TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

OVERVIEW OF AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED

June 30, 2011

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

- Understanding of Audits:
  - The financial statements are the responsibility of the Town
  - Our responsibility is to express an opinion
    - Reasonable assurance, not absolute assurance
    - Materiality
    - Independence

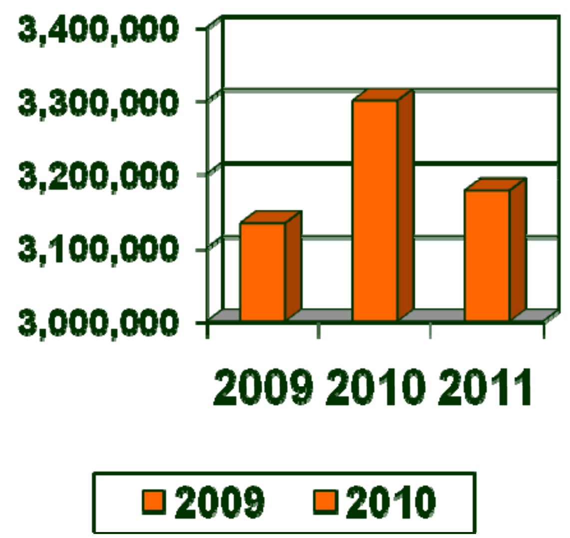
TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

- Audit opinion is “Unqualified”
  - Financial statements are fairly stated in all material respects
  - Best opinion the Town can receive

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

GENERAL FUND

- The fund balance for the General Fund decreased by approximately $.1 million from $3.3 million to $3.2 million.
- The unassigned fund balance for the General Fund is approximately $2.9 million which is approximately 77% of 2011 General Fund expenditures. Of the unassigned balance, the reserve for emergency expenditures has a balance of $756,000.



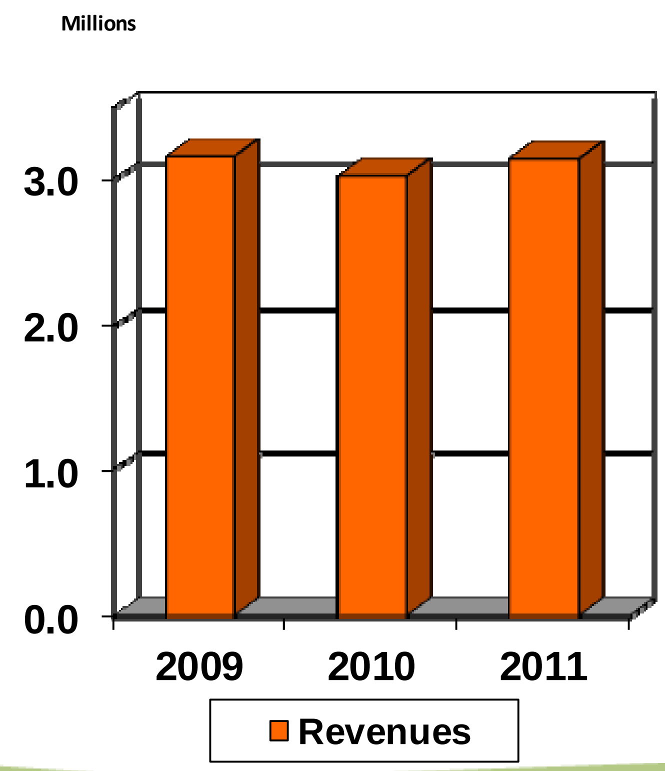
TOWN OF SULLIVAN'S ISLAND, SC

- MAJOR REASONS TO MAINTAIN AN ADEQUATE FUND BALANCE:
  - CASH FLOW THROUGH SECOND HALF OF CALENDAR YEAR; PROPERTY TAXES AND BUSINESS LICENSES ARE CYCLICAL
  - SIGNIFICANT EMERGENCIES AND UNANTICIPATED EXPENDITURES
  - SAVE FOR PLANNED EXPENDITURES
  - POTENTIAL FOR BETTER INTEREST RATES ON DEBT ISSUES (SAVE THE TOWN MONEY)

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

GENERAL FUND

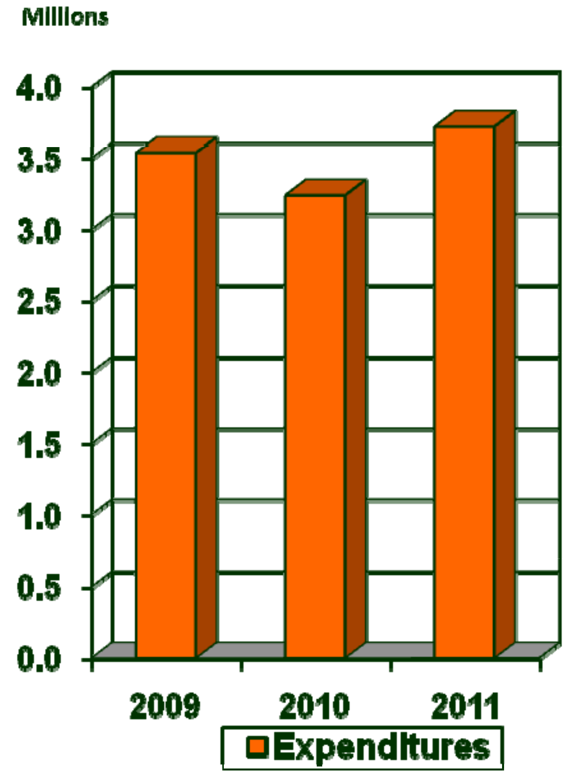
- Total General Fund revenues were $3.1 million, $.12 million higher than the prior year
- Major changes:
  - Licenses & Permits – increased by $69k
  - Property Taxes – decreased by $21k
  - Other Revenues – increased by $76k, mainly due to the insurance reimbursement for the legal fees



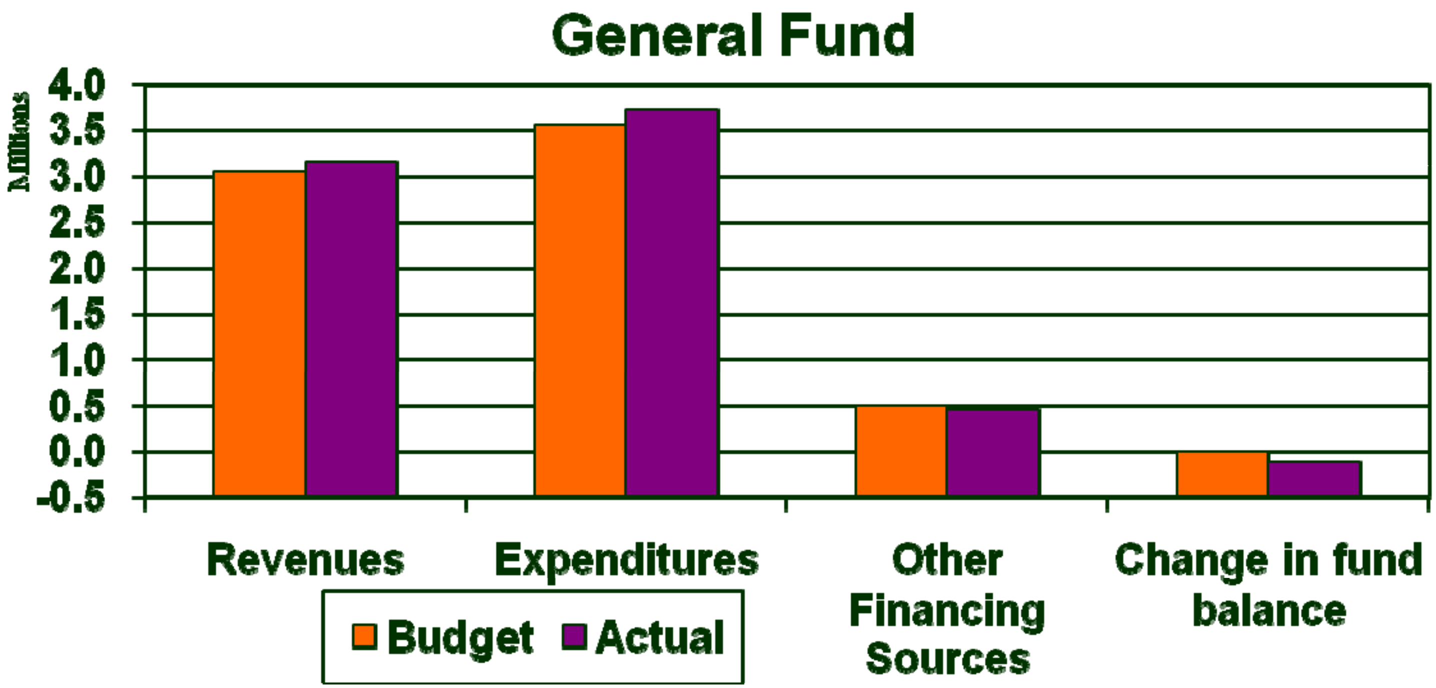
TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

GENERAL FUND

- General Fund Expenditures increased $.5 million (15%) to $3.7 million
- The increase in General Government of $394k was mainly due to :
  - Additional health insurance costs due to claims of $110k after leaving the former provider
  - Town Hall relocation expenditures of $144k
  - Accreted land lawsuit expenditures of $118k
- Capital outlay expenditures of $101k included 3 police car replacements



TOWN OF SULLIVAN'S ISLAND, SC
(FYE 2011)



TOWN OF SULLIVAN'S ISLAND, SC
(FYE 2011)

General Fund Budget to Actual

- Revenues were higher than budget by approximately $87k primarily due to the following:
  - Other revenue includes approximately $83k in reimbursements from the Town's litigation insurance policy for legal fees related to the accreted land lawsuit.
- Expenditures were higher than budget by $166k primarily due to the following:
  - Administrative expenditures were higher than budget by $273k due to the accreted land lawsuit, the Town Hall relocation, and the health insurance costs.
  - Police, fire, and building expenditures were less than budget by $91k.

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

Water & Sewer

- Net assets increased $.31 million to $7.8 million
- 2011 revenues increased by $96k and expenses decreased by $156k over the prior year
- There were $198k in transfers to the General Fund for reimbursement of expenses paid by general fund

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

Water & Sewer

- Unrestricted Cash decreased $3k in the Water fund and decreased $10k in the Sewer fund
- Accounts receivable increased by $28.5k in the Water fund and increased by $10k in the Sewer fund
- Cash has decreased last five years for Sewer fund
- Cash balances now represent approximately 7 months of Water operating expenses and 3 months of Sewer operating expenses

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

OTHER FUNDS

- Fund balances at June 30, 2011:
  - State Accommodations Tax Fund – $0
  - Local Accommodations Tax Fund – $51k
  - Hospitality Tax Fund – $228k
  - Tree Bank Fund - $37k

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

Government-Wide Financial Statements

- Total assets-$13 million
  - $4.0 million in cash and investments
  - $7.3 million in net capital assets
  - $1.3 million in capacity capital contribution
  - $0.4 million in other assets
- Total liabilities-$2.2 million
  - $0.2 million in accounts payable & accrued liabilities
  - $2.0 million in long-term obligations

TOWN OF SULLIVAN'S ISLAND, SC
(FYE 2011)

Government-Wide Financial Statements

- Total net assets - $10.7 million
  - $6.7 million in “Invested in Capital Assets Net of Related Debt”
  - $0.3 million in “Restricted Net Assets”
  - $3.7 million in “Unrestricted Net Assets”
- Total revenues - $4.9 million
- Total expenses - $5.0 million

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

CAPITAL ASSETS & DEBT

- **Major capital asset additions**:
  - Replaced three police vehicles
  - Purchased boat motor for Fire Dept’s rescue boat
  - Purchased 2 HVAC units for Fire Dept
  - Water line project
- **Debt**
  - Principal balance at June 30, 2011:
    - Governmental – GO Bond $1.375 million
    - Business-type – Sewer Revenue Bond $503k – the Series 2004 bond was refunded and Series 2010 was issued in Nov. 2010. Original interest rate of 4.25% was reduced to 2.95%.

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

OTHER MATTERS

- Commitments and contingencies: Town’s management believes amounts claimed by plaintiffs to be immaterial.

- Currently, Town does not provide postretirement health benefits. If plan to provide in the future, please consider the impact of GASB #45.

- Town has finalized its Accounting Policies and Procedures Manual, Fraud Policy, and Fund Balance Policy.

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

FUND BALANCE

- Town implemented GASB #54 in current year.
  - Nonspendable: Prepaid Expenses $84k
  - Restricted: Tourism Related, Victims Services, Other $101k
  - Committed: Tree Bank, Tennis & Basketball Courts Replacement, Island Club Repairs $143k
  - Assigned: William Bradley Memorial Fund $20k
  - Unassigned: Total is $2.9 million, of which $756k is allocated for Emergency Reserve

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

Recommendations for improvement

- See Management Letter – One Recommendation:
  - Revisit Compensated Absences policy since the application is different than the written policy and the Town’s liability has continued to increase.

TOWN OF SULLIVAN'S ISLAND, SC (FYE 2011)

SUMMARY

- Overall financial condition looks healthy at June 30, 2011, but we encourage the Town to continue to improve cash flow to save for capital improvements for enterprise funds.
- It would be wise to continue to increase the amount allocated to the Emergency Reserve.
- Challenges may continue due to the slow economy and the impact it will have on future revenues and expenditures/expenses.
- Good financial management.