<u>\$ 396,138</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, 2014

ASSETS

Cash and Cash Equivalents	\$	130,704
TOTAL ASSETS	\$	130,704

LIABILITIES

Due To Volunteer Fire Department	\$	130,704
TOTAL LIABILITIES	\$	130,704

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, 2014

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, 2014

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.

The Town implemented Governmental Accounting Standards Board Statement No. 65, "*Items Previously Reported as Assets and Liabilities*" ("GASB #65" or "Statement") in 2014. GASB #65 establishes accounting and financial reporting standards that require reclassification, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement supplements and extends the reach of GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", which was adopted by the Town in 2013. The Town's only former financial statement item that was affected by the implementation of GASB #65 was its deferred revenue liability (for unavailable – property taxes) in its statements of financial position. Under this Statement, deferred revenue that is not available or deferred revenue that is received by a government but is applicable to a future year should no longer be shown as a liability but will be reclassified and shown as a component of deferred inflows of resources.

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.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

The Town considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased, 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.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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)

- (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.
- (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. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. *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.

2. *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.

3. *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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. *Compensated Absences*

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

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

6. *Accrued Liabilities and Long-Term Obligations*

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

In the government-wide financial statements for the Primary Government, debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts and deferred advance refunding amounts. 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 Town's statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town does not currently have any deferred outflows of resources.

In addition to liabilities, the Town's statement of financial position will sometimes report a 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 government has only one type of deferred inflows of resources which arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue – property taxes, is reported only in the governmental funds balance sheet. This item is deferred and recognized as an inflow of resources (revenues) in the period the amounts become available.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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 the prior year. 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 funds, 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, 2014 is \$1,025,000.

In the unassigned funds, 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, 2014 is \$336,500.

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. 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 liabilities and disclosure of contingent assets and liabilities at 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.

11. Comparative Data

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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, 2014, none of the Town's bank balances of \$10,140,541 (with a carrying value of \$10,044,035) were uncollateralized and exposed to custodial credit risk.

Investments

As of June 30, 2014, the Town had the following investments and maturities (as defined by GASB #40):

Investment Type	Fair Value	Maturity	Credit Rating
State Local Government Investment Pool	\$ 203,711	^	Unrated
JPMorgan Prime Money Market Fund Service	150,002	^	Unrated
Total	\$ 353,713		

^ 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, 2014.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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

A. Deposits and Investments (Continued)

Investments (Continued)

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, 2014 were those imposed by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

Reconciliation to Statement of Net Position

<u>Statement of Net Position</u>	<u>Amount</u>
Unrestricted Current Assets:	
Cash and Cash Equivalents	\$ 5,695,533
Investments	150,002
Restricted Current Assets:	
Cash and Cash Equivalents, Restricted	<u>4,421,509</u>
	10,267,044
<u>Statement of Assets and Liabilities - Fiduciary Fund - Agency Fund</u>	
Unrestricted Current Assets:	
Cash and Cash Equivalents	<u>130,704</u>
Total per the financial statements	<u>\$ 10,397,748</u>
<u>Notes</u>	<u>Amount</u>
Carrying Value of Deposits	\$ 10,044,035
Investments	<u>353,713</u>
Total per the notes	<u>\$ 10,397,748</u>

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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

B. Receivables and Deferred Inflows of Resources

The Town’s 2013 property taxes were levied on October 1, 2013 and were due beginning on this date based on the assessed valuation as of January 1, 2013. Property taxes were considered late on January 16, 2014. 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 2013 property tax year was 210.4 mills (181.1 mills for Charleston County and 29.3 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 \$205,009 related to business-type activities at June 30, 2014 which consisted mainly of outstanding charges to customers for water and sewer services. No allowance for uncollectible accounts was considered necessary. The Town had net receivables related to governmental activities at June 30, 2014, of the following:

	General Fund	State Accommodations Tax Fund	Local Accommodations Tax Fund	Hospitality Tax Fund	Totals
Property Taxes	\$ 52,007	-	-	-	\$ 52,007
Accommodations Taxes	6,961	6,705	12,824	-	26,490
Hospitality Taxes	-	-	-	74,313	74,313
Franchise Fees	23,449	-	-	-	23,449
Chas County Greenbelt	26,930	-	-	-	26,930
Local Options Sales Tax	44,932	-	-	-	44,932
Miscellaneous	112,211	-	-	-	112,211
Net Receivables	<u>\$ 266,490</u>	<u>6,705</u>	<u>12,824</u>	<u>74,313</u>	<u>\$ 360,332</u>

There were no material allowances for uncollectible amounts.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2014, the General Fund had \$15,000 in deferred inflows of resources related to property taxes that were not available.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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

C. Interfund Receivables, Payables, and Transfers

At June 30, 2014, there were no interfund receivables or payables.

Transfers between funds for the year ended June 30, 2014, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Major Governmental Funds:</u>		
General Fund	\$ 479,683	\$ -
Local Accommodations Tax Fund	-	30,000
Local Hospitality Tax Fund	-	250,000
<u>Major Enterprise Funds:</u>		
Water Fund	-	199,683
Totals	<u>\$ 479,683</u>	<u>\$ 479,683</u>

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, and from the Water Fund to cover the debt service payments on the 2003 General Obligation Bonds.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Non-Depreciable:				
Land	\$ 37,392	-	-	\$ 37,392
Construction In Progress	-	106,828	-	106,828
Total Capital Assets, Non-Depreciable	<u>37,392</u>	<u>106,828</u>	<u>-</u>	<u>144,220</u>
Capital Assets, Depreciable:				
Buildings and Improvements	503,466	-	-	503,466
Machinery and Equipment	477,715	47,009	50,840	473,884
Playground Equipment	384,814	112,175	-	496,989
Vehicles	1,103,917	-	52,008	1,051,909
Fire and Emergency Command Center	548,101	-	-	548,101
Total Capital Assets, Depreciable	<u>3,018,013</u>	<u>159,184</u>	<u>102,848</u>	<u>3,074,349</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	260,407	19,661	-	280,068
Machinery and Equipment	368,159	29,595	50,840	346,914
Playground Equipment	126,929	31,075	-	158,004
Vehicles	824,415	66,956	52,008	839,363
Fire and Emergency Command Center	236,946	12,266	-	249,212
Total Accumulated Depreciation	<u>1,816,856</u>	<u>159,553</u>	<u>102,848</u>	<u>1,873,561</u>
Total Capital Assets, Depreciable, Net	<u>1,201,157</u>	<u>(369)</u>	<u>-</u>	<u>1,200,788</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,238,549</u>	<u>106,459</u>	<u>-</u>	<u>\$ 1,345,008</u>

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

Functions/Programs	Amount
Governmental Activities:	
Public Works	\$ 13,952
Public Safety	95,871
General Government	49,730
Total Depreciation Expense - Governmental Activities	<u>\$ 159,553</u>

The cost of vehicles and equipment under lease purchase was approximately \$180,000 at June 30, 2014. Accumulated amortization on these assets was approximately \$59,000 at June 30, 2014. 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, 2014

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

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Depreciable				
Water System	\$ 4,618,000	-	-	\$ 4,618,000
Sewer System	5,090,000	-	3,000	5,087,000
Lab Equipment	20,869	-	-	20,869
Vehicles and Equipment	772,735	16,090	16,946	771,879
Leased Equipment	79,047	-	-	79,047
Total Capital Assets, Depreciable	<u>10,580,651</u>	<u>16,090</u>	<u>19,946</u>	<u>10,576,795</u>
Less: Accumulated Depreciation for:				
Water System	1,712,950	125,804	-	1,838,754
Sewer System	1,905,986	140,552	3,000	2,043,538
Lab Equipment	16,858	610	-	17,468
Vehicles and Equipment	683,199	31,472	16,946	697,725
Leased Equipment	7,364	9,316	-	16,680
Total Accumulated Depreciation	<u>4,326,357</u>	<u>307,754</u>	<u>19,946</u>	<u>4,614,165</u>
Total Capital Assets, Being Depreciated, Net	<u>6,254,294</u>	<u>(291,664)</u>	<u>-</u>	<u>5,962,630</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,254,294</u>	<u>(291,664)</u>	<u>-</u>	<u>\$ 5,962,630</u>

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

Functions/Programs	Amount
Business-Type Activities:	
Water	\$ 145,903
Sewer	161,851
Total Depreciation Expense - Business-Type Activities	<u>\$ 307,754</u>

The cost of vehicles and equipment under lease purchase was approximately \$79,000 at June 30, 2014. Accumulated amortization on these assets was approximately \$17,000 at June 30, 2014. 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 a part of this agreement, the Town paid \$1,986,216 as an initial capacity capital contribution from the Water Fund. The Town has paid additional capital contributions of \$633,113 since fiscal year 2005, for a total of \$2,619,329 as of June 30, 2014. This asset is being amortized over 30 years. The accumulated amortization is \$1,521,781, and the net unamortized asset is \$1,097,548 as of June 30, 2014. The amortization expense for fiscal year 2014 was \$88,384.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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

E. Long-Term Obligations

The Town generally 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, 2014 are as follows:

	Principal Outstanding at Year End
<u>General Obligation Bonds</u>	
\$2,250,000 General Obligation Bonds (October 2003) were issued to finance initial stages of the water line replacement and upgrade project. Principal is payable annually and interest is payable semi-annually at a rate of 3.99%. Debt service requirements range from \$199,152 - 203,990 per year through October 1, 2018 and are funded with resources from the General Fund.	<u>\$ 915,000</u>
\$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.	<u>\$ 4,100,000</u>
<u>Revenue Bonds</u>	
\$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, 2014.	<u>\$ 338,000</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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

E. Long-Term Obligations (Continued)

Lease Purchases

\$260,000 Lease Purchase (August 2012) was obtained to finance the purchase of five vehicles for public safety and one vehicle and equipment for the public works, water, and sewer departments. These assets serve as collateral for this lease. Principal and interest are payable annually with interest at a rate of 1.49%. Total debt service requirements are \$89,262 annually through August 2015 and are funded with resources from the General Fund, Water Fund, and Sewer Fund.

Principal Outstanding
at Year End

\$ 174,611

\$37,600 Lease Purchase (June 2014) was obtained to finance the purchase of fourteen air mask packs for the fire department. These assets serve as collateral for this lease. Principal and interest are payable annually with interest at a rate of 3.9%. Total debt service requirements are \$13,521 annually through May 2017 and are funded with resources from the General Fund.

\$ 37,600

A summary of changes in long-term obligations for the Town's governmental and business-type activities for the year ended June 30, 2014 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	\$ 1,075,000	-	160,000	915,000	\$ 170,000
GO Bond - 02/14	-	4,100,000	-	4,100,000	-
Total GO Bond Debt	<u>1,075,000</u>	<u>4,100,000</u>	<u>160,000</u>	<u>5,015,000</u>	<u>170,000</u>
Capital Leases:					
CL - 09/13	180,953	-	59,428	121,525	60,313
CL - 06/14	-	37,600	-	37,600	12,058
Total Lease Purchases	<u>180,953</u>	<u>37,600</u>	<u>59,428</u>	<u>159,125</u>	<u>72,371</u>
Compensated Absences	<u>79,846</u>	<u>83,460</u>	<u>75,690</u>	<u>87,616</u>	<u>87,616</u>
Total Governmental Activities	<u>\$ 1,335,799</u>	<u>4,221,060</u>	<u>295,118</u>	<u>5,261,741</u>	<u>\$ 329,987</u>

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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	\$ 396,000	-	58,000	338,000	\$ -
Water Lease Purchases:					
CL - 09/13	39,523	-	12,980	26,543	13,173
Total Water Lease Purchases	39,523	-	12,980	26,543	13,173
Sewer Lease Purchases:					
CL - 09/13	39,523	-	12,980	26,543	13,173
Total Sewer Lease Purchases	39,523	-	12,980	26,543	13,173
Compensated Absences	15,428	12,483	14,669	13,242	13,242
Total Business-Type Activities	\$ 490,474	12,483	98,629	404,328	\$ 39,588

The Town paid interest of \$42,379, and \$12,860 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, 2014, the Town had \$5,015,000 of bonded debt subject to the 8% limit of approximately \$5,143,000 resulting in an unused legal debt margin of approximately \$128,000.

The Town made a debt payment in June 2014 that was due in July 2014 for the Water and Sewer System Refunding Revenue Bonds (Series 2010). Therefore, no current amount is due as of June 30, 2014.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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>			
2015	\$ 242,371	112,623	\$ 354,994
2016	603,739	100,946	704,685
2017	558,015	86,562	644,577
2018	565,000	72,611	637,611
2019	590,000	58,080	648,080
2020-2024	2,145,000	160,650	2,305,650
2025	470,000	8,460	478,460
Totals	<u>\$ 5,174,125</u>	<u>599,932</u>	<u>\$ 5,774,057</u>
<u>Business-Type Activities</u>			
2015	\$ 26,346	11,618	\$ 37,964
2016	86,740	9,484	96,224
2017	65,000	7,242	72,242
2018	69,000	5,266	74,266
2019	71,000	3,201	74,201
2020	73,000	1,077	74,077
Totals	<u>\$ 391,086</u>	<u>37,888</u>	<u>\$ 428,974</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 \$915,000 balance outstanding at June 30, 2014 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, 2014, the Town made premium payments totaling approximately \$136,000. SCMIRF’s net position from its most recently issued audited financial statements at December 31, 2013 totaled approximately \$28,412,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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, 2014, the Town made premium payments totaling approximately \$68,000. 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, 2013 totaled approximately \$48,279,000.

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 newly created South Carolina Public Employee Benefit Authority ("PEBA"). For the year ended June 30, 2014, the Town made premium payments totaling approximately \$331,000. The EIP's net position from its most recently issued audited financial statements at June 30, 2013 were approximately \$186,052,000.

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. Pension Disclosures

South Carolina Retirement and Police Officers' Retirement System

South Carolina Retirement and Police Officers' Retirement System: Town employees, except for fire and police department civil service personnel, participate in the South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan. Town sworn police officers and firefighting personnel participate in the South Carolina Police Officers' Retirement System ("SCPORS"), a cost-sharing multiple-employer defined benefit pension plan.

The SCRS was established by the South Carolina state legislature on July 1, 1945, for the benefit of teachers and employees of the State and its political subdivisions. The SCPORS was established by the South Carolina state legislature on July 1, 1962, for the benefit of police officers and firemen. Both the SCRS and the SCPORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. The Plans' provisions are established under Title 9 of the South Carolina Code of Laws and were originally administered by the South Carolina Budget and Control Board. Effective July 1, 2012, the South Carolina General Assembly transferred administration of the SCRS and SCPORS to the newly created South Carolina Public Employee Benefit Authority ("PEBA"). The PEBA has the authority to establish and amend benefits and funding policy.

A comprehensive annual financial report containing financial statements and required supplementary information for the retirement benefits is issued and publicly available by writing the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

IV. OTHER INFORMATION (CONTINUED)

B. Pension Disclosures (Continued)

South Carolina Retirement and Police Officers' Retirement System (Continued)

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 earnings.

	SCRS Rates			SCPORS Rates		
	2012	2013	2014	2012	2013	2014
<u>Employer Rate</u>						
Retirement	9.39%	10.45%	10.45%	11.36%	11.90%	12.44%
Group Life Insurance Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Benefit	N/A	N/A	N/A	0.20%	0.20%	0.20%
	<u>9.54%</u>	<u>10.60%</u>	<u>10.60%</u>	<u>11.76%</u>	<u>12.30%</u>	<u>12.84%</u>
Employee Rate	<u>6.50%</u>	<u>7.00%</u>	<u>7.50%</u>	<u>6.50%</u>	<u>7.00%</u>	<u>7.84%</u>

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

Year Ending June 30,	SCRS Contributions			SCPORS Contributions		
	Required	% Contributed	% of Covered Payroll	Required	% Contributed	% of Covered Payroll
2014	\$ 104,693	100%	10.60%	\$ 135,399	100%	12.84%
2013	97,474	100%	10.60%	130,665	100%	12.30%
2012	\$ 79,980	100%	9.54%	\$ 122,252	100%	11.76%

C. Pending Implementation of GASB Statement on Pensions

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" ("Statement"), which was issued by the Governmental Accounting Standards Board ("GASB") in June 2012, is required to be implemented by the Town for the fiscal year ended June 30, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that are provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple employer plan will now be required to recognize a liability for their proportionate share of the net pension liability of that plan. It is GASB's intention that this new Statement will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Town's financial obligations to current and former employees for past services rendered.

In particular, the Town will be required to report a net pension liability (and related deferred outflows and inflows of resources) for its participation in the SCRS and SCPORS on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures. It is anticipated that its implementation will not have a significant impact on the Town's governmental funds.

The Town has been in communications with the PEBA on the effect of implementing this Statement. Based on recent information provided by the PEBA, it is anticipated that the Town's proportionate share of the net pension liability associated with the SCRS and SCPORS will decrease the Town's beginning unrestricted net position for the year ended June 30, 2015 by approximately \$3,328,000 and \$634,000 for the governmental activities and business-type activities, respectively, and \$317,000 and \$317,000 for the Water Fund and Sewer Fund, respectively.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

IV. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits

The Town does not currently provide health insurance or other postemployment benefits (other than retirement benefits which are discussed in Note III.B) to retirees and thus is not subject to the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement issued in 2004 establishes standards for the measurement, recognition and display of Other Post Employment Benefits ("OPEB") expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

E. 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, 2014.

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.

In May 2012, the Town entered into a six month operating lease with a vendor to house the Town Hall offices and the Police Department. The monthly lease amount is approximately \$2,200 and the lease has a month-to-month renewal option.

In October 2013, the Town entered into an agreement for the design of the new Town Hall for a lump sum fee based upon 10% of estimated construction cost at the completion of the Design Development Phase, but the total fee for basic services shall not be less than \$325k.

F. Subsequent Events

In July 2014, Council approved a contract to purchase a ladder fire truck for approximately \$1,009,000.

In August 2014, Council approved a contract for the Sewer Assessment and Infiltration and Inflow Reduction Program for approximately \$1,639,000.

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Required Supplementary Information

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

- Budgetary Comparison Schedule
 - General Fund

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, 2014

	BUDGETED AMOUNTS		ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property Taxes	\$ 1,700,000	1,700,000	1,754,511	\$ 54,511
Local Option Sales Tax	175,000	175,000	221,335	46,335
Licenses and Franchise Fees	1,517,500	1,517,500	1,422,404	(95,096)
Magistrate and Recorder Fines	55,000	55,000	58,783	3,783
State Shared Revenues	87,000	87,000	112,625	25,625
Permits	346,000	346,000	386,014	40,014
Victims' Services Fund	10,000	10,000	8,844	(1,156)
Interest Income	6,000	6,000	8,497	2,497
Other	130,300	130,300	258,367	128,067
TOTAL REVENUES ALL SOURCES	4,026,800	4,026,800	4,231,380	204,580
EXPENDITURES				
Maintenance	544,916	544,916	629,845	(84,929)
Police	949,934	949,934	922,799	27,135
Fire	1,092,500	1,092,500	1,065,747	26,753
Recreation	187,000	187,000	53,611	133,389
Building	315,400	315,400	286,719	28,681
Administrative	1,419,550	1,419,550	1,401,730	17,820
TOTAL EXPENDITURES	4,509,300	4,509,300	4,360,451	148,849
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(482,500)	(482,500)	(129,071)	353,429
OTHER FINANCING SOURCES (USES)				
Transfers In	478,500	478,500	479,683	1,183
Proceeds from Sale of Capital Assets	4,000	4,000	607,000	603,000
Proceeds from Bond Issuance	-	-	4,100,000	4,100,000
Proceeds from Lease Purchases	-	-	37,600	37,600
TOTAL OTHER FINANCING SOURCES (USES)	482,500	482,500	5,224,283	4,741,783
NET CHANGES IN FUND BALANCES	-	-	5,095,212	5,095,212
FUND BALANCES, Beginning of Year	3,570,245	3,570,245	3,570,245	-
FUND BALANCES, End of Year	\$ 3,570,245	3,570,245	8,665,457	\$ 5,095,212

Supplementary Information

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2014

	2014		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
MAINTENANCE			
Operating Expenditures:			
Salaries	\$ 163,000	150,177	\$ 12,823
Payroll Taxes	12,500	11,220	1,280
Health Insurance	19,000	19,252	(252)
Retirement	14,000	12,453	1,547
Gas and Oil - Vehicles	12,000	11,053	947
Diesel Fuel	4,000	2,056	1,944
Vehicle Repairs	7,500	15,686	(8,186)
Supplies and Materials	25,000	19,306	5,694
Uniforms	3,000	1,980	1,020
Property & Equipment <\$5,000	-	4,227	(4,227)
Telephone	660	660	-
Power and Lights	39,000	38,161	839
Insurance	16,000	12,385	3,615
System Repairs and Improvements	15,000	18,814	(3,814)
Garbage Disposal Service - Subcontract	170,000	173,472	(3,472)
Container Servicing	13,000	6,486	6,514
Causeway & Beach Path Maintenance	12,000	4,529	7,471
Miscellaneous	1,000	4,528	(3,528)
Total Operating Expenditures	526,660	506,445	20,215
Capital Expenditures:			
Lease Purchase Payments	5,256	7,916	(2,660)
Capital Outlay	13,000	115,484	(102,484)
TOTAL EXPENDITURES	544,916	629,845	(84,929)
POLICE			
Operating Expenditures:			
Salaries	464,500	467,215	(2,715)
Payroll Taxes	34,300	34,627	(327)
Health Insurance	65,000	57,397	7,603
Retirement	59,000	58,050	950
Contract Labor	40,000	28,690	11,310
Gas and Oil - Vehicles	43,200	36,840	6,360
Diesel Fuel	1,200	480	720
Vehicle Repairs	16,000	14,489	1,511
Supplies and Materials	12,000	11,886	114
Telephone	12,000	8,868	3,132
Power and Lights	5,800	3,673	2,127
Uniforms	9,000	7,431	1,569
Insurance	44,300	39,349	4,951
800 MHZ Radios	51,000	49,901	1,099
Property & Equipment <\$5,000	7,000	3,163	3,837
System Repairs and Improvements	8,000	8,180	(180)
Dues and Certifications	500	295	205
Training and Seminars	6,500	4,040	2,460
Dispatching Services	23,000	21,714	1,286
Miscellaneous	1,500	231	1,269
Total Operating Expenditures	903,800	856,519	47,281
Capital Expenditures:			
Lease Purchase Payments	33,134	33,875	(741)
Capital Outlay	13,000	32,405	(19,405)
TOTAL EXPENDITURES	\$ 949,934	922,799	\$ 27,135

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2014

	2014		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
FIRE			
Operating Expenditures:			
Salaries	\$ 565,000	535,569	\$ 29,431
Payroll Taxes	41,000	38,799	2,201
Health Insurance	93,000	78,616	14,384
Retirement	73,000	67,817	5,183
Gas and Oil - Vehicles	10,000	12,732	(2,732)
Diesel Fuel	8,000	6,081	1,919
Vehicle Repairs	20,000	18,141	1,859
Supplies and Materials	20,000	23,983	(3,983)
Telephone	10,000	6,258	3,742
Uniforms	10,000	7,637	2,363
Power and Lights	9,500	9,329	171
Insurance	55,000	51,728	3,272
Building Repairs	10,000	766	9,234
800 MHZ Radios	53,000	52,717	283
Property & Equipment <\$5,000	15,000	87,338	(72,338)
System Repairs and Improvements	11,000	11,534	(534)
Dues and Certifications	1,000	920	80
Training and Seminars	9,500	10,561	(1,061)
Dispatching Services	23,000	21,714	1,286
Miscellaneous	8,500	3,818	4,682
Total Operating Expenditures	1,045,500	1,046,058	(558)
Capital Expenditures:			
Lease Purchase Payments	23,000	19,689	3,311
Capital Outlay	24,000	-	24,000
TOTAL EXPENDITURES	1,092,500	1,065,747	26,753
RECREATION			
Operating Expenditures:			
Power and Lights	7,500	6,738	762
Insurance	2,500	3,280	(780)
Maintenance Recreation Area	7,500	8,160	(660)
Property & Equipment <\$5,000	10,000	7,245	2,755
Miscellaneous	29,500	18,288	11,212
Total Operating Expenditures	57,000	43,711	13,289
Capital Expenditures:			
Capital Outlay	130,000	9,900	120,100
TOTAL EXPENDITURES	\$ 187,000	53,611	\$ 133,389

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2014

	2014		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
BUILDING			
Operating Expenditures:			
Salaries	\$ 195,000	184,987	\$ 10,013
Payroll Taxes	14,400	13,616	784
Health Insurance	22,400	21,653	747
Retirement	21,000	21,066	(66)
Gas and Oil - Vehicles	2,600	1,892	708
Office Supplies	3,000	2,337	663
Supplies - Building Official	2,000	468	1,532
Telephone	3,600	3,452	148
Utilities	1,300	668	632
Insurance	5,000	627	4,373
System Repair and Maintenance	2,700	2,536	164
Dues and Certifications	1,500	1,388	112
Training and Seminars	3,000	1,416	1,584
Board of Zoning Appeals	2,000	1,178	822
Design and Review Board	9,000	4,992	4,008
Tree Commission	1,500	113	1,387
Trimming and Pruning	11,400	8,800	2,600
Equipment	3,000	1,900	1,100
Miscellaneous	-	695	(695)
Total Operating Expenditures	304,400	273,784	30,616
Capital Expenditures:			
Capital Outlay	11,000	12,935	(1,935)
TOTAL EXPENDITURES	315,400	286,719	28,681
ADMINISTRATIVE			
Operating Expenditures:			
Salaries	376,000	377,127	(1,127)
Payroll Taxes	30,000	29,679	321
Health Insurance	42,500	38,703	3,797
Retirement	40,000	42,619	(2,619)
Office Supplies	24,000	27,459	(3,459)
Travel Allowance - Recorder	500	674	(174)
Advertising	8,000	12,701	(4,701)
Recorder's Supplies	1,000	499	501
Telephone	14,500	16,114	(1,614)
Power and Lights	6,500	8,029	(1,529)
Insurance	62,000	61,752	248
System Repairs and Improvements	40,000	56,842	(16,842)
Dues and Certifications	3,200	2,677	523
Training and Seminars	6,000	4,736	1,264
Professional Engineering Fees	35,000	39,655	(4,655)
Fee Simple Deed Costs	100	-	100
Victim's Rights Fund	10,000	-	10,000
Professional Services	230,000	259,758	(29,758)
Town Hall Relocation Expenses	50,000	51,273	(1,273)
Property & Equipment <\$5,000	7,500	13,891	(6,391)
Bonds Debt Services	198,500	199,711	(1,211)
Council Expenditures	13,000	4,360	8,640
Planning Expense	2,000	110	1,890
Miscellaneous	12,250	36,348	(24,098)
Total Operating Expenditures	1,212,550	1,284,717	(72,167)
Capital Expenditures:			
Lease Purchase Payments	-	616	(616)
Capital Outlay	207,000	116,397	90,603
TOTAL EXPENDITURES	1,419,550	1,401,730	17,820
TOTAL GENERAL FUND EXPENDITURES	\$ 4,509,300	4,360,451	\$ 148,849

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, 2014

	2014		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Sewer Service Charges	\$ 731,915	746,079	\$ 14,164
Other Revenue	9,000	16,438	7,438
TOTAL OPERATING REVENUES	740,915	762,517	21,602
OPERATING EXPENSES			
Salaries	199,233	188,087	11,146
Payroll Taxes	15,241	13,725	1,516
Hospitalization Insurance	26,637	23,911	2,726
Retirement	21,119	19,101	2,018
Gas and Oil - Vehicles	7,000	6,644	356
Diesel Fuel and Equipment	8,300	7,870	430
Vehicle Repairs	5,000	6,885	(1,885)
Supplies and Tools	12,000	14,802	(2,802)
Office Supplies	8,700	6,895	1,805
Lab Supplies	3,700	5,112	(1,412)
Telephone	5,600	5,496	104
Power and Lights	48,000	55,438	(7,438)
Insurance	19,000	18,156	844
System Repairs and Improvements	181,000	137,882	43,118
Sludge Disposal	17,000	54,583	(37,583)
Grit Disposal	1,400	1,075	325
Property and Equipment < \$5000	6,000	-	6,000
Depreciation and Amortization Expense	-	161,851	(161,851)
Dues and Certifications	8,000	5,746	2,254
Training and Seminars	5,000	4,285	715
Professional Engineering Fees	5,000	15,872	(10,872)
Professional Services	5,000	5,000	-
Bond Payments	68,304	-	68,304
Lab Analysis, Inspection, and Chemicals	18,000	28,826	(10,826)
Miscellaneous	2,625	3,218	(593)
Total Operating Expenses	696,859	790,460	(93,601)
OPERATING INCOME (LOSS)	44,056	(27,943)	(71,999)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(14,256)	-	14,256
NONOPERATING REVENUES			
Interest Income	1,000	399	(601)
NET INCOME (LOSS)	\$ 30,800	(27,544)	\$ (58,344)
RECONCILIATION TO GAAP BASIS:			
Non-Budgeted Revenues (Expenses)		(12,119)	
Interest Expense		(12,119)	
DECREASE IN NET POSITION		(39,663)	
NET POSITION, Beginning of Year		3,136,607	
NET POSITION, End of Year		\$ 3,096,944	

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, 2014

	2014		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Water Sales	\$ 936,191	931,426	\$ (4,765)
Meter Connections	22,750	45,863	23,113
TOTAL OPERATING REVENUES	958,941	977,289	18,348
OPERATING EXPENSES			
Salaries	199,233	187,158	12,075
Payroll Taxes	15,241	14,095	1,146
Hospitalization Insurance	26,637	21,404	5,233
Retirement	21,119	18,651	2,468
Gas and Oil - Vehicles	7,000	6,644	356
Diesel Fuel and Equipment	3,300	586	2,714
Repairs and Maintenance - Diesel Equipment	2,000	2,487	(487)
Vehicle Repairs	5,000	5,793	(793)
Supplies and Tools	11,500	14,624	(3,124)
Office Supplies	8,700	6,437	2,263
Lab Supplies	2,200	1,641	559
Telephone	5,600	5,496	104
Power and Lights	2,800	3,317	(517)
Insurance	17,000	15,750	1,250
System Repairs and Improvements	93,000	84,936	8,064
Depreciation and Amortization Expense	-	234,287	(234,287)
Dues and Certifications	9,000	4,945	4,055
Training and Seminars	4,500	3,917	583
Professional Engineering Fees	7,000	-	7,000
Professional Services	5,000	5,000	-
Lab Analysis, Inspection, and Chemicals	8,200	4,939	3,261
CPW Improvements	118,656	-	118,656
Wholesale Water Purchases	125,000	114,217	10,783
Miscellaneous	3,064	1,846	1,218
Total Operating Expenses	700,750	758,170	(57,420)
OPERATING INCOME (LOSS)	258,191	219,119	(39,072)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(14,256)	-	14,256
NONOPERATING REVENUES			
Interest Income	3,000	1,773	(1,227)
Transfers Out to Other Funds	(198,500)	(199,683)	(1,183)
NET INCOME (LOSS)	\$ 48,435	21,209	\$ (27,226)
RECONCILIATION TO GAAP BASIS:			
Non-Budgeted Revenues (Expenses)			
Interest Expense		(437)	
INCREASE IN NET POSITION		20,772	
NET POSITION, Beginning of Year		4,901,126	
NET POSITION, End of Year		\$ 4,921,898	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

**SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES
GENERAL FUND**

YEAR ENDED JUNE 30, 2014

	<u>2014</u>
COURT FINES	
Court Fines Collected	\$ 58,783
Court Fines Retained by Town	(58,783)
Court Fines Remitted to the State Treasurer	<u>\$ -</u>
COURT ASSESSMENTS	
Court Assessments Collected	\$ 38,682
Court Assessments Allocated to Victim Services	(4,317)
Court Assessments Remitted to the State Treasurer	<u>\$ 34,365</u>
COURT SURCHARGES	
Court Surcharges Collected	\$ 17,520
Court Surcharges Allocated to Victim Services	(4,527)
Court Surcharges Remitted to the State Treasurer	<u>\$ 12,993</u>
VICTIMS SERVICES	
Court Assessments Allocated to Victims Services	\$ 4,317
Court Surcharges Allocated to Victims Services	4,527
Funds Allocated to Victims Services	<u>8,844</u>
Victims Services Balance at Beginning of Year	<u>59,547</u>
Victims Services Balance at End of Year	<u><u>\$ 68,391</u></u>

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

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated August 22, 2014.

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*.

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
Mauldin, South Carolina
August 22, 2014