

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(This page intentionally left blank.)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2016

	<u>Page Number</u>
Table of Contents	i
List of Elected and Appointed Officials	iii
<u>FINANCIAL SECTION</u>	
INDEPENDENT AUDITOR'S REPORT	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	14
Statement of Activities	15
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	16
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Net Position - Proprietary Funds - Water and Sewer Funds	24
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds - Water and Sewer Funds	25
Statement of Cash Flows - Proprietary Funds - Water and Sewer Funds	26
Statement of Assets and Liabilities - Fiduciary Fund - Agency Fund - Town of Sullivan's Island Volunteer Fire Department	27
Notes to the Financial Statements	28
Required Supplementary Information:	
<u>Budgetary Comparison Schedule - General Fund:</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgets and Actual	60

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2016

FINANCIAL SECTION (CONTINUED)

	<u>Page Number</u>
Required Supplementary Information (Continued):	
<u>Pension Schedules</u>	
Schedule of the Town of Sullivan's Island's Proportionate Share of the Net Pension Liability - South Carolina Retirement System	61
Schedule of the Town of Sullivan's Island's Contributions - South Carolina Retirement System	62
Schedule of the Town of Sullivan's Island's Proportionate Share of the Net Pension Liability - South Carolina Police Officers Retirement System	63
Schedule of the Town of Sullivan's Island's Contributions - South Carolina Police Officers Retirement System	64
Supplementary Information:	
Schedule of Expenditures - Budget and Actual - General Fund	66
Schedule of Detailed Revenues, Expenses, and Changes in Net Position - Budget and Actual - Sewer Fund	69
Schedule of Detailed Revenues, Expenses, and Changes in Net Position - Budget and Actual - Water Fund	70
Schedule of Fines, Assessments, and Surcharges - General Fund	71

COMPLIANCE SECTION

Independent Auditor's Report - Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	73
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

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

LIST OF ELECTED AND APPOINTED OFFICIALS

YEAR ENDED JUNE 30, 2016

MAYOR

Pat O'Neil

TOWN COUNCIL MEMBERS

Chauncey Clark, Mayor Pro Tem

Sarah Church

Mark Howard

Rita Langley

Susan Middaugh

Bachman Smith, IV

APPOINTED OFFICIALS

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

(This page intentionally left blank.)



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 7, 2016

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

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, 2016. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. We would encourage readers to not only consider the information presented here, but also the information provided in the financial statements and notes to the financial statements to enhance their understanding the Town's overall financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the fiscal year by approximately \$15,071,000 (*net position*). Of this amount, approximately \$7,199,000 and \$7,872,000 were related to the Town's governmental and business-type activities, respectively. In addition, the Town's unrestricted net position (may be used to meet the government's ongoing obligations to citizens and creditors) was approximately \$746,000 for its governmental activities and approximately \$1,617,000 for its business-type activities.
- The government's total net position increased by approximately \$1,270,000 for governmental activities and increased by approximately \$2,500 for business-type activities, as total revenues of approximately \$7,618,000 exceeded total expenses of approximately \$6,346,000.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$8,596,000, a decrease of approximately \$2,536,000 compared to the prior year's fund balance. Approximately 37% of this total amount, or approximately \$3,152,000, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, \$1,075,000 of the General Fund's unassigned portion of the Fund's balance was allocated to the Emergency Reserve.
- At the end of the current fiscal year, approximately \$414,000 of the General Fund's unassigned portion of the Fund's balance was allocated to the Capital Improvement Reserve Fund.
- At the end of the current fiscal year, unassigned, unallocated fund balance of the General Fund was approximately \$1,663,000 or 20% of total General Fund expenditures for the year ended June 30, 2016.
- The Town's total capital assets increased by approximately \$3,320,000 (32%) during the current fiscal year primarily due to depreciation expense of approximately \$577,000 offset by capital asset additions of approximately \$3,968,000. Capital asset additions included construction in progress for the new Town Hall and public safety vehicle purchases.
- The Town's total debt decreased by approximately \$330,000 (8%) during the current year due to scheduled principal payments on prior outstanding debt which were partially offset by the issuance of lease purchases and revenue bonds during the current year.

OVERVIEW OF FINANCIAL STATEMENTS

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

Financial Statements

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

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

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

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

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

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

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

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The following table provides a summary of the Town’s net position for 2016 compared to 2015.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and Other Assets	\$ 9,299,026	11,278,225	2,171,888	2,137,648	11,470,914	\$ 13,415,873
Capital Assets, Net	6,712,753	3,257,011	7,068,739	7,204,656	13,781,492	10,461,667
Contributed Capital, Net	-	-	880,261	990,017	880,261	990,017
Total Assets	16,011,779	14,535,236	10,120,888	10,332,321	26,132,667	24,867,557
Deferred Outflows of Resources:						
Deferred Pension Charges	366,620	335,232	61,410	22,484	428,030	357,716
Liabilities:						
Long-Term Obligations	4,776,676	5,137,404	1,824,579	1,816,051	6,601,255	6,953,455
Net Pension Liability	3,671,388	3,299,900	357,716	251,577	4,029,104	3,551,477
Other Liabilities	728,237	172,917	127,363	396,448	855,600	569,365
Total Liabilities	9,176,301	8,610,221	2,309,658	2,464,076	11,485,959	11,074,297
Deferred Inflows of Resources:						
Deferred Pension Credits	3,131	330,910	639	21,210	3,770	352,120
Net Position:						
Net Investment in Capital						
Assets	5,682,203	2,065,865	6,139,097	6,390,504	11,821,300	8,456,369
Restricted	770,678	695,532	115,891	113,270	886,569	808,802
Unrestricted	746,086	3,167,940	1,617,013	1,365,745	2,363,099	4,533,685
Total Net Position	\$ 7,198,967	5,929,337	7,872,001	7,869,519	15,070,968	\$ 13,798,856

The Town’s total assets of approximately \$26,133,000 increased approximately \$1,265,000 over the prior year. The majority of the increase is due to a \$1,945,000 decrease in current assets offset by a \$3,320,000 increase in capital assets. Total liabilities increased by approximately \$412,000 from the prior year primarily due to a \$478,000 increase in the net pension liability.

The Town’s net position increased by approximately \$1,272,000 during the current fiscal year due to current year revenues exceeding current year expenses. Please see discussion following the next table regarding this increase.

The Town’s assets exceeded liabilities by approximately \$15,071,000 at June 30, 2016. The largest portion of the Town’s net position of approximately \$11,821,000 (approximately 78%) reflects its investment in capital assets (i.e., land, buildings, furniture and equipment, water/sewer infrastructure, etc.) less any related outstanding debt/lease purchase obligations used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town’s net position of approximately \$887,000 (approximately 6%) represents resources that are subject to external restrictions on how they may be used. This portion of net position is restricted primarily for special revenue programs which are restricted by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The remaining portion of the Town's net position is unrestricted net position of approximately \$2,363,000 (approximately 16%) may be used to meet the government's ongoing obligations to citizens and creditors.

The following table shows the changes in the Town's net position for fiscal year 2016 compared to 2015:

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 591,968	448,158	1,983,211	1,959,137	2,575,179	\$ 2,407,295
Capital Grants and Contributions	-	355,249	-	-	-	355,249
General Revenues:						
Taxes	4,638,834	3,857,907	-	-	4,638,834	3,857,907
Other	400,898	3,588,076	2,923	2,024	403,821	3,590,100
Total Revenues	<u>5,631,700</u>	<u>8,249,390</u>	<u>1,986,134</u>	<u>1,961,161</u>	<u>7,617,834</u>	<u>10,210,551</u>
Expenses:						
Public Works	673,020	601,599	-	-	673,020	601,599
Public Safety	1,994,475	2,049,829	-	-	1,994,475	2,049,829
General Government	1,589,254	1,578,924	-	-	1,589,254	1,578,924
Interest on Long-Term Obligations	105,321	138,099	-	-	105,321	138,099
Water	-	-	1,029,682	864,309	1,029,682	864,309
Sewer	-	-	953,970	885,553	953,970	885,553
Total Expenses	<u>4,362,070</u>	<u>4,368,451</u>	<u>1,983,652</u>	<u>1,749,862</u>	<u>6,345,722</u>	<u>6,118,313</u>
Change in Net Position Before Transfers	1,269,630	3,880,939	2,482	211,299	1,272,112	4,092,238
Transfers In (Out)	-	112,591	-	(112,591)	-	-
Change in Net Position	<u>1,269,630</u>	<u>3,993,530</u>	<u>2,482</u>	<u>98,708</u>	<u>1,272,112</u>	<u>4,092,238</u>
Net Position - Beginning of Year	5,929,337	1,935,807	7,869,519	7,770,811	13,798,856	9,706,618
Net Position - End of Year	<u>\$ 7,198,967</u>	<u>5,929,337</u>	<u>7,872,001</u>	<u>7,869,519</u>	<u>15,070,968</u>	<u>\$ 13,798,856</u>

Governmental Activities: Governmental activities increased the Town's net position by approximately \$1,270,000 in the current year.

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

- Total governmental activities revenues decreased by approximately \$2,618,000, or 32%, over the prior year due in part to the sale of 3 lots in the prior year.
- Total governmental activities expenses decreased by approximately \$6,400, or 1%, over the prior year due in part to the design costs of the new Town Hall in the prior year.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities: Net position for business-type activities (water and sewer services) increased by approximately \$2,500.

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.

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 \$8,596,000, a decrease of approximately \$2,536,000 from the prior year fund balance. The decrease in fund balance was primarily the result of construction costs related to the new Town Hall.

Approximately 37% or \$3,152,000 of the total governmental fund balance of approximately \$8,596,000 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 (\$165,000), restricted (2) for tourism related expenditures or operating expenses incurred to serve tourists (\$646,000), for expenditures related to capital projects (\$541,000), and other outside restrictions (\$125,000), committed for (3) expenditures related to the Tree Fund (\$57,000), and future capital projects (\$3,890,000) 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 \$7,893,000. 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 (\$3,152,000) represents approximately 37% of total General Fund expenditures for 2016. Of the unassigned fund balance, Council has established a reserve for emergency expenditures which at the end of 2016 has a balance of \$1,075,000 and a reserve for capital improvements of \$414,500.

Points of interest for the General Fund were as follows:

- During 2016 the General Fund's fund balance decreased by approximately \$2,604,000.
- During 2016 the Town spent approximately \$3,375,000 on construction of the new town hall.
- Property taxes came in over \$301,000 more than projected.

Proprietary Fund. The Town's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Net position of the Water and Sewer Enterprise Funds at the end of the fiscal year amounted to approximately \$7,872,000. Please see the earlier discussion of the business-type activities change in net position in the government-wide financial analysis section of this MD&A for more details.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE TOWN’S FUNDS (CONTINUED)

Fiduciary Funds. The Town’s Volunteer Fire Department Fund is used by the Town to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by fire insurance companies. Agency funds are custodial in nature and do not present results of operations. The Fiduciary Fund had amounts held for custody of others of approximately \$204,000 at June 30, 2016.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town’s investment in capital assets as of June 30, 2016 and June 30, 2015, amounted to approximately \$13,781,000 and \$10,462,000 (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, 2016 and 2015 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 37,392	37,392	-	-	37,392	\$ 37,392
Construction in Progress	4,396,537	1,021,165	-	-	4,396,537	1,021,165
Building and Improvements	186,787	204,989	-	-	186,787	204,989
Machinery and Equipment	567,920	482,496	-	-	567,920	482,496
Vehicles and Vehicle Equipment	1,242,260	1,224,346	-	-	1,242,260	1,224,346
Vehicles, Machinery, and Equipment	-	-	203,285	167,434	203,285	167,434
Fire and Emergency Command System	281,857	286,623	-	-	281,857	286,623
Water/Sewer System	-	-	6,865,454	7,037,222	6,865,454	7,037,222
Total	\$ 6,712,753	3,257,011	7,068,739	7,204,656	13,781,492	\$ 10,461,667

The total increase in the Town’s investment in capital assets for the current fiscal year was approximately \$3,320,000 or approximately 32%. Major capital asset events during the current fiscal year included the following:

- Capital asset additions of approximately \$3,757,000 for governmental activities which consisted primarily of the following:
 - Construction in progress for the new Town Hall of approximately \$3,375,000.
 - Purchase of playground equipment for approximately \$155,000.
 - Purchase of a new police and fire vehicles for approximately \$220,000.
 - Purchase of fire station back steps of approximately \$7,500.
- Capital asset additions of approximately \$210,000 for business-type activities which consisted primarily of the following:
 - Wastewater Collection System Rehabilitation Project – Phase I of approximately \$124,000.
 - Purchase of sewer fund vehicle and equipment of approximately \$34,000.
 - Purchase of water fund vehicle and equipment of approximately \$37,000
 - Purchase of other water system additions of approximately \$15,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

- Depreciation expense of approximately \$231,000 for governmental activities and \$346,000 of depreciation expense for business-type activities.

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

Debt Administration

As of June 30, 2016 and June 30, 2015, the Town had total outstanding debt of approximately \$6,503,000 and \$6,833,000, respectively. Of the Town's total long-term obligations, approximately \$4,315,000 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, 2016 and 2015 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Debt:						
General Obligation Bonds	\$ 4,315,000	4,845,000	-	-	4,315,000	\$ 4,845,000
Revenue Bond	-	-	1,715,959	1,729,433	1,715,959	1,729,433
Capital Leases	378,162	183,758	93,944	74,736	472,106	258,494
Total Debt	<u>\$ 4,693,162</u>	<u>5,028,758</u>	<u>1,809,903</u>	<u>1,804,169</u>	<u>6,503,065</u>	<u>\$ 6,832,927</u>

The total decrease in the Town's debt obligations for the current fiscal year was approximately \$330,000 or 5%. Major events during the current fiscal year included the following:

- The Town's governmental activities made scheduled principal payments on debt obligations of approximately \$636,000.
- The Town's business-type activities made scheduled principal payments on debt obligations of approximately \$179,000.
- The Town's business-type activities issued additional revenue bonds of approximately \$123,000 during the current year.
- The Town issued lease purchases of approximately \$300,000 and \$62,000 for the governmental activities and business-type activities, respectively.

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, 2016 was approximately \$5,387,101. The Town had \$3,745,000 of bonded debt subject to the 8% limit and thus resulted in the Town having an unused legal debt margin of approximately \$1,072,101.

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

ECONOMIC FACTORS AND 2016-2017 BUDGETS AND RATES FOR THE TOWN

The Town’s elected officials and staff considered many factors when setting the fiscal year 2017 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 cover the debt service for the 2014 General Obligation Bond.
- There was an approximate 3% increase in the total 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.
- Two additional patrol officers have been budgeted for the Police Department.
- Three new patrol vehicles were budgeted to be purchased through a lease purchase agreement.
- The 2003 General Obligation Bond is budgeted to be retired during 2017. \$570,000 will be transferred from the Water Fund into the General Fund for the payment to be made.

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.

(This page intentionally left blank.)

Basic Financial Statements

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2016

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 7,445,285	1,790,447	\$ 9,235,732
Cash and Cash Equivalents - Restricted	1,209,274	135,541	1,344,815
Investments	150,034	-	150,034
Taxes Receivable, Net	51,177	-	51,177
Other Receivables, Net	277,974	225,808	503,782
Prepaid Expenses	165,282	20,092	185,374
Capital Assets:			
Non-Depreciable	4,433,929	-	4,433,929
Depreciable, Net	2,278,824	7,068,739	9,347,563
Capacity Capital Contribution, Net	-	880,261	880,261
TOTAL ASSETS	16,011,779	10,120,888	26,132,667
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	366,620	61,410	428,030
LIABILITIES			
Accounts Payable	584,448	87,098	671,546
Accrued Interest	34,946	4,451	39,397
Other Accrued Liabilities	108,843	16,164	125,007
Customer Deposits	-	19,650	19,650
Non-Current Liabilities:			
Net Pension Liability	3,671,388	357,716	4,029,104
Long-Term Obligations - Due Within One Year	772,450	192,213	964,663
Long-Term Obligations - Due in More Than One Year	4,004,226	1,632,366	5,636,592
TOTAL LIABILITIES	9,176,301	2,309,658	11,485,959
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	3,131	639	3,770
NET POSITION			
Net Investment in Capital Assets	5,682,203	6,139,097	11,251,300
Restricted For:			
Tourism Related Expenditures	645,510	-	645,510
Other	125,168	115,891	241,059
Unrestricted	746,086	1,617,013	2,933,099
TOTAL NET POSITION	\$ 7,198,967	7,872,001	\$ 15,070,968

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
Public Works	\$ 673,020	-	-	-	(673,020)	-	(673,020)
Public Safety	1,994,475	73,480	-	-	(1,920,995)	-	(1,920,995)
General Government	1,589,254	518,488	-	-	(1,070,766)	-	(1,070,766)
Interest on Long Term Obligations	105,321	-	-	-	(105,321)	-	(105,321)
Total Governmental Activities	4,362,070	591,968	-	-	(3,770,102)	-	(3,770,102)
Business-Type Activities:							
Water	1,029,682	1,101,631	-	-	-	71,949	71,949
Sewer	953,970	881,580	-	-	-	(72,390)	(72,390)
Total Business-Type Activities	1,983,652	1,983,211	-	-	-	(441)	(441)
TOTAL - PRIMARY GOVERNMENT	\$ 6,345,722	2,575,179	-	-	(3,770,102)	(441)	(3,770,543)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Property Taxes					2,578,275	-	2,578,275
Local Option Sales Taxes					242,969	-	242,969
Hospitality Taxes					380,218	-	380,218
Accommodation Taxes					70,861	-	70,861
Business License Taxes					821,755	-	821,755
Franchise Taxes					544,756	-	544,756
Intergovernmental					71,867	-	71,867
Interest Income					12,759	2,923	15,682
Miscellaneous					316,272	-	316,272
Total General Revenues and Transfers					5,039,732	2,923	5,042,655
CHANGE IN NET POSITION					1,269,630	2,482	1,272,112
NET POSITION, Beginning of Year					5,929,337	7,869,519	-
NET POSITION, End of Year					7,198,967	7,872,001	\$ 1,272,112

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2016

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
ASSETS		
Cash and Cash Equivalents	\$ 7,388,264	-
Cash and Cash Equivalents - Restricted	665,844	1,706
Investments	150,034	-
Taxes Receivable, Net	51,177	-
Accounts Receivable, Net	175,894	11,400
Prepaid Expenses	165,282	-
TOTAL ASSETS	8,596,495	13,106
LIABILITIES		
Accounts Payable	584,448	-
Other Accrued Liabilities	108,843	-
TOTAL LIABILITIES	693,291	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue, Property Taxes	10,000	-
TOTAL DEFERRED INFLOWS OF RESOURCES	10,000	-
FUND BALANCES		
Nonspendable:		
Prepaid Expenses	165,282	-
Restricted:		
Capital Projects	540,676	-
Tourism Related Expenditures	-	13,106
Victims Services	84,819	-
Confederate Memorial	5,231	-
Land Trust	35,118	-
Committed:		
Tree Bank	-	-
Capital Projects	3,890,000	-
Assigned:		
William Bradley Memorial Fund	20,000	-
Unassigned	3,152,078	-
TOTAL FUND BALANCES	7,893,204	13,106
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,596,495	13,106

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

LOCAL ACCOMMODATIONS TAX FUND	LOCAL HOSPITALITY TAX FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	57,021	\$ 7,445,285
69,344	472,380	-	1,209,274
-	-	-	150,034
-	-	-	51,177
11,326	79,354	-	277,974
-	-	-	165,282
80,670	551,734	57,021	9,299,026
-	-	-	584,448
-	-	-	108,843
-	-	-	693,291
-	-	-	10,000
-	-	-	10,000
-	-	-	165,282
-	-	-	540,676
80,670	551,734	-	645,510
-	-	-	84,819
-	-	-	5,231
-	-	-	35,118
-	-	57,021	57,021
-	-	-	3,890,000
-	-	-	20,000
-	-	-	3,152,078
80,670	551,734	57,021	8,595,735
80,670	551,734	57,021	\$ 9,299,026

(This page intentionally left blank.)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

JUNE 30, 2016

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 8,595,735
Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:	
Property taxes that will be collected in the future but are not available soon enough to pay for the current period's expenditures are deferred in the funds.	10,000
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets was \$8,588,727 and the accumulated depreciation was \$1,875,974	6,712,753
The Town's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State pension plans are not recorded in the governmental funds but are recorded in the Statement of Net Position.	(3,307,899)
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.	(34,946)
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	(4,315,000)
Lease Purchases	(378,162)
Compensated Absences	(83,514)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 7,198,967</u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2016

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
REVENUES		
Property Taxes	\$ 2,575,775	-
Local Option Sales Taxes	242,969	-
Accommodations Taxes	-	12,827
Hospitality Taxes	-	-
Licenses	1,366,511	-
Magistrate and Recorder Fines	63,927	-
State Shared Revenues	96,615	-
Permits	515,850	-
Victims' Services	9,553	-
Interest	11,969	-
Other	316,272	-
TOTAL REVENUES ALL SOURCES	5,199,441	12,827
EXPENDITURES		
Current:		
Public Works	626,528	-
Public Safety	1,914,312	-
General Government	1,527,321	3,896
Capital Outlay	3,653,245	-
Debt Service:		
Principal	635,651	-
Interest	104,537	-
TOTAL EXPENDITURES	8,461,594	3,896
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,262,153)	8,931
OTHER FINANCING SOURCES (USES)		
Transfers In	357,566	-
Transfers Out	-	(7,566)
Proceeds from Lease Purchases	300,055	-
TOTAL OTHER FINANCING SOURCES (USES)	657,621	(7,566)
NET CHANGES IN FUND BALANCES	(2,604,532)	1,365
FUND BALANCES, Beginning of Year	10,497,736	11,741
FUND BALANCES, End of Year	\$ 7,893,204	13,106

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

LOCAL ACCOMMODATIONS TAX FUND	LOCAL HOSPITALITY TAX FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	-	\$ 2,575,775
-	-	-	242,969
33,286	-	-	46,113
-	380,218	-	380,218
-	-	-	1,366,511
-	-	-	63,927
-	-	-	96,615
-	-	2,638	518,488
-	-	-	9,553
95	629	66	12,759
-	-	-	316,272
33,381	380,847	2,704	5,629,200
-	-	-	626,528
-	-	-	1,914,312
-	-	-	1,531,217
-	-	-	3,653,245
-	-	-	635,651
-	-	-	104,537
-	-	-	8,465,490
33,381	380,847	2,704	(2,836,290)
-	-	-	357,566
(30,000)	(320,000)	-	(357,566)
-	-	-	300,055
(30,000)	(320,000)	-	300,055
3,381	60,847	2,704	(2,536,235)
77,289	490,887	54,317	11,131,970
80,670	551,734	57,021	\$ 8,595,735

(This page intentionally left blank.)

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, 2016

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (2,536,235)
Amounts reported for the governmental activities in the Statement of Activities are different because of the following:	
Property taxes that will be collected in the future, but are not available soon enough to pay for the current period's expenditures are therefore deferred in the funds.	2,500
Bond principal payments and lease purchase payments are expenditures in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position.	635,651
Bond and lease purchase proceeds provide current financial resources to governmental funds, but issuing debt or entering into lease purchases increases long-term obligations in the Statement of Net Position.	(300,055)
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.	(784)
Changes in the Town's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources for the current year are not reported in the governmental funds but are reported in the Statement of Activities.	(12,321)
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.	25,132
In the Statement of Activities the loss on the disposal of fixed assets is reported, whereas in the governmental Statement of Activities, the cost of those assets is allocated over their estimated useful lives funds, proceeds from the disposal of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets disposed.	(70,461)
Governmental funds report capital asset additions as expenditures of \$3,757,391. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation of \$231,188. This is the amount by which capital asset additions exceeded depreciation expense in the current period.	3,526,203
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>1,269,630</u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

JUNE 30, 2016

	WATER	SEWER	TOTAL
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,472,361	318,086	\$ 1,790,447
Cash and Cash Equivalents - Restricted	19,650	115,891	135,541
Accounts Receivable, Net	137,081	88,727	225,808
Prepaid Expenses	9,089	11,003	20,092
Total Current Assets	<u>1,638,181</u>	<u>533,707</u>	<u>2,171,888</u>
Noncurrent Assets:			
Capital Assets:			
Depreciable, Net	2,612,028	4,456,711	7,068,739
Capacity Capital Contribution, Net	880,261	-	880,261
Total Noncurrent Assets	<u>3,492,289</u>	<u>4,456,711</u>	<u>7,949,000</u>
TOTAL ASSETS	<u>5,130,470</u>	<u>4,990,418</u>	<u>10,120,888</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	30,575	30,835	61,410
LIABILITIES			
Current Liabilities:			
Accounts Payable	26,697	60,401	87,098
Accrued Interest	546	3,905	4,451
Other Accrued Liabilities	8,056	8,108	16,164
Customer Deposits	19,650	-	19,650
Compensated Absences Liability	7,338	7,338	14,676
Lease Purchase Payable - Current Portion	18,171	18,171	36,342
Revenue Bond Payable - Current Portion	-	141,195	141,195
Total Current Liabilities	<u>80,458</u>	<u>239,118</u>	<u>319,576</u>
Noncurrent Liabilities:			
Net Pension Liability	178,100	179,616	357,716
Lease Purchase Payable - Net of Current Portion	28,801	28,801	57,602
Revenue Bond Payable - Net of Current Portion	-	1,574,764	1,574,764
TOTAL LIABILITIES	<u>287,359</u>	<u>2,022,299</u>	<u>2,309,658</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Credits	318	321	639
NET POSITION			
Net Investment in Capital Assets	3,445,317	2,693,780	6,139,097
Restricted for Capital Projects	-	115,891	115,891
Unrestricted	1,428,051	188,962	1,617,013
TOTAL NET POSITION	<u>\$ 4,873,368</u>	<u>2,998,633</u>	<u>\$ 7,872,001</u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2016

	WATER	SEWER	TOTAL
OPERATING REVENUES			
Charges for Services	\$ 1,025,412	876,190	\$ 1,901,602
Meter Connections, Sewer Tie-In Fees, and Other Revenue	76,219	5,390	81,609
TOTAL OPERATING REVENUES	1,101,631	881,580	1,983,211
OPERATING EXPENSES			
Salaries	217,594	219,480	437,074
Payroll Taxes	15,429	15,574	31,003
Hospitalization Insurance	29,500	29,500	59,000
Retirement	30,430	63,257	93,687
Gas and Oil - Vehicles	4,451	4,230	8,681
Diesel Fuel and Equipment	474	10,365	10,839
Repairs and Maintenance - Diesel Equipment	5,046	-	5,046
Vehicle Repairs	725	691	1,416
Supplies and Tools	12,249	12,243	24,492
Office Supplies	6,568	6,986	13,554
Lab Supplies	2,356	9,232	11,588
Telephone	6,091	6,091	12,182
Power and Lights	3,434	61,393	64,827
Insurance	18,034	20,652	38,686
System Repairs and Improvements	233,649	150,684	384,333
Sludge Disposal	-	51,986	51,986
Grit Disposal	-	1,937	1,937
Dues and Certifications	6,137	4,333	10,470
Training and Seminars	3,671	2,827	6,498
Professional Engineering Fees	58,167	15,995	74,162
Professional Services	5,000	5,000	10,000
Lab Analysis, Inspection, and Chemicals	5,279	27,858	33,137
Wholesale Water Purchase	114,281	-	114,281
Depreciation and Amortization Expense	249,604	206,347	455,951
Miscellaneous	950	1,544	2,494
TOTAL OPERATING EXPENSES	1,029,119	928,205	1,957,324
OPERATING INCOME (LOSS)	72,512	(46,625)	25,887
NONOPERATING REVENUES (EXPENSES)			
Interest Income	1,850	1,073	2,923
Interest Expense	(563)	(25,765)	(26,328)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,287	(24,692)	(23,405)
CHANGE IN NET POSITION	73,799	(71,317)	2,482
NET POSITION, Beginning of Year	4,799,569	3,069,950	7,869,519
NET POSITION, End of Year	\$ 4,873,368	2,998,633	\$ 7,872,001

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

YEAR ENDED JUNE 30, 2016

	WATER	SEWER	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 1,109,860	1,185,165	\$ 2,295,025
Cash Payments to Suppliers for Goods and Services	(482,660)	(671,134)	(1,153,794)
Cash Payments to Employees	(281,859)	(286,780)	(568,639)
NET CASH PROVIDED BY OPERATING ACTIVITIES	345,341	227,251	572,592
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Issuance of Long-Term Obligations	30,973	153,976	184,949
Purchase of Capital Assets	(49,887)	(160,391)	(210,278)
Principal Paid on Long-Term Obligations	(21,369)	(157,846)	(179,215)
Interest Paid on Long-Term Obligations	(412)	(25,275)	(25,687)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(40,695)	(189,536)	(230,231)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	1,850	1,073	2,923
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,850	1,073	2,923
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	306,496	38,788	345,284
CASH AND CASH EQUIVALENTS, Beginning of Year	1,185,515	395,189	1,580,704
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,492,011	433,977	\$ 1,925,988
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Operating Income (Loss)	\$ 72,512	(46,625)	\$ 25,887
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Depreciation and Amortization Expense	249,604	206,347	455,951
Non-cash Pension Expense	7,008	39,634	46,642
Change Due to (Increase) Decrease in Operating Assets:			
Other Receivable	7,729	19,499	27,228
Intergovernmental Accounts Receivable	-	284,086	284,086
Prepaid Expenses	(168)	(102)	(270)
Change Due to Increase (Decrease) in Operating Liabilities:			
Other Payables	6,759	(225,330)	(218,571)
Compensated Absences	1,397	1,397	2,794
Retainage Payable	-	(51,655)	(51,655)
Customer Deposits	500	-	500
Net Cash Provided by Operating Activities	\$ 345,341	227,251	\$ 572,592

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

JUNE 30, 2016

ASSETS

Cash and Cash Equivalents	\$ 203,836
TOTAL ASSETS	<u><u>\$ 203,836</u></u>

LIABILITIES

Due To Volunteer Fire Department	\$ 203,836
TOTAL LIABILITIES	<u><u>\$ 203,836</u></u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Change in Accounting Principle

The Town implemented GASB Statement No. 72 "*Fair Value Measurement and Application*" ("GASB #72" or "Statement") for the year ended June 30, 2016. The primary objective of this Statement was to address accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The adoption of these Statements had no impact on the Town's financial statements but did result in expanded note disclosures. See Note I.C and Note III.A for more information regarding the Town's fair value disclosures.

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

1. *Cash, Cash Equivalents, and Investments*

Cash and Cash Equivalents

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

Investments

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

- (a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
- (b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Investments (Continued)

- (c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
- (e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
- (f) Repurchase agreements when collateralized by securities as set forth in this section.
- (g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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 Position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective fund financial statements.

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. *Compensated Absences*

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

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

6. *Accrued Liabilities and Long-Term Obligations*

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

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

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

7. *Deferred Outflows and Inflows of Resources*

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. *Deferred Outflows and Inflows of Resources (Continued)*

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

8. *Fund Balance*

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

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

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Fund Balance (Continued)

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, 2016 is \$1,075,000.

In the unassigned fund balance, the Town also has a Capital Improvements Reserve. No less than 20% of any year's surplus shall be allocated to this reserve. At the conclusion of the most recent annual financial audit, Council will determine the amount of the surplus to allocate to the Capital Improvements Reserve. The balance as of June 30, 2016 is \$414,000.

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 incurred.

9. Net Position

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

10. Pensions

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

11. Accounting Estimates

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Accounting Estimates (Continued)

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

12. Fair Value

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

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

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

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

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

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

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

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

13. Comparative Data

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

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:

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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

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

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

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

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

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

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits might not be recovered. The Town does not have a deposit policy for custodial credit risk, but follows the investment policy statutes of the State of South Carolina. As of June 30, 2016, none of the Town's bank balances of \$10,707,291 (with a carrying value of \$10,573,920) were exposed to custodial credit risk.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

A. Deposits and Investments (Continued)

Investments

As of June 30, 2016, the Town had the following investments and maturities (as defined by GASB #40):

Investment Type	Fair Value Level (1)	Fair Value	Maturity	Credit Rating
State Local Government Investment Pool	N/A	\$ 205,322	^	Unrated
JPMorgan Prime Money Market Fund Service	Level 1	150,034	< 1 year	Unrated
Total		\$ 355,356		

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

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

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

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town’s investment policy requires that a third party hold collateral in the Town’s name and shall provide the Town with evidence of ownership. None of the Town’s security investments were exposed to custodial credit risk at June 30, 2016.

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, 2016 were those imposed by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

A. Deposits and Investments (Continued)

Investments (Continued)

Reconciliation to Financial Statements

<u>Statement of Net Position</u>	<u>Amount</u>
Unrestricted Current Assets:	
Cash and Cash Equivalents	\$ 9,235,732
Investments	150,034
Restricted Current Assets:	
Cash and Cash Equivalents, Restricted	<u>1,344,815</u>
	<u>10,730,581</u>
<u>Statement of Assets and Liabilities - Fiduciary Fund - Agency Fund</u>	
Unrestricted Current Assets:	
Cash and Cash Equivalents	<u>203,836</u>
Total per the financial statements	<u><u>\$ 10,934,417</u></u>
<u>Notes</u>	
Carrying Value of Deposits	\$ 10,579,061
Investments	<u>355,356</u>
Total per the notes	<u><u>\$ 10,934,417</u></u>

B. Receivables and Deferred Inflows of Resources

The Town’s 2015 property taxes were levied on October 1, 2015 and were due beginning on this date based on the assessed valuation as of January 1, 2015. Property taxes were considered late on January 16, 2016. Motor vehicle property tax is levied and collected on a portion of taxable vehicles monthly. Penalties and charges are assessed if taxes are not paid by the following dates:

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

Assessed values are established by the Charleston County Tax Assessor and the South Carolina Tax Commission. The Town’s operating tax rate for the 2015 property tax year was 224.1 mills (186 mills for Charleston County and 38.1 mills for the Town). Town property taxes are billed and collected by Charleston County under a joint billing and collection agreement.

The Town had receivables of approximately \$226,000 related to business-type activities at June 30, 2016 which consisted mainly of outstanding charges to customers for water and sewer services. No allowance for uncollectible accounts was considered necessary.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

B. Receivables and Deferred Inflows of Resources (Continued)

The Town had net receivables related to governmental activities at June 30, 2016, of the following:

	General Fund	State Accommodations Tax Fund	Local Accommodations Tax Fund	Hospitality Tax Fund	Totals
Property Taxes	\$ 51,177	-	-	-	\$ 51,177
Accommodations Taxes	-	11,400	11,326	-	22,726
Hospitality Taxes	-	-	-	79,354	79,354
Franchise Fees	60,652	-	-	-	60,652
Local Options Sales Tax	44,602	-	-	-	44,602
Miscellaneous	70,640	-	-	-	70,640
Net Receivables	<u>\$ 227,071</u>	<u>11,400</u>	<u>11,326</u>	<u>79,354</u>	<u>\$ 329,150</u>

There were no material allowances for uncollectible amounts.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2016, the General Fund had \$10,000 in deferred inflows of resources related to property taxes that were not available.

C. Interfund Receivables, Payables, and Transfers

At June 30, 2016, there were no interfund receivables or payables.

Transfers between funds for the year ended June 30, 2016, consisted of the following:

Fund	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 357,566	\$ -
State Accommodations Tax Fund	-	7,566
Local Accommodations Tax Fund	-	30,000
Local Hospitality Tax Fund	-	320,000
Totals	<u>\$ 357,566</u>	<u>\$ 357,566</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 FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Non-Depreciable:				
Land	\$ 37,392	-	-	\$ 37,392
Construction In Progress	1,021,165	3,375,372	-	4,396,537
Total Capital Assets, Non-Depreciable	1,058,557	3,375,372	-	4,433,929
Capital Assets, Depreciable:				
Buildings and Improvements	503,466	-	-	503,466
Machinery and Equipment	505,171	-	-	505,171
Playground Equipment	550,789	155,296	-	706,085
Vehicles	1,735,713	219,223	70,461	1,884,475
Fire and Emergency Command Center	548,101	7,500	-	555,601
Total Capital Assets, Depreciable	3,843,240	382,019	70,461	4,154,798
Less: Accumulated Depreciation for:				
Buildings and Improvements	298,477	18,202	-	316,679
Machinery and Equipment	379,208	28,285	-	407,493
Playground Equipment	194,256	41,587	-	235,843
Vehicles	511,367	130,848	-	642,215
Fire and Emergency Command Center	261,478	12,266	-	273,744
Total Accumulated Depreciation	1,644,786	231,188	-	1,875,974
Total Capital Assets, Depreciable, Net	2,198,454	150,831	70,461	2,278,824
Governmental Activities Capital Assets, Net	\$ 3,257,011	3,526,203	70,461	\$ 6,712,753

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

Functions/Programs	Amount
Governmental Activities:	
Public Works	\$ 9,174
Public Safety	150,193
General Government	71,821
Total Depreciation Expense - Governmental Activities	\$ 231,188

The cost of vehicles and equipment under lease purchase was approximately \$462,918 at June 30, 2016. Accumulated amortization on these assets was approximately \$152,260 at June 30, 2016. Amortization of these assets has been included with depreciation expense.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Non-Depreciable					
Construction in Progress	\$ 1,533,774	123,567	-	(1,657,341)	\$ -
Total Capital Assets, Non-Depreciable	<u>1,533,774</u>	<u>123,567</u>	<u>-</u>	<u>(1,657,341)</u>	<u>-</u>
Capital Assets, Depreciable					
Water System	4,615,337	15,725	-	-	4,631,062
Sewer System	5,039,733	-	-	1,657,341	6,697,074
Lab Equipment	20,869	-	-	-	20,869
Vehicles and Equipment	874,424	70,986	46,757	-	898,653
Total Capital Assets, Depreciable	<u>10,550,363</u>	<u>86,711</u>	<u>46,757</u>	<u>1,657,341</u>	<u>12,247,658</u>
Less: Accumulated Depreciation for:					
Water System	1,968,177	125,909	-	-	2,094,086
Sewer System	2,183,445	185,151	-	-	2,368,596
Lab Equipment	18,077	610	-	-	18,687
Vehicles and Equipment	709,782	34,525	46,757	-	697,550
Total Accumulated Depreciation	<u>4,879,481</u>	<u>346,195</u>	<u>46,757</u>	<u>-</u>	<u>5,178,919</u>
Total Capital Assets, Being Depreciated, Net	<u>5,670,882</u>	<u>(259,484)</u>	<u>-</u>	<u>1,657,341</u>	<u>7,068,739</u>
Business-Type Activities Capital Assets, Net	<u>\$ 7,204,656</u>	<u>(135,917)</u>	<u>-</u>	<u>-</u>	<u>\$ 7,068,739</u>

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

Functions/Programs	Amount
Business-Type Activities:	
Water	\$ 139,848
Sewer	206,347
Total Depreciation Expense - Business-Type Activities	<u>\$ 346,195</u>

The cost of vehicles and equipment under lease purchase was approximately \$165,000 at June 30, 2016. Accumulated amortization on these assets was approximately \$44,900 at June 30, 2016. Amortization of these assets has been included with depreciation expense.

Capacity Capital Contribution

The Town entered into a contract with the Commissioners of Public Works in July 1994 to purchase water for a 30 year period. As part of this agreement, the Town paid approximately \$1,986,000 as an initial capacity capital contribution from the Water Fund. The Town has paid additional contributions of approximately \$636,000 since fiscal year 2005, for a total of approximately \$2,622,000 as of June 30, 2016. This asset is being amortized over 30 years. The accumulated amortization is approximately \$1,741,000, and the net unamortized asset is approximately \$880,000 as of June 30, 2016. The amortization expense for fiscal year 2016 was approximately \$110,000.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

E. Long-Term Obligations

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

Details on the Town's outstanding debt issues and lease purchase obligations for the governmental activities and business-type activities as of June 30, 2016 are as follows:

General Obligation Bonds

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

Principal Outstanding
at Year End

\$ 570,000

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

\$ 3,745,000

Revenue Bonds

\$553,000 Waterworks and Sewer System Revenue Bond, Series 2010 (November 2010) refinanced the remaining balance on the \$800,000 Revenue Bonds (July 2004) which originally were issued to finance the substantial upgrades to the Town's Wastewater Treatment Plant. These obligations are secured and funded with the revenues and resources of the Water and Sewer Enterprise Funds. Principal is payable annually through July 1, 2019, and interest is due semi-annually at a rate of 2.95%. Debt service requirements range from \$68,086- 74,266 per year through July 1, 2019. In accordance with the bond agreement, the Town must maintain a debt service coverage ratio of at least 1.20 at all times. The Town was in compliance with this bond covenant at June 30, 2016.

\$ 213,000

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

\$ 1,502,959

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

E. Long-Term Obligations (Continued)

Principal Outstanding
at Year End

Lease Purchases

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

\$ 13,015

\$145,000 Lease Purchase (September 2014) was obtained to finance the purchase of three vehicles and one all terrain vehicle for the public safety department, and two vehicles for the water and sewer departments. These assets serve as collateral for this lease. Principal and interest are payable annually with interest at a rate of 1.32%. Total debt service requirements are \$49,615 annually through September 2017 and are funded with resources from the General Fund, Water Fund, and Sewer Fund.

\$ 97,090

\$127,000 lease purchase (October 2015) was made to purchase vehicles. Principal and interest are payable annually with interest at a rate of 1.49%. Total debt service requirements are \$43,601 annually through September 2018 and are funded with resources from the General Fund, Water Fund, and Sewer Fund.

\$ 127,000

\$235,000 lease purchase (June 2016) was made to purchase vehicles. Principal and interest are payable annually with interest at a rate of 1.43%. Total debt service requirements are \$80,584 annually through June 2019 and are funded with resources from the General Fund.

\$ 235,000

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

E. Long-Term Obligations (Continued)

A summary of changes in long-term obligations for the Town’s governmental and business-type activities for the year ended June 30, 2016 is presented below.

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
GO Bond Debt:					
GO Bond - 10/03	\$ 745,000	-	175,000	570,000	\$ 180,000
GO Bond - 02/14	4,100,000	-	355,000	3,745,000	365,000
Total GO Bond Debt	<u>4,845,000</u>	<u>-</u>	<u>530,000</u>	<u>4,315,000</u>	<u>545,000</u>
Capital Leases:					
CL - 09/12	61,212	-	61,212	-	
CL - 06/14	25,542	-	12,527	13,015	13,015
CL - 09/14	97,004	-	31,912	65,092	32,333
CL - 10/15	-	65,055	-	65,055	21,365
CL - 6/16	-	235,000	-	235,000	77,224
Total Lease Purchases	<u>183,758</u>	<u>300,055</u>	<u>105,651</u>	<u>378,162</u>	<u>143,936</u>
Compensated Absences	<u>108,646</u>	<u>88,049</u>	<u>113,181</u>	<u>83,514</u>	<u>83,514</u>
Total Governmental Activities	<u>\$ 5,137,404</u>	<u>388,104</u>	<u>748,832</u>	<u>4,776,676</u>	<u>\$ 772,450</u>

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

E. Long-Term Obligations (Continued)

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Debt:					
Revenue Bond - 11/10 - Sewer	\$ 278,000	-	65,000	213,000	\$ 69,000
Revenue Bond - 09/14 - Sewer	1,451,433	123,003	71,477	1,502,959	72,195
Total Revenue Bond Debt	1,729,433	123,003	136,477	1,715,959	141,195
Water Lease Purchases:					
CL - 09/12	13,370	-	13,370	-	-
CL - 09/14	23,998	-	7,999	15,999	7,999
CL - 10/15	-	30,973	-	30,973	10,172
Total Water Lease Purchases	37,368	30,973	21,369	46,972	18,171
Sewer Lease Purchases:					
CL - 09/12	13,370	-	13,370	-	-
CL - 09/14	23,998	-	7,999	15,999	7,999
CL - 10/15	-	30,973	-	30,973	10,172
Total Sewer Lease Purchases	37,368	30,973	21,369	46,972	18,171
Compensated Absences	11,882	15,075	12,281	14,676	14,676
Total Business-Type Activities	\$ 1,816,051	200,023	191,496	1,824,578	\$ 192,212

The Town paid interest of approximately \$105,000, and \$25,000 for its governmental and business-type activities, respectively.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or Town shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or Town voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of June 30, 2016, the Town had \$4,315,000 of bonded debt subject to the 8% limit of approximately \$5,387,000 resulting in an unused legal debt margin of approximately \$1,072,101.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

E. Long-Term Obligations (Continued)

Debt Service Requirements to Maturity

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

Year Ending June 30,	Principal	Interest	Total
<u>Governmental Activities</u>			
2017	\$ 688,936	92,257	\$ 781,194
2018	697,771	75,950	773,721
2019	691,455	59,544	750,999
2020	400,000	47,070	447,070
2021	415,000	39,870	454,870
2022-2026	1,800,000	82,170	1,882,170
Totals	<u>\$ 4,693,162</u>	<u>396,861</u>	<u>\$ 5,090,023</u>
<u>Business-Type Activities</u>			
2017	\$ 177,537	23,350	\$ 200,887
2018	180,775	20,134	200,909
2019	167,397	16,816	184,213
2020	74,381	13,640	88,021
2021	75,137	11,817	86,954
2022-2026	387,163	47,619	434,782
2027-2031	406,977	27,794	434,771
2032-2036	340,536	11,206	351,742
Totals	<u>\$ 1,809,903</u>	<u>172,377</u>	<u>\$ 1,982,279</u>

F. Net Position

The Town used the proceeds from the 2003 General Obligation Bond (see Note III.E) to fund the water line replacement and upgrade project. The \$570,000 balance outstanding at June 30, 2016 is included in the calculation of the governmental activities unrestricted net position in the Statement of Net Position, but the cost of the water lines are included in the business-type activities net investment in capital assets. Consequently, unrestricted net position, and the net investment in capital assets of the Town are not equal to a simple combination of those net position components of the governmental and business-type activities.

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. For all of these risks, the Town is a member of the South Carolina Municipal Insurance Reserve Fund (“SCMIRF”), a public entity risk pool operating as a common risk management and insurance program for local governments for general risk. The Town pays an annual premium for this coverage. For the year ended June 30, 2016, the Town made premium payments totaling approximately \$169,000. SCMIRF’s net position from its most recently issued audited financial statements at December 31, 2015 totaled approximately \$14,389,800.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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, 2016, the Town made premium payments totaling approximately \$80,000. The Trust uses reinsurance agreements to reduce its exposure to large workers' compensation losses. SCMIT's net position from its most recently issued audited financial statements at December 31, 2015 totaled approximately \$54,387,800.

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

Participation in Public Entity Risk Pool for Health Insurance

The Town has also joined together with other local governments in the South Carolina Employee Insurance Program ("EIP") to provide medical, dental, and life insurance for its employees. This is also a public entity risk pool operating as a common risk management and insurance program. Effective July 1, 2012, the South Carolina General Assembly transferred administration of the EIP to the South Carolina Public Employee Benefit Authority ("PEBA"). For the year ended June 30, 2016, the Town made premium payments totaling approximately \$452,000. The EIP's net position from its most recently issued audited financial statements at June 30, 2015 were approximately \$178,482,200.

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

B. Retirement Plans

The Town participates in the State of South Carolina's retirement plans, which are administered by the South Carolina Public Employee Benefit Authority ("PEBA"), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors ("PEBA Board"), appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review.

The PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the System's Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. The PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Description (Continued)

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

Plan Membership

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

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

Plan Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Benefits (Continued)

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

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

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

Plan Contributions

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Plan Contributions (Continued)

	SCRS Rates			PORS Rates		
	2014	2015	2016	2014	2015	2016
Employer Contribution Rate: [^]						
Retirement	10.45%	10.75%	10.91%	12.44%	13.01%	13.34%
Incidental Death Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.20%	0.20%	0.20%
	<u>10.60%</u>	<u>10.90%</u>	<u>11.06%</u>	<u>12.84%</u>	<u>13.41%</u>	<u>13.74%</u>
Employee Contribution Rate	<u>7.50%</u>	<u>8.00%</u>	<u>8.16%</u>	<u>7.84%</u>	<u>8.41%</u>	<u>8.74%</u>

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

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

Year Ended June 30,	SCRS Contributions		PORS Contributions	
	Required	% Contributed	Required	% Contributed
2016	\$ 123,158	100%	\$ 154,165	100%
2015	114,326	100%	145,526	100%
2014	\$ 104,693	100%	\$ 135,399	100%

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

Year Ended June 30,	SCRS Payroll	PORS Payroll	Total Payroll
2016	\$ 1,113,545	1,122,020	\$ 2,235,565
2015	1,048,865	1,085,206	2,134,071
2014	\$ 987,670	1,054,506	\$ 2,042,176

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2015 total pension liability, net pension liability, and sensitivity information were determined by the PEBA's consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2014 actuarial valuations as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015 using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Actuarial Assumptions and Methods (Continued)

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for the SCRS and PORS.

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

* Includes inflation at 2.75%.

The post-retiree mortality assumption is dependent upon the member’s job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014 valuations for the SCRS and PORS are as follows:

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

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014 actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission (“RSIC”) in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted by the RSIC for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Long-term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	31.0%	7.10%	2.20%
Global Tactical Asset Allocation	10.0%	4.90%	0.49%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

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

The net pension liability (“NPL”) is calculated separately for each system and represents that particular system’s total pension liability determined in accordance with GASB No. 67 less that System’s fiduciary net position. NPL totals, as of June 30, 2015 measurement date, for the SCRS and PORS are presented in the following table:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 44,097,310,230	25,131,828,101	\$ 18,965,482,129	57.0%
PORS	\$ 6,151,321,222	3,971,824,838	\$ 2,179,496,384	64.6%

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

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

At June 30, 2016, the Town reported liabilities of approximately \$2,109,000 and \$1,920,000 for its proportionate share of the net pension liabilities for the SCRS and PORS (“Plans”), respectively. The net pension liabilities were measured as of June 30, 2015, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report as of July 1, 2014 that was projected forward to the measurement date. The Town’s proportion of the net pension liabilities were based on a projection of the Town’s long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2015 measurement date, the Town’s SCRS proportion was .011119 percent, which was an increase of .00024 from its proportion measured as of June 30, 2014. At the June 30, 2015 measurement date, the Town’s PORS proportion was .08811 percent, which was an increase of 0.00043 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of approximately \$164,000 and \$173,000 for the SCRS and PORS, respectively. At June 30, 2016, the Town reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	\$ 37,466	\$ 3,770
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	14,115	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	33,113	-
Town Contributions Subsequent to the Measurement Date	123,158	-
Total SCRS	<u>207,852</u>	<u>3,770</u>
PORS		
Differences Between Expected and Actual Experience	38,061	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	21,012	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	6,939	-
Town Contributions Subsequent to the Measurement Date	154,166	-
Total PORS	<u>220,178</u>	<u>-</u>
Total SCRS and PORS	<u>\$ 428,030</u>	<u>\$ 3,770</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

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

Approximately \$123,000 and \$154,000 that were reported as deferred outflows of resources related to the Town's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liabilities in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS and PORS will increase (decrease) pension expense as follows:

Year Ended June 30,	SCRS	PORS	Total
2017	\$ 19,493	7,800	\$ 27,293
2018	19,493	7,800	27,293
2019	6,624	6,119	12,743
2020	35,314	44,293	79,607
Total	<u>\$ 80,924</u>	<u>66,012</u>	<u>\$ 146,936</u>

Discount Rate

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

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

System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
The Town's proportionate share of the net pension liability of the SCRS	\$ 2,658,559	2,108,772	\$ 1,647,981
The Town's proportionate share of the net pension liability of the PORS	2,615,940	1,920,332	1,298,496
Total Pension Liability	<u>\$ 5,274,499</u>	<u>4,029,104</u>	<u>\$ 2,946,477</u>

Plans Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plans administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS and PORS. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Payable to Plans

The Town reported a payables of approximately \$16,700 and \$20,000 to the PEBA as of June 30, 2016, representing required employer and employee contributions for the month of June 2016 for the SCRS and PORS, respectively. These amounts are included in Other Accrued Liabilities on the financial statements and were paid in July 2016.

C. Other Postemployment Benefits

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

D. Commitments and Contingencies

The Town receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the Town at June 30, 2016.

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

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

In May 2015, the Town entered into an agreement for the construction of the new Town Hall. As of June 30th, 2016 the contracted balance to finish the project including retainage is approximately \$1,143,000.

(This page intentionally left blank.)

Required Supplementary Information

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property Taxes	\$ 2,274,700	2,274,700	2,575,775	\$ 301,075
Local Option Sales Tax	212,000	212,000	242,969	30,969
Licenses and Franchise Fees	1,158,100	1,158,100	1,366,511	208,411
Magistrate and Recorder Fines	50,000	50,000	63,927	13,927
State Shared Revenues	95,000	95,000	96,615	1,615
Permits	349,250	349,250	515,850	166,600
Victims' Services Fund	8,000	8,000	9,553	1,553
Interest Income	6,000	6,000	11,969	5,969
Other	205,200	205,200	316,272	111,072
TOTAL REVENUES ALL SOURCES	4,358,250	4,358,250	5,199,441	841,191
EXPENDITURES				
Maintenance	638,577	638,577	682,802	(44,225)
Police	953,982	953,982	936,557	17,425
Fire	1,103,245	1,103,245	1,240,277	(137,032)
Recreation	171,800	171,800	136,328	35,472
Building	312,100	312,100	304,372	7,728
Administrative	1,707,000	1,707,000	5,161,258	(3,454,258)
TOTAL EXPENDITURES	4,886,704	4,886,704	8,461,594	(3,574,890)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(528,454)	(528,454)	(3,262,153)	(2,733,699)
OTHER FINANCING SOURCES (USES)				
Transfers In	550,000	550,000	357,566	(192,434)
Proceeds from Sale of Capital Assets	4,000	4,000	-	(4,000)
Proceeds from Lease Purchases	55,000	55,000	300,055	245,055
TOTAL OTHER FINANCING SOURCES (USES)	609,000	609,000	657,621	48,621
NET CHANGES IN FUND BALANCES	80,546	80,546	(2,604,532)	(2,685,078)
FUND BALANCES, Beginning of Year	10,497,736	10,497,736	10,497,736	-
FUND BALANCES, End of Year	\$ 10,578,282	10,578,282	7,893,204	\$ (2,685,078)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	Year Ended June 30,		
	2016	2015	2014
Town of Sullivan's Island's Proportion of the Net Pension Liability	0.011%	0.011%	0.011%
Town of Sullivan's Island's Proportionate Share of the Net Pension Liability	\$ 2,108,772	1,873,003	\$ 1,951,305
Town of Sullivan's Island's Covered-Employee Payroll	\$ 1,048,865	987,670	\$ 919,628
Town of Sullivan's Island's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	201.053%	189.639%	212.184%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.992%	59.919%	56.388%

Notes to Schedule:

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	Year Ended June 30,		
	2016	2015	2014
Contractually Required Contribution	\$ 123,158	114,326	\$ 104,693
Contributions in Relation to the Contractually Required Contribution	123,158	114,326	104,693
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Town of Sullivan's Island's Covered-Employee Payroll	\$ 1,113,545	1,048,865	\$ 987,670
Contributions as a Percentage of Covered-Employee Payroll	11.060%	10.900%	10.600%

Notes to Schedule:

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	Year Ended June 30,		
	2016	2015	2014
Town of Sullivan's Island's Proportion of the Net Pension Liability	0.088%	0.088%	0.088%
Town of Sullivan's Island's Proportionate Share of the Net Pension Liability	\$ 1,920,354	1,678,474	\$ 1,817,479
Town of Sullivan's Island's Covered-Employee Payroll	\$ 1,085,206	1,054,506	\$ 1,062,319
Town of Sullivan's Island's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	176.958%	159.172%	171.086%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.569%	67.549%	62.979%

Notes to Schedule:

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	Year Ended June 30,		
	2016	2015	2014
Contractually Required Contribution	\$ 154,165	145,526	\$ 135,399
Contributions in Relation to the Contractually Required Contribution	154,165	145,526	135,399
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Town of Sullivan's Island's Covered-Employee Payroll	\$ 1,122,019	1,085,206	\$ 1,054,506
Contributions as a Percentage of Covered-Employee Payroll	13.740%	13.410%	12.840%

Notes to Schedule:

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

Supplementary Information

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2016

	2016		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
MAINTENANCE			
Operating Expenditures:			
Salaries	\$ 172,000	138,467	\$ 33,533
Payroll Taxes	13,000	10,375	2,625
Health Insurance	25,000	16,420	8,580
Retirement	15,000	14,258	742
Gas and Oil - Vehicles	12,000	6,335	5,665
Diesel Fuel	3,500	1,725	1,775
Vehicle Repairs	7,500	1,163	6,337
Supplies and Materials	20,000	19,594	406
Uniforms	3,000	1,599	1,401
Property & Equipment <\$5,000	-	2,604	(2,604)
Telephone	660	660	-
Power and Lights	40,000	37,765	2,235
Insurance	18,000	14,506	3,494
System Repairs and Improvements	15,000	24,743	(9,743)
Garbage Disposal Service - Subcontract	197,000	171,022	25,978
Container Servicing	11,000	5,033	5,967
Causeway & Beach Path Maintenance	52,000	160,259	(108,259)
Miscellaneous	1,000	-	1,000
Total Operating Expenditures	605,660	626,528	(20,868)
Capital Expenditures:			
Lease Purchase Payments	7,917	8,551	(634)
Capital Outlay	25,000	47,723	(22,723)
TOTAL EXPENDITURES	638,577	682,802	(44,225)
POLICE			
Operating Expenditures:			
Salaries	495,000	465,632	29,368
Payroll Taxes	37,000	33,794	3,206
Health Insurance	73,000	68,703	4,297
Retirement	66,000	60,894	5,106
Contract Labor	40,000	22,850	17,150
Gas and Oil - Vehicles	35,000	18,670	16,330
Diesel Fuel	1,200	404	796
Vehicle Repairs	12,000	14,490	(2,490)
Supplies and Materials	12,000	9,959	2,041
Telephone	9,500	8,197	1,303
Power and Lights	4,200	5,660	(1,460)
Uniforms	8,000	7,825	175
Insurance	44,000	47,799	(3,799)
800 MHZ Radios	16,700	17,425	(725)
Property & Equipment <\$5,000	7,000	23,891	(16,891)
System Repairs and Improvements	8,000	6,398	1,602
Dues and Certifications	500	243	257
Training and Seminars	6,000	2,892	3,108
Dispatching Services	22,500	21,984	516
Miscellaneous	1,000	3,300	(2,300)
Total Operating Expenditures	898,600	841,010	57,590
Capital Expenditures:			
Lease Purchase Payments	55,382	56,122	(740)
Capital Outlay	-	39,425	(39,425)
TOTAL EXPENDITURES	\$ 953,982	936,557	\$ 17,425

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2016

	2016		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
FIRE			
Operating Expenditures:			
Salaries	\$ 580,000	611,733	\$ (31,733)
Payroll Taxes	43,000	44,701	(1,701)
Health Insurance	90,000	90,659	(659)
Retirement	82,000	82,774	(774)
Gas and Oil - Vehicles	12,000	7,715	4,285
Diesel Fuel	6,500	3,698	2,802
Vehicle Repairs	20,000	16,761	3,239
Supplies and Materials	20,000	24,246	(4,246)
Telephone	10,000	6,782	3,218
Uniforms	10,000	7,478	2,522
Power and Lights	11,000	10,247	753
Insurance	55,000	56,756	(1,756)
Building Repairs	10,000	9,549	451
800 MHZ Radios	18,000	27,462	(9,462)
Property & Equipment <\$5,000	7,500	32,984	(25,484)
System Repairs and Improvements	11,000	8,467	2,533
Dues and Certifications	1,000	179	821
Training and Seminars	9,500	7,698	1,802
Dispatching Services	22,500	21,984	516
Miscellaneous	8,500	1,429	7,071
Total Operating Expenditures	1,027,500	1,073,302	(45,802)
Capital Expenditures:			
Lease Purchase Payments	45,745	44,155	1,590
Capital Outlay	30,000	122,820	(92,820)
TOTAL EXPENDITURES	1,103,245	1,240,277	(137,032)
RECREATION			
Operating Expenditures:			
Power and Lights	7,500	9,472	(1,972)
Insurance	4,300	5,204	(904)
Maintenance Recreation Area	15,000	26,780	(11,780)
Miscellaneous	25,000	20,905	4,095
Total Operating Expenditures	51,800	62,361	(10,561)
Capital Expenditures:			
Capital Outlay	120,000	73,967	46,033
TOTAL EXPENDITURES	\$ 171,800	136,328	\$ 35,472

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2016

	2016		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
BUILDING			
Operating Expenditures:			
Salaries	\$ 202,000	198,355	\$ 3,645
Payroll Taxes	16,000	14,733	1,267
Health Insurance	25,000	22,411	2,589
Retirement	25,000	23,658	1,342
Gas and Oil - Vehicles	2,600	2,749	(149)
Office Supplies	3,000	3,000	-
Supplies - Building Official	2,000	2,101	(101)
Telephone	4,000	4,334	(334)
Utilities	1,000	578	422
Insurance	1,000	608	392
System Repair and Maintenance	3,000	2,573	427
Dues and Certifications	2,000	1,198	802
Training and Seminars	3,000	1,222	1,778
Board of Zoning Appeals	2,000	4,555	(2,555)
Design and Review Board	5,000	8,981	(3,981)
Tree Commission	1,500	809	691
Trimming and Pruning	9,000	8,800	200
Equipment	5,000	3,574	1,426
Miscellaneous	-	133	(133)
Total Operating Expenditures	312,100	304,372	7,728
TOTAL EXPENDITURES	312,100	304,372	7,728
ADMINISTRATIVE			
Operating Expenditures:			
Salaries	421,000	417,466	3,534
Payroll Taxes	33,000	33,386	(386)
Health Insurance	47,000	61,428	(14,428)
Retirement	47,000	53,091	(6,091)
Office Supplies	24,000	32,469	(8,469)
Travel Allowance - Recorder	700	-	700
Advertising	10,000	6,975	3,025
Recorder's Supplies	1,000	-	1,000
Telephone	17,000	19,143	(2,143)
Power and Lights	9,000	11,467	(2,467)
Insurance	66,000	96,515	(30,515)
System Repairs and Improvements	40,000	38,809	1,191
Dues and Certifications	4,500	4,175	325
Training and Seminars	6,000	5,345	655
Professional Engineering Fees	90,000	45,782	44,218
Victim's Rights Fund	8,000	-	8,000
Professional Services	170,000	229,786	(59,786)
Town Hall Relocation Expenses	50,000	49,460	540
Property & Equipment <\$5,000	7,000	18,507	(11,507)
Bonds Debt Services	628,800	631,360	(2,560)
Council Expenditures	6,000	13,122	(7,122)
Planning Expense	1,000	22	978
Miscellaneous	20,000	23,640	(3,640)
Total Operating Expenditures	1,707,000	1,791,948	(84,948)
Capital Expenditures:			
Capital Outlay	-	3,369,310	(3,369,310)
TOTAL EXPENDITURES	1,707,000	5,161,258	(3,454,258)
TOTAL GENERAL FUND EXPENDITURES	\$ 4,886,704	8,461,594	\$ (3,574,890)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2016

	2016		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Sewer Service Charges	\$ 886,966	876,190	\$ (10,776)
Other Revenue	9,000	5,390	(3,610)
TOTAL OPERATING REVENUES	895,966	881,580	(14,386)
OPERATING EXPENSES			
Salaries	216,378	219,480	(3,102)
Payroll Taxes	16,553	15,574	979
Hospitalization Insurance	32,140	29,500	2,640
Retirement	23,001	63,257	(40,256)
Gas and Oil - Vehicles	7,000	4,230	2,770
Diesel Fuel and Equipment	8,300	10,365	(2,065)
Vehicle Repairs	5,000	691	4,309
Supplies and Tools	12,000	12,243	(243)
Office Supplies	8,700	6,986	1,714
Lab Supplies	3,700	9,232	(5,532)
Telephone	5,600	6,091	(491)
Power and Lights	58,000	61,393	(3,393)
Insurance	19,000	20,652	(1,652)
System Repairs and Improvements	434,500	150,684	283,816
Sludge Disposal	50,000	51,986	(1,986)
Grit Disposal	1,400	1,937	(537)
Depreciation and Amortization Expense	-	206,347	(206,347)
Dues and Certifications	8,000	4,333	3,667
Training and Seminars	5,000	2,827	2,173
Professional Engineering Fees	15,000	15,995	(995)
Professional Services	5,000	5,000	-
Bond Payments	72,000	-	72,000
Lab Analysis, Inspection, and Chemicals	20,000	27,858	(7,858)
Miscellaneous	2,625	1,544	1,081
Total Operating Expenses	1,028,897	928,205	100,692
OPERATING INCOME (LOSS)	(132,931)	(46,625)	86,306
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(60,569)	-	60,569
NONOPERATING REVENUES			
Interest Income	1,000	1,073	73
Transfers In from Other Funds	227,500	-	(227,500)
NET INCOME (LOSS)	\$ 35,000	(45,552)	\$ (80,552)
RECONCILIATION TO GAAP BASIS:			
Non-Budgeted Revenues (Expenses)			
Interest Expense		(25,765)	
DECREASE IN NET POSITION		(71,317)	
NET POSITION, Beginning of Year		3,069,950	
NET POSITION, End of Year		\$ 2,998,633	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2016

	2016		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Water Sales	\$ 992,454	1,025,412	\$ 32,958
Meter Connections	22,750	76,219	53,469
TOTAL OPERATING REVENUES	1,015,204	1,101,631	86,427
OPERATING EXPENSES			
Salaries	216,378	217,594	(1,216)
Payroll Taxes	16,553	15,429	1,124
Hospitalization Insurance	32,140	29,500	2,640
Retirement	23,001	30,430	(7,429)
Gas and Oil - Vehicles	7,000	4,451	2,549
Diesel Fuel and Equipment	3,300	474	2,826
Repairs and Maintenance - Diesel Equipment	2,000	5,046	(3,046)
Vehicle Repairs	5,000	725	4,275
Supplies and Tools	11,500	12,249	(749)
Office Supplies	8,700	6,568	2,132
Lab Supplies	2,200	2,356	(156)
Telephone	5,600	6,091	(491)
Power and Lights	3,500	3,434	66
Insurance	17,000	18,034	(1,034)
System Repairs and Improvements	220,500	233,649	(13,149)
Depreciation and Amortization Expense	-	249,604	(249,604)
Dues and Certifications	9,000	6,137	2,863
Training and Seminars	4,500	3,671	829
Professional Engineering Fees	35,000	58,167	(23,167)
Professional Services	5,000	5,000	-
Lab Analysis, Inspection, and Chemicals	9,200	5,279	3,921
CPW Improvements	73,000	-	73,000
Wholesale Water Purchases	123,000	114,281	8,719
Miscellaneous	3,064	950	2,114
Total Operating Expenses	836,136	1,029,119	(192,983)
OPERATING INCOME (LOSS)	179,068	72,512	(106,556)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(40,568)	-	40,568
NONOPERATING REVENUES			
Interest Income	2,000	1,850	(150)
Transfers In from Other Funds	120,000	-	(120,000)
Transfers Out to Other Funds	(198,500)	-	198,500
NET INCOME (LOSS)	\$ 62,000	74,362	\$ 12,362
RECONCILIATION TO GAAP BASIS:			
Non-Budgeted Revenues (Expenses)			
Interest Expense		(563)	
INCREASE IN NET POSITION		73,799	
NET POSITION, Beginning of Year		4,799,569	
NET POSITION, End of Year		\$ 4,873,368	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA
 SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES
 GENERAL FUND

YEAR ENDED JUNE 30, 2016

	<u>2016</u>
COURT FINES	
Court Fines Collected	\$ 63,927
Court Fines Retained by Town	(63,927)
Court Fines Remitted to the State Treasurer	<u>\$ -</u>
COURT ASSESSMENTS	
Court Assessments Collected	\$ 32,942
Court Assessments Allocated to Victim Services	(3,648)
Court Assessments Remitted to the State Treasurer	<u>\$ 29,294</u>
COURT SURCHARGES	
Court Surcharges Collected	\$ 15,401
Court Surcharges Allocated to Victim Services	(5,905)
Court Surcharges Remitted to the State Treasurer	<u>\$ 9,496</u>
VICTIMS SERVICES	
Court Assessments Allocated to Victims Services	\$ 3,648
Court Surcharges Allocated to Victims Services	5,905
Funds Allocated to Victims Services	<u>\$ 9,553</u>
Victims Services Balance at Beginning of Year	<u>\$ 75,266</u>
Victims Services Balance at End of Year	<u>\$ 84,819</u>

(This page intentionally left blank.)



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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 7, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 7, 2016