

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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YEAR ENDED JUNE 30, 2012

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

LIST OF ELECTED AND APPOINTED OFFICIALS

YEAR ENDED JUNE 30, 2012

MAYOR

Carl Smith

TOWN 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, 2012, 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 previously 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, 2012, and the respective changes in financial position and where applicable, cash flows, 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 22, 2012 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
August 22, 2012

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

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, 2012. 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 \$11,379,000 (*net assets*). Of this amount, approximately \$3,538,000 and \$7,841,000 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 \$2,207,000 for its governmental activities and approximately \$973,000 for its business-type activities.
- The government's total net assets increased by approximately \$564,000 for governmental activities and \$76,000 for business-type activities, as total revenues of approximately \$5,452,000 exceeded total expenses of approximately \$4,812,000.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$3,926,000, an increase of approximately \$431,000 over the prior year's fund balance. Approximately 83% of this total amount, or approximately \$3,272,000, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, \$1,000,000 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, \$250,000 of the General Fund's unassigned portion of the Fund's balance was allocated to the Capital Improvement Reserve Fund.
- At the end of the current fiscal year, unassigned, unallocated fund balance of the General Fund was approximately \$2,022,000 or 56% of total General Fund expenditures for the year ended June 30, 2012.
- The Town's total capital assets decreased by approximately \$215,000 (3%) during the current fiscal year primarily due to depreciation expense of approximately \$465,000 partially offset by capital asset additions of approximately \$260,000. Capital asset additions were primarily related to the purchase of utility projects and equipment.
- The Town's total debt decreased by approximately \$197,000 (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, 2012

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, 2012

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, 2012

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 2012 compared to 2011.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and Other Assets	\$ 4,038,683	3,626,740	1,088,967	770,575	5,127,650	\$ 4,397,315
Capital Assets, Net	948,325	970,645	6,145,837	6,338,278	7,094,162	7,308,923
Contributed Capital, Net	-	-	1,173,291	1,255,047	1,173,291	1,255,047
Total Assets	4,987,008	4,597,385	8,408,095	8,363,900	13,395,103	12,961,285
Liabilities:						
Long-Term Obligations	1,338,409	1,491,732	475,152	525,420	1,813,561	2,017,152
Other Liabilities	110,402	131,045	91,898	73,996	202,300	205,041
Total Liabilities	1,448,811	1,622,777	567,050	599,416	2,015,861	2,222,193
Net Assets:						
Invested in Capital Assets, Net of Related Debt (1)	948,325	970,645	6,868,128	7,090,325	6,586,453	6,685,970
Restricted	382,614	380,099	-	-	382,614	380,099
Unrestricted (1)	2,207,258	1,623,864	972,917	674,159	4,410,175	3,673,023
Total Net Assets	\$ 3,538,197	2,974,608	7,841,045	7,764,484	11,379,242	\$ 10,739,092

(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 \$13,395,000 increased approximately \$434,000 over the prior year. The increase is primarily due to a substantial increase in revenue streams such as business licenses and grants while total expenses decreased. Total liabilities at June 30, 2012 decreased by approximately \$206,000 from the prior year primarily due to principal payments made during the year on the Town’s long-term obligations.

The Town’s net assets increased by approximately \$640,000 during the current fiscal year due to current year expenses exceeding current year revenues. Please see discussion following the next table regarding this increase.

The Town’s assets exceeded liabilities by approximately \$11,379,000 at June 30, 2012. The largest portion of the Town’s net assets of approximately \$6,586,000 (approximately 58%) 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 \$383,000 (approximately 3%) 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 \$4,410,000 (approximately 39%) 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, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the Town’s net assets for fiscal year 2012 compared to 2011.

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 281,094	321,442	1,545,463	1,516,218	1,826,557	\$ 1,837,660
Capital Grants and Contributions	33,168	-	58,552	-	91,720	-
General Revenues:						
Taxes	3,186,607	2,878,781	-	-	3,186,607	2,878,781
Other	344,697	189,065	2,778	5,146	347,475	194,211
Total Revenues	3,845,566	3,389,288	1,606,793	1,521,364	5,452,359	4,910,652
Expenses:						
Public Works	514,083	518,494	-	-	514,083	518,494
Public Safety	1,759,832	1,758,323	-	-	1,759,832	1,758,323
General Government	1,154,236	1,329,112	-	-	1,154,236	1,329,112
Interest on Long-Term Obligations	50,764	56,228	-	-	50,764	56,228
Water	-	-	680,858	635,287	680,858	635,287
Sewer	-	-	652,436	657,137	652,436	657,137
Total Expenses	3,478,915	3,662,157	1,333,294	1,292,424	4,812,209	4,954,581
Change in Net Assets Before Transfers	366,651	(272,869)	273,499	228,940	640,150	(43,929)
Transfers In (Out)	196,938	197,624	(196,938)	(197,624)	-	-
Change in Net Assets	563,589	(75,245)	76,561	31,316	640,150	(43,929)
Net Assets - Beginning of Year	2,974,608	3,049,853	7,764,484	7,733,168	10,739,092	10,783,021
Net Assets - End of Year	\$ 3,538,197	2,974,608	7,841,045	7,764,484	11,379,242	\$ 10,739,092

Governmental Activities: Governmental activities increased the Town’s net assets by approximately \$564,000 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 \$456,000, or 13%, over the prior year due in part to increases in revenue from property tax, business licenses and building permits and also, from a \$175,000 payment from the Charleston County School District for an impact fee.
- Total governmental activities expenses decreased by approximately \$183,000, over the prior year due to a decrease in the 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 2012, other revenue for the governmental activities includes approximately \$40,000 in revenue from Charleston County’s Accommodations Fund for the Town to hire off duty Charleston County Sheriff’s Deputies to aid the Town during special events and during the busy season.
- The transfers-in for the governmental activities is a transfer from the business activities for approximately \$197,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities: Net assets for business-type activities (water and sewer services) increased by approximately \$77,000.

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:

- The cost of water purchased from CWS was approximately \$14,000 less in 2012 than 2011.
- Sewer Fund received approximately \$58,000 as a sub-recipient of funds from the American Recovery and Reinvestment Act for an energy efficiency project for the sewer plant.

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 \$3,926,000, an increase of approximately \$431,000 from the prior year fund balance. The increase in fund balance was the result of revenue exceeding operating expenditures of the Town.

Approximately 83% or \$3,272,000 of the total governmental fund balance of approximately \$3,926,000 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 (\$86,000), restricted (2) for tourism related expenditures or operating expenses incurred to serve tourists (\$278,000) and other outside restrictions (\$105,000), committed for (3) expenditures related to the Tree Fund (\$37,000), to tennis and basketball courts replacement (\$126,000) and to Island Club repairs (\$2,000) and assigned (4) by Council in the amount received from the Estate of William Bradley (\$20,000).

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the total fund balance was approximately \$3,610,000. 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 (\$3,272,000) represents approximately 90% of total General Fund expenditures for 2012. Of the unassigned fund balance, Council has established a reserve for emergency expenditures which at the end of 2012 has a balance of \$1,000,000 and a reserve for capital improvements of \$250,000.

Points of interest for the General Fund were as follows:

- Licenses and franchise fees came in over \$121,000 more than projected.
- During 2012 the General Fund's fund balance increased by approximately \$431,000.
- During 2011 the Town had to relocate the Town Hall facilities to a temporary location. The expenditures for this relocation totaled approximately \$144,000 in 2011 and approximately \$88,000 in 2012.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE TOWN’S FUNDS (CONTINUED)

- \$175,000 was received from the Charleston County School District as an impact fee for the new school which will be constructed on Sullivan’s Island.
- The Town was able to purchase approximately \$33,000 worth of equipment for the fire department because of a grant received by the Town and a contribution from the Sullivan’s Island Volunteer Fire and Rescue.

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 \$7,841,000. 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 \$108,000 at June 30, 2012.

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 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town’s investment in capital assets as of June 30, 2012 and June 30, 2011, amounted to approximately \$7,094,000 and \$7,309,000 (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, 2012 and 2011 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 37,392	37,392	-	-	37,392	\$ 37,392
Building and Improvements	210,025	196,152	-	-	210,025	196,152
Machinery and Equipment	187,505	192,876	-	-	187,505	192,876
Vehicles and Vehicle Equipment	189,983	208,539	-	-	189,983	208,539
Vehicles, Machinery, and Equipment	-	-	117,748	111,023	117,748	111,023
Fire and Emergency Command System	323,420	335,686	-	-	323,420	335,686
Water/Sewer System	-	-	6,028,089	6,227,255	6,028,089	6,227,255
Total	\$ 948,325	970,645	6,145,837	6,338,278	7,094,162	\$ 7,308,923

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

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 \$215,000 or approximately 3%. Major capital asset events during the current fiscal year included the following:

- Capital asset additions of approximately \$134,200 for governmental activities which consisted primarily of the following:
 - Purchase of a police vehicle for approximately \$30,500.
 - Purchase of a boat motor and two pumps for the rescue boats for the Fire Department’s rescue boat costing approximately \$33,000.
 - Replacement and additions to beach path walkways for approximately \$20,000.
 - Purchase of a lawn mower for approximately \$11,000.
 - Improvements to the Island Club building costing approximately \$13,800.
- Capital asset additions of approximately \$125,000 for business-type activities which consisted primarily of the following:
 - Waterline project – portion completed in 2012 for approximately \$20,000.
 - Sewer system improvements for approximately \$47,000.
 - Sewer energy efficiency project funded through grant revenue for approximately \$58,000.
- Depreciation expense of approximately \$146,000 for governmental activities and \$318,000 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, 2012 and June 30, 2011, the Town had total outstanding debt of approximately \$1,681,000 and \$1,878,000, respectively. Of the Town’s total long-term obligations, approximately \$1,230,000 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, 2012 and 2011 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Debt:						
General Obligation Bond	\$ 1,230,000	1,375,000	-	-	1,230,000	\$ 1,375,000
Revenue Bond	-	-	451,000	503,000	451,000	503,000
Total Debt	<u>\$ 1,230,000</u>	<u>1,375,000</u>	<u>451,000</u>	<u>503,000</u>	<u>1,681,000</u>	<u>\$ 1,878,000</u>

The total decrease in the Town’s debt obligations for the current fiscal year was approximately \$197,000 or 10%. Major events during the current fiscal year included the following:

- The Town’s governmental activities had scheduled principal payments on debt obligations of approximately \$145,000.
- The Town’s business-type activities had scheduled principal payments on debt obligations of approximately \$52,000.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

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, 2012 was approximately \$4,900,000. The Town had \$1,230,000 of bonded debt subject to the 8% limit and thus resulted in the Town having an unused legal debt margin of approximately \$3,670,000.

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 2012-2013 BUDGETS AND RATES FOR THE TOWN

The Town’s elected officials and staff considered many factors when setting the fiscal year 2013 budget. The state of the economy, tourism activity, anticipated building activity, future capital needs, and the best interests of the Town’s residents were all taken into account. Key budget highlights were as follows:

- Property tax increase to help replenish the fund balance.
- 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 three police vehicle, two trucks for the fire department, and a truck for the water and sewer department and a backhoe which will be used by the water and sewer department and the maintenance department.
- 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, 2012

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 2,966,586	863,505	\$ 3,830,091
Cash and Cash Equivalents - Restricted	268,458	21,900	290,358
Investments	281,932	-	281,932
Taxes Receivable, Net	113,535	-	113,535
Other Receivables, Net	321,704	185,095	506,799
Prepaid Expenses	86,468	18,467	104,935
Capital Assets:			
Non-Depreciable	37,392	-	37,392
Depreciable, Net	910,933	6,145,837	7,056,770
Capacity Capital Contribution, Net	-	1,173,291	1,173,291
TOTAL ASSETS	4,987,008	8,408,095	13,395,103
LIABILITIES			
Accounts Payable	31,860	62,576	94,436
Accrued Interest	12,542	-	12,542
Other Accrued Liabilities	66,000	7,422	73,422
Customer Deposits	-	21,900	21,900
Long-Term Obligations:			
Due Within One Year	263,409	24,152	287,561
Due in More Than One Year	1,075,000	451,000	1,526,000
TOTAL LIABILITIES	1,448,811	567,050	2,015,861
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	948,325	6,868,128	6,586,453
Restricted For:			
Tourism Related Expenditures	278,000	-	278,000
Other	104,614	-	104,614
Unrestricted	2,207,258	972,917	4,410,175
TOTAL NET ASSETS	\$ 3,538,197	7,841,045	\$ 11,379,242

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, 2012

<u>FUNCTIONS/PROGRAMS</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
PRIMARY GOVERNMENT:							
Governmental Activities:							
Public Works	\$ 514,083	-	-	-	(514,083)		\$ (514,083)
Public Safety	1,759,832	29,980	-	33,168	(1,696,684)		(1,696,684)
General Government	1,154,236	251,114	-	-	(903,122)		(903,122)
Interest on Long Term Obligations	50,764	-	-	-	(50,764)		(50,764)
Total Governmental Activities	<u>3,478,915</u>	<u>281,094</u>	<u>-</u>	<u>33,168</u>	<u>(3,164,653)</u>		<u>(3,164,653)</u>
Business-Type Activities:							
Water	680,858	920,365	-	-		239,507	239,507
Sewer	652,436	625,098	-	58,552		31,214	31,214
Total Business-Type Activities	<u>1,333,294</u>	<u>1,545,463</u>	<u>-</u>	<u>58,552</u>		<u>270,721</u>	<u>270,721</u>
TOTAL - PRIMARY GOVERNMENT	<u>\$ 4,812,209</u>	<u>1,826,557</u>	<u>-</u>	<u>91,720</u>	<u>(3,164,653)</u>	<u>270,721</u>	<u>(2,893,932)</u>
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Property Taxes					1,614,641	-	1,614,641
Local Option Sales Taxes					174,527	-	174,527
Hospitality Taxes					269,532	-	269,532
Accommodation Taxes					59,586	-	59,586
Business License Taxes					576,612	-	576,612
Franchise Taxes					491,709	-	491,709
Intergovernmental					56,502	-	56,502
Interest Income					9,518	2,778	12,296
Gain (Loss) on Disposal of Capital Assets					(10,067)	-	(10,067)
Miscellaneous					288,744	-	288,744
Transfers In (Out)					196,938	(196,938)	-
Total General Revenues and Transfers					<u>3,728,242</u>	<u>(194,160)</u>	<u>3,534,082</u>
CHANGE IN NET ASSETS					<u>563,589</u>	<u>76,561</u>	<u>640,150</u>
NET ASSETS, Beginning of Year					<u>2,974,608</u>	<u>7,764,484</u>	<u>10,739,092</u>
NET ASSETS, End of Year					<u>3,538,197</u>	<u>7,841,045</u>	<u>\$ 11,379,242</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

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2012

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
ASSETS		
Cash and Cash Equivalents	\$ 2,929,091	-
Cash and Cash Equivalents - Restricted	55,949	-
Investments	281,932	-
Taxes Receivable, Net	113,535	-
Accounts Receivable, Net	256,205	-
Prepaid Expenses	86,468	-
TOTAL ASSETS	3,723,180	-
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	31,860	-
Other Accrued Liabilities	66,000	-
Deferred Revenue, Property Taxes	15,000	-
TOTAL LIABILITIES	112,860	-
FUND BALANCES		
Nonspendable:		
Prepaid Expenses	86,468	-
Restricted:		
Tourism Related Expenditures	-	-
Victims Services	55,949	-
Confederate Memorial	13,547	-
Land Trust	35,118	-
Committed:		
Tree Bank	-	-
Tennis & Basketball Courts Replacement	125,629	-
Island Club Repairs	2,059	-
Assigned:		
William Bradley Memorial Fund	20,000	-
Unassigned	3,271,550	-
TOTAL FUND BALANCES	3,610,320	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,723,180	-

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
-	-	37,495	\$ 2,966,586
47,810	164,699	-	268,458
-	-	-	281,932
-	-	-	113,535
10,320	55,171	8	321,704
-	-	-	86,468
58,130	219,870	37,503	4,038,683
-	-	-	31,860
-	-	-	66,000
-	-	-	15,000
-	-	-	112,860
-	-	-	86,468
58,130	219,870	-	278,000
-	-	-	55,949
-	-	-	13,547
-	-	-	35,118
-	-	37,503	37,503
-	-	-	125,629
-	-	-	2,059
-	-	-	20,000
-	-	-	3,271,550
58,130	219,870	37,503	3,925,823
58,130	219,870	37,503	\$ 4,038,683

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

JUNE 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 3,925,823
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 \$2,748,501 and the accumulated depreciation was \$1,800,176.	948,325
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.	(12,542)
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	(1,230,000)
Compensated Absences	(108,409)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 3,538,197</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, 2012

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
REVENUES		
Property Taxes	\$ 1,614,641	-
Local Option Sales Taxes	174,527	-
Accommodation Taxes	-	-
Hospitality Taxes	-	-
Licenses	1,068,321	-
Magistrate and Recorder Fines	54,854	-
State Shared Revenues	79,344	-
Permits	249,090	-
Victims' Rights Fund	8,294	-
Interest	8,524	-
Other	288,746	-
TOTAL REVENUES ALL SOURCES	3,546,341	-
EXPENDITURES		
Current:		
Public Works	495,747	-
Public Safety	1,677,925	-
General Government	1,073,943	-
Capital Outlay	176,606	-
Debt Service:		
Principal	145,000	-
Interest	51,938	-
TOTAL EXPENDITURES	3,621,159	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(74,818)	-
OTHER FINANCING SOURCES (USES)		
Transfers In	506,956	-
Transfers Out	-	-
TOTAL OTHER FINANCING SOURCES (USES)	506,956	-
NET CHANGES IN FUND BALANCES	432,138	-
FUND BALANCES, Beginning of Year	3,178,182	-
FUND BALANCES, End of Year	\$ 3,610,320	-

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
-	-	-	\$ 1,614,641
-	-	-	174,527
36,744	-	-	36,744
-	269,531	-	269,531
-	-	-	1,068,321
-	-	-	54,854
-	-	-	79,344
-	-	2,024	251,114
-	-	-	8,294
168	699	126	9,517
-	-	-	288,746
36,912	270,230	2,150	3,855,633
-	-	-	495,747
-	-	-	1,677,925
-	-	-	1,073,943
-	-	-	176,606
-	-	-	145,000
-	-	-	51,938
-	-	-	3,621,159
36,912	270,230	2,150	234,474
-	-	-	506,956
(30,000)	(277,921)	(2,097)	(310,018)
(30,000)	(277,921)	(2,097)	196,938
6,912	(7,691)	53	431,412
51,218	227,561	37,450	3,494,411
58,130	219,870	37,503	\$ 3,925,823

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, 2012

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 431,412
Amounts reported for the governmental activities in the Statement of Activities are different because of the following:	
Governmental funds report only proceeds received from the sale of capital assets, without any consideration for the net book value of the asset(s) that were sold. The Statement of Activities reports gains or losses based on the proceeds and the net book value of the asset(s) sold.	(10,067)
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.	145,000
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.	1,174
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.	8,323
Governmental funds report capital outlay as expenditures of \$134,242. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation of \$146,495. This is the amount by which depreciation exceeded capital outlay in the current period.	(12,253)
TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 563,589

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, 2012

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER	SEWER	TOTAL
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 653,546	209,959	\$ 863,505
Cash and Cash Equivalents - Restricted	21,900	-	21,900
Accounts Receivable, Net	100,883	84,212	185,095
Prepaid Expenses	8,309	10,158	18,467
Total Current Assets	784,638	304,329	1,088,967
Noncurrent Assets:			
Capital Assets:			
Depreciable, Net	2,922,193	3,223,644	6,145,837
Capacity Capital Contribution, Net	1,173,291	-	1,173,291
Total Noncurrent Assets	4,095,484	3,223,644	7,319,128
TOTAL ASSETS	4,880,122	3,527,973	8,408,095
LIABILITIES			
Current Liabilities:			
Accounts Payable	31,254	31,322	62,576
Other Accrued Liabilities	3,711	3,711	7,422
Customer Deposits	21,900	-	21,900
Compensated Absences Liability	12,076	12,076	24,152
Total Current Liabilities	68,941	47,109	116,050
Noncurrent Liabilities:			
Revenue Bond Payable - Net of Current Portion	-	451,000	451,000
TOTAL LIABILITIES	68,941	498,109	567,050
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,095,484	2,772,644	6,868,128
Unrestricted	715,697	257,220	972,917
TOTAL NET ASSETS	\$ 4,811,181	\$ 3,029,864	\$ 7,841,045

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, 2012

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER	SEWER	TOTAL
OPERATING REVENUES			
Charges for Services	\$ 880,245	617,653	\$ 1,497,898
Meter Connections, Sewer Tie-In Fees, and Other Revenue	40,120	7,445	47,565
TOTAL OPERATING REVENUES	920,365	625,098	1,545,463
OPERATING EXPENSES			
Salaries	173,566	173,565	347,131
Payroll Taxes	12,220	12,740	24,960
Hospitalization Insurance	19,288	19,285	38,573
Retirement	15,097	15,712	30,809
Gas and Oil - Vehicles	6,567	6,567	13,134
Diesel Fuel and Equipment	2,520	7,301	9,821
Repairs and Maintenance - Diesel Equipment	2,122	-	2,122
Vehicle Repairs	3,319	3,170	6,489
Supplies and Tools	7,132	11,474	18,606
Office Supplies	6,931	6,893	13,824
Lab Supplies	3,203	6,396	9,599
Telephone	7,583	7,582	15,165
Power and Lights	3,085	48,216	51,301
Insurance	18,117	20,562	38,679
Equipment Repairs	188	-	188
System Repairs and Improvements	30,276	82,592	112,868
Sludge Disposal	-	10,658	10,658
Grit Disposal	-	1,027	1,027
Dues and Certifications	4,758	1,502	6,260
Training and Seminars	3,645	3,514	7,159
Professional Engineering Fees	210	787	997
Professional Services	5,000	5,000	10,000
Lab Analysis, Inspection, and Chemicals	9,117	22,503	31,620
Wholesale Water Purchase	99,543	-	99,543
Depreciation	246,345	169,502	415,847
Miscellaneous	1,026	1,049	2,075
TOTAL OPERATING EXPENSES	680,858	637,597	1,318,455
OPERATING INCOME (LOSS)	239,507	(12,499)	227,008
NONOPERATING REVENUE (EXPENSES)			
Federal Grant Award	-	58,552	58,552
Interest Income	2,045	733	2,778
Interest Expense	-	(14,839)	(14,839)
TOTAL NONOPERATING REVENUE (EXPENSES)	2,045	44,446	46,491
INCOME (LOSS) BEFORE TRANSFERS	241,552	31,947	273,499
Transfers Out	(196,938)	-	(196,938)
CHANGE IN NET ASSETS	44,614	31,947	76,561
NET ASSETS, Beginning of Year	4,766,567	2,997,917	7,764,484
NET ASSETS, End of Year	\$ 4,811,181	3,029,864	\$ 7,841,045

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, 2012

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 933,325	616,331	\$ 1,549,656
Cash Payments to Suppliers for Goods and Services	(201,243)	(245,261)	(446,504)
Cash Payments to Employees	(219,305)	(220,436)	(439,741)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>512,777</u>	<u>150,634</u>	<u>663,411</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfer from (to) Other Funds	(196,938)	-	(196,938)
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(196,938)</u>	<u>-</u>	<u>(196,938)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets	(20,074)	(105,558)	(125,632)
Capacity Capital Contribution	(16,018)	-	(16,018)
Principal Paid on Debt and Lease Purchase	-	(52,000)	(52,000)
Interest Paid on Debt and Lease Purchase	-	(14,839)	(14,839)
Federal Grant Award	-	58,552	58,552
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(36,092)</u>	<u>(113,845)</u>	<u>(149,937)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	2,045	733	2,778
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,045</u>	<u>733</u>	<u>2,778</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	281,792	37,522	319,314
CASH AND CASH EQUIVALENTS, Beginning of Year	\$ 393,654	172,437	566,091
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 675,446</u>	<u>209,959</u>	<u>\$ 885,405</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Operating Income (Loss)	\$ 239,507	(12,499)	\$ 227,008
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Depreciation Expense	246,345	169,502	415,847
Change Due to (Increase) Decrease in Operating Assets:			
Other Receivable	9,660	(8,767)	893
Prepaid Expenses	25	4	29
Change Due to Increase (Decrease) in Operating Liabilities:			
Other Payables	13,074	1,528	14,602
Compensated Absences	866	866	1,732
Customer Deposits	3,300	-	3,300
Net Cash Provided by Operating Activities	<u>\$ 512,777</u>	<u>150,634</u>	<u>\$ 663,411</u>
SUPPLEMENTAL INFORMATION FOR NONCASH ACTIVITIES:			
Depreciation Expense	\$ 246,345	169,502	\$ 415,847
	<u>\$ 246,345</u>	<u>169,502</u>	<u>\$ 415,847</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, 2012

ASSETS

Cash and Cash Equivalents	\$	107,748
TOTAL ASSETS	\$	107,748

LIABILITIES

Due To Volunteer Fire Department	\$	107,748
TOTAL LIABILITIES	\$	107,748

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, 2012

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, 2012

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, 2012

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, 2012

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, 2012

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, 2012

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

4. *Capital Assets*

General capital assets are those assets not specifically related to activities reported in the Proprietary Funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net 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, 2012

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 discounts 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 prior year. The objective of GASB #54 was to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by 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, 2012

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, 2012 is \$1,000,000.

In the unassigned funds, the Town also has a Capital Improvements Reserve. No less than 20% of any year's surplus shall be allocated to this reserve 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 Capital Improvements Reserve. The balance as of June 30, 2012 is \$250,000.

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

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

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

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, 2012.

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, 2012, none of the Town's bank balances of \$4,554,938 (with a carrying value of \$4,025,312) were exposed to custodial credit risk.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

A. Deposits and Investments (Continued)

Investments

As of June 30, 2012, 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	\$ 202,885	^	unrated	unrated	unrated
Federal Home Ln Bks Fixed Rate AU-8012	125,854	< 5 year	AAA	AA+	unrated
Federal Farm Cr Bks Cons Systemwide Bds	<u>156,078</u>	< 5 year	AAA	AA+	unrated
Total	<u>\$ 484,817</u>				

^ 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, 2012.

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, 2012 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, 2012

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	\$ 3,830,091
Investments	281,932
Restricted Current Assets:	
Cash and Cash Equivalents, Restricted	<u>290,358</u>
	4,402,381
 <u>Statement of Net Assets - Fiduciary Fund - Agency Fund</u> 	
Unrestricted Current Assets:	
Cash and Cash Equivalents	<u>107,748</u>
Total per the basic financial statements	<u><u>\$ 4,510,129</u></u>
 <u>Notes</u> 	
Carrying Value of Deposits	\$ 4,025,312
Investments	<u>484,817</u>
Total per the notes	<u><u>\$ 4,510,129</u></u>

B. Property Taxes, Other Receivables, and Deferred Revenue

The Town’s 2011 property taxes are levied on October 1, 2011 and were due beginning on this date based on the assessed valuation as of January 1, 2011. Property taxes were considered late on January 15, 2012. 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 2011 property tax year was 207.3 mills (179.5 mills for Charleston County and 27.8 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, 2012

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

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

The Town had receivables of \$185,095 related to business-type activities at June 30, 2012 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, 2012, of the following:

	General Fund	Local Accommodations Tax Fund	Hospitality Tax Fund	Tree Bank Fund	Totals
Property Taxes	\$ 113,535	-	-	-	\$ 113,535
Accommodations Taxes	6,013	10,309	-	-	16,322
Hospitality Taxes	-	-	55,128	-	55,128
Franchise Fees	21,000	-	-	-	21,000
State Aid to Subdivisions	8,357	-	-	-	8,357
Local Options Sales Tax	41,754	-	-	-	41,754
Miscellaneous	179,081	11	43	8	179,143
Net Receivables	<u>\$ 369,740</u>	<u>10,320</u>	<u>55,171</u>	<u>8</u>	<u>\$ 435,239</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, 2012, 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, 2012, there were no interfund receivables and payables.

Transfers between funds for the year ended June 30, 2012, consisted of the following:

Fund	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 506,956	\$ -
Local Accommodations Tax Fund	-	30,000
Local Hospitality Tax Fund	-	277,921
Tree Fund	-	2,097
Major Enterprise Funds:		
Water Fund	-	196,938
Totals	<u>\$ 506,956</u>	<u>\$ 506,956</u>

The transfers to the General Fund were primarily from the Local Accommodations Tax and Local Hospitality Tax Funds to cover a portion of tourism related operating expenditures in accordance with State law and Town ordinances.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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, 2012, 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	30,738	2,235	461,476
Machinery and Equipment	522,969	52,382	76,067	499,284
Playground Equipment	193,936	20,667	27,716	186,887
Vehicles	1,006,211	30,455	21,305	1,015,361
Fire and Emergency Command Center	548,101	-	-	548,101
Total Capital Assets, Depreciable	<u>2,704,190</u>	<u>134,242</u>	<u>127,323</u>	<u>2,711,109</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	236,821	16,865	2,235	251,451
Machinery and Equipment	395,532	57,357	66,000	386,889
Playground Equipment	128,497	10,996	27,716	111,777
Vehicles	797,672	49,011	21,305	825,378
Fire and Emergency Command Center	212,415	12,266	-	224,681
Total Accumulated Depreciation	<u>1,770,937</u>	<u>146,495</u>	<u>117,256</u>	<u>1,800,176</u>
Total Capital Assets, Depreciable, Net	<u>933,253</u>	<u>(12,253)</u>	<u>10,067</u>	<u>910,933</u>
Governmental Activities Capital Assets, Net	<u>\$ 970,645</u>	<u>(12,253)</u>	<u>10,067</u>	<u>\$ 948,325</u>

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

Functions/Programs	Amount
Governmental Activities:	
Public Works	\$ 26,738
Public Safety	80,689
General Government	39,068
Total Depreciation Expense - Governmental Activities	<u>\$ 146,495</u>

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Depreciable				
Water System	\$ 4,459,936	20,074	-	\$ 4,480,010
Sewer System	4,928,474	47,281	49,664	4,926,091
Lab Equipment	20,869	-	-	20,869
Vehicles and Equipment	201,096	58,277	10,017	249,356
Leased Equipment	607,304	-	-	607,304
Total Capital Assets, Depreciable	<u>10,217,679</u>	<u>125,632</u>	<u>59,681</u>	<u>10,283,630</u>
Less: Accumulated Depreciation for:				
Water System	1,478,312	128,045	-	1,606,357
Sewer System	1,682,843	138,476	49,664	1,771,655
Lab Equipment	15,638	610	-	16,248
Vehicles and Equipment	183,396	16,385	10,017	189,764
Leased Equipment	519,212	34,557	-	553,769
Total Accumulated Depreciation	<u>3,879,401</u>	<u>318,073</u>	<u>59,681</u>	<u>4,137,793</u>
Total Capital Assets, Being Depreciated, Net	<u>6,338,278</u>	<u>(192,441)</u>	<u>-</u>	<u>6,145,837</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,338,278</u>	<u>(192,441)</u>	<u>-</u>	<u>\$ 6,145,837</u>

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

Functions/Programs	Amount
Business-Type Activities:	
Water	\$ 148,571
Sewer	169,502
Total Depreciation Expense - Business-Type Activities	<u>\$ 318,073</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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 \$500,778 since fiscal year 2005, for a total of \$2,486,994 as of June 30, 2012. This asset is being amortized over 30 years. The accumulated amortization is \$1,313,703 and the net asset is \$1,173,291 as of June 30, 2012. The amortization expense for fiscal year 2012 was \$97,774.

E. Long-Term Obligations

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

Details on the Town's outstanding debt issues and lease purchase obligations for the governmental activities and business-type activities as of June 30, 2012 are as follows:

	<u>Principal Outstanding at Year End</u>
<u>General Obligation Bonds</u>	
\$2,250,000 General Obligation Bonds (October 2003) were issued to finance initial stages of the water line replacement and upgrade project. Principal is payable annually and interest is payable semi-annually 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.	<u>\$ 1,230,000</u>
<u>Revenue Bonds</u>	
\$553,000 Waterworks and Sewer System Revenue Bond, Series 2010 (November 2010) refinanced the remaining balance on the \$800,000 Revenue Bonds (July 2004) which originally were issued to finance the substantial upgrades to the Town's Wastewater Treatment Plant. These obligations are secured and funded with the revenues and resources of the Water 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, 2012.	<u>\$ 451,000</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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	\$ 1,375,000	-	145,000	1,230,000	\$ 155,000
Compensated Absences	116,732	71,470	79,793	108,409	108,409
Total Governmental Activities	<u>\$ 1,491,732</u>	<u>71,470</u>	<u>224,793</u>	<u>1,338,409</u>	<u>\$ 263,409</u>
Business-Type Activities:					
Debt:					
Revenue Bond - 11/10 - Sewer	\$ 503,000	-	52,000	451,000	\$ -
Compensated Absences	22,420	10,153	8,421	24,152	24,152
Total Business-Type Activities	<u>\$ 525,420</u>	<u>10,153</u>	<u>60,421</u>	<u>475,152</u>	<u>\$ 24,152</u>

The Town paid interest of \$51,938, and \$14,839 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, 2012.

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, 2012, the Town had \$1,230,000 of bonded debt subject to the 8% limit of approximately \$4,900,000 resulting in an unused legal debt margin of approximately \$3,670,000.

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 2012 that was due in July 2012 for the Water and Sewer System Refunding Revenue Bonds (Series 2010). Therefore, no current amount is due as of June 30, 2012.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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>			
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	180,000	19,152	199,152
2018-2019	390,000	15,761	405,761
Totals	<u>\$ 1,230,000</u>	<u>179,950</u>	<u>\$ 1,409,950</u>
<u>Business-Type Activities</u>			
2013	\$ -	13,305	\$ 13,305
2014	55,000	11,682	66,682
2015	58,000	9,971	67,971
2016	60,000	8,201	68,201
2017	65,000	6,284	71,284
2018-2020	213,000	6,402	219,402
Totals	<u>\$ 451,000</u>	<u>55,845</u>	<u>\$ 506,845</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 \$1,230,000 balance outstanding at June 30, 2012 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, 2012, the Town made premium payments totaling approximately \$129,000. SCMIRF’s net assets from its most recently issued audited financial statements at December 31, 2011 totaled approximately \$29,608,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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, 2012, the Town made premium payments totaling approximately \$77,000. 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, 2011 totaled approximately \$45,904,000.

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

Participation in Public Entity Risk Pool for Health Insurance

The Town has also joined together with other local governments in the South Carolina Employee Insurance Program 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. For the year ended June 30, 2012, the Town made premium payments totaling approximately \$247,000. The South Carolina Employee Insurance Program's net assets from its most recently issued audited financial statements at June 30, 2011 were approximately \$211,993,000.

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, 2012

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		
	2010	2011	2012	2010	2011	2012
<u>Employer Rate</u>						
Retirement	9.24%	9.24%	9.39%	10.65%	11.13%	11.36%
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>9.54%</u>	<u>11.05%</u>	<u>11.53%</u>	<u>11.76%</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
2012	\$ 79,980	100%	9.54%	\$ 122,252	100%	11.76%
2011	79,876	100%	9.39%	117,749	100%	11.53%
2010	\$ 75,034	100%	9.39%	\$ 108,249	100%	11.05%

C. Pending Implementation of GASB Statement on Pensions

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

In particular, the Town will be required to report a net pension liability for its participation in the SCRS and SCPORS on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Assets) and present more extensive note disclosures. In general, it should not have a significant impact on the Town’s governmental funds.

The effect of implementation of this Statement has not been determined at this time, but it is anticipated that it will materially decrease the Town’s unrestricted net assets. This Statement is required to be implemented by the Town no later than the fiscal year ending June 30, 2015.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

IV. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits

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

E. Commitments and Contingencies

The Town receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the Town at June 30, 2012.

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.

The Town's construction commitments were approximately \$65,000 related to the Raven Drive infrastructure improvements as of June 30, 2012.

F. Subsequent Events

In July 2012, the Town entered into a contract to replace the Sullivan's Island Stith Park Tennis Courts and Basketball Court for \$167,968.

In August 2012, the Town passed a resolution to finance six vehicles and one backhoe through BB&T. The amount financed shall not exceed \$260,000, the annual interest rate shall not exceed 1.49%, and the financing term shall not exceed three years from closing.

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, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property Taxes	\$ 1,570,000	1,570,000	1,614,641	\$ 44,641
Local Option Sales Tax	173,000	173,000	174,527	1,527
Licenses and Franchise Fees	947,000	947,000	1,068,321	121,321
Magistrate and Recorder Fines	62,000	62,000	54,854	(7,146)
State Shared Revenues	71,260	71,260	79,344	8,084
Permits	239,000	239,000	249,090	10,090
Victims' Rights Fund	10,000	10,000	8,294	(1,706)
Interest Income	17,500	17,500	8,524	(8,976)
Insurance Proceeds				
Other	15,250	15,250	288,746	273,496
TOTAL REVENUES ALL SOURCES	3,105,010	3,105,010	3,546,341	441,331
EXPENDITURES				
Maintenance	524,610	524,610	507,140	17,470
Police	830,450	830,450	807,712	22,738
Fire	924,350	924,350	941,658	(17,308)
Recreation	41,500	41,500	63,061	(21,561)
Building	201,600	201,600	180,335	21,265
Administrative	945,500	945,500	1,121,253	(175,753)
TOTAL EXPENDITURES	3,468,010	3,468,010	3,621,159	(153,149)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(363,000)	(363,000)	(74,818)	288,182
OTHER FINANCING SOURCES (USES)				
Transfers In	413,000	413,000	506,956	93,956
TOTAL OTHER FINANCING SOURCES (USES)	413,000	413,000	506,956	93,956
NET CHANGES IN FUND BALANCES	50,000	50,000	432,138	382,138
FUND BALANCES, Beginning of Year	-	-	3,178,182	3,178,182
FUND BALANCES, End of Year	\$ 50,000	50,000	3,610,320	\$ 3,560,320

Note: The Town's original and final budget reflected a surplus of \$50,000 to replenish the Town's fund balance.

Other Supplementary Information

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2012

	2012		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
MAINTENANCE			
Operating Expenditures:			
Salaries	\$ 138,000	133,928	\$ 4,072
Payroll Taxes	10,500	9,886	614
Health Insurance	11,950	11,368	582
Retirement	10,500	9,389	1,111
Gas and Oil - Vehicles	12,000	10,347	1,653
Diesel Fuel	3,500	3,786	(286)
Vehicle Repairs	5,000	15,481	(10,481)
Supplies and Materials	25,000	30,646	(5,646)
Uniforms	3,500	405	3,095
Telephone	660	798	(138)
Power and Lights	40,000	36,324	3,676
Insurance	20,000	14,803	5,197
System Repairs and Improvements	15,000	11,569	3,431
Garbage Disposal Service - Subcontract	170,000	156,066	13,934
Container Servicing	13,000	10,926	2,074
Causeway Maintenance	32,000	39,805	(7,805)
Miscellaneous	2,000	220	1,780
Total Operating Expenditures	<u>512,610</u>	<u>495,747</u>	<u>16,863</u>
Capital Expenditures:			
Capital Outlay	12,000	11,393	607
TOTAL EXPENDITURES	<u>524,610</u>	<u>507,140</u>	<u>17,470</u>

POLICE

Operating Expenditures:			
Salaries	440,000	453,565	(13,565)
Payroll Taxes	32,100	32,917	(817)
Health Insurance	55,500	54,339	1,161
Retirement	51,000	51,126	(126)
Gas and Oil - Vehicles	52,000	37,135	14,865
Diesel Fuel	400	602	(202)
Vehicle Repairs	18,000	13,272	4,728
Supplies and Materials	15,000	13,768	1,232
Telephone	12,000	13,125	(1,125)
Power and Lights	5,800	4,585	1,215
Uniforms	9,000	4,803	4,197
Insurance	59,000	43,903	15,097
800 MHZ Radios	\$ 3,300	3,300	\$ -

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2012

	2012		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Property & Equipment <\$5,000	\$ 10,850	13,061	\$ (2,211)
System Repairs and Improvements	8,000	5,858	2,142
Dues and Certifications	500	390	110
Training and Seminars	6,500	5,162	1,338
Dispatching Services	20,000	18,257	1,743
Miscellaneous	1,500	773	727
Total Operating Expenditures	<u>800,450</u>	<u>769,941</u>	<u>30,509</u>
Capital Expenditures:			
Capital Outlay	30,000	37,771	(7,771)
TOTAL EXPENDITURES	<u>830,450</u>	<u>807,712</u>	<u>22,738</u>
FIRE			
Operating Expenditures:			
Salaries	540,000	536,569	3,431
Payroll Taxes	40,000	38,428	1,572
Health Insurance	80,150	73,284	6,866
Retirement	62,500	62,393	107
Gas and Oil - Vehicles	8,200	7,826	374
Diesel Fuel	4,500	5,642	(1,142)
Vehicle Repairs	19,000	24,449	(5,449)
Supplies and Materials	23,000	18,649	4,351
Telephone	10,000	12,235	(2,235)
Uniforms	7,500	11,228	(3,728)
Power and Lights	9,500	8,290	1,210
Insurance	60,000	56,256	3,744
Building Repairs	-	5,355	(5,355)
800 MHZ Radios	5,000	3,750	1,250
Property & Equipment <\$5,000	10,000	217	9,783
System Repairs and Improvements	6,000	10,415	(4,415)
Dues and Certifications	1,000	75	925
Training and Seminars	9,500	8,826	674
Dispatching Services	20,000	18,257	1,743
Miscellaneous	8,500	5,840	2,660
Total Operating Expenditures	<u>924,350</u>	<u>907,984</u>	<u>16,366</u>
Capital Expenditures:			
Capital Outlay	-	33,674	(33,674)
TOTAL EXPENDITURES	<u>\$ 924,350</u>	<u>941,658</u>	<u>\$ (17,308)</u>

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2012

	2012		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
RECREATION			
Operating Expenditures:			
Power and Lights	\$ 7,500	5,040	\$ 2,460
Insurance	2,500	2,085	415
Maintenance Recreation Area	2,000	2,992	(992)
Property & Equipment <\$5,000	2,000	3,940	(1,940)
Miscellaneous	27,500	17,475	10,025
Total Operating Expenditures	<u>41,500</u>	<u>32,323</u>	<u>9,177</u>
Capital Expenditures:			
Capital Outlay	-	30,738	(30,738)
TOTAL EXPENDITURES	<u>41,500</u>	<u>63,061</u>	<u>(21,561)</u>
BUILDING			
Operating Expenditures:			
Salaries	122,200	111,253	10,947
Payroll Taxes	9,200	8,220	980
Health Insurance	11,000	9,706	1,294
Retirement	12,700	12,113	587
Gas and Oil - Vehicles	2,600	2,526	74
Office Supplies	3,000	2,734	266
Supplies - Building Official	2,000	1,621	379
Telephone	1,700	2,397	(697)
Utilities	1,300	1,026	274
Insurance	5,000	4,275	725
System Repair and Maintenance	1,500	-	1,500
Dues and Certifications	1,500	285	1,215
Training and Seminars	3,000	1,169	1,831
Board of Zoning Appeals	2,000	1,563	437
Design and Review Board	9,000	8,279	721
Tree Commission	1,500	2,097	(597)
Trimming and Pruning	11,400	10,475	925
Equipment	1,000	596	404
TOTAL EXPENDITURES	<u>\$ 201,600</u>	<u>180,335</u>	<u>\$ 21,265</u>

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2012

	2012		VARIANCE
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
ADMINISTRATIVE			
Operating Expenditures:			
Salaries	\$ 345,000	355,045	\$ (10,045)
Payroll Taxes	26,000	28,694	(2,694)
Health Insurance	38,500	34,398	4,102
Retirement	32,500	33,550	(1,050)
Office Supplies	23,400	26,553	(3,153)
Travel Allowance - Recorder	500	424	76
Advertising	3,000	4,809	(1,809)
Recorder's Supplies	1,000	1,802	(802)
Telephone	13,000	22,074	(9,074)
Power and Lights	6,500	5,512	988
Insurance	68,000	56,650	11,350
System Repairs and Improvements	45,000	31,176	13,824
Dues and Certifications	2,800	2,731	69
Training and Seminars	4,300	4,290	10
Professional Engineering Fees	20,000	15,620	4,380
Fee Simple Deed Costs	100	-	100
Victim's Rights Fund	10,000	5,000	5,000
Professional Services	80,000	118,478	(38,478)
Town Hall Relocation Expenses	-	87,944	(87,944)
Property & Equipment <\$5,000	10,000	7,310	2,690
Bonds Debt Services	198,500	196,938	1,562
Council Expenditures	4,000	3,728	272
Planning Expense	2,500	1,259	1,241
Operating Lease	1,900	1,155	745
Miscellaneous	9,000	13,083	(4,083)
Total Operating Expenditures	<u>945,500</u>	<u>1,058,223</u>	<u>(112,723)</u>
Capital Expenditures:			
Capital Outlay	-	63,030	(63,030)
TOTAL EXPENDITURES	<u>945,500</u>	<u>1,121,253</u>	<u>(175,753)</u>
TOTAL GENERAL FUND EXPENDITURES	<u><u>\$ 3,468,010</u></u>	<u><u>3,621,159</u></u>	<u><u>\$ (153,149)</u></u>

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, 2012

	2012		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Sewer Service Charges	\$ 618,823	617,653	\$ (1,170)
Other Revenue	9,000	7,445	(1,555)
TOTAL OPERATING REVENUES	627,823	625,098	(2,725)
OPERATING EXPENSES			
Salaries	183,172	173,565	9,607
Payroll Taxes	14,013	12,740	1,273
Hospitalization Insurance	30,416	19,285	11,131
Retirement	16,697	15,712	985
Gas and Oil - Vehicles	6,000	6,567	(567)
Diesel Fuel and Equipment	8,300	7,301	999
Vehicle Repairs	5,000	3,170	1,830
Supplies and Tools	12,000	11,474	526
Office Supplies	8,700	6,893	1,807
Lab Supplies	3,700	6,396	(2,696)
Telephone	5,600	7,582	(1,982)
Power and Lights	48,000	48,216	(216)
Insurance	25,000	20,562	4,438
System Repairs and Improvements	40,000	82,592	(42,592)
Sludge Disposal	17,000	10,658	6,342
Grit Disposal	1,400	1,027	373
Capital Improvements	80,000	-	80,000
Depreciation Expense	-	169,502	(169,502)
Dues and Certifications	8,000	1,502	6,498
Training and Seminars	5,000	3,514	1,486
Professional Engineering Fees	5,000	787	4,213
Professional Services	5,000	5,000	-
Bond Interest	72,000	14,839	57,161
Lab Analysis, Inspection, and Chemicals	16,000	22,503	(6,503)
Miscellaneous	2,625	1,049	1,576
Total Operating Expenses	618,623	652,436	(33,813)
OPERATING INCOME (LOSS)	9,200	(27,338)	(36,538)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(4,200)	-	4,200
NONOPERATING REVENUES			
Federal Grant Award	-	58,552	58,552
Interest Income	1,000	733	(267)
NET INCOME (LOSS)	\$ 6,000	31,947	\$ 25,947
DECREASE IN NET ASSETS		31,947	
NET ASSETS, Beginning of Year		2,997,917	
NET ASSETS, End of Year		\$ 3,029,864	

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, 2012

	2012		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Water Sales	\$ 856,113	880,245	\$ 24,132
Meter Connections	22,750	40,120	17,370
TOTAL OPERATING REVENUES	878,863	920,365	41,502
OPERATING EXPENSES			
Salaries	183,172	173,566	9,606
Payroll Taxes	14,013	12,220	1,793
Hospitalization Insurance	30,416	19,288	11,128
Retirement	16,697	15,097	1,600
Gas and Oil - Vehicles	6,000	6,567	(567)
Diesel Fuel and Equipment	3,300	2,520	780
Repairs and Maintenance - Diesel Equipment	4,000	2,122	1,878
Vehicle Repairs	5,000	3,319	1,681
Supplies and Tools	11,500	7,132	4,368
Office Supplies	8,700	6,931	1,769
Lab Supplies	2,200	3,203	(1,003)
Telephone	5,600	7,583	(1,983)
Power and Lights	2,800	3,085	(285)
Insurance	22,000	18,117	3,883
Equipment Repairs	-	188	(188)
System Repairs and Improvements	38,000	30,276	7,724
Capital Improvements	51,000	-	51,000
Depreciation	-	246,345	(246,345)
Dues and Certifications	12,000	4,758	7,242
Training and Seminars	4,500	3,645	855
Professional Engineering Fees	7,000	210	6,790
Professional Services	5,000	5,000	-
Lab Analysis, Inspection, and Chemicals	8,200	9,117	(917)
CPW Improvements	58,000	-	58,000
Wholesale Water Purchases	130,000	99,543	30,457
Miscellaneous	3,064	1,026	2,038
Total Operating Expenses	632,162	680,858	(48,696)
OPERATING INCOME (LOSS)	246,701	239,507	(7,194)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(4,200)	-	4,200
NONOPERATING REVENUES			
Interest Income	3,000	2,045	(955)
Transfers Out to Other Funds	(198,500)	(196,938)	1,562
NET INCOME (LOSS)	\$ 47,001	44,614	\$ (2,387)
INCREASE IN NET ASSETS		44,614	
NET ASSETS, Beginning of Year		4,766,567	
NET ASSETS, End of Year		\$ 4,811,181	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2012

	<u>2012</u>
COURT FINES	
Court Fines Collected	\$ 54,854
Court Fines Retained by Town	(54,854)
Court Fines Remitted to the State Treasurer	<u>\$ -</u>
COURT ASSESSMENTS	
Court Assessments Collected	\$ 37,331
Court Assessments Allocated to Victim Services	(4,245)
Court Assessments Remitted to the State Treasurer	<u>\$ 33,086</u>
COURT SURCHARGES	
Court Surcharges Collected	\$ 14,350
Court Surcharges Allocated to Victim Services	(4,049)
Court Surcharges Remitted to the State Treasurer	<u>\$ 10,301</u>
VICTIMS SERVICES	
Court Assessments Allocated to Victims Services	\$ 4,245
Court Surcharges Allocated to Victims Services	4,049
Funds Allocated to Victims Services	<u>8,294</u>
Victims Services Expenditures	(5,000)
Capital Outlay	<u>-</u>
Funds Available for Carry Forward	3,294
Victims Services Balance at Beginning of Year	<u>52,655</u>
Victims Services Balance at End of Year	<u>\$ 55,949</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, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 22, 2012. 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

Management of the Town is responsible for establishing and maintaining effective 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*.

This report is intended solely for the information and use of management, the Town Council, 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 22, 2012