

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2011

INTRODUCTORY SECTION

	<u>Page Number</u>
Table of Contents	i
List of Elected and Appointed Officials	iii

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT 1

Management's Discussion and Analysis 3

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets 14

Statement of Activities 15

Fund Financial Statements:

Balance Sheet - Governmental Funds 16

Reconciliation of Total Governmental Fund Balances to Net Assets of
Governmental Activities 18

Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds 20

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities 22

Statement of Net Assets - Proprietary Funds - Water and Sewer Funds 23

Statement of Revenues, Expenses, and Changes in Net Assets -
Proprietary Funds - Water and Sewer Funds 24

Statement of Cash Flows - Proprietary Funds - Water and Sewer Funds 25

Statement of Net Assets - Fiduciary Fund - Agency Fund -
Town of Sullivan's Island Volunteer Fire Department 26

Notes to the Basic Financial Statements 27

Required Supplementary Information:

Budgetary Comparison Schedule - General Fund:

Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budgets and Actual 48

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2011

FINANCIAL SECTION (CONTINUED)

	<u>Page Number</u>
Other Supplementary Information:	
Schedule of Expenditures - Budget and Actual - General Fund	50
Schedule of Detailed Revenues, Expenses, and Changes in Net Assets - Budget and Actual - Sewer Fund	54
Schedule of Detailed Revenues, Expenses, and Changes in Net Assets - Budget and Actual - Water Fund	55
Schedule of Fines, Assessments, and Surcharges - General Fund	56

COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57
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**TOWN OF SULLIVAN'S ISLAND,
SOUTH CAROLINA**

LIST OF ELECTED AND APPOINTED OFFICIALS

YEAR ENDED JUNE 30, 2011

MAYOR

Carl Smith

CITY COUNCIL MEMBERS

Mike Perkis, Mayor Pro Tem

Hartley Cooper

Gerald "Jerry" Kaynard

Madeleine McGee

Pat O'Neil

Mary Jane Watson

APPOINTED OFFICIALS

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



INDEPENDENT AUDITORS' REPORT

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

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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2011 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison schedule as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management about the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section and other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
August 19, 2011

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

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, 2011. 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 basic financial statements and notes to the basic 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 \$10,739,000 (*net assets*). Of this amount, approximately \$2,975,000 and \$7,764,000 were related to the Town's governmental and business-type activities, respectively. In addition, the Town's unrestricted net assets (may be used to meet the government's ongoing obligations to citizens and creditors) were approximately \$1,624,000 for its governmental activities and approximately \$674,000 for its business-type activities.
- The government's total net assets decreased by approximately \$75,000 for governmental activities and the net assets increased by approximately \$31,000 for business-type activities, as total expenses of approximately \$4,955,000 exceeded total revenue of approximately \$4,911,000.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$3,494,000, an decrease of approximately \$135,000 over the prior year's fund balance. Approximately 82% of this total amount, or approximately \$2,867,000, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, \$756,000 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, unassigned, unallocated fund balance of the General Fund was approximately \$2,111,000 or 57% of total General Fund expenditures for the year ended June 30, 2011.
- The Town's total capital assets decreased by approximately \$372,000 (5%) during the current fiscal year primarily due to depreciation expense of approximately \$521,000 partially offset by capital asset additions of approximately \$150,000. Capital asset additions were primarily related to the purchase of utility projects and equipment.
- The Town's total debt decreased by approximately \$232,000 (10%) during the current year due to scheduled principal payments.

OVERVIEW OF FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-Wide Basic Financial Statements. The basic financial statements include two kinds of statements that present different views of the Town. The *government-wide basic 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 assets* presents information on all of the Town's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets 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, 2011

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 basic 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 basic financial statements can be found as listed in the table of contents.

Fund Basic Financial Statements. The fund basic 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 basic financial statements. Most of the Town's basic 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 basic 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 Assets and the Statement of Activities) and *governmental funds* is described in a reconciliation that is a part of the fund basic 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 basic 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 basic 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 basic 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 basic 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, 2011

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

Other Information – In addition to the basic 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.

Other 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 Basic Financial Statements				
	Government-Wide Basic Financial Statements	Fund Basic 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 assets ▪ 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 assets ▪ Statement of revenues, expenses, and changes in net assets ▪ Statement of cash flows 	<ul style="list-style-type: none"> ▪ Statement of fiduciary net assets ▪ Statement of changes in fiduciary net assets (not required for agency funds)
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 assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, 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, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets 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 assets for 2011 compared to 2010:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and Other Assets	\$ 3,626,740	3,737,377	770,575	739,024	4,397,315	\$ 4,476,401
Capital Assets, Net	970,645	1,044,297	6,338,278	6,636,420	7,308,923	7,680,717
Contributed Capital, Net	-	-	1,255,047	1,164,473	1,255,047	1,164,473
Total Assets	4,597,385	4,781,674	8,363,900	8,539,917	12,961,285	13,321,591
Liabilities:						
Long-Term Obligations	1,491,732	1,622,586	525,420	617,332	2,017,152	2,239,918
Other Liabilities	131,045	109,235	73,996	189,417	205,041	298,652
Total Liabilities	1,622,777	1,731,821	599,416	806,749	2,222,193	2,538,570
Net Assets:						
Invested in Capital Assets, Net of Related Debt (1)	970,645	1,044,297	7,090,325	7,205,893	6,685,970	6,735,191
Restricted	380,099	389,507	-	-	380,099	389,507
Unrestricted (1)	1,623,864	1,616,049	674,159	527,275	3,673,023	3,658,323
Total Net Assets	\$ 2,974,608	3,049,853	7,764,484	7,733,168	10,739,092	\$ 10,783,021

(1) The total for Invested in Capital Assets, Net of Related Debt and Unrestricted Net Assets for both years does not add/foot across. See Note III.F for details.

The Town's total assets of approximately \$12,961,000 decreased approximately \$361,000 over the prior year. The decrease is primarily due to lower capital asset balances related to depreciation and amortization expenses. Total liabilities at June 30, 2011 decreased by approximately \$317,000 from the prior year due to principal payments made during the year on the Town's long-term obligations.

The Town's net assets decreased by approximately \$44,000 during the current fiscal year due to current year expenses exceeding current year revenues. Please see discussion following the next table regarding this decrease.

The Town's assets exceeded liabilities by approximately \$10,739,000 at June 30, 2011. The largest portion of the Town's net assets of approximately \$6,686,000 (approximately 62%) 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 assets of approximately \$380,000 (approximately 4%) represents resources that are subject to external restrictions on how they may be used. These net assets are 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 assets is unrestricted net assets of approximately \$3,673,000 (approximately 34%) 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, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the Town’s net assets for fiscal year 2011 compared to 2010.

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	\$ 321,442	292,390	1,516,218	1,420,200	1,837,660	\$ 1,712,590
General Revenues:						
Taxes	2,878,781	2,829,940	-	-	2,878,781	2,829,940
Other	189,065	136,833	5,146	4,949	194,211	141,782
Total Revenues	<u>3,389,288</u>	<u>3,259,163</u>	<u>1,521,364</u>	<u>1,425,149</u>	<u>4,910,652</u>	<u>4,684,312</u>
Expenses:						
Public Works	518,494	516,648	-	-	518,494	516,648
Public Safety	1,758,323	1,747,941	-	-	1,758,323	1,747,941
General Government	1,329,112	914,623	-	-	1,329,112	914,623
Interest on Long-Term Obligations	56,228	61,750	-	-	56,228	61,750
Water	-	-	635,287	745,048	635,287	745,048
Sewer	-	-	657,137	709,435	657,137	709,435
Total Expenses	<u>3,662,157</u>	<u>3,240,962</u>	<u>1,292,424</u>	<u>1,454,483</u>	<u>4,954,581</u>	<u>4,695,445</u>
Change in Net Assets Before Transfers	(272,869)	18,201	228,940	(29,334)	(43,929)	(11,133)
Transfers In (Out)	197,624	89,725	(197,624)	(89,725)	-	-
Change in Net Assets	<u>(75,245)</u>	<u>107,926</u>	<u>31,316</u>	<u>(119,059)</u>	<u>(43,929)</u>	<u>(11,133)</u>
Net Assets - Beginning of Year	3,049,853	2,941,927	7,733,168	7,852,227	10,783,021	10,794,154
Net Assets - End of Year	<u>\$ 2,974,608</u>	<u>3,049,853</u>	<u>7,764,484</u>	<u>7,733,168</u>	<u>10,739,092</u>	<u>\$ 10,783,021</u>

Governmental Activities: Governmental activities decreased the Town’s net assets by approximately \$44,000 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 \$130,000, or 4%, over the prior year due in part to increases in business licenses and building permits.
- Total governmental activities expenses increased by approximately \$421,000, over the prior year due to legal fees related to a lawsuit filed against the Town, expenditures related to the relocation of Town Hall and health care costs associated with the change in the Town’s health insurance provider.
- In 2011, other revenue for the governmental activities includes approximately \$80,000 in reimbursements from the Town’s litigation insurance policy for legal fees related to the lawsuit.
- The transfers-in for the governmental activities is a transfer from the business activities for approximately \$198,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities: Net assets for business-type activities (water and sewer services) increased by approximately \$31,000.

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 increase in the net assets for water and sewer were:

- Water and sewer revenue surpassed the amount projected by approximately \$110,000 due to increased usage.
- Salaries and wages were approximately \$35,000 less than the amount budgeted for business activities.
- Although there was an increase in net assets for the business-type activities, the cost of water purchased from CWS was approximately \$18,000 higher in 2011 than 2010.
- The differences in the depreciation and amortization expenses for 2011 were approximately \$20,000 less than 2010.

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 \$3,494,000, a decrease of approximately \$135,000 from the prior year fund balance. The decrease in fund balance was the result of operating expenditures of the Town exceeding its revenue.

Approximately 82% or \$2,867,000 of the total governmental fund balance of approximately \$3,494,000 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 (\$84,000), restricted (2) for tourism related expenditures or operating expenses incurred to serve tourists (\$279,000) and other outside restrictions (\$101,320), committed for (3) expenditures related to the Tree Fund (\$37,450), to tennis and basketball courts replacement (\$90,000) and to Island Club repairs (\$15,900) 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 \$3,178,000. 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 (\$2,867,000) represents approximately 77% of total General Fund expenditures for 2011. Of the unassigned fund balance, Council has established a reserve for emergency expenditures which at the end of 2011 has a balance of \$756,000.

Points of interest for the General Fund were as follows:

- Licenses and franchise fees came in over \$25,000 more than projected.
- During 2011 the General Fund's fund balance decreased by approximately \$122,000.
- During 2011 the Town had to relocate the Town Hall facilities to a temporary location. The expenditures for this relocation totaled approximately \$144,000.
- There were three vehicles purchased which replaced three police department vehicles. The total cost of the vehicles was approximately \$76,900. Other capital purchases for the General Fund totaled approximately \$23,300.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE TOWN’S FUNDS (CONTINUED)

- The Town incurred additional health insurance costs due to the Town changing health insurance providers. In the contract with the former provider, the Town was required to pay all claims filed after the date the Town left the program. The health insurance premiums paid by the Town are less with the new provider, but the Town had to pay approximately \$110,000 in claims.

Proprietary Fund. The Town’s proprietary funds provide the same type of information found in the government-wide basic financial statements but in more detail. Net assets of the Water and Sewer Enterprise Funds at the end of the fiscal year amounted to approximately \$7,764,000. Please see the earlier discussion of the business-type activities change in net assets 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 \$102,000 at June 30, 2011.

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 2011.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town’s investment in capital assets as of June 30, 2011 and June 30, 2010, amounted to approximately \$7,309,000 and \$7,681,000 (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, 2011 and 2010 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 37,392	37,392	-	-	37,392	\$ 37,392
Building and Improvements	196,152	216,537	-	-	196,152	216,537
Machinery and Equipment	192,876	241,740	-	-	192,876	241,740
Vehicles and Vehicle Equipment	208,539	200,677	-	-	208,539	200,677
Vehicles, Machinery, and Equipment	-	-	111,023	174,292	111,023	174,292
Fire and Emergency Command System	335,686	347,951	-	-	335,686	347,951
Water/Sewer System	-	-	6,227,255	6,462,128	6,227,255	6,462,128
Total	\$ 970,645	1,044,297	6,338,278	6,636,420	7,308,923	\$ 7,680,717

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

The total decrease in the Town’s investment in capital assets for the current fiscal year was approximately \$372,000 or less than 5%. Major capital asset events during the current fiscal year included the following:

- Capital asset additions of approximately \$100,200 for governmental activities which consisted primarily of the following:
 - Purchase of police vehicles of approximately \$76,900.
 - Purchase of a boat motor for the Fire Department’s rescue boat of approximately \$11,600.
 - Purchase of 2 HVAC units for the Fire Department of \$11,700.
- Capital asset additions of approximately \$49,000 for business-type activities which consisted primarily of the following:
 - Waterline project – portion completed in 2011 for approximately \$39,000.
 - Security system for the sewer treatment plant for approximately \$10,000.
- Depreciation expense of approximately \$174,000 for governmental activities and \$348,000 of depreciation expense for business-type activities.

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

Debt Administration

As of June 30, 2011 and June 30, 2010, the Town had total outstanding debt of approximately \$1,878,000 and \$2,110,000, respectively. Of the Town’s total long-term obligations, approximately \$1,375,000 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, 2011 and 2010 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Debt:						
General Obligation Bond	\$ 1,375,000	1,515,000	-	-	1,375,000	\$ 1,515,000
Revenue Bond	-	-	503,000	595,000	503,000	595,000
Total Debt	<u>\$ 1,375,000</u>	<u>1,515,000</u>	<u>503,000</u>	<u>595,000</u>	<u>1,878,000</u>	<u>\$ 2,110,000</u>

The total decrease in the Town’s debt obligations for the current fiscal year was approximately \$232,000 or 11%. Major events during the current fiscal year included the following:

- The Town’s governmental activities had scheduled principal payments on debt obligations of approximately \$140,000.
- The Town’s business-type activities revenue bond was refinanced to a lower interest rate of 2.95%. An additional \$5,000 was financed.
- The Town’s business-type activities had scheduled principal payments on debt obligations of approximately \$97,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

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, 2011 was approximately \$5,000,000. The Town had \$1,375,000 of bonded debt subject to the 8% limit and thus resulted in the Town having an unused legal debt margin of approximately \$3,625,000.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES FOR THE TOWN

The Town's elected officials and staff considered many factors when setting the fiscal year 2012 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 of approximately \$75,000 to help replenish fund balance.
- Only a slight 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.
- Replace one police vehicle.
- Continue moving forward with evaluating the permanent Town Hall location.

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 ASSETS

JUNE 30, 2011

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,751,976	547,491	\$ 2,299,467
Cash and Cash Equivalents - Restricted	328,753	18,600	347,353
Investments	1,308,421	-	1,308,421
Taxes Receivable, Net	22,906	-	22,906
Other Receivables, Net	130,374	185,988	316,362
Prepaid Expenses	84,310	18,496	102,806
Capital Assets:			
Non-Depreciable	37,392	-	37,392
Depreciable, Net	933,253	6,338,278	7,271,531
Capacity Capital Contribution, Net	-	1,255,047	1,255,047
TOTAL ASSETS	4,597,385	8,363,900	12,961,285
LIABILITIES			
Accounts Payable	50,761	50,042	100,803
Accrued Interest	13,716	-	13,716
Other Accrued Liabilities	66,568	5,354	71,922
Customer Deposits	-	18,600	18,600
Long-Term Obligations:			
Due Within One Year	261,732	22,420	284,152
Due in More Than One Year	1,230,000	503,000	1,733,000
TOTAL LIABILITIES	1,622,777	599,416	2,222,193
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	970,645	7,090,325	6,685,970
Restricted For:			
Tourism Related Expenditures	278,779	-	278,779
Other	101,320	-	101,320
Unrestricted	1,623,864	674,159	3,673,023
TOTAL NET ASSETS	\$ 2,974,608	7,764,484	\$ 10,739,092

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
Public Works	\$ 518,494	-	-	-	(518,494)		\$ (518,494)
Public Safety	1,758,323	71,072	-	-	(1,687,251)		(1,687,251)
General Government	1,329,112	250,370	-	-	(1,078,742)		(1,078,742)
Interest on Long Term Obligations	56,228	-	-	-	(56,228)		(56,228)
Total Governmental Activities	3,662,157	321,442	-	-	(3,340,715)		(3,340,715)
Business-Type Activities:							
Water	635,287	925,960	-	-		290,673	290,673
Sewer	657,137	590,258	-	-		(66,879)	(66,879)
Total Business-Type Activities	1,292,424	1,516,218	-	-		223,794	223,794
TOTAL - PRIMARY GOVERNMENT	\$ 4,954,581	1,837,660	-	-	(3,340,715)	223,794	(3,116,921)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Property Taxes					1,485,334	-	1,485,334
Local Option Sales Taxes					178,492	-	178,492
Hospitality Taxes					215,792	-	215,792
Accommodation Taxes					36,811	-	36,811
Business License Taxes					473,312	-	473,312
Franchise Taxes					489,040	-	489,040
Intergovernmental					64,990	-	64,990
Interest Income					20,198	5,146	25,344
Miscellaneous					103,877	-	103,877
Transfers In (Out)					197,624	(197,624)	-
Total General Revenues and Transfers					3,265,470	(192,478)	3,072,992
CHANGE IN NET ASSETS					(75,245)	31,316	(43,929)
NET ASSETS, Beginning of Year					3,049,853	7,733,168	10,783,021
NET ASSETS, End of Year					2,974,608	7,764,484	\$ 10,739,092

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
ASSETS		
Cash and Cash Equivalents	\$ 1,714,610	-
Cash and Cash Equivalents - Restricted	101,320	-
Investments	1,308,421	-
Taxes Receivable, Net	22,906	-
Accounts Receivable, Net	78,944	-
Prepaid Expenses	84,310	-
TOTAL ASSETS	3,310,511	-
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	50,761	-
Other Accrued Liabilities	66,568	-
Deferred Revenue, Property Taxes	15,000	-
TOTAL LIABILITIES	132,329	-
FUND BALANCES		
Nonspendable:		
Prepaid Expenses	84,310	-
Restricted:		
Tourism Related Expenditures	-	-
Victims Services	52,655	-
Confederate Memorial	13,547	-
Land Trust	35,118	-
Committed:		
Tree Bank	-	-
Tennis & Basketball Courts Replacement	90,000	-
Island Club Repairs	15,900	-
Assigned:		
William Bradley Memorial Fund	20,000	-
Unassigned	2,866,652	-
TOTAL FUND BALANCES	3,178,182	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,310,511	-

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

LOCAL ACCOMMODATIONS TAX FUND	LOCAL HOSPITALITY TAX FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	37,366	\$ 1,751,976
44,284	183,149	-	328,753
-	-	-	1,308,421
-	-	-	22,906
6,934	44,412	84	130,374
-	-	-	84,310
51,218	227,561	37,450	3,626,740
-	-	-	50,761
-	-	-	66,568
-	-	-	15,000
-	-	-	132,329
-	-	-	84,310
51,218	227,561	-	278,779
-	-	-	52,655
-	-	-	13,547
-	-	-	35,118
-	-	37,450	37,450
-	-	-	90,000
-	-	-	15,900
-	-	-	20,000
-	-	-	2,866,652
51,218	227,561	37,450	3,494,411
51,218	227,561	37,450	\$ 3,626,740

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 3,494,411
Amounts reported for the governmental activities in the Statement of Net Assets 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 therefore 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 \$2,741,582 and the accumulated depreciation was \$1,770,937	970,645
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.	(13,716)
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	(1,375,000)
Compensated Absences	(116,732)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 2,974,608</u>

The notes to the basic financial statements are an integral part of this statement.
See accompanying independent auditors' 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, 2011

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
REVENUES		
Property Taxes	\$ 1,484,334	-
Local Option Sales Taxes	178,492	-
Accommodation Taxes	-	-
Hospitality Taxes	-	-
Licenses	962,352	-
Magistrate and Recorder Fines	61,699	-
State Shared Revenues	73,844	-
Permits	249,737	-
Victims' Rights Fund	9,373	-
Interest	17,876	17
Other	103,877	-
TOTAL REVENUES ALL SOURCES	3,141,584	17
EXPENDITURES		
Current:		
Public Works	488,940	-
Public Safety	1,651,301	-
General Government	1,281,519	-
Capital Outlay	101,371	-
Debt Service:		
Principal	140,000	-
Interest	57,624	-
TOTAL EXPENDITURES	3,720,755	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(579,171)	17
OTHER FINANCING SOURCES (USES)		
Transfers In	457,300	-
Transfers Out	-	(8,676)
TOTAL OTHER FINANCING SOURCES (USES)	457,300	(8,676)
NET CHANGES IN FUND BALANCES	(121,871)	(8,659)
FUND BALANCES, Beginning of Year	3,300,053	8,659
FUND BALANCES, End of Year	\$ 3,178,182	-

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

LOCAL ACCOMMODATIONS TAX FUND	LOCAL HOSPITALITY TAX FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	-	\$ 1,484,334
-	-	-	178,492
27,957	-	-	27,957
-	215,792	-	215,792
-	-	-	962,352
-	-	-	61,699
-	-	-	73,844
-	-	633	250,370
-	-	-	9,373
475	1,579	251	20,198
-	-	-	103,877
28,432	217,371	884	3,388,288
-	-	-	488,940
-	-	-	1,651,301
-	-	-	1,281,519
-	-	-	101,371
-	-	-	140,000
-	-	-	57,624
-	-	-	3,720,755
28,432	217,371	884	(332,467)
-	-	-	457,300
(50,000)	(200,000)	(1,000)	(259,676)
(50,000)	(200,000)	(1,000)	197,624
(21,568)	17,371	(116)	(134,843)
72,786	210,190	37,566	3,629,254
51,218	227,561	37,450	\$ 3,494,411

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, 2011

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (134,843)**

Amounts reported for the governmental activities in the Statement of Activities
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 therefore deferred in the funds. 1,000

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 Assets. 140,000

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the
governmental funds because interest is recognized as an expenditure in the funds when it is due
and payable and thus requires the use of current financial resources. In the Statement of Activities,
however, interest expense is recognized as the interest accrues, regardless of when it is due and
payable. This adjustment relates to the change in accrued interest from the prior year. 1,396

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. (9,146)

Governmental funds report capital outlay as expenditures of \$100,212. However, in the Statement
of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation
of \$173,864. This is the amount by which depreciation exceeded capital outlay in the current period. (73,652)

TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (75,245)**

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

JUNE 30, 2011

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER	SEWER	TOTAL
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 375,054	172,437	\$ 547,491
Cash and Cash Equivalents - Restricted	18,600	-	18,600
Accounts Receivable, Net	110,543	75,445	185,988
Prepaid Expenses	8,334	10,162	18,496
Total Current Assets	512,531	258,044	770,575
Noncurrent Assets:			
Capital Assets:			
Depreciable, Net	3,050,690	3,287,588	6,338,278
Capacity Capital Contribution, Net	1,255,047	-	1,255,047
Total Noncurrent Assets	4,305,737	3,287,588	7,593,325
TOTAL ASSETS	4,818,268	3,545,632	8,363,900
LIABILITIES			
Current Liabilities:			
Accounts Payable	19,214	30,828	50,042
Other Accrued Liabilities	2,677	2,677	5,354
Customer Deposits	18,600	-	18,600
Compensated Absences Liability	11,210	11,210	22,420
Total Current Liabilities	51,701	44,715	96,416
Noncurrent Liabilities:			
Revenue Bond Payable - Net of Current Portion	-	503,000	503,000
TOTAL LIABILITIES	51,701	547,715	599,416
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,305,737	2,784,588	7,090,325
Unrestricted	460,830	213,329	674,159
TOTAL NET ASSETS	\$ 4,766,567	2,997,917	\$ 7,764,484

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2011

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER	SEWER	TOTAL
OPERATING REVENUES			
Charges for Services	\$ 896,505	574,742	\$ 1,471,247
Meter Connections, Sewer Tie-In Fees, and Other Revenue	29,455	15,516	44,971
TOTAL OPERATING REVENUES	925,960	590,258	1,516,218
OPERATING EXPENSES			
Salaries	162,122	166,322	328,444
Payroll Taxes	11,988	12,341	24,329
Hospitalization Insurance	19,824	19,824	39,648
Retirement	15,247	15,594	30,841
Gas and Oil - Vehicles	5,432	5,432	10,864
Diesel Fuel and Equipment	3,135	6,830	9,965
Repairs and Maintenance - Diesel Equipment	1,188	-	1,188
Vehicle Repairs	4,949	4,355	9,304
Supplies and Tools	8,946	7,639	16,585
Office Supplies	7,156	7,307	14,463
Lab Supplies	2,024	5,133	7,157
Telephone	6,081	6,081	12,162
Power and Lights	2,802	44,998	47,800
Insurance	14,976	18,401	33,377
System Repairs and Improvements	47,250	42,999	90,249
Sludge Disposal	-	15,389	15,389
Grit Disposal	-	830	830
CPW and Other Capital Improvements	3,230	38,185	41,415
Dues and Certifications	8,247	6,864	15,111
Training and Seminars	4,150	3,894	8,044
Professional Engineering Fees	-	6,035	6,035
Professional Services	5,000	5,000	10,000
Lab Analysis, Inspection, and Chemicals	8,064	19,712	27,776
Wholesale Water Purchase	113,133	-	113,133
Depreciation	173,212	174,411	347,623
Amortization	96,542	-	96,542
Miscellaneous	(89,411)	4,451	(84,960)
TOTAL OPERATING EXPENSES	635,287	638,027	1,273,314
OPERATING INCOME (LOSS)	290,673	(47,769)	242,904
NONOPERATING REVENUE (EXPENSES)			
Interest Income	3,850	1,296	5,146
Interest Expense	-	(19,110)	(19,110)
TOTAL NONOPERATING REVENUE (EXPENSES)	3,850	(17,814)	(13,964)
INCOME (LOSS) BEFORE TRANSFERS	294,523	(65,583)	228,940
Transfers Out	(197,624)	-	(197,624)
CHANGE IN NET ASSETS	96,899	(65,583)	31,316
NET ASSETS, Beginning of Year	4,669,668	3,063,500	7,733,168
NET ASSETS, End of Year	\$ 4,766,567	2,997,917	\$ 7,764,484

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

YEAR ENDED JUNE 30, 2011

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 900,329	580,349	\$ 1,480,678
Cash Payments to Suppliers for Goods and Services	(271,508)	(243,608)	(515,116)
Cash Payments to Employees	(209,137)	(214,037)	(423,174)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>419,684</u>	<u>122,704</u>	<u>542,388</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfer from (to) Other Funds	(197,624)	-	(197,624)
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(197,624)</u>	<u>-</u>	<u>(197,624)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets	(39,181)	(10,300)	(49,481)
Capacity Capital Contribution	(187,116)	-	(187,116)
Principal Paid on Debt and Lease Purchase	-	(92,000)	(92,000)
Interest Paid on Debt and Lease Purchase	-	(31,754)	(31,754)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(226,297)</u>	<u>(134,054)</u>	<u>(360,351)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	3,850	1,296	5,146
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,850</u>	<u>1,296</u>	<u>5,146</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(387)	(10,054)	(10,441)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>394,041</u>	<u>182,491</u>	<u>576,532</u>
CASH AND CASH EQUIVALENTS, End of Year	\$ 393,654	172,437	\$ 566,091
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Operating Income (Loss)	\$ 290,673	(47,769)	\$ 242,904
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Depreciation Expense	173,212	174,411	347,623
Amortization Expense	96,542	-	96,542
Change Due to (Increase) Decrease in Operating Assets:			
Other Receivable	(28,531)	(9,909)	(38,440)
Prepaid Expenses	(2,270)	(1,282)	(3,552)
Change Due to Increase (Decrease) in Operating Liabilities:			
Other Payables	(112,886)	7,209	(105,677)
Compensated Absences	44	44	88
Customer Deposits	2,900	-	2,900
Net Cash Provided by Operating Activities	<u>\$ 419,684</u>	<u>122,704</u>	<u>\$ 542,388</u>
SUPPLEMENTAL INFORMATION FOR NONCASH ACTIVITIES:			
Depreciation Expense	\$ 173,212	174,411	\$ 347,623
Amortization Expense	96,542	-	96,542
	<u>\$ 269,754</u>	<u>174,411</u>	<u>\$ 444,165</u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

**STATEMENT OF NET ASSETS - FIDUCIARY FUND - AGENCY FUND
TOWN OF SULLIVAN'S ISLAND VOLUNTEER FIRE DEPARTMENT**

JUNE 30, 2011

ASSETS

Cash and Cash Equivalents	\$	102,062
TOTAL ASSETS	\$	102,062

LIABILITIES

Due To Volunteer Fire Department	\$	102,062
TOTAL LIABILITIES	\$	102,062

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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 basic 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 basic financial statements present the Town's financial information including any 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. 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.

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the Town's basic financial statements to be misleading or incomplete. 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. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize they are legally separate from the Town. Based on the criteria above, the Town does not have any blended or discretely presented component units.

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

The government-wide basic financial statements (i.e., the Statement of Net Assets 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.

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.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The **government-wide basic financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund basic 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 basic financial statements are prepared using a different measurement focus from the manner in which governmental fund basic financial statements are prepared (see further detail below). Governmental fund basic financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Governmental **fund basic 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 basic financial statements report detailed information about the Town. The focus of governmental and enterprise fund basic financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting.

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. The Town applies all applicable GASB pronouncements, as well as the requirements of Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs"), issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Town has elected not to follow the aforementioned guidance issued after November 30, 1989, as allowed by GAAP.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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** is used to account for water services provided to the residents of the Town. This is a budgeted fund.

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

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 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) State of South Carolina Local Government Investment Pool
- (b) United State Treasury Bills, Notes and Bonds
- (c) Federal Agency or United States government sponsored securities

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

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

Investments (Continued)

- (d) Certificates of Deposit and funds in deposit accounts with banking institutions in the state of South Carolina provided that such certificates and funds in deposit accounts are collaterally secured by securities
- (e) General obligations or revenue bonds of any of the counties, political subdivisions or municipal corporations of the State of South Carolina
- (f) 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), and (e) 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 generally invested its funds in the following:

- Government and business interest checking accounts or money market accounts.
- Certificates of Deposit ("CD") are bond-type investments issued by a bank when a person or company deposits a certain amount of money for a determined amount of time. The maturity can be up to five years, and interest is paid to the holder of the CD at an agreed upon rate. Money removed before maturity is generally subject to a penalty.
- Certificates of Deposit Account Registry Service ("CDARS") are bond-type investments issued through CDARS with one or more FDIC-insured depository institutions for a determined amount of time. The maturity can be up to three years, and interest is paid to the holder of the CD at an agreed upon rate. Money removed before maturity is generally subject to a penalty.
- 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.
- Open ended mutual funds which are primarily invested in money market funds which invest in short term obligations of the United States and related agencies.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

2. *Receivables and Payables*

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

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

3. *Inventories and Prepaids*

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

4. *Capital Assets*

General capital assets are those assets not specifically related to activities reported in the Proprietary Funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets, but are not reported in the fund basic 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 Assets and in the respective fund basic financial statements.

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. As allowed by 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 Enterprise 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 BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities 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 basic financial statements. The portion of the liability that is applicable to the Town's water and sewer activities is also reported in 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 they are material.

6. *Accrued Liabilities and Long-Term Obligations*

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

In the government-wide basic financial statements for the Primary Government, debt, and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount and deferred advance refunding amounts. Bond issuance costs are included in other assets (if material).

In the fund basic 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. *Fund Balance*

The Town implemented GASB #54 "Fund Balance Reporting and Governmental Fund Type Definitions" ("GASB #54") in the current 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 clarify 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 it is not in spendable form (i.e. prepaids, inventories, etc.) or because of legal or contractual requirements (i.e. principal on an endowment, etc.).

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

7. Fund Balance (Continued)

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 for fund balance to qualify in this category.

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, 2011 is \$756,000.

The Town generally uses 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 made.

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are classified as invested in capital assets net of related debt, restricted, and unrestricted. Net assets invested in capital assets, net of related debt, consist 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 assets component as the unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

9. 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.

10. Comparative Data

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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 his 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.

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. None of the items above applied to the fiscal year ended June 30, 2011.

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, 2011, none of the Town's bank balances of \$4,346,389 (with a carrying value of \$1,675,996) were exposed to custodial credit risk.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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

A. Deposits and Investments (Continued)

Investments

As of June 30, 2011, the Town had the following investments and maturities (as defined by GASB #40):

Investment Type	Fair Value	Maturity	Moody's	Credit Ratings S&P	Fitch
State Local Government Investment Pool	\$ 202,295	^	unrated	unrated	unrated
Treasury Obligations Fund	1,645,702	< 1 year	Aaa	AAAm	unrated
Federal Home Ln Bks Fixed Rate AU-8012	127,344	< 5 year	AAA	AAA	unrated
Federal Farm Cr Bks Cons Systemwide Bds	157,221	< 5 year	AAA	AAA	unrated
Federal Farm Cr Bks Cons Systemwide Bds	148,293	< 5 year	AAA	AAA	unrated
Federal Farm Cr Bks Cons Systemwide Bds	100,452	< 1 year	AAA	AAA	unrated
Total	\$ 2,381,307				

^ 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, 2011.

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, 2011 were those imposed by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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

A. Deposits and Investments (Continued)

Investments (Continued)

Reconciliation to Statement of Net Assets

<u>Statement of Net Assets</u>	<u>Amount</u>
Unrestricted Current Assets:	
Cash and Cash Equivalents	\$ 2,299,467
Investments	1,308,421
Restricted Current Assets:	
Cash and Cash Equivalents, Restricted	<u>347,353</u>
	3,955,241
 <u>Statement of Net Assets - Fiduciary Fund - Agency Fund</u> 	
Unrestricted Current Assets:	
Cash and Cash Equivalents	<u>102,062</u>
Total per the basic financial statements	<u>\$ 4,057,303</u>
 <u>Notes</u> 	
Carrying Value of Deposits	\$ 1,675,996
Investments	<u>2,381,307</u>
Total per the notes	<u>\$ 4,057,303</u>

B. Property Taxes, Other Receivables, and Deferred Revenue

The Town’s 2010 property taxes are levied on October 1, 2010 and were due beginning on this date based on the assessed valuation as of January 1, 2010. Property taxes were considered late on January 15, 2011. 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 15 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 2010 property tax year was 207.2 mills (181.0 mills for Charleston County and 26.2 mills for the Town). Town property taxes are billed and collected by Charleston County under a joint billing and collection agreement.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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

B. Property Taxes, Other Receivables, and Deferred Revenue (Continued)

The Town had receivables of \$185,988 related to business-type activities at June 30, 2011 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, 2011, of the following:

	General Fund	Local Accommodations Tax Fund	Hospitality Tax Fund	Tree Bank Fund	Totals
Property Taxes	\$ 22,906	-	-	-	\$ 22,906
Accommodations Taxes	-	6,790	-	-	6,790
Hospitality Taxes	-	-	43,878	-	43,878
Franchise Fees	12,450	-	-	-	12,450
State Aid to Subdivisions	8,930	-	-	-	8,930
Local Options Sales Tax	37,024	-	-	-	37,024
Miscellaneous	20,540	144	534	84	21,302
Net Receivables	<u>\$ 101,850</u>	<u>6,934</u>	<u>44,412</u>	<u>84</u>	<u>\$ 153,280</u>

There were no material allowances for uncollectible amounts.

Governmental funds report deferred revenue 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, 2011, the General Fund had \$15,000 in deferred revenue related to property taxes that were not available.

C. Interfund Receivables, Payables, and Transfers

At June 30, 2011, there were no interfund receivables and payables.

Transfers between funds for the year ended June 30, 2011, consisted of the following:

Fund	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 457,300	\$ -
State Accommodations Tax Fund	-	8,676
Local Accommodations Tax Fund	-	50,000
Local Hospitality Tax Fund	-	200,000
Tree Fund	-	1,000
Major Enterprise Funds:		
Water Fund	-	197,624
Totals	<u>\$ 457,300</u>	<u>\$ 457,300</u>

The transfers are due to the individual funds reimbursing the General Fund for expenditures incurred.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Non-Depreciable:				
Land	\$ 37,392	-	-	\$ 37,392
Total Capital Assets, Non-Depreciable	<u>37,392</u>	<u>-</u>	<u>-</u>	<u>37,392</u>
Capital Assets, Depreciable:				
Buildings and Improvements	432,973	-	-	432,973
Machinery and Equipment	526,241	23,274	26,546	522,969
Playground Equipment	193,936	-	-	193,936
Vehicles	977,563	76,938	48,290	1,006,211
Fire and Emergency Command Center	548,101	-	-	548,101
Total Capital Assets, Depreciable	<u>2,678,814</u>	<u>100,212</u>	<u>74,836</u>	<u>2,704,190</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	216,436	20,385	-	236,821
Machinery and Equipment	361,313	60,765	26,546	395,532
Playground Equipment	117,124	11,373	-	128,497
Vehicles	776,886	69,076	48,290	797,672
Fire and Emergency Command Center	200,150	12,265	-	212,415
Total Accumulated Depreciation	<u>1,671,909</u>	<u>173,864</u>	<u>74,836</u>	<u>1,770,937</u>
Total Capital Assets, Depreciable, Net	<u>1,006,905</u>	<u>(73,652)</u>	<u>-</u>	<u>933,253</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,044,297</u>	<u>(73,652)</u>	<u>-</u>	<u>\$ 970,645</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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

D. Capital Assets (Continued)

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

Functions/Programs	Amount
Governmental Activities:	
Public Works	\$ 29,051
Public Safety	99,863
General Government	44,950
Total Depreciation Expense - Governmental Activities	<u>\$ 173,864</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Depreciable				
Water System	\$ 4,420,755	39,181	-	\$ 4,459,936
Sewer System	4,918,174	10,300	-	4,928,474
Lab Equipment	20,869	-	-	20,869
Vehicles and Equipment	201,096	-	-	201,096
Leased Equipment	607,304	-	-	607,304
Total Capital Assets, Depreciable	<u>10,168,198</u>	<u>49,481</u>	<u>-</u>	<u>10,217,679</u>
Less: Accumulated Depreciation for:				
Water System	1,333,060	145,252	-	1,478,312
Sewer System	1,543,741	139,102	-	1,682,843
Lab Equipment	14,866	772	-	15,638
Vehicles and Equipment	168,083	15,313	-	183,396
Leased Equipment	472,028	47,184	-	519,212
Total Accumulated Depreciation	<u>3,531,778</u>	<u>347,623</u>	<u>-</u>	<u>3,879,401</u>
Total Capital Assets, Being Depreciated, Net	<u>6,636,420</u>	<u>(298,142)</u>	<u>-</u>	<u>6,338,278</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,636,420</u>	<u>(298,142)</u>	<u>-</u>	<u>\$ 6,338,278</u>

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

Functions/Programs	Amount
Business-Type Activities:	
Water	\$ 173,212
Sewer	174,411
Total Depreciation Expense - Business-Type Activities	<u>\$ 347,623</u>

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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

D. Capital Assets (Continued)

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 \$484,760 since fiscal year 2005, for a total of \$2,470,976 as of June 30, 2011. This asset is being amortized over 30 years. The accumulated amortization is \$1,215,929 and the net asset is \$1,255,047 as of June 30, 2011. The amortization expense for fiscal year 2011 was \$96,542.

E. Long-Term Obligations

The Town generally issues bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds (“GOB”) are direct obligations and pledge the full faith and credit of the Town. Revenue Bonds (“RB”) are obligations of the Town that are secured by revenue from a specific source. Lease Purchase (“LP”) 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, 2011 are as follows:

	<u>Principal Outstanding at Year End</u>
<p><u>General Obligation Bonds</u></p> <p>\$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 with interest at 3.99%. Debt service requirements range from \$196,970 - 203,990 per year through October 1, 2018 and are funded with resources from the General Fund.</p>	<u>\$ 1,375,000</u>
<p><u>Revenue Bonds</u></p> <p>\$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 Enterprise Fund. Principal payments are paid annually through July 1, 2019, plus interest at 2.95% which is due semi-annually on January 1st and July 1st. Debt service requirements range from \$58,157- 74,076. 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, 2011.</p>	<u>\$ 503,000</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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
Governmental Activities:					
Debt:					
GO Bond - 10/03	\$ 1,515,000	-	140,000	1,375,000	\$ 145,000
Compensated Absences	107,586	107,346	98,200	116,732	116,732
Total Governmental Activities	<u>\$ 1,622,586</u>	<u>107,346</u>	<u>238,200</u>	<u>1,491,732</u>	<u>\$ 261,732</u>
Business-Type Activities:					
Debt:					
Revenue Bond - 11/10 - Sewer	\$ 595,000	5,000	97,000	503,000	\$ -
Compensated Absences	22,332	19,843	19,755	22,420	22,420
Total Business-Type Activities	<u>\$ 617,332</u>	<u>24,843</u>	<u>116,755</u>	<u>525,420</u>	<u>\$ 22,420</u>

The Town paid interest of \$57,624, and \$19,110 for its governmental and business-type activities, respectively.

Interest paid on the debt issued by the Town is exempt from federal income tax. The Town sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The Town had no arbitrage liability at June 30, 2011.

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, 2011, the Town had \$1,375,000 of bonded debt subject to the 8% limit of approximately \$5,000,000 resulting in an unused legal debt margin of approximately \$3,625,000.

In November 2010, the Town issued \$553,000 of Water and Sewer System Refunding Revenue Bonds (Series 2010) with an average interest rate of 2.95% to refund the \$548,000 remaining balance on the \$800,000 of Water and Sewer System Revenue Bonds (Series 2004) with an average interest rate of 4.25%. The refunding resulted in approximately \$29,000 debt service savings over the next 8 years, and an economic gain of approximately \$22,000.

The Town made a debt payment in June 2011 that was due in July, 2011 for the Water and Sewer System Refunding Revenue Bonds (Series 2010). Therefore, no current amount is due as of June 30, 2011.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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,	Debt		Totals
	Principal	Interest	
<u>Governmental Activities</u>			
2012	\$ 145,000	51,970	\$ 196,970
2013	155,000	45,985	200,985
2014	160,000	39,701	199,701
2015	170,000	33,117	203,117
2016	175,000	26,234	201,234
2017-2020	570,000	34,913	604,913
Totals	<u>\$ 1,375,000</u>	<u>231,920</u>	<u>\$ 1,606,920</u>
<u>Business-Type Activities</u>			
2012	\$ -	7,419	\$ 7,419
2013	52,000	14,071	66,071
2014	55,000	12,493	67,493
2015	58,000	10,826	68,826
2016	60,000	9,086	69,086
2017-2020	278,000	16,787	294,787
Totals	<u>\$ 503,000</u>	<u>70,682</u>	<u>\$ 573,682</u>

F. Net Assets

The Town used the proceeds from the general Obligation Bond (see Note III.E) to fund the water line replacement and upgrade project. The \$1,375,000 balance outstanding at June 30, 2011 is included in the calculation of the Governmental Activities unrestricted net assets in the Statement of Net Assets, but the cost of the water lines are included in the Business-type Activities net assets invested in capital assets, net of related debt. Consequently, unrestricted net assets, and net assets invested in capital assets, net of related debt, of the Town are not equal to a simple combination of those net asset 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, 2011, the Town made premium payments totaling approximately \$129,000. SCMIRF’s net assets from its most recently issued audited financial statements at December 31, 2010 totaled approximately \$28,528,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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, 2011, the Town made premium payments totaling approximately \$101,000. The Trust uses reinsurance agreements to reduce its exposure to large workers' compensation losses. SCMIT's net assets from its most recently issued audited financial statements at December 31, 2010 totaled approximately \$40,789,000.

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

Through September 30, 2010, the Town joined together with other local governments in the South Carolina Local Government Assurance Group ("SCLGAG") 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. The SCLGAG reinsures through commercial insurance to cover large specific losses. In the year ended June 30, 2011, the Town made payments totaling approximately \$203,000. The SCLGAG's net assets from its most recently issued audited financial statements at June 30, 2010 were approximately \$6,873,000.

Effective October 1, 2010, the Town's health insurance provider became the South Carolina Employee Insurance Program. For the year ended June 30, 2011, the Town made premium payments totaling approximately \$218,000. The South Carolina Employee Insurance Program's net assets from its most recently issued audited financial statements at June 30, 2010 were approximately \$93,338,000.

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. 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 Law. Only the South Carolina State Budget and Control Board has authority to establish and amend the funding policy.

A comprehensive annual financial report containing financial statements and required supplementary information for the SCRS and SCPORS is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29211-1960.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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 under authority of Title 9 of the South Carolina Code of Laws. 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		
	2009	2010	2011	2009	2010	2011
<u>Employer Rate</u>						
Retirement	9.24%	9.24%	9.24%	10.65%	10.65%	11.13%
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>9.39%</u>	<u>9.39%</u>	<u>9.39%</u>	<u>11.05%</u>	<u>11.05%</u>	<u>11.53%</u>
 Employee Rate	 <u>6.50%</u>	 <u>6.50%</u>	 <u>6.50%</u>	 <u>6.50%</u>	 <u>6.50%</u>	 <u>6.50%</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
2011	\$ 79,876	100%	9.39%	\$ 117,749	100%	11.53%
2010	75,034	100%	9.39%	108,249	100%	11.05%
2009	\$ 75,374	100%	9.39%	\$ 99,873	100%	11.05%

C. 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.

D. 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, 2011.

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 2011, 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 \$2200 and the lease has a month-to-month renewal option.

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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, 2011

	BUDGETED AMOUNTS		ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property Taxes	\$ 1,495,000	1,495,000	1,484,334	\$ (10,666)
Local Option Sales Tax	173,000	173,000	178,492	5,492
Licenses and Franchise Fees	937,000	937,000	962,352	25,352
Magistrate and Recorder Fines	62,000	62,000	61,699	(301)
State Shared Revenues	98,550	98,550	73,844	(24,706)
Permits	237,000	237,000	249,737	12,737
Victims' Rights Fund	10,000	10,000	9,373	(627)
Interest Income	24,000	24,000	17,876	(6,124)
Other	18,000	18,000	103,877	85,877
TOTAL REVENUES ALL SOURCES	3,054,550	3,054,550	3,141,584	87,034
EXPENDITURES				
Maintenance	496,570	496,570	488,940	7,630
Police	861,150	861,150	838,043	23,107
Fire	951,300	951,300	914,629	36,671
Recreation	41,500	41,500	33,161	8,339
Building	205,300	205,300	174,084	31,216
Administrative	998,730	998,730	1,271,898	(273,168)
TOTAL EXPENDITURES	3,554,550	3,554,550	3,720,755	(166,205)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(500,000)	(500,000)	(579,171)	(79,171)
OTHER FINANCING SOURCES (USES)				
Transfers In	500,000	500,000	457,300	(42,700)
TOTAL OTHER FINANCING SOURCES (USES)	500,000	500,000	457,300	(42,700)
NET CHANGES IN FUND BALANCES	-	-	(121,871)	(121,871)
FUND BALANCES, Beginning of Year	-	-	3,300,053	3,300,053
FUND BALANCES, End of Year	\$ -	-	3,178,182	\$ 3,178,182

Other Supplementary Information

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND**

YEAR ENDED JUNE 30, 2011

	2011		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
MAINTENANCE			
Operating Expenditures:			
Salaries	\$ 130,000	140,935	\$ (10,935)
Payroll Taxes	10,000	10,564	(564)
Health Insurance	19,000	13,072	5,928
Retirement	11,500	10,224	1,276
Gas and Oil - Vehicles	10,000	10,485	(485)
Diesel Fuel	2,250	2,678	(428)
Vehicle Repairs	4,500	5,466	(966)
Supplies and Materials	19,600	21,814	(2,214)
Uniforms	3,500	1,230	2,270
Telephone	720	660	60
Power and Lights	35,000	36,538	(1,538)
Insurance	21,000	17,164	3,836
System Repairs and Improvements	26,000	20,769	5,231
Garbage Disposal Service - Subcontract	160,000	156,058	3,942
Container Servicing	10,500	12,374	(1,874)
Causeway Maintenance	32,000	27,114	4,886
Miscellaneous	1,000	1,795	(795)
TOTAL EXPENDITURES	496,570	488,940	7,630
POLICE			
Operating Expenditures:			
Salaries	432,000	435,391	(3,391)
Payroll Taxes	32,000	32,012	(12)
Health Insurance	65,000	47,342	17,658
Retirement	46,500	49,277	(2,777)
Gas and Oil - Vehicles	35,000	34,709	291
Diesel Fuel	250	450	(200)
Vehicle Repairs	22,000	21,232	768
Supplies and Materials	15,000	14,310	690
Telephone	12,000	9,954	2,046
Power and Lights	5,800	5,379	421
Uniforms	8,000	10,486	(2,486)
Insurance	59,000	50,413	8,587
800 MHZ Radios	\$ 1,500	3,300	\$ (1,800)

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND**

YEAR ENDED JUNE 30, 2011

	2011		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Property & Equipment <\$5,000	\$ 15,000	14,095	\$ 905
System Repairs and Improvements	9,000	7,697	1,303
Dues and Certifications	500	265	235
Training and Seminars	6,500	4,795	1,705
Dispatching Services	19,600	19,548	52
Miscellaneous	1,500	450	1,050
Total Operating Expenditures	<u>786,150</u>	<u>761,105</u>	<u>25,045</u>
Capital Expenditures:			
Capital Outlay	75,000	76,938	(1,938)
TOTAL EXPENDITURES	<u>861,150</u>	<u>838,043</u>	<u>23,107</u>
 FIRE			
Operating Expenditures:			
Salaries	522,000	524,247	(2,247)
Payroll Taxes	39,000	38,291	709
Health Insurance	87,000	87,183	(183)
Retirement	60,000	60,141	(141)
Gas and Oil - Vehicles	8,200	7,750	450
Diesel Fuel	4,500	4,346	154
Vehicle Repairs	19,000	20,036	(1,036)
Supplies and Materials	17,500	23,372	(5,872)
Telephone	10,000	10,100	(100)
Uniforms	7,500	6,508	992
Power and Lights	9,500	7,758	1,742
Insurance	65,000	56,436	8,564
800 MHZ Radios	5,000	3,600	1,400
Property & Equipment <\$5,000	5,000	750	4,250
System Repairs and Improvements	6,000	6,749	(749)
Dues and Certifications	1,000	(50)	1,050
Training and Seminars	9,500	4,471	5,029
Dispatching Services	19,600	19,548	52
Miscellaneous	6,000	8,960	(2,960)
Total Operating Expenditures	<u>901,300</u>	<u>890,196</u>	<u>11,104</u>
Capital Expenditures:			
Capital Outlay	50,000	24,433	25,567
TOTAL EXPENDITURES	<u>\$ 951,300</u>	<u>914,629</u>	<u>\$ 36,671</u>

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND**

YEAR ENDED JUNE 30, 2011

	2011		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
RECREATION			
Operating Expenditures:			
Power and Lights	\$ 7,500	5,488	\$ 2,012
Insurance	2,500	2,422	78
Maintenance Recreation Area	2,000	803	1,197
Property & Equipment <\$5,000	2,000	-	2,000
Miscellaneous	27,500	24,448	3,052
TOTAL EXPENDITURES	41,500	33,161	8,339
BUILDING			
Operating Expenditures:			
Salaries	119,000	108,965	10,035
Payroll Taxes	8,500	7,950	550
Health Insurance	18,000	12,745	5,255
Retirement	12,400	11,954	446
Gas and Oil - Vehicles	2,600	2,099	501
Office Supplies	3,000	2,637	363
Supplies - Building Official	2,000	1,325	675
Telephone	1,500	1,873	(373)
County-Wide Digital Radio System	300	-	300
Utilities	1,200	1,133	67
Insurance	5,900	4,288	1,612
System Repair and Maintenance	1,500	341	1,159
Dues and Certifications	1,500	360	1,140
Training and Seminars	3,000	1,187	1,813
Board of Zoning Appeals	2,000	388	1,612
Design and Review Board	9,000	5,795	3,205
Tree Commission	1,500	1,014	486
Triming and Pruning	11,400	9,600	1,800
Equipment	1,000	430	570
TOTAL EXPENDITURES	\$ 205,300	174,084	\$ 31,216

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2011

	2011		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
ADMINISTRATIVE			
Operating Expenditures:			
Salaries	\$ 337,500	336,586	\$ 914
Payroll Taxes	26,000	25,682	318
Health Insurance	36,000	159,419	(123,419)
Retirement	32,500	32,509	(9)
Office Supplies	23,400	22,734	666
Travel Allowance - Recorder	500	-	500
Advertising	3,000	4,232	(1,232)
Recorder's Supplies	1,000	650	350
Telephone	13,000	13,357	(357)
Power and Lights	6,000	6,027	(27)
Insurance	68,000	61,450	6,550
System Repairs and Improvements	30,000	34,708	(4,708)
Dues and Certifications	2,800	2,330	470
Training and Seminars	4,300	2,367	1,933
Professional Engineering Fees	95,000	18,769	76,231
Fee Simple Deed Costs	100	-	100
Victim's Rights Fund	3,000	925	2,075
Professional Services	95,000	183,602	(88,602)
800 MHZ Radios	1,000	-	1,000
Town Hall Relocation Expenses	-	143,580	(143,580)
Property & Equipment <\$5,000	5,000	3,643	1,357
Bonds Debt Services	198,500	197,624	876
Council Expenditures	4,000	2,872	1,128
Planning Expense	2,500	1,102	1,398
Operating Lease	1,900	1,854	46
Miscellaneous	8,730	15,876	(7,146)
TOTAL EXPENDITURES	998,730	1,271,898	(273,168)
TOTAL GENERAL FUND EXPENDITURES	\$ 3,554,550	3,720,755	\$ (166,205)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2011

	2011		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Sewer Service Charges	\$ 560,725	574,742	\$ 14,017
Other Revenue	9,800	15,516	5,716
TOTAL OPERATING REVENUES	570,525	590,258	19,733
OPERATING EXPENSES			
Salaries	181,632	166,322	15,310
Payroll Taxes	13,895	12,341	1,554
Hospitalization Insurance	30,416	19,824	10,592
Retirement	16,557	15,594	963
Gas and Oil - Vehicles	5,500	5,432	68
Diesel Fuel and Equipment	7,300	6,830	470
Vehicle Repairs	2,800	4,355	(1,555)
Supplies and Tools	12,000	7,639	4,361
Office Supplies	8,000	7,307	693
Lab Supplies	3,700	5,133	(1,433)
Telephone	5,000	6,081	(1,081)
Power and Lights	46,000	44,998	1,002
Insurance	22,000	18,401	3,599
System Repairs and Improvements	40,000	42,999	(2,999)
Sludge Disposal	17,000	15,389	1,611
Grit Disposal	1,400	830	570
Property & Equipment <\$5,000	-	-	-
Capital Improvements	50,000	38,185	11,815
Depreciation Expense	-	174,411	(174,411)
Amortization Expense	-	-	-
Dues and Certifications	6,500	6,864	(364)
Training and Seminars	5,000	3,894	1,106
Professional Engineering Fees	5,000	6,035	(1,035)
Professional Services	5,000	5,000	-
Bond Interest	72,000	19,110	52,890
Lab Analysis, Inspection, and Chemicals	12,200	19,712	(7,512)
Miscellaneous	2,625	4,451	(1,826)
Total Operating Expenses	571,525	657,137	(85,612)
OPERATING INCOME (LOSS)	(1,000)	(66,879)	(65,879)
NONOPERATING REVENUES			
Interest Income	1,000	1,296	296
NET INCOME (LOSS)	\$ -	(65,583)	\$ (65,583)
DECREASE IN NET ASSETS		(65,583)	
NET ASSETS, Beginning of Year		3,063,500	
NET ASSETS, End of Year		\$ 2,997,917	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2011

	2011		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Water Sales	\$ 810,715	896,505	\$ 85,790
Meter Connections	23,150	29,455	6,305
TOTAL OPERATING REVENUES	833,865	925,960	92,095
OPERATING EXPENSES			
Salaries	181,632	162,122	19,510
Payroll Taxes	13,894	11,988	1,906
Hospitalization Insurance	30,417	19,824	10,593
Retirement	16,557	15,247	1,310
Gas and Oil - Vehicles	5,500	5,432	68
Diesel Fuel and Equipment	2,300	3,135	(835)
Repairs and Maintenance - Diesel Equipment	5,000	1,188	3,812
Vehicle Repairs	2,800	4,949	(2,149)
Supplies and Tools	14,500	8,946	5,554
Office Supplies	8,000	7,156	844
Lab Supplies	2,200	2,024	176
Telephone	5,000	6,081	(1,081)
Power and Lights	2,800	2,802	(2)
Insurance	18,000	14,976	3,024
System Repairs and Improvements	38,000	47,250	(9,250)
Capital Improvements	51,000	3,230	47,770
Amortization	-	96,542	(96,542)
Depreciation	-	173,212	(173,212)
Dues and Certifications	10,100	8,247	1,853
Training and Seminars	4,500	4,150	350
Professional Engineering Fees	7,000	-	7,000
Professional Services	5,000	5,000	-
Lab Analysis, Inspection, and Chemicals	8,100	8,064	36
CPW Improvements	60,000	-	60,000
Wholesale Water Purchases	95,000	113,133	(18,133)
Miscellaneous	3,065	(89,411)	92,476
Total Operating Expenses	590,365	635,287	(44,922)
OPERATING INCOME (LOSS)	243,500	290,673	47,173
NONOPERATING REVENUES			
Interest Income	2,000	3,850	1,850
Transfers Out to Other Funds	(198,500)	(197,624)	876
NET INCOME (LOSS)	\$ 47,000	96,899	\$ 49,899
INCREASE IN NET ASSETS		96,899	
NET ASSETS, Beginning of Year		4,669,668	
NET ASSETS, End of Year		\$ 4,766,567	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2011

	<u>2011</u>
COURT FINES	
Court Fines Collected	\$ 61,699
Court Fines Retained by Town	(61,699)
Court Fines Remitted to the State Treasurer	<u>\$ -</u>
COURT ASSESSMENTS	
Court Assessments Collected	\$ 49,280
Court Assessments Allocated to Victim Services	(5,472)
Court Assessments Remitted to the State Treasurer	<u>\$ 43,808</u>
COURT SURCHARGES	
Court Surcharges Collected	\$ 20,538
Court Surcharges Allocated to Victim Services	(3,901)
Court Surcharges Remitted to the State Treasurer	<u>\$ 16,637</u>
VICTIMS SERVICES	
Court Assessments Allocated to Victims Services	\$ 5,472
Court Surcharges Allocated to Victims Services	3,901
Funds Allocated to Victims Services	<u>9,373</u>
Victims Services Expenditures	(925)
Funds Available for Carry Forward	8,448
Victims Services Balance at Beginning of Year	<u>44,207</u>
Victims Services Balance at End of Year	<u>\$ 52,655</u>

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

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

We have audited 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, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 19, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's basic financial statements are free of 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 basic 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*.

We noted certain matters that we have reported to the management of the Town in a separate letter dated August 19, 2011.

This report is intended solely for the information and use of management, the Town Council, the Mayor and others within the Town and is not intended to be and should not be used by anyone other than these specified parties.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
August 19, 2011