

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

ANNUAL FINANCIAL REPORT

June 30, 2006

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## INDEPENDENT AUDITOR'S REPORT

January 31, 2007

To the Town Council  
Town of Sullivan's Island, South Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Sullivan's Island, South Carolina, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Sullivan's Island, South Carolina. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the discretely presented component unit, and each major fund of the Town of Sullivan's Island, South Carolina as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2007, on our consideration of the Town of Sullivan's Island, South Carolina's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sullivan's Island, South Carolina's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Sullivan's Island, South Carolina, we provide this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. It is meant to supplement, and should be read in conjunction with, the Town's financial statements and notes, which immediately follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the Town of Sullivan's Island exceeded liabilities at the close of the current fiscal year by \$9,552,751 (*net assets*). Of this amount, \$3,830,352 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Unrestricted net assets increased \$1,684,185, or 78.7%, over the prior fiscal year. This is due largely to the release of restrictions on general obligation bond proceeds once spent.
- Net assets also include \$5,513,318 of capital assets, net of related debt, that are therefore not available for appropriation.
- In October 2003 the Town issued a single \$2,250,000 General Obligation Bond to finance upgrades to the Town's existing water line system. The Town made a scheduled principal payment of \$115,000 in October 2005. The Town also made scheduled bond interest payments of \$42,693 and \$40,348 in October 2005 and April 2006, respectively.
- In July 2004 the Town issued a single \$800,000 Revenue Bond to finance upgrades to the Town's existing wastewater treatment plant. The Town made scheduled interest payments of \$17,000 and \$16,214 in July 2005 and January 2006, respectively. The Town made a scheduled principal payment of \$37,000 in July 2005.
- During the fiscal year the Town entered into capital leases for rescue, police, and maintenance equipment totaling \$34,313 and \$76,184 for a Water and Sewer vehicle and a by-pass pump. The Town also entered into a capital lease for a voice-over phone system at the total cost of \$56,090 which was split between the General, Water and Sewer funds.
- Restricted net assets of \$209,081 may only be expended in accordance with certain legal requirements. These restricted net assets were generated by bond proceeds, state accommodations taxes and local accommodations fees which are restricted for tourism and related uses.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$2,226,064, which amounted to 78.5% of the total General Fund expenditures of \$2,837,476.
- Total budget-basis expenditures (excluding transfers) in the General Fund were \$2,761,095, which is \$74,921 or 2.8% more than original budgeted expenses. Total General Fund budget-basis revenues (excluding transfers) exceeded the budget by \$677,009 or 28.8%. These overages were entirely absorbed by operating transfers out to other funds.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Sullivan's Island's basic financial statements. The Town's basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. Also, this report contains additional supplementary information following the notes to the financial statements.

These financial statements present the Town (primary government) and its discretely presented component unit, the Sullivan's Island Park Foundation. By discretely presenting component units in a separate column in the government-wide financial statements, emphasis is given that they are legally separate from the primary government.

#### Government-Wide Financial Statements

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. Activities of the Town are reported as a whole rather than by individual funds. The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time,

increases or decreases in net assets may serve as an indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Hence, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but unused, vacation leave). This statement will demonstrate how direct expenses of a given program are offset by program revenues.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, and public works. The business-type activities of the Town include water and sewer service.

### **Fund Financial Statements**

A *fund* is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town's funds are divided into governmental funds and proprietary funds.

### **Governmental Funds**

*Governmental funds* are used to account for essentially the same functions as reported by *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information is useful in assessing the Town's financing requirements. In particular, *unreserved fund balance* is a useful measure of a government's net resources available for spending as of the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains two individual governmental funds:

1. The *General Fund* is used as the main operating fund for the Town. All general tax revenues and other receipts not restricted by law or contractual agreement are accounted for here. General operating expenditures, fixed charges and capital improvement costs that are not paid for through other funds are paid from the General Fund.
2. The *Special Revenue Fund* is used to account for the proceeds of specific revenue resources that are legally restricted to expenditures for specified purposes. These fund balances are reserved or restricted for the specific restricted uses in accordance with the fund's objectives.

### **Proprietary Funds – Water and Sewer**

The Town's *proprietary funds* include two enterprise funds for water and sewer. *Enterprise funds* are used to account for business-like activities provided to the general public using the accrual basis of accounting. These activities are financed by user charges. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements, only in greater detail. The measurement of financial activity focuses on *net income measurement* similar to the private sector.

## Fiduciary Fund – Volunteer Fire Department

*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. Therefore, these funds are not incorporated into the government-wide financial statements.

## Notes to the Financial Statements

Given the differences in the accounting measurement used in the *government-wide financial statements* and the *fund financial statements*, the notes provide additional information that is essential to a full understanding of the data provided.

## Budgetary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town's budgetary compliance. The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

## THE TOWN AS A WHOLE

As previously noted, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$9,552,751 as of June 30, 2006. The Town has consistently reported positive balances in all three categories of net assets, both for the government as a whole and for the individual funds.

The Town's net assets increased \$329,329, or 3.57%, during the fiscal year. Unrestricted net assets increased by \$1,684,184 to \$3,830,352 at June 30. Investment in capital assets net of related debt increased \$100,049 from last year to \$5,513,318. Net assets restricted primarily for capital and tourism-related expenditures decreased by \$1,454,905 to \$209,081. This decrease in restricted net assets is primarily due to the use during the year of restricted bond proceeds for capital improvements to the water and sewer systems.

The largest portion of the Town's net assets (57.7%, or \$5,513,318) reflects its investment in capital assets (land, buildings, water and sewer infrastructure, vehicles, and equipment), net of related debt used to acquire those assets that is still outstanding. 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 must be provided from other sources, since the capital assets themselves cannot be liquidated to offset these liabilities.

40.1% or \$3,830,352 of the Town's net assets are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. \$209,081 (2.2%) of the Town's net assets is restricted, representing funds that are subject to external or legally enforceable restrictions on how they may be used.

**Table 1: Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 3,578,048	\$ 4,807,942	\$ 817,382	\$ 733,515	\$ 4,395,430	\$ 5,541,457
Capital assets	1,335,677	1,270,476	7,274,499	5,992,462	8,610,176	7,262,938
Total assets	<b>4,913,725</b>	<b>6,078,418</b>	<b>8,091,881</b>	<b>6,725,977</b>	<b>13,005,606</b>	<b>12,804,395</b>
Long-term liabilities outstanding	2,291,579	2,419,357	921,733	909,188	3,213,312	3,328,545
Other liabilities	111,345	101,933	128,198	150,495	239,543	252,428
Total liabilities	<b>2,402,924</b>	<b>2,521,290</b>	<b>1,049,931</b>	<b>1,059,683</b>	<b>3,452,855</b>	<b>3,580,973</b>
Net assets:						
Invested in capital assets, net of related debt	1,155,939	301,758	6,382,379	5,111,511	5,513,318	5,413,269
Restricted	94,742	1,492,714	114,339	171,272	209,081	1,663,986
Unrestricted	1,260,120	1,762,656	545,232	383,511	3,830,352	2,146,167
Total net assets	<b>\$ 2,510,801</b>	<b>\$ 3,557,128</b>	<b>\$ 7,041,950</b>	<b>\$ 5,666,294</b>	<b>\$ 9,552,751</b>	<b>\$ 9,223,422</b>

The Town's total revenues increased \$637,202, or 18.3%, in 2006. The total cost of all programs and services increased \$650,722, or 20.4%. See Table 2 and the discussion that follows below for more information on the Town's activities for the year.

**Table 2: Changes in Net Assets**

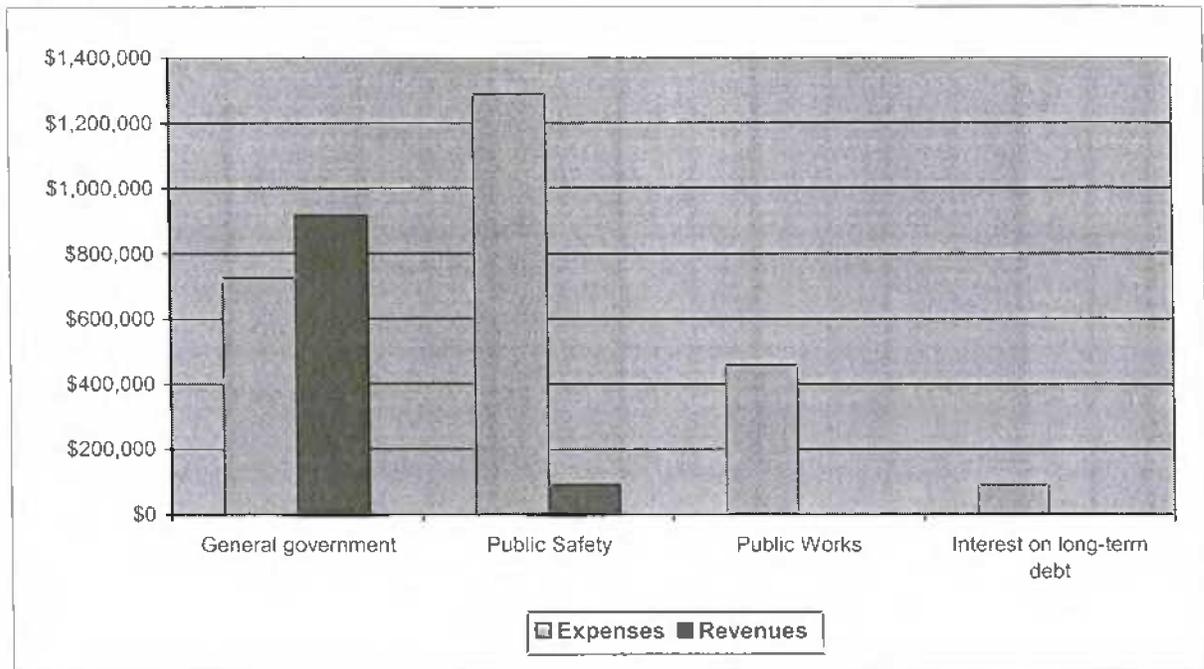
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 905,656	\$ 817,891	\$ 1,106,884	\$ 859,428	\$ 2,012,540	\$ 1,677,319
Operating grants	100,816	132,522	-	-	100,816	132,522
General revenues:						
Property and local option sales taxes	1,781,423	1,596,919	-	-	1,781,423	1,596,919
Other	261,772	93,799	14,411	33,201	276,183	127,000
Total revenues	3,049,667	2,641,131	1,121,295	892,629	4,170,962	3,533,760
<b>Program Expenses</b>						
General government	727,223	549,617	-	-	727,223	549,617
Public safety	1,287,281	1,199,655	-	-	1,287,281	1,199,655
Public works	460,335	459,814	-	-	460,335	459,814
Interest on long-term debt	92,129	121,082	-	-	92,129	121,082
Water	-	-	646,054	426,645	646,054	432,303
Sewer	-	-	628,611	428,440	628,611	428,440
Total expenses	2,566,968	2,330,168	1,274,665	855,085	3,841,633	3,190,911
Excess before transfers	482,699	310,963	(153,370)	37,544	329,329	348,507
Transfers	(1,529,026)	(885,675)	1,529,026	885,675	-	-
Change in net assets	\$ (1,046,327)	\$ (574,712)	\$ 1,375,656	\$ 923,219	\$ 329,329	\$ 348,507

### Governmental Activities

Governmental activities decreased the Town's net assets by \$1,046,327. Of this decrease, \$1,529,026 is caused by net transfers out to the Water and Sewer funds for systems upgrades. Additional key changes are discussed below. See Figure 1 below for a graphical representation of revenues and expenses by governmental activity function.

- License and permit revenue increased by \$44,263.
- Local option sales tax, state accommodations tax and municipal accommodations tax increased by \$15,951.
- Insurance proceeds of \$124,857 were received due to the fire in the maintenance building.
- Court fines collected increased \$44,148.
- Interest earnings increased by \$47,813, due largely to earnings on temporary deposits from bond proceeds.
- Salary expense and related payroll taxes increased to reflect the increases in the CPI and merit for a total of 5%.
- Interest expense from general obligation bond payments of \$83,041 was recognized. A general obligation bond principal payment in the amount of \$115,000 was made in the fiscal year.

**Figure 1: Expenses and Program Revenues – Governmental Activities**



### Business-Type Activities

The Town's business-type activities include its proprietary funds (Water and Sewer). The financial information presented for business-type activities is the same as that presented in the proprietary fund financial statements, except in a less detailed format. The water and sewer funds increased the Town's net assets by \$1,375,656. This increase is due in part to transfers of \$1,529,026 to the Water and Sewer funds from the General and Special Revenue funds used in the financing of the water line and wastewater treatment plant upgrades.

### THE TOWN'S FUNDS

The Town of Sullivan's Island uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds are classified as governmental or proprietary.

#### Governmental Funds

As of June 30, 2006, the Town's governmental funds reported combined ending fund balances of \$3,472,295. \$2,226,064 of this total amount, or 64%, is unreserved fund balance, available for spending at the government's discretion. The remainder of the fund balance, \$1,246,231, is reserved to indicate that it is only available for spending for certain uses. Some of these reservations are legally imposed on the Town by outside parties, while others are self-imposed by the Town itself.

The General fund is the chief operating fund of the Town. As of June 30, 2006, unreserved fund balance of the General fund was \$2,226,064 and total fund balance was \$2,370,071. As a measure of the General fund's liquidity, it is useful to compare unreserved fund balance to total expenditures. Unreserved fund balance represents 78.5% of the total General fund expenditures for the year ended June 30, 2006.

Revenues remained largely consistent in 2006, with the exception of an increase in property tax revenue and proceeds from the insurance claim due to the fire in the maintenance building. Expenditures increased \$311,493, due to merit increases in salary, insurance adjustments on real property and inland marine policies, Town Hall improvements, and systems enhancements. Comparisons without inclusion of debt service show an increase of \$328,485 in activity expenditures.

### Proprietary Funds

The Town's proprietary funds include the water and sewer funds. Combined net assets of the water and sewer funds were \$7,041,950 at June 30, 2006. Of this amount, \$545,232 is unrestricted and available for appropriation, and \$6,382,379 is invested in capital assets net of related debt. The remaining \$114,339 represents unspent bond proceeds that are restricted to use for capital improvements.

### GENERAL FUND BUDGETARY HIGHLIGHTS

General fund revenues (excluding transfers) were \$677,009 higher than expected. The primary source of this budget excess was the increase in ad valorem property taxes, business license revenue, and surplus revenue in hospitality tax and permit fees. Expenditures (excluding transfers) were higher than budgeted by \$74,921, primarily due to property insurance, upgrades to Town Hall space and furniture, and IT enhancements.

### CAPITAL ASSETS AND LONG-TERM LIABILITIES

#### Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$8,610,176 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and fixtures, and vehicles. Capital assets increased \$1,309,846 or 18% during 2006. Major capital asset events during the current fiscal year included the following:

- The Town obtained numerous advances from leases during 2007. An advance from one lease for \$56,090 was used to purchase a new voice-over phone system in October 2005. Advances from several leases totaling \$34,313 were used to purchase equipment for governmental activities and several more advances from leases totaling \$76,184 were used to purchase equipment for the business-type activities.
- The Town expended \$146,208 for improvements made to Town Hall.
- No vehicles or equipment were sold or disposed of by the Town during 2006.
- The Water and Sewer funds added \$1,647,064 in capital assets \$1,317,915 of this amount was related to the systems upgrades previously discussed. \$210,585 of the added capital assets was the addition of the utility administration building. The cost of moving the building to its present site, \$55,894, was reported as construction in progress for fiscal year 2005, and therefore required no resources during 2006.

**Table 3: Capital Assets (net of depreciation and amortization)**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 37,392	\$ 37,392	\$ -	\$ -	\$ 37,392	\$ 37,392
Construction in progress	-	-	-	55,894	-	55,894
Buildings and improvements	210,066	77,020	210,585	-	420,651	77,020
Machinery and equipment	325,694	295,269	212,123	189,489	537,817	484,758
Vehicles and vehicle equipment	377,955	465,099	192,935	174,560	570,890	639,659
Fire and Emergency Command Center	384,570	395,696	-	-	384,570	395,696
Water/Sewer system	-	-	6,658,856	5,572,518	6,658,856	5,572,518
Total	\$ 1,335,677	\$ 1,270,476	\$ 7,274,499	\$ 5,992,461	\$ 8,610,176	\$ 7,262,937

### Long-term Liabilities

At the end of the current fiscal year, the Town of Sullivan's Island's long-term debt was \$3,213,312. The Town entered into capital leases for \$166,587 to finance vehicles and equipment. Scheduled principal reductions totaling \$156,561 for the Town's capital leases, \$115,000 for the general obligation bond, and \$37,000 for the revenue bond were made during the year.

State statutes limit the amount of general obligation debt a governmental entity may issue without a voter referendum to 8 percent of its total assessed valuation. The Town has \$2,025,000 of general obligation debt, not approved by referendum, counting toward its current debt limitation of approximately \$2,631,000.

**Table 4: Outstanding Liabilities**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bond	\$ 2,025,000	\$ 2,140,000	\$ -	\$ -	\$ 2,025,000	\$ 2,140,000
Revenue bond	-	-	763,000	800,000	763,000	800,000
Capital lease obligations	179,738	217,238	137,495	89,969	317,233	307,207
Compensated absences	86,841	62,119	21,238	19,218	108,079	81,337
Total	\$ 2,291,579	\$ 2,419,357	\$ 921,733	\$ 909,187	\$ 3,213,312	\$ 3,328,544

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Town's elected officials and staff considered many factors when setting the fiscal year 2007 budget. The state of the economy, tourism activity, anticipated building activity, future capital needs and interests of the Town's residents were all taken into account. Financial objectives for the budget include but are not limited to:

- Completion of Phase I of the Waterline Replacement Project
- Completion of the Battery Capron and Butler Project
- Repair of storm water collection pipes
- Completion of the cell tower project
- Completion of the Water and Sewer Administration building
- Development of the accreted land management plan
- Enhancement to Court Administration software
- Enhancements to Town IT system and software applications

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Sullivan's Island's finances for those with an interest in government's finances. Questions concerning information reported or request for additional information should be addressed to the Town Administrator, Post Office Box 427, Sullivan's Island, South Carolina 29482.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
STATEMENT OF NET ASSETS  
June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash	\$ 2,653,826	\$ 790,247	\$ 3,444,073	\$ 75,620
Investments	673,785	-	673,785	-
Receivables, net	88,159	181,038	269,197	-
Internal balances	162,278	(162,278)	-	-
Noncurrent assets:				
Unamortized bond costs, net of amortization	-	8,375	8,375	-
Capital assets:				
Land	37,392	-	37,392	-
Other capital assets, net of depreciation	1,298,285	7,274,499	8,572,784	-
TOTAL ASSETS	<u>4,913,725</u>	<u>8,091,881</u>	<u>13,005,606</u>	<u>75,620</u>
LIABILITIES				
Accounts payable and accrued liabilities	111,345	128,198	239,543	-
Long-term liabilities:				
Due within one year	305,511	100,166	405,677	-
Due in more than one year	1,986,068	821,567	2,807,635	-
TOTAL LIABILITIES	<u>2,402,924</u>	<u>1,049,931</u>	<u>3,452,855</u>	<u>-</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,155,939	6,382,379	5,513,318	-
Restricted for:				
Tourism related expenditures	80,552	-	80,552	-
Capital projects	-	114,339	114,339	-
Other	14,190	-	14,190	-
Unrestricted	1,260,120	545,232	3,830,352	75,620
TOTAL NET ASSETS	<u>\$ 2,510,801</u>	<u>\$ 7,041,950</u>	<u>\$ 9,552,751</u>	<u>\$ 75,620</u>

See accompanying notes.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	Total	
Primary Government							
Governmental activities:							
General government	\$ 727,223	\$ 815,839	\$ 100,816	\$ 189,432	\$ -	\$ 189,432	\$ -
Public safety	1,287,281	89,817	-	(1,197,464)	-	(1,197,464)	-
Public works	460,335	-	-	(460,335)	-	(460,335)	-
Interest on long-term debt	92,129	-	-	(92,129)	-	(92,129)	-
Total governmental activities	2,566,968	905,656	100,816	(1,560,496)	-	(1,560,496)	-
Business-type activities:							
Water and sewer	1,274,665	1,106,884	-	-	(167,781)	(167,781)	-
Total primary government	<u>\$ 3,841,633</u>	<u>\$ 2,012,540</u>	<u>\$ 100,816</u>	<u>(1,560,496)</u>	<u>(167,781)</u>	<u>(1,728,277)</u>	<u>-</u>
Component unit: Sullivan's Island Park Foundation	\$ 58,186	\$ -	\$ 64,613	-	-	-	6,427
General revenues:							
Taxes:							
Property taxes, levied for general purposes				1,354,092	-	1,354,092	-
Other taxes				427,331	-	427,331	-
Interest income				133,800	14,411	148,211	127
Miscellaneous				127,972	-	127,972	-
Transfers				(1,529,026)	1,529,026	-	-
Total general revenues and transfers				<u>514,169</u>	<u>1,543,437</u>	<u>2,057,606</u>	<u>127</u>
Change in net assets				(1,046,327)	1,375,656	329,329	6,554
Net assets - beginning				<u>3,557,128</u>	<u>5,666,294</u>	<u>9,223,422</u>	<u>69,066</u>
Net assets - ending				<u>\$ 2,510,801</u>	<u>\$ 7,041,950</u>	<u>\$ 9,552,751</u>	<u>\$ 75,620</u>

See accompanying notes.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General Fund	Local Accommodations Tax Fund	Local Hospitality Tax Fund	Special Revenue Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 1,724,802	\$ 148,766	\$ 119,427	\$ 660,831	\$ 2,653,826
Investments, at cost	318,034	-	-	355,751	673,785
Receivables (net of allowance for doubtful accounts of \$1,623)	38,241	-	-	-	38,241
Due from other governments	-	49,918	-	-	49,918
Due from other funds	394,747	-	-	85,642	480,389
<b>TOTAL ASSETS</b>	<b>\$ 2,475,824</b>	<b>\$ 198,684</b>	<b>\$ 119,427</b>	<b>\$ 1,102,224</b>	<b>\$ 3,896,159</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 61,549	\$ -	\$ -	\$ -	\$ 61,549
Accrued payroll and related liabilities	29,597	-	-	-	29,597
Due to other funds	-	198,684	119,427	-	318,111
Deferred revenue	14,607	-	-	-	14,607
<b>TOTAL LIABILITIES</b>	<b>105,753</b>	<b>198,684</b>	<b>119,427</b>	<b>-</b>	<b>423,864</b>
<b>FUND BALANCES</b>					
Reserved	144,007	-	-	1,102,224	1,246,231
Unreserved	2,226,064	-	-	-	2,226,064
<b>TOTAL FUND BALANCES</b>	<b>2,370,071</b>	<b>-</b>	<b>-</b>	<b>1,102,224</b>	<b>3,472,295</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,475,824</b>	<b>\$ 198,684</b>	<b>\$ 119,427</b>	<b>\$ 1,102,224</b>	<b>\$ 3,896,159</b>

See accompanying notes.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
 TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
 June 30, 2006

Total Governmental Fund Balances	\$ 3,472,295
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,335,677
Deferred property taxes will be collected this year, but are not available soon enough to pay for current-period expenditures and therefore are deferred in the funds.	14,607
Accrued interest on general obligation bonds was recognized for governmental activities, but current portions of long-term debt and the related interest are not recognized in governmental funds until the payment due date.	(20,199)
Accrued compensated absences were 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.	(86,841)
Long-term liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(2,204,738)</u>
Net Assets of Governmental Activities	<u>\$ 2,510,801</u>

See accompanying notes.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2006

	General Fund	State Accommodations Tax Fund	Local Accommodations Tax Fund	Local Hospitality Tax Fund	Special Revenue Fund	Governmental Funds
<b>REVENUES</b>						
Ad valorem taxes	\$ 1,361,760	\$ -	\$ -	\$ -	\$ -	\$ 1,361,760
Local option sales tax	192,281	-	-	-	-	192,281
Licenses	654,289	-	-	-	-	654,289
Magistrate and recorder fines	89,817	-	-	-	-	89,817
State shared revenues	64,817	-	-	-	-	64,817
Permits	158,108	-	-	-	-	158,108
Accommodations taxes and fees	-	35,999	91,275	-	-	127,274
Hospitality taxes	-	-	-	143,775	-	143,775
Victim's rights fund	3,820	-	-	-	-	3,820
Interest	93,629	-	2,951	861	36,359	133,800
Other	3,565	-	-	-	(828)	2,737
<b>TOTAL REVENUES</b>	<u>2,622,086</u>	<u>35,999</u>	<u>94,226</u>	<u>144,636</u>	<u>35,531</u>	<u>2,932,478</u>
<b>EXPENDITURES</b>						
Current:						
Maintenance	435,630	-	-	-	-	435,630
Police	546,690	-	-	-	-	546,690
Fire	603,459	-	-	-	-	603,459
Recreation	25,001	-	-	-	-	25,001
Administrative	650,238	-	-	-	-	650,238
Capital outlay	254,300	-	-	-	-	254,300
Debt service:						
Principal	228,881	-	-	-	-	228,881
Interest	93,277	-	-	-	-	93,277
<b>TOTAL EXPENDITURES</b>	<u>2,837,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,837,476</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(215,390)</u>	<u>35,999</u>	<u>94,226</u>	<u>144,636</u>	<u>35,531</u>	<u>95,002</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from capital lease	76,381	-	-	-	-	76,381
Insurance proceeds	124,857	-	-	-	-	124,857
Operating transfers in	280,161	-	-	-	-	280,161
Operating transfers out	(1,398,026)	(35,999)	(94,226)	(144,636)	(136,300)	(1,809,187)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(916,627)</u>	<u>(35,999)</u>	<u>(94,226)</u>	<u>(144,636)</u>	<u>(136,300)</u>	<u>(1,327,788)</u>
<b>REVENUES AND OTHER SOURCES UNDER EXPENDITURES AND OTHER USES</b>	<u>(1,132,017)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,769)</u>	<u>(1,232,786)</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>3,502,088</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,202,993</u>	<u>4,705,081</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 2,370,071</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,102,224</u>	<u>\$ 3,472,295</u>

See accompanying notes.

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, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (1,232,786)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	65,201
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(7,668)
Interest expense on the current portion of long term debt is not reported in governmental funds until payment is due, but is recognized as the liability is incurred in the statement of activities, regardless of payment due date.	1,148
Capital lease payments and bond principal payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	228,881
Proceeds from capital leases are reported as other financing sources in the governmental funds, but as liabilities in the statement of net assets.	(76,381)
Some expenses reported in the statement of activities, including compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(24,722)</u>
Change in Net Assets of Governmental Activities	<u>\$ (1,046,327)</u>

See accompanying notes.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
WATER AND SEWER FUNDS  
June 30, 2006

	Water	Sewer	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 366,208	\$ 412,889	\$ 779,097
Restricted cash	11,150	-	11,150
Accounts receivable	92,674	88,364	181,038
Due from other funds	-	201,792	201,792
Total current assets	470,032	703,045	1,173,077
Noncurrent assets:			
Bond issuance costs, net of accumulated amortization	-	8,375	8,375
Capital assets, net of accumulated depreciation	3,373,475	3,901,024	7,274,499
Total noncurrent assets	3,373,475	3,909,399	7,282,874
<b>TOTAL ASSETS</b>	<b>3,843,507</b>	<b>4,612,444</b>	<b>8,455,951</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	37,673	57,968	95,641
Accrued expenses	2,612	18,795	21,407
Compensated absences	10,619	10,619	21,238
Consumer deposits	11,150	-	11,150
Due to other funds	244,875	119,195	364,070
Lease obligations, current portion	11,467	28,461	39,928
Revenue bond, current portion	-	39,000	39,000
Total current liabilities	318,396	274,038	592,434
Noncurrent liabilities:			
Lease obligations, net of current portion	24,659	72,908	97,567
Revenue bond, net of current portion	-	724,000	724,000
Total noncurrent liabilities	24,659	796,908	821,567
<b>TOTAL LIABILITIES</b>	<b>343,055</b>	<b>1,070,946</b>	<b>1,414,001</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,337,349	3,045,030	6,382,379
Restricted for capital projects	-	114,339	114,339
Unrestricted	163,103	382,129	545,232
<b>TOTAL NET ASSETS</b>	<b>\$ 3,500,452</b>	<b>\$ 3,541,498</b>	<b>\$ 7,041,950</b>

See accompanying notes.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS  
 WATER AND SEWER FUNDS  
 Year Ended June 30, 2006

	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 540,438	\$ 524,630	\$ 1,065,068
Meter connections and sewer tie-ins	38,536	3,280	41,816
TOTAL OPERATING REVENUES	578,974	527,910	1,106,884
OPERATING EXPENSES			
Salaries	115,043	115,344	230,387
Payroll taxes	8,975	8,975	17,950
Hospitalization insurance	14,387	14,009	28,396
Retirement	8,786	8,786	17,572
Gas and oil - vehicles	3,733	3,733	7,466
Diesel fuel and equipment	994	994	1,988
Vehicle repairs	1,702	1,702	3,404
Supplies and tools	18,261	9,479	27,740
Office supplies	3,652	3,657	7,309
Lab supplies	1,956	2,023	3,979
Telephone	5,011	5,011	10,022
Power and lights	883	36,865	37,748
Insurance	11,485	15,411	26,896
Equipment repairs	829	5,144	5,973
System repairs and improvements	35,209	130,126	165,335
Dues and certifications	6,152	3,715	9,867
Training and seminars	2,473	2,923	5,396
Professional engineering fees	11,693	25,384	37,077
Professional services	4,879	4,879	9,758
Lab analysis, inspection and chemicals	7,829	9,799	17,628
Wholesale water purchase	92,234	-	92,234
CPW Improvements	154,025	-	154,025
Depreciation	134,322	174,810	309,132
Amortization	-	644	644
Miscellaneous	1,126	8,622	9,748
TOTAL OPERATING EXPENSES	645,639	592,035	1,237,674
OPERATING LOSS	(66,665)	(64,125)	(130,790)
NONOPERATING REVENUES (EXPENSES)			
Interest income	4,430	9,981	14,411
Interest expense	(415)	(36,576)	(36,991)
TOTAL NONOPERATING REVENUES (EXPENSES)	4,015	(26,595)	(22,580)
LOSS BEFORE TRANSFERS	(62,650)	(90,720)	(153,370)
TRANSFERS IN FROM OTHER FUNDS	1,463,526	65,500	1,529,026
INCREASE (DECREASE) IN NET ASSETS	1,400,876	(25,220)	1,375,656
NET ASSETS, BEGINNING OF YEAR	2,099,576	3,566,718	5,666,294
NET ASSETS, END OF YEAR	\$ 3,500,452	\$ 3,541,498	\$ 7,041,950

See accompanying notes.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
WATER AND SEWER FUNDS  
Year Ended June 30, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 503,301	\$ 491,766	\$ 995,067
Other operating cash receipts	38,536	3,280	41,816
Cash payments to suppliers for goods and services	(408,326)	(230,250)	(638,576)
Cash payments for payroll and related items	(145,492)	(94,131)	(239,623)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(11,981)</u>	<u>170,665</u>	<u>158,684</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal paid on capital lease obligation	(14,076)	(28,604)	(42,680)
Principal paid on bond	-	(37,000)	(37,000)
Acquisition and construction of capital assets	(1,383,245)	(117,718)	(1,500,963)
Interest paid	(415)	(36,576)	(36,991)
Transfers in from other funds	1,463,526	65,500	1,529,026
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>65,790</u>	<u>(154,398)</u>	<u>(88,608)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on savings and investments	4,430	9,981	14,411
NET INCREASE IN CASH AND CASH EQUIVALENTS	58,239	26,248	84,487
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	319,119	386,641	705,760
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 377,358</u>	<u>\$ 412,889</u>	<u>\$ 790,247</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating loss	\$ (66,665)	\$ (64,125)	\$ (130,790)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	134,322	175,454	309,776
Changes due to (increase) decrease in operating assets			
Due from other funds	-	37,211	37,211
Accounts receivables	(34,087)	(70,075)	(104,162)
Changes due to increase (decrease) in operating liabilities			
Accounts payables	(59,057)	39,217	(19,840)
Accrued expenses	689	(96)	593
Consumer deposits	(3,050)	-	(3,050)
Due to other funds	14,857	52,069	66,926
Compensated absences (current year change)	1,010	1,010	2,020
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (11,981)</u>	<u>\$ 170,665</u>	<u>\$ 158,684</u>
<b>SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital assets acquired through lease obligations	\$ 45,103	\$ 45,103	\$ 90,206

See accompanying notes.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
STATEMENT OF NET ASSETS  
FIDUCIARY FUND  
Town of Sullivan's Island Volunteer Fire Department  
June 30, 2006

ASSETS	
Cash	<u>\$ 42,861</u>
LIABILITIES	
Due to volunteer fire department	<u>42,861</u>
TOTAL LIABILITIES	<u>42,861</u>
NET ASSETS	
	<u>\$ -</u>

See accompanying notes.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Sullivan's Island, South Carolina operates under a Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highway and streets, sanitation, public improvements, planning and zoning, recreation, and general administrative services.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies used by the Town are discussed below.

1. REPORTING ENTITY

These financial statements present the Town (primary government) and its discretely presented component unit, the Sullivan's Island Park Foundation. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Town holds corporate powers of the organization
- the Town appoints a voting majority of the organization's board
- the Town is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Town
- there is fiscal dependency by the organization on the Town

Based on the aforementioned criteria, the financial statements of the Sullivan's Island Park Foundation have been included as a discretely presented component unit. As set forth in Section 2600 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. The Sullivan's Island Park Foundation does not prepare separate financial statements.

2. BASIS OF PRESENTATION

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Town's basic financial statements include government-wide financial statements and fund financial statements, as described below.

a. Government-Wide Financial Statements

Government-wide financial statements report the activities of the Town as a whole, rather than by individual funds, and include all funds of the Town. They include a Statement of Net Assets and a Statement of Activities and are reported using the accrual basis of accounting, and distinguish between governmental and business-type activities. Governmental activities are financed through taxes, intergovernmental revenues and other nonexchange revenues. The Town's primary activities are classified as governmental activities. Business-type activities are financed in whole or in part by fees charged for goods or services. The Town's Water and Sewer funds (enterprise funds) are classified as business-type activities.

The Statement of Net Assets is presented on a consolidated basis using the full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts – invested in capital assets, net of related

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities. Interfund activity is eliminated.

The Statement of Activities demonstrates the degree to which direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable to a program. Program revenues include charges for services and grants. Taxes and other items not identified to a program are included in general revenues. The Town does not allocate indirect expenses.

b. Fund Financial Statements

Fund financial statements report activity by individual funds using the modified-accrual basis of accounting. The emphasis in fund financial statements is on the major funds. Nonmajor funds are summarized into a single column. GASB No. 34 sets forth minimum criteria for the determination of major funds; however, Town officials may elect to present additional funds as major based on their significance and public interest. The Town has no nonmajor funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenses/expenditures. The funds are reported by the following types:

(1.) Governmental Funds

The focus of governmental funds' measurement is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

- (a.) The General Fund is the main operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid for through other funds are paid from the General Fund.
- (b.) The special revenue funds are used to account for the proceeds of specific revenue resources that are legally restricted to expenditures for specified purposes. Fund balances are reserved or restricted for the specific restricted uses in accordance with the fund's objectives. The Town's special revenue funds are State Accommodations Tax (restricted for tourism and related uses), Local Accommodations Tax (restricted for tourism including public safety), Hospitality Tax (restricted for tourism related uses) and the Special Revenue (other specific revenue sources with restricted uses).

(2.) Proprietary Funds - Water and Sewer

The Town's proprietary funds include two enterprise funds for water and sewer. Enterprise funds are used to account for business-like activities provided to the general public using the accrual basis of accounting. These activities are financed primarily by user charges. The measurement of financial activity focuses on net income measurement similar to the private sector.

(3.) Fiduciary Fund - Volunteer Fire Department

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

3. BASIS OF ACCOUNTING

Because of the differences in the accounting measurement used in the government-wide financial statements and the fund financial statements, reconciliations have been provided between the fund financial statement fund balances and the government-wide net assets.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

a. Accrual Basis - Government-Wide Financial Statements

In the government-wide financial statements, activities are measured using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred. All proprietary funds utilize the accrual basis of accounting.

b. Modified Accrual

In the fund financial statements, governmental funds and fiduciary funds are reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or within 60 days after year-end. Expenditures are recorded when the related liability is incurred, except for general long-term debt principal and interest which is recognized when due, and accrued vacation and sick leave which is recorded when payable from current available financial resources.

4. BUDGETARY CONTROL

The Town Charter establishes the fiscal year as the twelve-month period beginning July 1. During the year, supplementary appropriations or budget amendments may be approved by ordinance. The departments submit to the Town Administrator a budget of estimated expenditures for the ensuing fiscal year after which the Town Administrator submits a budget of estimated expenditures and revenues to the Town Council.

Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance. Information about the Budget Ordinance is then published in the local newspaper. Prior to July 1, the budget is legally enacted through passage of an ordinance. The Town Administrator is authorized to transfer budgeted amounts between departments within any fund; however, the Town Council must approve any revisions that alter the total expenditures of any fund. Budgeted amounts are as originally adopted, or as amended by the Town Council.

The Town prepares the budget on a basis of accounting other than GAAP. Major differences between the budgetary basis and GAAP are that (1) the proceeds related to new capital lease obligations entered into during the year are not budgeted, (2) revenues from grants, contributions, and other unusual sources are not budgeted, and (3) 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.

5. FINANCIAL STATEMENT AMOUNTS

a. Cash

Cash includes cash on hand and demand deposits, including a certificate of deposit. The Town maintains separate bank accounts for each fund to facilitate accountability. The Town's bank balances are fully collateralized as required by State law. The Town considers all investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist of money market funds.

b. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40-50 years
Building improvements	7-25 years
Machinery and equipment	5-15 years

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

Beach walkovers	10-15 years
Fire trucks	15-20 years
Vehicles	5 years
Water and sewer systems	10-99 years

GASB No. 34 requires the Town to report and depreciate new infrastructure assets effective July 1, 2003. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, sidewalks, etc. As allowed by GASB No. 34, the Town has elected to prospectively report infrastructure assets. Infrastructure assets acquired prior to July 1, 2003 have not been recorded, except those accounted for in the enterprise funds. Such infrastructure is generally the responsibility of the county or the state, rather than the Town.

c. Revenues and Receivables

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same fiscal year in which the taxes are levied. Proprietary fund revenues are divided into operating or non-operating. Operating revenues consist of user charges to finance current operations, while non-operating revenues and expenses relate to financing and investing type activities. Receivables and revenues are recognized when the applicable eligibility requirements, including time requirements, are met. Delinquent property tax receivables are reported net of an allowance for uncollectible amounts of \$1,623. Resources received before eligibility requirements are met are reported as deferred revenue.

d. Expenditures

Expenditures are recognized when the related liability is incurred.

e. Interfund Activity

Interfund activities are reported as loans, reimbursements or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination as internal balances in the government-wide financial statements. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

f. Compensated Absences

The Town's policy allows employees to accumulate unused vacation and sick leave. Upon termination, accumulated vacation will be paid to the employee. Sick leave will be paid only upon illness while in the employ of the Town. The Town accrues accumulated unpaid vacation leave when earned (or estimated to be earned) by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

g. Reservations and Designations of Fund Balances

Restricted net assets represent amounts that may not be appropriated because they are required to be expended for specific purposes in accordance with enabling legislation or agreements with external parties. Reserved fund balances are funds that are earmarked based upon management's plans that are subject to change.

h. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

NOTE B – DEPOSITS AND INVESTMENTS

1. Policies and Practices

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of South Carolina and its agencies that have a market value of not less than the principal amount of the deposits. Authorized investments include obligations of the United States and agencies thereof, general obligations of the State of South Carolina or any of its political units, obligations of any state or a political subdivision of any State rated as to investment quality of A or its equivalent, savings and loan associations to the extent that the same are insured by an agency of the federal government, certificates of deposit collateralized by securities of the type described above or insured by an agency of the federal government, collateralized repurchase agreements, and no load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940 in which the investment is limited to obligations described above.

The Town's deposits are categorized in accordance with accounting standards to give an indication of their level of risk, as follows:

- (1) Insured or collateralized with securities held by the Town or by its agent in the Town's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
- (3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Town's name.

2. Deposits

At year-end, the carrying amount of the Town's deposits was \$3,444,073 and the respective bank balances totaled \$3,406,634. Of the total bank balance, Federal Depository Insurance Corporation and the Securities Investor Protection Corporation covered \$500,000 (Category 1) and the remainder was covered by authorized collateral held by Wachovia Bank and Carolina First in the Town's name (Category 2). The Town's deposits, including certificates of deposit, were fully insured or collateralized as required by State statutes at June 30, 2006, with the exception of the matter discussed below.

As of June 30, 2006, the Town had a small balance at one financial institution that was not collateralized or insured. The total amount that was not collateralized or insured was approximately \$24,000. The Town is currently evaluating options to resolve this.

3. Investments

The Town's only investments during the year were amounts invested in the State of South Carolina Local Government Investment Pool. Investments in the State of South Carolina Local Government Investment Pool are not categorized because they do not represent securities that exist in physical or book entry form. The State Treasurer manages the pool in accordance with State law. It is similar in concept to a registered investment company commonly called a money market mutual fund, but is not registered with the SEC. The pool's investments are valued using the amortized cost method, which approximates fair value. Participation units are valued daily at \$1. All investments of the pool are held by a third party and either insured by FDIC or collateralized. Interest earnings accrue at market rates, net of a minimal administrative fee. At June 30, 2006, the Town had investments in the Government Pool totaling \$673,785. Investment income for the year ended June 30, 2006 was \$148,211.

NOTE C – PROPERTY TAXES

Property tax is levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the Town. The Charleston County Auditor provides assessments. Taxes are due on October 1 immediately following the levy date and are delinquent after the following January 15. On January 16, a penalty is added to all unpaid taxes. Any outstanding tax notices are forwarded to the Delinquent Tax Department on March 16 and become an enforceable lien on the property until paid. Property taxes are billed and collected by Charleston County on behalf of the Town. Major tax payments are received December through April and are recognized as revenue in the

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

year received. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received, except for those received within 60 days of year-end, which are recognized as revenue as of June 30.

NOTE D – RECEIVABLES

Receivables of the business-type activities consist of amounts due from Town residents for water and sewer usage charges. The Town considers water and sewer receivables to be fully collectible and no allowance for doubtful accounts is therefore recorded. Receivables of the governmental funds are collectible within sixty days. Governmental activities receivables at June 30, 2006 consist entirely of property taxes receivable.

NOTE E – INTERFUND ACTIVITY

Transfers are used to move revenues from one fund to another fund and use revenues collected in one fund to finance expenditures made in another fund in accordance with budgetary authorizations. Significant and non-routine transfers were made from the Special Revenue fund and the General fund to the Water and Sewer funds during the year ended June 30, 2006. These transfers were specifically for the disbursement of bond proceeds and the supplemental financing of the Wastewater Treatment Plant upgrades and the water line replacement and upgrades. Interfund transfers for the fiscal year ended June 30, 2006, consisted of the following:

Transfer To:	Transfer From:					Total
	State Accommodations Tax Fund	Local Accommodations Tax Fund	Local Hospitality Tax Fund	General Fund	Special Revenue Fund	
General Fund	\$ 35,999	\$ 94,226	\$ 144,636	\$ -	\$ 5,300	\$ 280,161
Water Fund	-	-	-	1,398,026	65,500	1,463,526
Sewer Fund	-	-	-	-	65,500	65,500
Total	<u>\$ 35,999</u>	<u>\$ 94,226</u>	<u>\$ 144,636</u>	<u>\$ 1,398,026</u>	<u>\$ 136,300</u>	<u>\$ 1,809,187</u>

Interfund receivables and payables result primarily from payments made to outside parties by one fund on behalf of another fund. Interfund receivable and payable balances at June 30, 2006, were as follows:

Due To:	Due From:				Total
	Local Accommodations Tax Fund	Local Hospitality Tax Fund	Water Fund	Sewer Fund	
Special Revenue Fund	\$ -	\$ -	\$ -	\$ 85,642	\$ 85,642
General Fund	198,684	119,427	43,083	33,553	394,747
Sewer Fund	-	-	201,792	-	201,792
Total	<u>\$ 198,684</u>	<u>\$ 119,427</u>	<u>\$ 244,875</u>	<u>\$ 119,195</u>	<u>\$ 682,181</u>

NOTE F – FUND BALANCE RESERVES

Fund balances which are not available for appropriation or are not considered "expendable available financial resources" are reserved. In addition to the \$1,102,224 reserved in the Special Revenue fund, the following reserves were made for portions of the General fund's fund balance as of June 30, 2006:

Tourism related expenditures	\$ 80,552
Victims' Rights	14,190
Lowcountry Open Land Trust	32,239
Confederate Memorial	17,026
Total	<u>\$ 144,007</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

## NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 37,392	\$ -	\$ -	\$ 37,392
Other capital assets:				
Buildings and improvements	240,211	146,208	-	386,419
Machinery and equipment	724,944	108,092	-	833,036
Playground equipment	183,452	-	-	183,452
Vehicles	1,114,769	-	-	1,114,769
Fire and Emergency Command Center	<u>540,122</u>	<u>-</u>	<u>-</u>	<u>540,122</u>
Total other capital assets	<u>2,803,498</u>	<u>254,300</u>	<u>-</u>	<u>3,057,798</u>
Less accumulated depreciation				
Buildings and improvements	163,191	13,162	-	176,353
Machinery and equipment	544,334	64,160	-	608,494
Playground equipment	68,793	13,507	-	82,300
Vehicles	649,670	87,144	-	736,814
Fire and Emergency Command Center	<u>144,426</u>	<u>11,126</u>	<u>-</u>	<u>155,552</u>
Total accumulated depreciation	<u>1,570,414</u>	<u>189,099</u>	<u>-</u>	<u>1,759,513</u>
Other capital assets, net	<u>1,233,084</u>	<u>65,201</u>	<u>-</u>	<u>1,298,285</u>
Governmental capital assets, net	<u>\$ 1,270,476</u>	<u>\$ 65,201</u>	<u>\$ -</u>	<u>\$ 1,335,677</u>
Business-type activities:				
Capital assets not depreciated:				
Construction in progress (Wastewater Treatment Plant upgrades)	<u>\$ 55,894</u>	<u>\$ -</u>	<u>\$ 55,894</u>	<u>\$ -</u>
Other capital assets:				
Water system	2,471,419	1,410,049	-	3,881,468
Sewer system	4,578,675	118,452	-	4,697,127
Lab equipment	29,676	-	-	29,676
Vehicles and equipment	237,030	24,318	-	261,348
Leased equipment	<u>522,552</u>	<u>94,245</u>	<u>-</u>	<u>616,797</u>
Total other capital assets	<u>7,839,352</u>	<u>1,647,064</u>	<u>-</u>	<u>9,486,416</u>
Less accumulated depreciation				
Water system	604,994	102,573	-	707,567
Sewer system	872,582	129,005	-	1,001,587
Lab equipment	27,139	483	-	27,622
Vehicles and equipment	159,066	25,311	-	184,377
Leased equipment	<u>239,004</u>	<u>51,760</u>	<u>-</u>	<u>290,764</u>
Total accumulated depreciation	<u>1,902,785</u>	<u>309,132</u>	<u>-</u>	<u>2,211,917</u>
Other capital assets, net	<u>5,936,567</u>	<u>1,337,932</u>	<u>-</u>	<u>7,274,499</u>
Business-type capital assets, net	<u>\$ 5,992,461</u>	<u>\$ 1,337,932</u>	<u>\$ 55,894</u>	<u>\$ 7,274,499</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 27,262
Public safety	137,132
Public works	<u>24,705</u>
Total governmental activities depreciation expense	<u>\$ 189,099</u>
Business-type activities: Water and Sewer	<u>\$ 309,132</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

NOTE H – LONG-TERM DEBT

1. Bond Obligations

In October of 2003 the Town issued a single \$2,250,000 General Obligation Bond to Wachovia Bank, N.A. to finance the initial stages of the water line replacement and upgrade project. Principal payments are due annually each October 1. Interest accrues at 3.99%, with semi-annual interest payments due each April 1 and October 1, and the final payment due October 1, 2018, as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 120,000	\$ 78,404	\$ 198,404
2008	125,000	73,516	198,516
2009	130,000	68,429	198,429
2010	135,000	63,142	198,142
2011	140,000	57,656	197,656
2012-2016	805,000	197,005	1,002,005
2017-2019	570,000	34,915	604,915
Total	<u>\$ 2,025,000</u>	<u>\$ 573,067</u>	<u>\$ 2,598,067</u>

In July of 2004 the Town issued a single \$800,000 Revenue Bond to BB&T to finance the substantial upgrades to the Town's Wastewater Treatment Plant. Principal payments are due annually each July, 1. Interest accrues at 4.25%, with semi-annual interest payments due each January 1 and July 1, and the final payment due July 1, 2019, as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 39,000	\$ 31,599	\$ 70,599
2008	41,000	29,899	70,899
2009	43,000	28,114	71,114
2010	45,000	26,244	71,244
2011	47,000	24,289	71,289
2012-2016	275,000	88,339	363,339
2017-2020	273,000	23,906	296,906
Total	<u>\$ 763,000</u>	<u>\$ 252,390</u>	<u>\$ 1,015,390</u>

The Town's borrowing power is restricted by the State Constitution, which provides that a local unit cannot at any time have total general obligation debt outstanding in an amount that exceeds eight percent of its assessed property value. Excluded from the limitation are: bonded indebtedness approved by the voters and issued within five years of the date of such referendum; special bonded indebtedness; levies assessed on properties located in an area receiving special benefits from the taxes collected; and bonded indebtedness existing on December 1, 1977, the effective date of the applicable constitutional amendment. The Town has not exceeded its limitation as of June 30, 2006.

2. Capital Leases

The Town has entered into lease agreements for several vehicles and other equipment that qualify as capital leases. Amortization expense of these capital lease assets is included in depreciation expense in the proprietary funds.

Future minimum lease payments under capital leases as of June 30, 2006 are as follows:

<u>Year ended June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2007	\$ 101,635	\$ 37,669
2008	45,285	37,669
2009	33,339	37,669
2010	9,429	37,669
2011	3,143	1,048
Total minimum lease payments	192,831	151,724
Less amount representing interest	13,093	14,229
Present value of minimum lease payments	<u>\$ 179,738</u>	<u>\$ 137,495</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

3. Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
General obligation bond	\$ 2,140,000	\$ -	\$ 115,000	\$ 2,025,000
Vehicle and equipment leases	217,238	76,381	113,881	179,738
Compensated absences	62,119	24,722	-	86,841
Governmental long-term liabilities	<u>\$ 2,419,357</u>	<u>\$ 101,103</u>	<u>\$ 228,881</u>	<u>\$ 2,291,579</u>
<b>Business-type activities:</b>				
Revenue bond	\$ 800,000	\$ -	\$ 37,000	\$ 763,000
Vehicle and equipment leases	89,969	90,206	42,680	137,495
Compensated absences	19,218	2,020	-	21,238
Business-type long-term liabilities	<u>\$ 909,187</u>	<u>\$ 92,226</u>	<u>\$ 79,680</u>	<u>\$ 921,733</u>

**NOTE I – PENSION PLAN**

The Town provides pension benefits for all of its full-time employees through participation in the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS). The SCRS and PORS are cost-sharing multi-employer defined benefit pension plans administered by the South Carolina Retirement Systems, a division of the State Budget and Control Board.

Both the SCRS and PORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. The Plans' provisions are established under Title 9 of the SC Code of Laws.

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the SCRS and PORS is issued and publicly available by writing the South Carolina Retirement System, PO Box 11960, Columbia, SC 29211-1960.

Both employees and employers are required to contribute to the Plans under authority of Title 9 of the SC Code of Laws. Employee required contributions to the Plans are as follows:

SCRS	6.25% of salary
PORS Class II	6.50% of salary
PORS Class I	\$21 per month

Employers are required to contribute at the following actuarially determined rates:

SCRS	7.55%
PORS Class II	10.30%
PORS Class I	7.80%

The following presents the Town's required contributions to the SCRS and PORS for the years ended June 30, 2004 through 2006:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
SCRS	\$ 53,861	\$ 38,882	\$ 37,905
PORS	73,490	55,549	67,242
Total	<u>\$ 127,351</u>	<u>\$ 94,431</u>	<u>\$ 105,147</u>

**NOTE J – NET ASSETS**

The Town used the proceeds from the General Obligation Bond (see Note H) to fund the water line replacement and upgrade project. The \$2,025,000 balance is included in the calculation of the Governmental Activities unrestricted net assets in the Statement of Net Assets, but the cost of the water lines are included in the Business-type Activities net assets invested in capital assets, net of related debt. Consequently, unrestricted net assets, and net assets invested in capital assets, net of related debt, of

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS

the Town are not equal to a simple combination of those net asset components of the Governmental and Business-type activities.

NOTE K – RISK MANAGEMENT

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, a public entity risk pool currently operating as a common risk management and insurance program for local governments. The Town pays an annual premium to the Fund for its general insurance coverage. The South Carolina Municipal Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims.

The Town is also subject to risks of loss from providing health, accident, and other medical benefits to employees and their dependents. The Town has enrolled all of its full-time employees in the South Carolina Local Government Assurance Group health insurance plan administered by Medical Claims Management Corporation. The Town records contributions from employer funds and employees in the general fund when it remits premiums to the insurance pool. The South Carolina Local Government Assurance Group reinsures through commercial companies for claims in excess of \$100,000.

The Town participates in the South Carolina Municipal Insurance Trust State Workers Compensation Fund, a public entity risk pool currently operating as a common risk management program, for its workers compensation coverage.

For all of the above risk management programs, the Town has not significantly reduced insurance coverage from the previous year. Settled claims in excess of insurance coverage for the last three years were immaterial. For each of the insurance programs and public entity risk pools in which it participates, the Town has effectively transferred all risk with no liability for unfunded claims.

NOTE L – SUBSEQUENT EVENTS

Subsequent to June 30, 2006, the Town was named as a defendant in a lawsuit alleging breach of contract for work on the Waterline Replacement Project. The claim against the Town is for \$100,000. Based on recommendations of the Project engineer, the Town is vigorously contesting the lawsuit. The town has not accrued any contingent liability for this lawsuit.

NOTE M – PRIOR PERIOD ADJUSTMENTS

Prior period net assets of the Water and Sewer funds were decreased by \$18,476 and \$42,835, respectively in order to correct prior period accounts receivable balances.

The General fund's prior period fund balance was increased by a total of \$40,689 in order to adjust for revenue recognized in the prior period for alcoholic beverage permits (\$10,750) and prior period accrued tax revenue (\$29,939).

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SUPPLEMENTARY INFORMATION

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 Year Ended June 30, 2006

	Budgeted		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,302,968	\$ 1,302,968	\$ 1,361,760	\$ 58,792
Local option sales tax	151,250	151,250	192,281	41,031
Licenses	401,000	401,000	654,289	253,289
Magistrate and recorder fines	50,000	50,000	89,817	39,817
State shared revenues	58,000	58,000	64,817	6,817
Permits	114,600	114,600	158,108	43,508
Victim's rights fund	7,000	7,000	3,820	(3,180)
Interest	15,000	15,000	93,629	78,629
Insurance proceeds	-	-	124,857	124,857
Other	1,700	1,700	3,565	1,865
<b>TOTAL BUDGETED REVENUES</b>	<b>2,101,518</b>	<b>2,101,518</b>	<b>2,746,943</b>	<b>645,425</b>
<b>EXPENDITURES</b>				
Maintenance	479,583	479,583	464,655	14,928
Police	625,081	625,081	593,608	31,473
Fire	665,510	665,510	661,248	4,262
Recreation	28,400	28,400	25,001	3,399
Administrative	887,600	887,600	1,016,583	(128,983)
<b>TOTAL BUDGETED EXPENDITURES</b>	<b>2,686,174</b>	<b>2,686,174</b>	<b>2,761,095</b>	<b>(74,921)</b>
<b>EXCESS OF BUDGETED REVENUES OVER (UNDER) BUDGETED EXPENDITURES</b>	<b>(584,656)</b>	<b>(584,656)</b>	<b>(14,152)</b>	<b>570,504</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	584,656	584,656	280,161	(304,495)
Transfers out	-	-	(1,398,026)	(1,398,026)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>584,656</b>	<b>584,656</b>	<b>(1,117,865)</b>	<b>(1,702,521)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>(1,132,017)</b>	<b>(1,132,017)</b>
<b>BUDGETARY FUND BALANCE, July 1, 2006</b>	<b>3,502,088</b>	<b>3,502,088</b>	<b>3,502,088</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, June 30, 2006</b>	<b>\$ 3,502,088</b>	<b>\$ 3,502,088</b>	<b>\$ 2,370,071</b>	<b>\$ (1,132,017)</b>
<b>RECONCILIATION TO GAAP BASIS AMOUNTS:</b>				
Total budgeted revenues and transfers in			\$ 3,027,104	
Proceeds from capital leases			76,381	
<b>TOTAL GENERAL FUND REVENUES AND OTHER SOURCES</b>			<b>\$ 3,103,485</b>	
Total budgeted expenditures and transfers out			\$ 4,159,121	
Capital outlay financed with capital lease proceeds			76,381	
<b>TOTAL GENERAL FUND EXPENDITURES AND OTHER USES</b>			<b>\$ 4,235,502</b>	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
 GENERAL FUND  
 Year Ended June 30, 2006  
 With Comparative Totals for 2005

	2006			2005
	Budget	Actual	Variance Favorable (Unfavorable)	(Memo Only) Actual
<b>MAINTENANCE</b>				
<b>Operating Expenditures</b>				
Salaries	\$ 140,773	\$ 143,575	\$ (2,802)	\$ 131,562
Payroll taxes	10,769	10,586	183	10,002
Hospitalization insurance	30,718	21,109	9,609	31,412
Retirement	8,428	10,663	(2,235)	8,072
Gas and oil - vehicles	6,000	7,188	(1,188)	5,011
Diesel fuel	1,500	1,417	83	702
Vehicle repairs	6,000	1,435	4,565	2,368
Supplies and materials	6,000	12,711	(6,711)	5,932
Tools	2,000	1,595	405	250
Telephone	2,800	3,649	(849)	3,220
Power and lights	22,000	23,344	(1,344)	21,815
Insurance	10,000	19,669	(9,669)	14,694
Equipment repairs	6,000	6,522	(522)	4,311
System repairs and improvements	25,000	11,731	13,269	5,254
Garbage disposal service - subcontract	142,783	142,861	(78)	142,861
Container servicing	7,000	3,811	3,189	1,875
Causeway maintenance	9,000	5,288	3,712	1,023
Miscellaneous	10,000	8,476	1,524	2,209
Total operating expenditures	446,771	435,630	11,141	392,573
<b>Capital Expenditures</b>				
Capital lease payments	27,820	17,315	10,505	21,604
Capital outlay	4,992	11,710	(6,718)	18,361
<b>TOTAL EXPENDITURES (BUDGET BASIS)</b>	<b>\$ 479,583</b>	<b>464,655</b>	<b>\$ 14,928</b>	<b>432,538</b>
Adjustments to GAAP basis expenditures				
Capital outlay financed with capital lease proceeds		11,501		-
<b>TOTAL EXPENDITURES</b>		<b>\$ 476,156</b>		<b>\$ 432,538</b>
<b>POLICE</b>				
<b>Operating Expenditures</b>				
Salaries	\$ 306,048	\$ 299,249	\$ 6,799	\$ 263,135
Payroll taxes	23,413	22,933	480	24,109
Hospitalization insurance	60,993	45,135	15,858	47,893
Retirement	31,523	33,193	(1,670)	24,671
Gas and oil - vehicles	30,000	29,529	471	24,772
Diesel fuel	600	12	588	-
Vehicle repairs	16,000	14,315	1,685	13,456
Supplies and materials	20,000	19,285	715	18,578
Telephone	12,000	11,913	87	10,674
Power and lights	4,000	4,320	(320)	3,631
Insurance	28,550	33,797	(5,247)	32,143
Equipment repairs	2,500	806	1,694	1,827
System repairs and improvements	15,000	9,985	5,015	7,851
Dues and certifications	500	320	180	260
Training and seminars	4,000	3,683	317	421
Dispatching services	16,950	16,810	140	16,368
Miscellaneous	2,000	1,405	595	1,765
Total operating expenditures	574,077	546,690	27,387	491,554
<b>Capital Expenditures</b>				
Capital lease payments	44,461	46,918	(2,457)	68,315
Capital outlay	6,543	-	6,543	21,037
<b>TOTAL EXPENDITURES (BUDGET BASIS)</b>	<b>\$ 625,081</b>	<b>593,608</b>	<b>\$ 31,473</b>	<b>580,906</b>
Adjustments to GAAP basis expenditures				
Capital outlay financed with capital lease proceeds		24,646		57,396
<b>TOTAL EXPENDITURES</b>		<b>\$ 618,254</b>		<b>\$ 638,302</b>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
 GENERAL FUND  
 Year Ended June 30, 2006  
 With Comparative Totals for 2005

	2006		Variance Favorable (Unfavorable)	2005
	Budget	Actual		(Memo Only) Actual
<b>FIRE</b>				
Operating Expenditures				
Salaries	\$ 350,106	\$ 351,968	\$ (1,862)	\$ 327,375
Payroll taxes	26,783	27,014	(231)	24,925
Hospitalization insurance	58,196	50,335	7,861	63,261
Retirement	36,061	40,297	(4,236)	30,878
Gas and oil - vehicles	7,000	6,879	121	6,784
Diesel fuel	3,000	3,198	(198)	2,341
Vehicle repairs	12,000	12,732	(732)	8,249
Supplies and materials	15,000	19,103	(4,103)	12,957
Tools	500	153	347	225
Telephone	7,500	10,192	(2,692)	8,196
Power and lights	7,500	7,138	362	6,531
Insurance	28,550	33,053	(4,503)	32,829
Equipment repairs	4,000	3,936	64	4,185
System repairs and improvements	12,000	6,044	5,956	12,071
Dues and certifications	1,000	195	805	490
Training and seminars	7,000	5,786	1,214	6,756
Dispatching services	16,368	16,810	(442)	16,368
Miscellaneous	8,500	8,626	(126)	4,959
Total operating expenditures	601,064	603,459	(2,395)	569,380
Capital Expenditures				
Capital lease payments	51,462	57,789	(6,327)	51,614
Capital outlay	12,984	-	12,984	32,055
TOTAL EXPENDITURES (BUDGET BASIS)	\$ 665,510	661,248	\$ 4,262	653,049
Adjustments to GAAP basis expenditures				
Capital outlay financed with capital lease proceeds		26,212		-
TOTAL EXPENDITURES		\$ 687,460		\$ 653,049
<b>RECREATION</b>				
Operating Expenditures				
Supplies and materials	\$ 3,000	\$ 15	\$ 2,985	\$ 2,968
Power and lights	3,500	4,977	(1,477)	2,013
Insurance	3,500	1,316	2,184	1,118
System repairs and improvements	5,000	4,427	573	10,267
Maintain recreation area	2,500	-	2,500	2,276
New projects	5,000	13,090	(8,090)	7,014
Pool expense	3,900	-	3,900	-
Miscellaneous	1,000	1,176	(176)	1,348
Total operating expenditures	27,400	25,001	2,399	27,004
Capital Expenditures				
Capital outlay	1,000	-	1,000	27,500
TOTAL EXPENDITURES	\$ 28,400	\$ 25,001	\$ 3,399	\$ 54,504

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
 GENERAL FUND  
 Year Ended June 30, 2006  
 With Comparative Totals for 2005

	2006		Variance Favorable (Unfavorable)	2005
	Budget	Actual		(Memo Only) Actual
<b>ADMINISTRATIVE</b>				
Operating Expenditures				
Salaries	\$ 297,683	\$ 268,135	\$ 29,548	\$ 208,152
Payroll taxes	22,773	22,423	350	19,091
Hospitalization insurance	44,609	33,579	11,030	39,563
Retirement	24,343	25,626	(1,283)	15,808
Gas and oil - vehicles	4,000	1,379	2,621	1,260
Travel allowance - building inspector	500	-	500	-
Office supplies	20,000	42,989	(22,989)	16,919
Travel allowance - recorder	300	404	(104)	-
Recorder's supplies	50	-	50	50
Building inspector's supplies	1,500	728	772	2,653
Boat permit	100	-	100	-
Telephone	17,000	10,429	6,571	8,714
Power and lights	4,500	4,226	274	3,441
Insurance	28,550	46,436	(17,886)	28,547
Equipment repairs	2,000	80	1,920	-
System repairs and improvements	23,000	27,758	(4,758)	23,082
Dues and certifications	7,000	9,681	(2,681)	2,145
Training and seminars	5,000	1,041	3,959	2,971
Clerk of court service	-	-	-	8,276
Zoning administrator service	-	-	-	11,386
Professional engineering fees	36,500	18,593	17,907	8,591
Fee simple deed costs	100	25	75	63
Victim's rights fund	2,000	6,064	(4,064)	2,000
Professional services	60,000	61,734	(1,734)	64,436
Contingency fund	20,000	10,421	9,579	12,583
Criminal Justice Academy	20,000	38,079	(18,079)	17,501
Trimming and pruning expense	2,000	7,200	(5,200)	7,800
County accommodations fund	12,000	-	12,000	-
Bond debt service	198,092	198,041	51	197,617
Miscellaneous	5,000	13,208	(8,208)	18,498
Total operating expenditures	858,600	848,279	10,321	721,147
Capital Expenditures				
Capital lease payments	-	2,095	(2,095)	-
Capital outlay	29,000	166,209	(137,209)	26,443
TOTAL EXPENDITURES (BUDGET BASIS)	\$ 887,600	1,016,583	\$ (128,983)	747,590
Adjustments to GAAP basis expenditures				
Capital outlay financed with capital lease proceeds		14,022		-
TOTAL EXPENDITURES		\$ 1,030,605		\$ 747,590
TOTAL GENERAL FUND EXPENDITURES (BUDGET BASIS)				
	\$ 2,686,174	\$ 2,761,095	\$ (74,921)	\$ 2,468,587
RECONCILIATION TO GAAP EXPENDITURES:				
Capital outlay financed with capital lease proceeds		76,381		57,396
TOTAL GENERAL FUND EXPENDITURES		\$ 2,837,476		\$ 2,525,983

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 BUDGET AND ACTUAL (BUDGETARY BASIS) - WATER FUND  
 Year Ended June 30, 2006  
 With Comparative Totals for 2005

	2006		Variance Favorable (Unfavorable)	2005
	Budget	Actual		(Memo Only) Actual
<b>OPERATING REVENUES</b>				
Water sales	\$ 551,714	\$ 540,438	\$ (11,276)	\$ 442,133
Meter connections	21,000	38,536	17,536	14,722
<b>TOTAL OPERATING REVENUES</b>	<b>572,714</b>	<b>578,974</b>	<b>6,260</b>	<b>456,855</b>
<b>OPERATING EXPENSES</b>				
Salaries	149,021	115,043	33,978	123,794
Payroll taxes	11,400	8,975	2,425	8,679
Hospitalization insurance	19,470	14,387	5,083	15,681
Retirement	11,475	8,786	2,689	7,501
Gas and oil - vehicles	4,000	3,733	267	2,871
Diesel fuel	1,000	994	6	671
Vehicle repairs	2,200	1,702	498	(2,482)
Supplies and tools	10,500	18,261	(7,761)	12,802
Office supplies	3,000	3,652	(652)	3,867
Lab supplies	2,000	1,956	44	1,302
Telephone	3,500	5,011	(1,511)	3,014
Power and lights	900	883	17	674
Insurance	10,000	11,485	(1,485)	8,749
Equipment repairs	2,000	829	1,171	1,513
System repairs and improvements	195,500	1,416,435	(1,220,935)	1,018,671
Dues and certifications	10,000	6,152	3,848	6,082
Training and seminars	3,000	2,473	527	986
Professional engineering fees	22,000	11,693	10,307	3,932
Professional services	5,000	4,879	121	4,845
Lab analysis, inspection and chemicals	10,000	7,829	2,171	9,731
CPW improvements	155,000	154,025	975	-
Wholesale water purchase	95,000	92,234	2,766	85,724
Miscellaneous	1,581	1,126	455	1,395
<b>TOTAL OPERATING EXPENSES</b>	<b>727,547</b>	<b>1,892,543</b>	<b>(1,164,996)</b>	<b>1,320,002</b>
<b>OPERATING INCOME (LOSS) - BUDGETARY BASIS</b>	<b>(154,833)</b>	<b>(1,313,569)</b>	<b>(1,158,736)</b>	<b>(863,147)</b>
<b>CAPITAL EXPENDITURES (including capital lease payments)</b>	<b>(39,667)</b>	<b>(14,491)</b>	<b>25,176</b>	<b>(15,654)</b>
<b>NONOPERATING REVENUES</b>				
Interest income	500	4,430	3,930	27
Transfers in from other funds	194,000	1,463,526	1,269,526	693,312
<b>NET INCOME (LOSS) - BUDGETARY BASIS</b>	<b>\$ -</b>	<b>139,896</b>	<b>\$ 139,896</b>	<b>(185,462)</b>
<b>RECONCILIATION TO GAAP BASIS</b>				
<b>Non-budgeted revenues (expenses)</b>				
Capitalized waterline modifications included in system repairs and improvements		1,317,915		953,900
Depreciable capital expenditures and lease payments		77,802		53,526
Depreciation		(134,322)		(97,547)
Interest expense		(415)		(868)
<b>INCREASE IN NET ASSETS</b>		<b>1,400,876</b>		<b>723,549</b>
<b>NET ASSETS, beginning of year</b>		<b>2,099,576</b>		<b>1,376,027</b>
<b>NET ASSETS, end of year</b>		<b>\$ 3,500,452</b>		<b>\$ 2,099,576</b>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 BUDGET AND ACTUAL (BUDGETARY BASIS) - SEWER FUND  
 Year Ended June 30, 2006  
 With Comparative Totals for 2005

	2006		Variance Favorable (Unfavorable)	2005
	Budget	Actual		(Memo Only) Actual
<b>OPERATING REVENUES</b>				
Sewer service charges	\$ 528,731	\$ 524,630	\$ (4,101)	\$ 402,523
Other revenue	14,000	3,138	(10,862)	50
<b>TOTAL OPERATING REVENUES</b>	<b>542,731</b>	<b>527,768</b>	<b>(14,963)</b>	<b>402,573</b>
<b>OPERATING EXPENSES</b>				
Salaries	149,021	115,344	33,677	121,807
Payroll taxes	11,400	8,975	2,425	8,680
Hospitalization insurance	19,470	14,009	5,461	17,591
Retirement	11,475	8,786	2,689	7,501
Gas and oil - vehicles	4,000	3,733	267	2,871
Diesel fuel and equipment	4,000	994	3,006	671
Vehicle repairs	2,000	1,702	298	(2,060)
Supplies and tools	11,000	9,479	1,521	14,157
Office supplies	2,500	3,657	(1,157)	2,675
Lab supplies	3,500	2,023	1,477	1,837
Telephone	3,500	5,011	(1,511)	3,013
Power and lights	33,000	36,865	(3,865)	32,793
Insurance	7,000	15,411	(8,411)	10,447
Equipment repairs	5,000	5,144	(144)	4,543
System repairs and improvements	169,500	221,506	(52,006)	556,995
Dues and certifications	4,000	3,715	285	2,989
Training and seminars	2,500	2,923	(423)	1,099
Professional engineering fees	25,000	25,384	(384)	2,445
Professional services	5,000	4,879	121	3,635
Bond interest	75,000	32,426	42,574	2,824
Lab analysis, inspection and chemicals	10,000	9,799	201	8,069
Miscellaneous	1,114	8,622	(7,508)	2,003
<b>TOTAL OPERATING EXPENSES</b>	<b>558,980</b>	<b>540,387</b>	<b>18,593</b>	<b>806,585</b>
<b>OPERATING INCOME (LOSS) - BUDGETARY BASIS</b>	<b>(16,249)</b>	<b>(12,619)</b>	<b>3,630</b>	<b>(404,012)</b>
<b>CAPITAL EXPENDITURES (including capital lease payments)</b>	<b>(66,751)</b>	<b>(57,071)</b>	<b>9,680</b>	<b>(55,312)</b>
<b>NONOPERATING REVENUES</b>				
Interest income	5,000	9,981	4,981	5,583
Other income	-	140	140	27,591
Transfers in from other funds	78,000	65,500	(12,500)	192,363
<b>NET INCOME (LOSS) - BUDGETARY BASIS</b>	<b>\$ -</b>	<b>5,931</b>	<b>\$ 5,931</b>	<b>(233,787)</b>
<b>RECONCILIATION TO GAAP BASIS</b>				
Non-budgeted revenues (expenses)				
Capitalized sewer modifications included in system repairs and improvements				450,268
Depreciable capital expenditures and lease payments		148,451		100,401
Depreciation and amortization		(175,454)		(111,961)
Interest expense		(4,148)		(5,251)
<b>INCREASE IN NET ASSETS</b>		<b>(25,220)</b>		<b>199,670</b>
<b>NET ASSETS, beginning of year</b>		<b>3,566,718</b>		<b>3,367,048</b>
<b>NET ASSETS, end of year</b>		<b>\$ 3,541,498</b>		<b>\$ 3,566,718</b>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA  
STATEMENT OF FINES, ASSESSMENTS AND SURCHARGES  
GENERAL FUND  
Year Ended June 30, 2006  
With Comparative Totals for 2005

	2006	2005 (Memo Only)
<b>COURT FINES</b>		
Court fines collected	\$ 89,817	\$ 45,669
Court fines retained by Town	89,817	45,669
Court fines remitted to the State Treasurer	\$ -	\$ -
<b>COURT ASSESSMENTS</b>		
Court assessments collected	\$ 41,899	\$ 20,953
Court assessments retained by Town	3,820	3,442
Court assessments remitted to the State Treasurer	\$ 38,079	\$ 17,511
<b>COURT SURCHARGES</b>		
Court surcharges collected	\$ -	\$ -
Court surcharges retained by Town	\$ -	\$ -
<b>VICTIMS SERVICES</b>		
Court assessments allocated to Victim Services	\$ 3,820	\$ 3,442
Court surcharges allocated to Victim Services	-	-
Funds allocated to Victim Services	3,820	3,442
Victim Services expenditures	6,064	
Capital outlay	20,000	2,000
Funds available for carryforward	(22,244)	1,442
Victim Services balance at beginning of year	36,434	34,992
Victim Services balance at end of year	\$ 14,190	\$ 36,434



SCHLEETER MONSEN & DEBACKER, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS

MAGNUS A. MONSEN, CPA, P.A.  
MITCHELL R. FISCHBEIN, CPA  
VICTOR K. KLIOSIS, CPA, MTX

OSCAR W. SCHLEETER, CPA (1891-1968)  
RENÉ DEBACKER, CPA (1923-1997)

January 31, 2007

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

To the Town Council  
Town of Sullivan's Island, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Sullivan's Island, South Carolina, as of and for the year ended June 30, 2006, which collectively comprise the Town of Sullivan's Island, South Carolina's basic financial statements, and have issued our report thereon dated January 31, 2007. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Sullivan's Island, South Carolina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Sullivan's Island, South Carolina's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Town Council and management of the Town of Sullivan's Island, South Carolina, and is not intended to be and should not be used by anyone other than these specified parties.

*Schleeter Monsen & Debacker, L.L.P.*