

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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YEAR ENDED JUNE 30, 2007

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

LIST OF ELECTED AND APPOINTED OFFICIALS

YEAR ENDED JUNE 30, 2007

MAYOR

Carl Smith

CITY COUNCIL MEMBERS

Pat O'Neil, Mayor Pro Tem

Charles "Buddy" Howle

Gerald "Jerry" Kaynard

Mike Perkis

Everett Presson

Mary Jane Watson

APPOINTED OFFICIALS

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina (the "Town"), as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina, as of June 30, 2007, 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 June 11, 2008, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

The accompanying management's discussion and analysis and budgetary comparison schedule as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management 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's basic financial statements. The introductory section and other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP

June 11, 2008

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

As management of the Town of Sullivan's Island ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. We would encourage readers to not only consider the information presented here, but also the information provided in the basic financial statements and notes to the basic financial statements to enhance their understanding the Town's overall financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the fiscal year by approximately \$9,359,000 (*net assets*). Of this amount, approximately \$2,444,000 and \$6,915,000 were related to the Town's governmental and business-type activities, respectively. In addition, the Town's unrestricted net assets (may be used to meet the government's ongoing obligations to citizens and creditors) were approximately \$704,000 for its governmental activities and approximately \$613,000 for its business-type activities.
- The government's total net assets decreased by approximately \$67,000 for governmental activities and approximately \$127,000 for business-type activities, as total expenses of approximately \$4,263,000 exceeded total revenues of approximately \$4,070,000.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$3,298,000, a decrease of approximately \$174,000 over the prior year's fund balance. Approximately 80% of this total amount, or approximately \$2,641,000, is available for spending at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was approximately \$2,641,000, or 84% of total General Fund expenditures for the year ended June 30, 2007.
- The Town's total capital assets decreased by approximately \$168,000 (2%) during the current fiscal year primarily due to depreciation expense of approximately \$568,000, net disposals of approximately \$17,000, partially offset by capital asset additions of approximately \$417,000. Capital asset additions were primarily related to the purchase of motor vehicles, Kubota tractor, exhaust system, water projects, and other machinery and equipment.
- The Town's total debt (including lease purchases) decreased by approximately \$163,000 (5%) during the current year due to scheduled principal payments exceeding new lease purchase obligations (which were used to purchase various vehicles, machinery, and equipment).

OVERVIEW OF FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

The Town maintained six (6) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund, State Accommodations Tax Fund, Local Accommodations Tax Fund, Local Hospitality Tax Fund, Special Revenue Fund (which was closed out during 2007), and the Tree Bank Fund. The basic governmental fund financial statements can be found as listed in the table of contents.

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the Town's net assets for 2007 compared to 2006:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and Other Assets	\$ 3,409,599	3,578,048	888,293	817,382	4,297,892	\$ 4,395,430
Capital Assets, Net	1,301,951	1,335,677	7,140,610	7,274,499	8,442,561	8,610,176
Total Assets	4,711,550	4,913,725	8,028,903	8,091,881	12,740,453	13,005,606
Liabilities:						
Long-Term Obligations	2,146,489	2,291,579	858,544	921,733	3,005,033	3,213,312
Other Liabilities	120,850	111,345	255,551	128,198	376,401	239,543
Total Liabilities	2,267,339	2,402,924	1,114,095	1,049,931	3,381,434	3,452,855
Net Assets:						
Invested in Capital Assets, Net of Related Debt (1)	1,110,827	1,155,939	6,301,795	6,382,379	5,507,625	5,513,318
Restricted	629,632	94,742	-	114,339	629,632	209,081
Unrestricted (1)	703,752	1,260,120	613,013	545,232	3,221,762	3,830,352
Total Net Assets	\$ 2,444,211	2,510,801	6,914,808	7,041,950	9,359,019	\$ 9,552,751

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

The Town's total assets of approximately \$12,740,000 decreased approximately \$265,000 over the prior year. The decrease is primarily due to lower capital asset balances related to depreciation expense. Total liabilities at June 30, 2007 decreased by approximately \$71,000 from the prior year primarily due to principal payments made during the year on the Town's long-term obligations exceeding new lease purchase obligations (which were used to purchase various vehicles, machinery, and equipment).

The Town's net assets decreased by approximately \$194,000 during the current fiscal year due to current year expenses exceeding current year revenues. Please see discussion following the next table regarding this decrease.

The Town's assets exceeded liabilities by approximately \$9,359,000 at June 30, 2007. The largest portion of the Town's net assets of approximately \$5,508,000 (approximately 59%) reflects its investment in capital assets (i.e., land, buildings, furniture and equipment, water/sewer infrastructure, etc.) less any related outstanding debt/lease purchase obligations used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since generally the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets of approximately \$629,000 (approximately 6%) represents resources that are subject to external restrictions on how they may be used. These net assets are restricted primarily for special revenue programs which are restricted by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

The remaining portion of the Town's net assets is unrestricted net assets of approximately \$3,222,000 (approximately 35%) may be used to meet the government's ongoing obligations to citizens and creditors.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the Town's net assets for fiscal year 2007 compared to 2006.

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006 *	2007	2006	2007	2006 *
Revenues:						
Program Revenues:						
Charges for Services	\$ 268,967	251,367	1,109,943	1,106,884	1,378,910	\$ 1,358,251
General Revenues:						
Taxes	2,416,703	2,536,528	-	-	2,416,703	2,536,528
Other	244,715	261,772	29,439	14,411	274,154	276,183
Total Revenues	<u>2,930,385</u>	<u>3,049,667</u>	<u>1,139,382</u>	<u>1,121,295</u>	<u>4,069,767</u>	<u>4,170,962</u>
Expenses:						
Public Works	463,530	460,335	-	-	463,530	460,335
Public Safety	1,312,690	1,287,281	-	-	1,312,690	1,287,281
General Government	1,038,901	727,223	-	-	1,038,901	727,223
Interest on Long-Term Obligations	90,595	92,129	-	-	90,595	92,129
Water	-	-	678,904	646,054	678,904	646,054
Sewer	-	-	678,879	628,611	678,879	628,611
Total Expenses	<u>2,905,716</u>	<u>2,566,968</u>	<u>1,357,783</u>	<u>1,274,665</u>	<u>4,263,499</u>	<u>3,841,633</u>
Change in Net Assets Before Transfers	24,669	482,699	(218,401)	(153,370)	(193,732)	329,329
Transfers In (Out)	(91,259)	(1,529,026)	91,259	1,529,026	-	-
Change in Net Assets	<u>(66,590)</u>	<u>(1,046,327)</u>	<u>(127,142)</u>	<u>1,375,656</u>	<u>(193,732)</u>	<u>329,329</u>
Net Assets - Beginning of Year	2,510,801	3,557,128	7,041,950	5,666,294	9,552,751	9,223,422
Net Assets - End of Year	<u>\$ 2,444,211</u>	<u>2,510,801</u>	<u>6,914,808</u>	<u>7,041,950</u>	<u>9,359,019</u>	<u>\$ 9,552,751</u>

* Reclassifications have been made in the prior year numbers to conform to the 2007 financial statement presentation.

Governmental Activities: Governmental activities decreased the Town's net assets by approximately \$67,000 in the current year, which accounted for approximately 34% of the Town's total change in net assets.

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

- Total governmental activities revenues decreased by approximately \$119,000, or less than 4%, over the prior year. Most of the Town's revenues were flat compared to the prior year.
- Total governmental activities expenses increased by approximately \$339,000, or 13%, over the prior year. The majority of the increase was due to the cost of digital radios that were needed in order to participate in the county-wide emergency response system (which were expensed as they were under the Town's capitalization threshold limit). Salaries, salary related expenses, and professional services contributed to a large portion of the remaining increase.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities: Net assets for business-type activities (water and sewer services) decreased by approximately \$127,000. Almost all of this decrease was due to the reduction in capital assets caused by depreciation expense.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance of approximately \$3,298,000, a decrease of approximately \$174,000 over the prior year fund balance. The decrease in fund balance was the result of operating expenditures of the Town exceeding its revenues.

Approximately 80% or \$2,641,000 of the total governmental fund balance of approximately \$3,298,000 constitutes unreserved and undesignated fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed (1) for inventory (\$3,000), (2) for tourism related expenditures or operating expenses incurred to serve tourists (\$555,000), (3) victims services (\$22,000), (4) tree bank program (\$24,000), and (5) for other purposes (\$53,000).

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the total fund balance was approximately \$2,719,000. As a measure of the General Fund's liquidity, it may be useful to compare total unreserved fund balance to total General Fund expenditures. Total unreserved undesignated fund balance of the General Fund (\$2,641,000) represents approximately 84% of total General Fund expenditures.

Highlights for the General Fund were as follows:

- Interest income was over \$100,000.
- Licenses and franchise fees came in over \$150,000 more than projected.
- Total actual expenses were less than total budgeted expenses.

In addition, the fund balances of the remaining major funds decreased by approximately \$523,000 or (47%) over 2006. Highlights for these funds were as follows:

- The majority of the decrease is related to the closing of the Special Revenue Fund in 2007.

Proprietary Fund. The Town's proprietary funds provide the same type of information found in the government-wide basic financial statements but in more detail. Net assets of the Water and Sewer Enterprise Funds at the end of the fiscal year amounted to approximately \$6,915,000. Please see the earlier discussion of the business-type activities change in net assets in the government-wide financial analysis section of this MD&A for more details.

Fiduciary Funds. The Town's Volunteer Fire Department Fund is used by the Town to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by fire insurance companies. Agency funds are custodial in nature and do not present results of operations. The Fiduciary Fund had amounts held for custody of others of approximately \$65,000 at June 30, 2007.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

FINANCIAL ANALYSIS OF THE TOWN’S FUNDS (CONTINUED)

General Fund Budgetary Highlights: If budget amendments are made they generally fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The Town did not amend the budget during 2007.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town’s investment in capital assets as of June 30, 2007 and June 30, 2006, amounted to approximately \$8,443,000 and \$8,610,000 (net of accumulated depreciation), respectively. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, sewer/water lines, and other infrastructure. The Town’s capital assets (net of depreciation) as of June 30, 2007 and 2006 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006 *	2007	2006 *
Land	\$ 37,392	37,392	-	-	37,392	\$ 37,392
Building and Improvements	196,310	210,066	-	-	196,310	210,066
Machinery and Equipment	330,093	325,694	-	-	330,093	325,694
Vehicles and Vehicle Equipment	364,711	377,955	-	-	364,711	377,955
Vehicles, Machinery, and Equipment	-	-	383,409	405,058	383,409	405,058
Fire and Emergency Command System	373,445	384,570	-	-	373,445	384,570
Water/Sewer System	-	-	6,757,201	6,869,441	6,757,201	6,869,441
Total	\$ 1,301,951	1,335,677	7,140,610	7,274,499	8,442,561	\$ 8,610,176

* Reclassifications have been made in the prior year numbers to conform to the 2007 financial statement presentation.

The total decrease in the Town’s investment in capital assets for the current fiscal year was approximately \$168,000 or less than 2%. Major capital asset events during the current fiscal year included the following:

- Capital asset additions of approximately \$183,000 for governmental activities which consisted primarily of the following:
 - Purchase of four public safety (police) vehicles for approximately \$91,000.
 - Purchase of a Kubota tractor for public service for approximately \$51,000.
 - Purchase of a new computer server for general government for approximately \$16,000.
 - Purchase of other miscellaneous public safety and general government machinery and equipment of approximately \$25,000.
- Capital asset additions of approximately \$234,000 for business-type activities which consisted primarily of the following:
 - Waterline project – Year 3 for approximately \$33,000.
 - Potable water interconnect and well pump for approximately \$101,000.
 - Sewer irrigation and manholes for approximately \$36,000.
 - Other water and sewer vehicles, machinery, and equipment for approximately \$64,000.
- Depreciation expense and disposals of capital assets of approximately \$200,000 and \$17,000, respectively, for governmental activities and \$368,000 of depreciation expense for business-type activities.

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt Administration

As of June 30, 2007 and June 30, 2006, the Town had total outstanding debt (including lease purchases) of approximately \$2,943,000 and \$3,105,000, respectively. Of the Town's total long-term obligations, approximately \$1,905,000 was general obligation debt which is backed by the full faith and credit of the Town. The Town's total debt and lease purchases as of June 30, 2007 and 2006 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Debt:						
General Obligation Bond	\$ 1,905,000	2,025,000	-	-	1,905,000	\$ 2,025,000
Revenue Bond	-	-	724,000	763,000	724,000	763,000
Total Debt	<u>1,905,000</u>	<u>2,025,000</u>	<u>724,000</u>	<u>763,000</u>	<u>2,629,000</u>	<u>2,788,000</u>
Lease Purchases	191,124	179,738	122,544	137,495	313,668	317,233
Total Debt and Lease Purchases	<u>\$ 2,096,124</u>	<u>2,204,738</u>	<u>846,544</u>	<u>900,495</u>	<u>2,942,668</u>	<u>\$ 3,105,233</u>

The total decrease in the Town's debt and lease purchase obligations for the current fiscal year was approximately \$163,000 or 5%. Major events during the current fiscal year included the following:

- The Town's governmental activities had scheduled principal payments on debt and lease purchase obligations of approximately \$120,000 and \$126,000, respectively.
- The Town entered into new governmental activities lease purchase obligations of approximately \$137,000 for four new vehicles, Kubota tractor, and equipment.
- The Town's business-type activities had scheduled principal payments on debt and lease purchase obligations of approximately \$39,000 and \$38,000, respectively.
- The Town entered into new business-type activities lease purchase obligations of approximately \$23,000 for a new vehicle and phone system.

The State of South Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The Town's statutory debt limit at June 30, 2007 was approximately \$4,800,000. The Town had \$1,905,000 of bonded debt subject to the 8% limit and thus resulted in the Town having an unused legal debt margin of approximately \$2,895,000.

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

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

The Town's elected officials and staff considered many factors when setting the fiscal year 2008 budget. The state of the economy, tourism activity, anticipated building activity, future capital needs, and the best interests of the Town's residents were all taken into account. Key budget highlights were as follows:

- The purchase of a new accounting software.
- A study on the accreted land.
- A study on the commercial district.
- Continuation of the water line replacement project.
- Hiring of a Town Comptroller.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

REQUESTS FOR TOWN INFORMATION

This financial report is designed to provide a general overview of the Town of Sullivan's Island's finances for all those with an interest in the government's financing. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Comptroller, Post Office Drawer 427, Sullivan's Island, South Carolina 29482.

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Basic Financial Statements

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF NET ASSETS

JUNE 30, 2007

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 2,736,319	700,931	\$ 3,437,250
Cash and Cash Equivalents - Restricted	567,368	11,492	578,860
Taxes Receivable, Net	30,038	-	30,038
Other Receivables, Net	75,576	145,502	221,078
Internal Balances	(3,199)	3,199	-
Prepaid Expenses	-	19,440	19,440
Inventory	3,497	-	3,497
Bond Issuance Costs, Net	-	7,729	7,729
Capital Assets:			
Non-Depreciable	37,392	-	37,392
Depreciable, Net	1,264,559	7,140,610	8,405,169
TOTAL ASSETS	4,711,550	8,028,903	12,740,453
LIABILITIES			
Accounts Payable	58,406	222,360	280,766
Accrued Interest	24,726	15,385	40,111
Other Accrued Liabilities	37,718	6,314	44,032
Customer Deposits	-	11,492	11,492
Long-Term Obligations:			
Due Within One Year	244,979	91,795	336,774
Due in More Than One Year	1,901,510	766,749	2,668,259
TOTAL LIABILITIES	2,267,339	1,114,095	3,381,434
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,110,827	6,301,795	5,507,622
Restricted For:			
Tourism Related Expenditures	554,620	-	554,620
Other	75,012	-	75,012
Unrestricted	703,752	613,013	3,221,765
TOTAL NET ASSETS	\$ 2,444,211	6,914,808	\$ 9,359,019

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
Public Works	\$ 463,530	-	-	-	(463,530)		\$ (463,530)
Public Safety	1,312,690	133,566	-	-	(1,179,124)		(1,179,124)
General Government	1,038,901	135,401	-	-	(903,500)		(903,500)
Interest on Long Term Obligations	90,595	-	-	-	(90,595)		(90,595)
Total Governmental Activities	2,905,716	268,967	-	-	(2,636,749)		(2,636,749)
Business-Type Activities:							
Water	678,904	608,701	-	-		(70,203)	(70,203)
Sewer	678,879	501,242	-	-		(177,637)	(177,637)
Total Business-Type Activities	1,357,783	1,109,943	-	-		(247,840)	(247,840)
TOTAL - PRIMARY GOVERNMENT	\$ 4,263,499	1,378,910	-	-	(2,636,749)	(247,840)	(2,884,589)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Property Taxes					1,328,544	-	1,328,544
Local Option Sales Taxes					191,354	-	191,354
Hospitality Taxes					157,841	-	157,841
Accommodation Taxes					95,496	-	95,496
Business License Taxes					354,880	-	354,880
Franchise Taxes					288,588	-	288,588
Intergovernmental					67,352	-	67,352
Interest Income					153,021	27,591	180,612
Gain (Loss) on Disposal of Capital Assets					(330)	1,848	1,518
Miscellaneous					24,672	-	24,672
Transfers In (Out)					(91,259)	91,259	-
Total General Revenues and Transfers					2,570,159	120,698	2,690,857
CHANGE IN NET ASSETS					(66,590)	(127,142)	(193,732)
NET ASSETS, Beginning of Year					2,510,801	7,041,950	9,552,751
NET ASSETS, End of Year					2,444,211	6,914,808	\$ 9,359,019

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
ASSETS		
Cash and Cash Equivalents	\$ 2,712,062	-
Cash and Cash Equivalents - Restricted	75,012	5,568
Taxes Receivable	30,038	-
Accounts Receivable	27,133	13,096
Due From:		
Other Funds	17,859	-
Inventory	3,497	-
TOTAL ASSETS	2,865,601	18,664
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	58,406	-
Other Accrued Liabilities	37,718	-
Due To:		
Other Funds	34,879	-
Deferred Revenue, Property Taxes	15,228	-
TOTAL LIABILITIES	146,231	-
FUND BALANCES		
Reserved:		
Inventory	3,497	-
Tourism Related Expenditures	-	18,664
Victims Services	21,933	-
Other	53,079	-
Unreserved:		
Designated For:		
Tree Bank	-	-
Undesignated	2,640,861	-
TOTAL FUND BALANCES	2,719,370	18,664
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,865,601	18,664

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

LOCAL ACCOMMODATIONS TAX FUND	LOCAL HOSPITALITY TAX FUND	SPECIAL REVENUE FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	-	24,257	\$ 2,736,319
185,979	300,809	-	-	567,368
-	-	-	-	30,038
15,558	19,789	-	-	75,576
5,972	7,849	-	-	31,680
-	-	-	-	3,497
207,509	328,447	-	24,257	3,444,478
-	-	-	-	58,406
-	-	-	-	37,718
-	-	-	-	34,879
-	-	-	-	15,228
-	-	-	-	146,231
-	-	-	-	3,497
207,509	328,447	-	-	554,620
-	-	-	-	21,933
-	-	-	-	53,079
-	-	-	24,257	24,257
-	-	-	-	2,640,861
207,509	328,447	-	24,257	3,298,247
207,509	328,447	-	24,257	\$ 3,444,478

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

JUNE 30, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 3,298,247
Amounts reported for the governmental activities in the Statement of Net Assets are different because of the following:	
Property taxes and other revenues that will be collected in the future, but are not available soon enough to pay for the current period's expenditures are therefore deferred in the funds.	15,228
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets was \$2,671,418 and the accumulated depreciation was \$1,369,467.	1,301,951
Accrued interest payable was recognized for governmental activities, but is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.	(24,726)
Long-term obligations, including bonds payable and lease purchases, are not due or payable in the current period and therefore are not reported in the governmental funds.	
Long -Term Debt	(1,905,000)
Lease Purchases	(191,124)
Compensated Absences	(50,365)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 2,444,211</u>

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

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TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2007

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
REVENUES		
Property Taxes	\$ 1,327,923	-
Local Option Sales Tax	191,354	-
Accommodation Taxes	-	22,597
Hospitality Taxes	-	-
Licenses	643,468	-
Magistrate and Recorder Fines	123,956	-
State Shared Revenues	93,541	-
Permits	128,742	-
Victim's Right Fund	9,610	-
Interest	135,314	97
Other	24,672	-
TOTAL REVENUES ALL SOURCES	2,678,580	22,694
EXPENDITURES		
Current:		
Public Works	427,606	-
Public Safety	1,215,678	-
General Government	982,062	18,409
Capital Outlay	183,408	-
Debt Service:		
Principal	246,335	-
Interest	86,068	-
TOTAL EXPENDITURES	3,141,157	18,409
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(462,577)	4,285
OTHER FINANCING SOURCES (USES)		
Transfers In	688,959	14,379
Transfers Out	(31,404)	-
Lease Purchases	137,721	-
Proceeds from Sale of Capital Assets	16,600	-
TOTAL OTHER FINANCING SOURCES (USES)	811,876	14,379
NET CHANGES IN FUND BALANCES	349,299	18,664
FUND BALANCES, Beginning of Year	2,370,071	-
FUND BALANCES, End of Year	\$ 2,719,370	18,664

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

LOCAL ACCOMMODATIONS TAX FUND	LOCAL HOSPITALITY TAX FUND	SPECIAL REVENUE FUND	TREE BANK FUND	TOTAL GOVERNMENTAL FUNDS
-	-	-	-	\$ 1,327,923
-	-	-	-	191,354
46,710	-	-	-	69,307
-	157,841	-	-	157,841
-	-	-	-	643,468
-	-	-	-	123,956
-	-	-	-	93,541
-	-	-	6,659	135,401
-	-	-	-	9,610
6,983	9,157	-	1,470	153,021
-	-	-	-	24,672
53,693	166,998	-	8,129	2,930,094
-	-	-	-	427,606
-	-	-	-	1,215,678
2,845	-	-	4,793	1,008,109
-	-	-	-	183,408
-	-	-	-	246,335
-	-	-	-	86,068
2,845	-	-	4,793	3,167,204
50,848	166,998	-	3,336	(237,110)
156,661	161,449	-	20,921	1,042,369
-	-	(1,102,224)	-	(1,133,628)
-	-	-	-	137,721
-	-	-	-	16,600
156,661	161,449	(1,102,224)	20,921	63,062
207,509	328,447	(1,102,224)	24,257	(174,048)
-	-	1,102,224	-	3,472,295
207,509	328,447	-	24,257	\$ 3,298,247

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, 2007

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (174,048)**

Amounts reported for the governmental activities in the Statement of Activities
are different because of the following:

Property taxes and other revenues that will be collected in the future, but are not available soon enough to pay for the current period's expenditures are therefore deferred in the funds.	621
Governmental funds report only proceeds received from the sale of capital assets, without any consideration for the net book value of the asset(s) that were sold. The Statement of Activities reports gains or losses based on the proceeds and the net book value of the asset(s) sold.	(16,930)
Bond principal payments and lease purchase payments are expenditures in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets.	246,335
Bond and lease purchase proceeds provide current financial resources to governmental funds, but issuing debt or entering into lease purchases also increases long term liabilities in the Statement of Net Assets.	(137,721)
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and payable and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due and payable. This adjustment relates to the change in accrued interest from the prior year.	(4,527)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	36,476
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets that are considered capital asset additions are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions (\$183,408) exceeded depreciation expense (\$200,204) in the current period	(16,796)

TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (66,590)**

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

JUNE 30, 2007

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER	SEWER	TOTAL
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 391,981	308,950	\$ 700,931
Cash and Cash Equivalents - Restricted	11,492	-	11,492
Due from Other Funds	11,812	152,484	164,296
Accounts Receivable	78,742	66,760	145,502
Prepaid Expenses	8,526	10,914	19,440
Total Current Assets	502,553	539,108	1,041,661
Noncurrent Assets:			
Unamortized Bond Issuance Costs	-	7,729	7,729
Capital Assets:			
Depreciable, Net	3,346,884	3,793,726	7,140,610
Total Noncurrent Assets	3,346,884	3,801,455	7,148,339
TOTAL ASSETS	3,849,437	4,340,563	8,190,000
LIABILITIES			
Current Liabilities:			
Accounts Payable	183,102	39,258	222,360
Accrued Interest	-	15,385	15,385
Other Accrued Liabilities	3,157	3,157	6,314
Due to Other Funds	144,173	16,924	161,097
Customer Deposits	11,492	-	11,492
Compensated Absence Liability	6,000	6,000	12,000
Lease Purchase Payable - Current Portion	11,437	27,358	38,795
Revenue Bond Payable - Current Portion	-	41,000	41,000
Total Current Liabilities	359,361	149,082	508,443
Noncurrent Liabilities:			
Lease Purchase Payable - Net of Current Portion	24,818	58,931	83,749
Revenue Bond Payable - Net of Current Portion	-	683,000	683,000
TOTAL LIABILITIES	384,179	891,013	1,275,192
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,310,629	2,991,166	6,301,795
Unrestricted	154,629	458,384	613,013
TOTAL NET ASSETS	\$ 3,465,258	3,449,550	\$ 6,914,808

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2007

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER	SEWER	TOTAL
OPERATING REVENUES			
Charges for Services	\$ 561,899	475,684	\$ 1,037,583
Meter Connections, Sewer Tie-In Fees, and Other Revenue	46,802	25,558	72,360
TOTAL OPERATING REVENUES	608,701	501,242	1,109,943
OPERATING EXPENSES			
Salaries	118,037	118,068	236,105
Payroll Taxes	9,176	9,176	18,352
Hospitalization Insurance	14,661	14,661	29,322
Retirement	9,871	9,871	19,742
Gas and Oil - Vehicles	3,254	3,254	6,508
Diesel Fuel and Equipment	1,051	1,218	2,269
Repairs and Maintenance - Diesel Equipment	166	-	166
Vehicle Repairs	1,195	1,195	2,390
Supplies and Tools	34,140	9,006	43,146
Office Supplies	4,160	5,991	10,151
Lab Supplies	2,551	2,624	5,175
Telephone	5,263	5,264	10,527
Power and Lights	1,837	36,873	38,710
Insurance	15,499	16,295	31,794
Equipment Repairs	1,847	8,757	10,604
System Repairs and Improvements	58,952	99,860	158,812
Sludge Disposal	-	18,054	18,054
Grit Disposal	-	764	764
CPW and Other Capital Improvements	94,701	22,723	117,424
Dues and Certifications	5,244	3,288	8,532
Training and Seminars	1,854	1,914	3,768
Professional Engineering Fees	2,454	12,358	14,812
Professional Services	5,920	39,759	45,679
Lab Analysis, Inspection, and Chemicals	8,693	15,400	24,093
Wholesale Water Purchase	96,172	-	96,172
Depreciation and Amortization	181,999	186,740	368,739
Miscellaneous	(1,119)	617	(502)
TOTAL OPERATING EXPENSES	677,578	643,730	1,321,308
OPERATING INCOME	(68,877)	(142,488)	(211,365)
NONOPERATING REVENUE (EXPENSES)			
Interest Income	13,294	14,297	27,591
Interest Expense	(1,326)	(35,149)	(36,475)
Gain (Loss) on Disposal of Capital Assets	922	926	1,848
TOTAL NONOPERATING REVENUE (EXPENSES)	12,890	(19,926)	(7,036)
INCOME (LOSS) BEFORE TRANSFERS	(55,987)	(162,414)	(218,401)
Transfers In	25,293	100,452	125,745
Transfers Out	(4,500)	(29,986)	(34,486)
CHANGE IN NET ASSETS	(35,194)	(91,948)	(127,142)
NET ASSETS, Beginning of Year	3,500,452	3,541,498	7,041,950
NET ASSETS, End of Year	\$ 3,465,258	3,449,550	\$ 6,914,808

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
WATER AND SEWER FUNDS

YEAR ENDED JUNE 30, 2007

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 622,975	522,846	\$ 1,145,821
Cash Payments to Suppliers for Goods and Services	(206,386)	(334,262)	(540,648)
Cash Payments to Employees	(156,364)	(156,395)	(312,759)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>260,225</u>	<u>32,189</u>	<u>292,414</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Loan from Other Funds	(112,514)	(52,963)	(165,477)
Transfer from Other Funds	20,793	70,466	91,259
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(91,721)</u>	<u>17,503</u>	<u>(74,218)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Issuance of Debt and Lease Purchase	11,566	11,566	23,132
Purchase of Capital Assets	(155,408)	(78,796)	(234,204)
Principal Paid on Debt and Lease Purchase	(11,437)	(65,646)	(77,083)
Interest Paid on Debt and Lease Purchase	(1,326)	(35,978)	(37,304)
Preceeds from Sale of Capital Assets	922	926	1,848
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(155,683)</u>	<u>(167,928)</u>	<u>(323,611)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings	13,294	14,297	27,591
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>13,294</u>	<u>14,297</u>	<u>27,591</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,115	(103,939)	(77,824)
CASH AND CASH EQUIVALENTS, Beginning of Year	377,358	412,889	790,247
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 403,473</u>	<u>308,950</u>	<u>\$ 712,423</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Operating Income (Loss)	\$ (68,877)	(142,488)	\$ (211,365)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Depreciation and Amortization Expense	181,999	186,740	368,739
Change Due to (Increase) Decrease in Operating Assets:			
Other Receivable	13,932	21,604	35,536
Prepaid Expenses	(8,526)	(10,914)	(19,440)
Change Due to (Increase) Decrease in Operating Liabilities:			
Other Payables	145,974	(18,134)	127,840
Compensated Absences	(4,619)	(4,619)	(9,238)
Customer Deposits	342	-	342
Net Cash Provided by Operating Activities	<u>\$ 260,225</u>	<u>32,189</u>	<u>\$ 292,414</u>
SUPPLEMENTAL INFORMATION FOR NONCASH ACTIVITIES:			
Depreciation Expense	\$ 181,999	186,094	\$ 368,093
Amortization Expense	-	646	646
Gain on Disposal of Capital Assets	(922)	(926)	(1,848)
	<u>\$ 181,077</u>	<u>\$ 185,814</u>	<u>\$ 366,891</u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

JUNE 30, 2007

ASSETS

Cash and Cash Equivalents	\$	65,416
TOTAL ASSETS		<u>65,416</u>

LIABILITIES

Due To Volunteer Fire Department		65,416
TOTAL LIABILITIES	\$	<u>65,416</u>

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

As required by GAAP, the basic financial statements present the Town's financial information with its component unit. The primary criterion for determining inclusion or exclusion of a legally separate entity (component unit) is financial accountability, which is presumed to exist if the Town both appoints a voting majority of the entity's governing body, and either 1) the Town is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the Town. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the Town. In order to be considered fiscally independent, an entity must have the authority to do all of the following: (a) determine its budget without the Town having the authority to approve or modify that budget; (b) levy taxes or set rates or charges without approval by the Town; and (c) issue bonded debt without approval by the Town.

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the Town's basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government's operations and data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize they are legally separate from the Town. Based on the criteria above, the Town does not have any blended or discretely presented component units.

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental fund types are those through which most governmental functions of the Town are financed. The Town's expendable financial resources and related assets and liabilities (except for those accounted for in the Proprietary Funds) are accounted for through governmental funds. Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. The Town's major and non-major governmental fund types are as follows:

The **General Fund, a major fund**, is the general operating fund of the Town and accounts for all revenues and expenditures of the Town, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any unreserved fund balance is generally considered a resource available for use.

The **State Accommodations Tax Fund, a major special revenue fund**, is used to account for the accumulation of resources from the hotel/motel 2% fee levied by the State of South Carolina and remitted to the Town. These funds are to be spent only for support of tourism and tourist-related services. This is an unbudgeted fund.

The **Local Accommodations Tax Fund, a major special revenue fund**, is used to account for the accumulation of resources from the 1% fee imposed on the rental of any accommodations within the Town which is collected and allocated to the Town from Charleston County. These funds are to be spent only for support of tourism and tourist-related services. This is an unbudgeted fund.

The **Hospitality Tax Fund, a major special revenue fund**, is used to account for the accumulation of resources from a 2% fee imposed on food and beverage sales within the Town. These funds are to be spent only for support of tourism and tourist-related services. This is an unbudgeted fund.

The **Special Revenue Fund, a major special revenue fund**, was used for specific revenue sources. These funds were used and thus the fund was closed out in 2007.

The **Tree Bank Fund, a major special revenue fund**, is used to account for the money collected from tree permits, as well as from fines for violations of the Town's tree fund ordinance. These funds are to be used for the purchase of trees to be planted on the public property of the Town and for other related activities planned by the Tree Commission and approved by Town Council. This is an unbudgeted fund.

Proprietary Fund Types are accounted for based on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Town applies all applicable GASB pronouncements, as well as the requirements of Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs"), issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Town has elected not to follow the aforementioned guidance issued after November 30, 1989, as allowed by GAAP.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

C. Assets, Liabilities and Equity

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

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

Investments

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

- (a) Obligations of the United States and agencies thereof;
- (b) General obligations of the State of South Carolina or any of its political units;
- (c) Savings and Loan Associations to the extent that the same are insured by an agency of the Federal Government;

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

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

Investments (Continued)

- (d) Certificates of Deposit and funds in deposit accounts with banking institutions provided that such certificates and funds in deposit accounts are collaterally secured by securities of the type described in (a) and (b) above, held by a third party as escrow agent, or custodian of a market value, not less than the amount of the certificates or funds in deposit accounts so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government;
- (e) Collateralized repurchase agreements when collateralized by securities as set forth in (a) and (b) above and held by the governmental entity or a third party as escrow agent or custodian; and
- (f) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), and (e) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

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

- Government and business interest checking accounts or money market accounts.
- Open ended mutual funds which are primarily invested in money market funds which invest in short term obligations of the United States and related agencies.
- Certificates of Deposit ("CD") are bond-type investments issued by a bank when a person or company deposits a certain amount of money for a determined amount of time. The maturity can be up to five years, and interest is paid to the holder of the CD at an agreed upon rate. Money removed before maturity is generally subject to a penalty.
- South Carolina Local Government Investment Pool ("Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

2. *Receivables and Payables*

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

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

3. *Inventories and Prepaids*

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

4. *Capital Assets*

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

5. *Compensated Absences*

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

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

6. *Accrued Liabilities and Long-Term Obligations*

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

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

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

7. *Fund Balance*

In the fund basic financial statements, the Town reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

In the governmental fund basic financial statements, the Town's use of the term "reserve" relative to the fund balance of its governmental funds is limited to indicating that portion of fund balance that is not appropriable for expenditure or is legally segregated for some specific future use. Fund balance reserves have been established for inventory, tourism-related projects, and other special revenue programs.

In the governmental fund basic financial statements, the Town's fund balance "designations" are established to reflect tentative plans for financial resource utilization in future periods. Designations of fund equity represent tentative management plans that are subject to change and ultimately may not be legally authorized or result in an expenditure. Designations have been established for funds received for the tree bank program.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

8. Net Assets

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

9. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

10. Comparative Data

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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

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

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town’s deposits might not be recovered. The Town does not have a deposit policy for custodial credit risk, but follows the investment policy statutes of the State of South Carolina. As of June 30, 2007, none of the Town’s bank balances of \$3,385,456 (with a carrying value of \$3,356,118) were exposed to custodial credit risk.

Investments

As of June 30, 2007, the School District had the following investments and maturities (as defined by GASB #40):

Investment Type	Credit Rating	Fair Value	Weighted Average Maturity (In Years)
State Local Government Investment Pool	Unrated	\$ 429,934	^
Open Ended Money Market Funds	Unrated	130,058	^
Negotiable CD *	Unrated	100,000	9.60
Total		\$ 659,992	

^ Investments in 2a 7-like funds are not required to disclose interest rate risk.
 * Callable certificate of deposit at the discretion of the issuer.

Interest Rate Risk: The Town does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. None of the Town’s security investments were exposed to custodial credit risk at June 30, 2007.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have an investment policy for credit risk but follows the investment policy statutes of the State of South Carolina.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

A. Deposits and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk for Investments: The Town places no limit on the amount the Town may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures. More than 5% of the Town's investments were in a negotiable, callable (by issuer) CD with Western Bank PR.

Certain cash and cash equivalents of the Town are legally restricted for specified purposes. The major types of restrictions at June 30, 2007 were those imposed by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

B. Property Taxes, Other Receivables, and Deferred Revenue

The Town's 2006 property taxes are levied on October 1, 2006 and were due beginning on this date based on the assessed valuation as of January 1, 2006. Property taxes were considered late on January 15, 2007. Motor vehicle property tax is levied and collected on a portion of taxable vehicles monthly. Penalties and charges are assessed if taxes are not paid by the following dates:

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

Assessed values are established by the Charleston County Tax Assessor and the South Carolina Tax Commission. The Town's operating tax rate for the 2006 property tax year was 185.6 mills. Town property taxes are billed and collected by Charleston County under a joint billing and collection agreement.

The Town had net receivables of \$145,502 related to business-type activities at June 30, 2007 which consisted of outstanding charges to customers for water and sewer services. The Town had net receivables related to governmental activities at June 30, 2007, of the following:

	General Fund	State Accommodations Tax Fund	Local Accommodations Tax Fund	Hospitality Tax Fund	Totals
Property Taxes	\$ 30,038	-	-	-	\$ 30,038
Accommodations Taxes	-	13,096	15,558	-	28,654
Hospitality Taxes	-	-	-	19,789	19,789
Other	27,133	-	-	-	27,133
Net Receivables	\$ 57,171	13,096	15,558	19,789	\$ 105,614

There were no material allowances for uncollectible amounts other than for property taxes.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2007, the General Fund had \$15,228 in deferred revenue related to property taxes that were not available.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

C. Interfund Receivables, Payables, and Transfers

Interfund balances at June 30, 2007, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
<u>Major Governmental Funds:</u>		
General Fund	\$ 17,859	\$ 34,879
Local Accommodations Tax Fund	5,972	-
Local Hospitality Tax Fund	7,849	-
<u>Major Enterprise Funds:</u>		
Water Fund	11,812	144,173
Sewer Fund	152,484	16,924
Totals	<u>\$ 195,976</u>	<u>\$ 195,976</u>

The receivable in the General Fund is related to payroll expenses paid by it on behalf of the Enterprise Funds. The payable in the General Fund is related to interest earned on monies from other funds. The Water Fund collects all revenues related to the Enterprise Funds and thus has a payable due to the Sewer Fund for its portion of the revenues collected.

Transfers between funds for the year ended June 30, 2007, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Major Governmental Funds:</u>		
General Fund	\$ 688,959	\$ 31,404
State Accommodations Tax Fund	14,379	-
Local Accommodations Tax Fund	156,661	-
Local Hospitality Tax Fund	161,449	-
Special Revenue Fund	-	1,102,224
Tree Fund	20,921	-
<u>Major Enterprise Funds:</u>		
Water Fund	25,293	4,500
Sewer Fund	100,452	29,986
Totals	<u>\$ 1,168,114</u>	<u>\$ 1,168,114</u>

The transfers in to the various funds were primarily related to the Special Revenue Fund being closed out during 2007.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

D. Capital Assets

Capital asset activity for the Town’s governmental activities for the year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Non-Depreciable:				
Land	\$ 37,392	-	-	\$ 37,392
Total Capital Assets, Non-Depreciable	<u>37,392</u>	<u>-</u>	<u>-</u>	<u>37,392</u>
Capital Assets, Depreciable:				
Buildings and Improvements	386,419	5,600	25,764	366,255
Machinery and Equipment	833,036	86,358	338,152	581,242
Playground Equipment	183,452	-	3,881	179,571
Vehicles	1,114,769	91,450	239,383	966,836
Fire and Emergency Command Center	540,122	-	-	540,122
Total Capital Assets, Depreciable	<u>3,057,798</u>	<u>183,408</u>	<u>607,180</u>	<u>2,634,026</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	176,353	19,356	25,764	169,945
Machinery and Equipment	608,494	68,453	338,152	338,795
Playground Equipment	82,300	13,506	3,881	91,925
Vehicles	736,814	87,764	222,453	602,125
Fire and Emergency Command Center	155,552	11,125	-	166,677
Total Accumulated Depreciation	<u>1,759,513</u>	<u>200,204</u>	<u>590,250</u>	<u>1,369,467</u>
Total Capital Assets, Depreciable, Net	<u>1,298,285</u>	<u>(16,796)</u>	<u>16,930</u>	<u>1,264,559</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,335,677</u>	<u>(16,796)</u>	<u>16,930</u>	<u>\$ 1,301,951</u>

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

Functions/Programs	Amount
Governmental Activities:	
Public Works	\$ 35,924
Public Safety	133,488
General Government	30,792
Total Depreciation Expense - Governmental Activities	<u>\$ 200,204</u>

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Non-Depreciable				
Land	\$ -	-	-	\$ -
Total Capital Assets, Non-Depreciable	-	-	-	-
Capital Assets, Depreciable				
Water System	3,881,468	134,546	1,373	4,014,641
Sewer System	4,697,127	36,400	-	4,733,527
Lab Equipment	29,676	-	14,902	14,774
Vehicles and Equipment	261,348	39,476	85,175	215,649
Leased Equipment	616,797	23,782	33,275	607,304
Total Capital Assets, Depreciable	9,486,416	234,204	134,725	9,585,895
Less: Accumulated Depreciation for:				
Water System	707,567	150,156	1,373	856,350
Sewer System	1,001,587	133,030	-	1,134,617
Lab Equipment	27,622	473	14,902	13,193
Vehicles and Equipment	184,377	30,278	85,175	129,480
Leased Equipment	290,764	54,156	33,275	311,645
Total Accumulated Depreciation	2,211,917	368,093	134,725	2,445,285
Total Capital Assets, Being Depreciated, Net	7,274,499	(133,889)	-	7,140,610
Business-Type Activities Capital Assets, Net	\$ 7,274,499	(133,889)	-	\$ 7,140,610

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

Functions/Programs	Amount
Business-Type Activities:	
Water	\$ 181,999
Sewer	186,094
Total Depreciation Expense - Business-Type Activities	\$ 368,093

E. Long-Term Obligations

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

E. Long-Term Obligations (Continued)

Details on the Town's outstanding debt issues and lease purchase obligations for the governmental activities and business-type activities as of June 30, 2007 are as follows:

	<u>Principal Outstanding at Year End</u>
<p><u>General Obligation Bonds</u></p> <p>\$2,250,000 General Obligation Bonds (October 2003) were issued to finance initial stages of the water line replacement and upgrade project. Principal is payable annually and interest is payable semi-annually with interest at 3.99%. Debt service requirements are \$87,084 per year through July 5, 2011 and are funded with resources from the General Fund.</p>	<u>\$ 1,905,000</u>
<p><u>Revenue Bonds</u></p> <p>\$800,000 Revenue Bonds (July 2004) were issued with a financial institution to finance the substantial upgrades to the Town's Wastewater Treatment Plant. These obligations are secured and funded with the revenues and resources of the Water Enterprise Fund. Principal payments are paid annually through July 1, 2020, plus interest at 4.25% which is due semi-annually on January 1st and July 1st. In accordance with the bond agreement, the Town must maintain a debt service coverage ratio of at least 1.20 at all times. The Town was in compliance with this bond covenant at June 30, 2007.</p>	<u>\$ 724,000</u>
<p><u>Lease Purchases</u></p> <p>\$164,910 Lease Purchase (September 2001) was issued to finance a Pumper Truck. Principal and interest payments are paid annually beginning on September 12, 2001 and ending on September 12, 2008. Each total payment is \$23,910 and the interest rate is 4.48%. This is funded with resources from the General Fund.</p>	\$ 44,789
<p>\$124,870 Lease Purchase (June 2002) was issued to finance a Jet Vac Truck. Principal and interest payments are paid annually beginning on July 15, 2002 and ending on July 15, 2009. Each total payment is \$18,263 and the interest rate is 4.68%. This is funded with resources from the Sewer Fund.</p>	50,034
<p>\$32,395 Lease Purchase (July 2005) was issued to finance a Dri-Pass/ Dewater Pump. Principal and interest payments are paid annually beginning on July 7, 2005 and ending on July 7, 2009. Each total payment is \$6,915 and the interest rate is 3.37%. This is funded equally with resources from the Sewer Fund and the Water Fund.</p>	19,424
<p>\$43,790 Lease Purchase (July 2005) was issued to finance a Dump Truck. Principal and interest payments are paid annually beginning on July 7, 2005 and ending on July 7, 2009. Each total payment is \$9,348 and the interest rate is 3.37%. This is funded equally with resources from the Water Fund and the Sewer Fund.</p>	\$ 26,254

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

E. Long-Term Obligations (Continued)

	Principal Outstanding at Year End
<u>Lease Purchases (Continued)</u>	
\$23,691 Lease Purchase (August 2005) was issued to finance a Viper Thermal Imager. Principal and interest payments are paid annually beginning on January 15, 2006 and ending on January 15, 2008. Each total payment is \$8,289 and the interest rate is 3.45%. This is funded with resources from the General Fund.	\$ 8,012
\$10,623 Lease Purchase (August 2005) was issued to finance a Club Car Carryall. Principal and interest payments are paid annually beginning on August 8, 2005 and ending on August 8, 2007. Each total payment is \$3,656 and the interest rate is 3.29%. This is funded with resources from the General Fund.	3,540
\$56,090 Lease Purchase (October 2005) was issued to finance a Cisco Phone System. Principal and interest payments are paid monthly beginning on November 21, 2005 and ending on October 21, 2010. Each total payment is \$984 and the interest rate is 4.9%. This is funded with resources from the General Fund (75%), Water Fund (12.5%), and Sewer Fund (12.5%).	38,792
\$10,907 Lease Purchase (July 2006) was issued to finance a Cisco Phone System. Principal and interest payments are paid monthly beginning on July 21, 2006 and ending on October 21, 2010. Each total payment is \$234 and the interest rate is 4.9%. This is funded with resources from the General Fund (75%), Water Fund (12.5%), and Sewer Fund (12.5%).	9,202
\$149,157 Lease Purchase (July 2006) was issued to finance five Ford Explorers and one Kubota tractor. Principal and interest payments are paid annually beginning on August 1, 2006 and ending on August 1, 2009. Each total payment is \$35,535, and the interest rate ranges from 4.27% to 4.30%. This is funded with resources from the General Fund for four of the trucks and for the Kubota tractor, and out of resources from the Water and Sewer Fund for the remaining truck.	113,621
Total Lease Purchases	\$ 313,668

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

E. Long-Term Obligations (Continued)

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Debt:					
GO Bond - 10/03	\$ 2,025,000	-	120,000	1,905,000	\$ 125,000
Lease Purchases:					
LP - 9/96	15,118	-	15,118	-	-
LP - 9/01	65,754	-	20,965	44,789	21,904
LP - 8/02	5,645	-	5,645	-	-
LP - 4/04	14,106	-	14,106	-	-
LP - 9/04	19,395	-	19,395	-	-
LP - 8/05	15,758	-	7,746	8,012	8,012
LP - 8/05	6,967	-	3,427	3,540	3,540
LP - 10/05	36,995	-	7,901	29,094	8,268
LP - 7/06	-	128,948	30,161	98,787	25,931
LP - 7/06	-	8,773	1,871	6,902	1,959
Total Lease Purchases	<u>179,738</u>	<u>137,721</u>	<u>126,335</u>	<u>191,124</u>	<u>69,614</u>
Compensated Absences	<u>86,841</u>	<u>41,105</u>	<u>77,581</u>	<u>50,365</u>	<u>50,365</u>
Total Governmental Activities	<u>\$ 2,291,579</u>	<u>178,826</u>	<u>323,916</u>	<u>2,146,489</u>	<u>\$ 244,979</u>
Business-Type Activities:					
Debt:					
Revenue Bond - 7/04 - Sewer	\$ 763,000	-	39,000	724,000	\$ 41,000
Water Lease Purchases:					
LP - 7/05	12,740	-	3,028	9,712	3,130
LP - 7/05	17,220	-	4,093	13,127	4,232
LP - 10/05	6,166	-	1,317	4,849	1,378
LP - 7/06	-	10,104	2,687	7,417	2,370
LP - 7/06	-	1,462	312	1,150	327
Total Water Lease Purchases	<u>36,126</u>	<u>11,566</u>	<u>11,437</u>	<u>36,255</u>	<u>11,437</u>
Sewer Lease Purchases:					
LP - 6/02	65,243	-	15,209	50,034	15,921
LP - 7/05	12,740	-	3,028	9,712	3,130
LP - 7/05	17,220	-	4,093	13,127	4,232
LP - 10/05	6,166	-	1,317	4,849	1,378
LP - 7/06	-	10,104	2,687	7,417	2,370
LP - 7/06	-	1,462	312	1,150	327
Total Sewer Lease Purchases	<u>101,369</u>	<u>11,566</u>	<u>26,646</u>	<u>86,289</u>	<u>27,358</u>
Compensated Absences	<u>21,238</u>	<u>6,194</u>	<u>15,432</u>	<u>12,000</u>	<u>12,000</u>
Total Business-Type Activities	<u>\$ 921,733</u>	<u>29,326</u>	<u>92,515</u>	<u>858,544</u>	<u>\$ 91,795</u>

The Town paid interest of \$86,068 and \$37,304 for its governmental and business-type activities, respectively.

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

E. Long-Term Obligations (Continued)

Interest paid on the debt issued by the Town is exempt from federal income tax. The Town sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The Town had no arbitrage liability at June 30, 2007.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or Town shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or Town voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of June 30, 2007, the Town had \$1,905,000 of bonded debt subject to the 8% limit of approximately \$4,800,000 resulting in an unused legal debt margin of approximately \$2,895,000.

Debt Service Requirements to Maturity

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

Year Ending June 30,	Debt		Lease Purchase Obligations		Totals
	Principal	Interest	Principal	Interest	
<u>Governmental Activities</u>					
2008	\$ 125,000	73,516	69,614	8,071	\$ 276,201
2009	130,000	68,429	60,632	5,109	264,170
2010	135,000	63,142	39,406	2,423	239,971
2011	140,000	57,656	12,476	795	210,927
2012	145,000	51,970	8,996	387	206,353
2013 - 2017	840,000	164,189	-	-	1,004,189
2018 - 2020	390,000	15,761	-	-	405,761
Totals	\$ 1,905,000	494,663	191,124	16,785	\$ 2,607,572
<u>Business-Type Activities</u>					
2008	\$ 41,000	29,899	38,795	4,995	\$ 114,689
2009	43,000	28,114	40,397	3,391	114,902
2010	45,000	26,244	42,069	1,720	115,033
2011	47,000	24,289	1,283	12	72,584
2012	50,000	22,228	-	-	72,228
2013 - 2017	288,000	76,373	-	-	364,373
2018 - 2020	210,000	13,643	-	-	223,643
Totals	\$ 724,000	220,790	122,544	10,118	\$ 1,077,452

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

F. Net Assets

The Town used the proceeds from the general Obligation Bond (see Note III.E) to fund the water line replacement and upgrade project. The \$1,905,000 balance outstanding at June 30, 2007 is included in the calculation of the Governmental Activities unrestricted net assets in the Statement of Net Assets, but the cost of the water lines are included in the Business-type Activities net assets invested in capital assets, net of related debt. Consequently, unrestricted net assets, and net assets invested in capital assets, net of related debt, of the Town are not equal to a simple combination of those net asset components of the Governmental and Business-Type activities.

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. For all of these risks, the Town is a member of the South Carolina Insurance Reserve Fund, a public entity risk pool operating as a common risk management and insurance program for local governments for general risk. The Town pays an annual premium for this coverage. For the year ended June 30, 2007, the Town made premium payments totaling approximately \$138,000.

The Town has also joined together with other municipalities in the state to form the South Carolina Municipal Insurance Trust ("SCMIT"), a public entity risk pool operating as a common risk management and insurance program for worker's compensation. The Town pays an annual premium to SCMIT. In the year ended June 30, 2007, the Town made premium payments totaling approximately \$34,000. The Trust uses reinsurance agreements to reduce its exposure to large workers' compensation losses. SCMIT's net assets from its most recently issued audited financial statements at December 31, 2006, totaled approximately \$6,049,000.

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

Participation in Public Entity Risk Pool for Health Insurance

The Town has also joined together with other local governments in the South Carolina Local Government Assurance Group ("SCLGAG") to provide medical, dental and life insurance for its employees. This is also a public entity risk pool operating as a common risk management and insurance program. The SCLGAG reinsures through commercial insurance to cover large specific losses. In the year ended June 30, 2007, the Town made premium payments totaling approximately \$171,000. The SCLGAG's net assets from its most recently issued audited financial statements at June 30, 2007 were approximately \$5,374,000.

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

IV. OTHER INFORMATION (CONTINUED)

B. Pension Disclosures

South Carolina Retirement and Police Officers’ Retirement System

South Carolina Retirement and Police Officers’ Retirement System: Town employees, except for fire and police department civil service personnel, participate in the South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan. Town sworn police officers and firefighting personnel participate in the South Carolina Police Officers’ Retirement System (“SCPORS”), a cost-sharing multiple-employer defined benefit pension plan. Both the SCRS and the SCPORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. The Plans’ provisions are established under Title 9 of the South Carolina Code of Law. Only the South Carolina State Budget and Control Board has authority to establish and amend the funding policy.

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

Both employees and the Town are required to contribute to the Plans at rates established under authority of Title 9 of the South Carolina Code of Laws. The Town’s contributions are actuarially determined, but are communicated to and paid by the Town as a percentage of the employees’ annual earnings.

	SCRS Rates			SCPORS Rates		
	2005	2006	2007	2005	2006	2007
<u>Employer Rate</u>						
Retirement	7.55%	7.55%	8.05%	10.30%	10.30%	10.30%
Group Life Insurance Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Benefit	N/A	N/A	N/A	0.20%	0.20%	0.20%
	<u>7.70%</u>	<u>7.70%</u>	<u>8.20%</u>	<u>10.70%</u>	<u>10.70%</u>	<u>10.70%</u>
Employee Rate	<u>6.00%</u>	<u>6.25%</u>	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>

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

Year Ending June 30,	SCRS Contributions			SCPORS Contributions		
	Required	% Contributed	% of Covered Payroll	Required	% Contributed	% of Covered Payroll
2007	\$ 49,828	100%	8.20%	\$ 79,215	100%	10.70%
2006	53,861	100%	7.70%	73,490	100%	10.70%
2005	\$ 38,882	100%	7.70%	\$ 55,549	100%	10.70%

C. Other Postemployment Benefits

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

IV. OTHER INFORMATION (CONTINUED)

D. Commitments and Contingencies

The Town receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the Town at June 30, 2007.

The Town was in dispute with a contractor associated with the Town's on-going water line project. Since the costs related to this dispute are related to assets that will ultimately be capitalized, the Town elected not to recognize any liability associated with the dispute as any adjustment would be only a balance sheet entry. This dispute was settled subsequent to year end. See Note IV.E for more details.

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

E. Subsequent Events

Lease Purchase Financing

The Town entered into a lease purchase agreement in August 2007 to finance two new trucks for approximately \$43,000. Principle and interest payments are paid annually beginning February 15, 2008 and ending on February 15, 2011. Each total payment is approximately \$11,519 (which includes interest) and the interest rate is 4.02%.

The Town entered into a lease purchase agreement in August 2007 to finance a Kubota tractor for approximately \$11,000. Principle and interest payments are paid annually beginning February 15, 2008 and ending on February 15, 2010. Each total payment is approximately \$3,847 (which includes interest) and the interest rate is 3.97%.

The Town entered into a lease purchase agreement in May 2008 to finance two new Ford explorers for approximately \$41,000. Principle and interest payments are paid annually beginning May 6, 2008 and ending on May 6, 2011. Each total payment is approximately \$14,529 (which includes interest) and the interest rate is 2.55%.

Litigation

The Town settled its dispute with a contractor associated with the Town's ongoing water line project for \$50,000 in November 2007. See Note IV.D for more details.

Required Supplementary Information

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

- Budgetary Comparison Schedule
 - General Fund

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property Taxes	\$ 1,302,891	1,302,891	1,327,923	\$ 25,032
Local Option Sales Tax	203,000	203,000	191,354	(11,646)
Licenses and Franchise Fees	480,400	480,400	643,468	163,068
Magistrate and Recorder Fines	80,000	80,000	123,956	43,956
State Shared Revenues	107,400	107,400	93,541	(13,859)
Permits	142,760	142,760	128,742	(14,018)
Proceeds from Sale of Capital Assets	-	-	16,600	16,600
Victim's Rights Fund	3,000	3,000	9,610	6,610
Interest	35,000	35,000	135,314	100,314
Other	1,650	1,650	24,672	23,022
TOTAL REVENUES ALL SOURCES	2,356,101	2,356,101	2,695,180	339,079
EXPENDITURES				
Maintenance	466,052	466,052	454,304	11,748
Police	659,073	659,073	646,829	12,244
Fire	653,956	653,956	702,062	(48,106)
Recreation	47,000	47,000	7,088	39,912
Administrative	1,290,969	1,290,969	1,193,153	97,816
TOTAL EXPENDITURES	3,117,050	3,117,050	3,003,436	113,614
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(760,949)	(760,949)	(308,256)	452,693
OTHER FINANCING SOURCES (USES)				
Transfers In	205,900	205,900	688,959	483,059
Transfers Out	-	-	(31,404)	(31,404)
TOTAL OTHER FINANCING SOURCES (USES)	205,900	205,900	657,555	451,655
NET CHANGES IN FUND BALANCES	(555,049)	(555,049)	349,299	904,348
FUND BALANCE, Beginning of Year	2,370,071	2,370,071	2,370,071	-
FUND BALANCES, End of Year	\$ 1,815,022	1,815,022	2,719,370	\$ 904,348
RECONCILIATION TO GAAP BASIS AMOUNTS:				
Total Revenues and Transfer In			\$ 3,384,139	
Proceeds from Lease Purchases			137,721	
TOTAL GENERAL FUND REVENUES OTHER SOURCES			3,521,860	
Total Expenditures and Transfer Out			\$ 3,034,840	
Capital Outlay Financed with Lease Purchase Proceeds			137,721	
TOTAL GENERAL FUND EXPENDITURES OTHER USES			3,172,561	

Note: The above schedule reflects the use of appropriated prior year fund balance of \$555,049 for the current year.

Note: The Town prepares the budget on a basis of accounting that is not consistent with generally accepted with accounting principles. See Note II.A in the notest to the basic financial statements for more details.

Other Supplementary Information

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2007

	2007		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
MAINTENANCE			
Operating Expenditures:			
Salaries	\$ 131,565	128,882	\$ 2,683
Payroll Taxes	9,444	9,283	161
Hospitalization Insurance	21,769	20,836	933
Retirement	10,788	9,013	1,775
Gas and Oil - Vehicles	6,500	7,959	(1,459)
Diesel Fuel	1,500	2,243	(743)
Vehicle Repairs	4,000	508	3,492
Supplies and Materials	6,000	5,133	867
Tools	2,500	1,692	808
Telephone	3,500	3,022	478
Power and Lights	25,000	24,679	321
Insurance	21,500	20,517	983
Equipment Repairs	6,000	7,207	(1,207)
System Repairs and Improvements	20,000	20,617	(617)
Garbage Disposal Service - Subcontract	142,783	151,428	(8,645)
Container Servicing	7,000	4,896	2,104
Causeway Maintenance	9,000	4,725	4,275
Miscellaneous	10,000	4,966	5,034
Total Operating Expenditures	438,849	427,606	11,243
Capital Expenditures:			
Lease Purchase Payments	27,203	26,698	505
Capital Outlay	-	-	-
TOTAL EXPENDITURES	466,052	454,304	11,748
Adjustments to GAAP Basis Expenditures:			
Capital Outlay Financed with Lease Purchase Proceeds		50,797	
TOTAL EXPENDITURES		505,101	
POLICE			
Operating Expenditures:			
Salaries	319,208	312,247	6,961
Payroll Taxes	24,098	23,878	220
Hospitalization Insurance	50,165	49,997	168
Retirement	34,155	35,249	(1,094)
Gas and Oil - Vehicles	35,000	26,426	8,574
Diesel Fuel	600	-	600
Vehicle Repairs	16,000	16,584	(584)
Supplies and Materials	18,000	30,938	(12,938)
Telephone	\$ 14,000	9,823	\$ 4,177

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2007

	2007		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Power and Lights	\$ 5,500	4,248	\$ 1,252
Insurance	37,100	36,639	461
Equipment Repairs	3,000	2,173	827
System Repairs and Improvements	15,000	14,397	603
Dues and Certifications	500	380	120
Training and Seminars	5,500	3,292	2,208
Dispatching Services	16,950	17,382	(432)
Miscellaneous	2,000	1,167	833
Total Operating Expenditures	596,776	584,820	11,956
Capital Expenditures:			
Lease Purchase Payments	39,437	43,446	(4,009)
Capital Outlay	22,860	18,563	4,297
TOTAL EXPENDITURES	659,073	646,829	12,244
Adjustments to GAAP Basis Expenditures:			
Capital Outlay Financed with Lease Purchase Proceeds		62,687	
TOTAL EXPENDITURES		709,516	
FIRE			
Operating Expenditures:			
Salaries	349,477	381,330	(31,853)
Payroll Taxes	26,461	28,505	(2,044)
Hospitalization Insurance	52,434	51,722	712
Retirement	37,394	40,566	(3,172)
Gas and Oil - Vehicles	7,500	5,588	1,912
Diesel Fuel	4,500	3,589	911
Vehicle Repairs	7,500	9,053	(1,553)
Supplies and Materials	15,000	15,905	(905)
Tools	500	151	349
Telephone	8,000	9,859	(1,859)
Power and Lights	8,500	7,298	1,202
Insurance	36,700	37,257	(557)
Equipment Repairs	4,000	4,121	(121)
System Repairs and Improvements	6,000	7,196	(1,196)
Dues and Certifications	1,000	40	960
Training and Seminars	7,000	6,434	566
Dispatching Services	17,382	17,382	-
Miscellaneous	8,500	4,862	3,638
Total Operating Expenditures	\$ 597,848	630,858	\$ (33,010)

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2007

	2007		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Capital Expenditures:			
Lease Purchase Payments	\$ 56,108	60,004	\$ (3,896)
Capital Outlay	-	11,200	(11,200)
TOTAL EXPENDITURES	653,956	702,062	(48,106)
Adjustments to GAAP Basis Expenditures:			
Capital Outlay Financed with Lease Purchase Proceeds		21,312	
TOTAL EXPENDITURES		723,374	
RECREATION			
Operating Expenditures:			
Supplies and Materials	3,000	1,179	1,821
Power and Lights	4,800	2,996	1,804
Insurance	3,500	1,983	1,517
System Repairs and Improvements	25,000	-	25,000
Maintenance Recreation Area	2,500	-	2,500
New Projects	5,000	-	5,000
Pool Expense	200	-	200
Miscellaneous	1,000	930	70
Total Operating Expenditures	45,000	7,088	37,912
Capital Expenditures:			
Capital Outlay	2,000	-	2,000
TOTAL EXPENDITURES	47,000	7,088	39,912
ADMINISTRATIVE			
Operating Expenditures:			
Salaries	346,303	290,107	56,196
Payroll Taxes	25,889	24,031	1,858
Hospitalization Insurance	44,110	25,027	19,083
Retirement	29,832	28,382	1,450
Gas and Oil - Vehicles	3,000	2,002	998
Travel Allowance - Building Inspector	500	-	500
Office Supplies	23,000	28,822	(5,822)
Travel Allowance - Recorder	300	-	300
Recorder's Supplies	50	344	(294)
Building Inspector's Supplies	3,010	2,125	885
Boat Permit	100	-	100
Telephone	10,571	11,343	(772)
Power and Lights	5,000	5,071	(71)
Insurance	\$ 50,600	61,528	\$ (10,928)

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2007

	2007		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Equipment Repairs	\$ 2,000	510	\$ 1,490
System Repairs and Improvements	32,000	34,739	(2,739)
Dues and Certifications	4,000	1,995	2,005
Training and Seminars	5,000	3,252	1,748
Professional Engineering Fees	43,000	31,752	11,248
Fee Simple Deed Costs	100	13	87
Victim's Rights Fund	2,000	3,340	(1,340)
Professional Services	73,500	94,876	(21,376)
Criminal Justice Academy	35,000	64,844	(29,844)
Trimming and Pruning Expense	8,000	8,600	(600)
County Accommodations Fund	12,000	-	12,000
Radio System	-	258,974	(258,974)
Bonds Debt Services	198,404	198,364	40
Miscellaneous	12,000	(6,703)	18,703
Total Operating Expenditures	969,269	1,173,338	(204,069)
Capital Expenditures:			
Lease Purchase Payments	321,700	3,890	317,810
Capital Outlay	-	15,925	(15,925)
TOTAL EXPENDITURES	1,290,969	1,193,153	\$ 97,816
Adjustments to GAAP Basis Expenditures:			
Capital Outlay	-	2,924	
TOTAL EXPENDITURES	1,290,969	1,196,077	
TOTAL GENERAL FUND EXPENDITURES	3,117,050	3,003,436	
RECONCILIATION TO GAAP EXPENDITURES:			
Capital Outlay Financed with Lease Purchase Proceeds	-	137,721	
TOTAL GENERAL FUND EXPENDITURES	\$ 3,117,050	3,141,157	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2007

	2007		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Sewer Service Charges	\$ 461,123	475,684	\$ 14,561
Other Revenue	13,000	25,558	12,558
TOTAL OPERATING REVENUES	474,123	501,242	27,119
OPERATING EXPENSES			
Salaries	155,789	118,068	37,721
Payroll Taxes	11,918	9,176	2,742
Hospitalization Insurance	21,292	14,661	6,631
Retirement	11,803	9,871	1,932
Gas and Oil - Vehicles	6,000	3,254	2,746
Diesel Fuel and Equipment	4,100	1,218	2,882
Vehicle Repairs	2,300	1,195	1,105
Supplies and Tools	11,000	9,006	1,994
Office Supplies	2,600	5,991	(3,391)
Lab Supplies	2,500	2,624	(124)
Telephone	3,500	5,264	(1,764)
Power and Lights	38,000	36,873	1,127
Insurance	15,000	16,295	(1,295)
Equipment Repairs	4,000	8,757	(4,757)
System Repairs and Improvements	16,500	99,860	(83,360)
Sludge Disposal	13,000	18,054	(5,054)
Grit Disposal	500	764	(264)
Capital Improvements	54,000	22,723	31,277
Depreciation and Amortization	10,000	186,740	(176,740)
Collection System and Repairs	10,000	-	10,000
Dues and Certifications	6,000	3,288	2,712
Training and Seminars	4,000	1,914	2,086
Professional Engineering Fees	25,000	12,358	12,642
Professional Services	5,000	39,759	(34,759)
Bond Interest	75,000	30,770	44,230
Lab Analysis, Inspection, and Chemicals	11,500	15,400	(3,900)
Miscellaneous	1,116	617	499
Total Operating Expenses	521,418	674,500	(153,082)
OPERATING INCOME (LOSS)	(47,295)	(173,258)	(125,963)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(55,104)	(109,791)	(54,687)
NONOPERATING REVENUES			
Interest Income	3,000	14,297	11,297
Gain on Sale of Capital Assets	-	926	926
Other Income	-	-	-
Transfers In from Other Funds	-	100,452	100,452
Transfers Out to Other Funds	(4,500)	(29,986)	(25,486)
NET INCOME (LOSS)	(103,899)	(197,360)	\$ (93,461)
RECONCILIATION TO GAAP BASIS:			
Non-Budgeted Revenues (Expenses)			
Depreciable Capital Expenditures and Lease Payments	-	109,791	
Depreciation and Amortization	-		
Interest Expense	-	(4,379)	
INCREASE IN NET ASSETS	\$ (103,899)	(91,948)	
NET ASSETS, Beginning of Year		3,541,498	
NET ASSETS, End of Year		3,449,550	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2007

	2007		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
OPERATING REVENUES			
Water Sales	\$ 540,034	561,899	\$ 21,865
Meter Connections	49,700	46,802	(2,898)
TOTAL OPERATING REVENUES	589,734	608,701	18,967
OPERATING EXPENSES			
Salaries	155,789	118,037	37,752
Payroll Taxes	11,918	9,176	2,742
Hospitalization Insurance	21,292	14,661	6,631
Retirement	11,803	9,871	1,932
Gas and Oil - Vehicles	6,000	3,254	2,746
Diesel Fuel and Equipment	2,000	1,051	949
Repairs and Maintenance - Diesel Equipment	1,000	166	834
Vehicle Repairs	2,200	1,195	1,005
Supplies and Tools	25,500	34,140	(8,640)
Office Supplies	3,500	4,160	(660)
Lab Supplies	2,200	2,551	(351)
Telephone	3,600	5,263	(1,663)
Power and Lights	900	1,837	(937)
Insurance	11,000	15,499	(4,499)
Equipment Repairs	2,000	1,847	153
System Repairs and Improvements	30,000	58,952	(28,952)
Capital Improvements	90,000	-	90,000
Depreciation	10,000	181,999	(171,999)
Dues and Certifications	10,000	5,244	4,756
Training and Seminars	4,000	1,854	2,146
Professional Engineering Fees	22,000	2,454	19,546
Professional Services	5,000	5,920	(920)
Lab Analysis, Inspection, and Chemicals	9,200	8,693	507
CPW Improvements	40,000	94,701	(54,701)
Wholesale Water Purchases	95,000	96,172	(1,172)
Miscellaneous	1,583	(1,119)	2,702
Total Operating Expenses	577,485	677,578	(100,093)
OPERATING INCOME (LOSS)	12,249	(68,877)	(81,126)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(35,834)	(168,175)	(132,341)
NONOPERATING REVENUES			
Interest Income	1,000	13,294	12,294
Gain on Sale of Capital Assets	-	922	922
Transfers In from Other Funds	-	25,293	25,293
Transfers Out to Other Funds	(4,500)	(4,500)	-
NET INCOME (LOSS)	\$ (27,085)	(202,043)	\$ (174,958)
RECONCILIATION TO GAAP BASIS:			
Non-Budgeted Revenues (Expenses)			
Depreciable Capital Expenditures and Lease Payments		168,175	
Depreciation		-	
Interest Expense		(1,326)	
INCREASE IN NET ASSETS		(35,194)	
NET ASSETS, Beginning of Year		3,500,452	
NET ASSETS, End of Year		3,465,258	

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2007

	<u>2007</u>
COURT FINES	
Court Fines Collected	\$ 59,280
Court Fines Retained by Town	(59,280)
Court Fines Remitted to the State Treasurer	<u>\$ -</u>
COURT ASSESSMENTS	
Court Assessments Collected	\$ 57,796
Court Assessments Allocated to Victim Services	(6,327)
Court Assessments Remitted to the State Treasurer	<u>\$ 51,469</u>
COURT SURCHARGES	
Court Surcharges Collected	\$ 16,490
Court Surcharges Allocated to Victim Services	(3,283)
Court Surcharges Remitted to the State Treasurer	<u>\$ 13,207</u>
VICTIMS SERVICES	
Court Assessments Allocated to Victim Services	\$ 6,327
Court Surcharges Allocated to Victim Services	3,283
Funds Allocated to Victim Services	<u>9,610</u>
Victim Services Expenditures	(3,340)
Capital Outlay	<u>-</u>
Funds Available for Carry Forward	6,270
Victim Services Balance at Beginning of Year	<u>15,663</u>
Victim Services Balance at End of Year	<u><u>\$ 21,933</u></u>

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina ("Town"), as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's basic financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider items 2007-1 through 2007-4 described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider items 2007-1 through 2007-4 described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town in a separate letter dated June 11, 2008.

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town's responses and, accordingly, we express no opinion on them.

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

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
June 11, 2008

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2007

2007-1: GENERAL LACK OF SEGREGATION OF DUTIES IN FINANCE

Condition: During our audit, we noted there was a general lack of segregation of duties in finance due to the size of the Town and the cost/benefit factors related to a small government. Significant internal control processes such as proper bank reconciliations, approval of invoices, review of payroll registers, etc. were not always being performed.

Criteria: The Town should have adequate internal controls (other than its external independent auditors) in place that would prevent or detect material misstatements in the Town's day-to-day transactions all the way to the reporting of those transactions in its annual financial statements.

Effect: There is a higher risk that material misstatements due to error or fraud could go undetected.

Cause: The limited staff and resources available to the Town.

Recommendation: The Town should consider the cost/benefit factors related to providing adequate internal controls and should design an internal control system that is sufficient and reasonable for its size.

Response: The Town is in the process of updating and changing accounting procedures. The Town is going through the process of purchasing new accounting software and developing written accounting policies and procedures. We believe this will eliminate some findings such as 2007-3. Depending on the cost/benefit factors, we believe a policies and procedures manual, will, if not eliminate, reduce this finding to an acceptable level.

2007-2: NUMEROUS PROBLEMS WITH BUSINESS LICENSES

Condition: During our testing of business licenses we noted several issues:

- Seven of the twenty five business licenses selected for testing could not be found.
- One business license selected had a different amount paid, deposited, and recorded in the general ledger than shown on the detailed business licenses list.
- One of the business licenses selected for testing was not properly calculated.
- Six of the twenty five business licenses selected did not have completed applications.
- The current business license system is not working properly and has numerous deficiencies.

Criteria: The Town should have a system in place for processing and recording business licenses that ensures that all business licenses are properly completed, calculated, and recorded in the general ledger on a timely basis.

Effect: There is a higher risk that material misstatements due to error or fraud could go undetected.

Cause: The Town's system currently being used for Business Licenses is not working properly.

Recommendation: We recommend that the Town should take the necessary steps to ensure all business licenses are properly recorded and accounted for in the Town's records.

Response: The Town is in the process of purchasing accounting software which will eliminate most, if not all, of the problems. Also, the Town is updating and changing procedures for all financial transactions.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2007

2007-3: PROCUREMENT/PURCHASING CONTROLS WERE INADEQUATE

Condition: During our testing of disbursements, we noted a majority of the Town’s disbursements were paid without any documentation of approval.

Criteria: The Town should only process payments that have been reviewed and approved by the appropriate designated parties.

Effect: There is a higher risk that material misstatements due to error or fraud could go undetected.

Cause: An informal system of internal control related to cash disbursements.

Recommendation: We recommend that the Town should take the necessary steps to ensure that the Town implement and follow a detailed procurement/purchasing policy that provides for adequate review of invoices prior to disbursement of payments.

Response: See the response to finding 2007-1.

2007-4: RECORDING OF EXPENDITURES IN THE APPROPRIATE PERIOD

Condition: The Town did not correctly accrue two significant expenditures from the CPW – which the CPW had failed to invoice on a timely basis.

Criteria: The Town should record expenses in its Enterprise funds in the period for which the services were rendered by the vendor regardless of whether billed by the vendor.

Effect: The Town’s general ledger and financial statements would have been materially misstated had these transactions not been corrected.

Cause: The Town did not know at the time how the CPW was determining the charges related to the Town and the methodology for invoicing and thus was not aware of the lag time between when the CPW performed the services and when the CPW invoiced the Town for these services.

Recommendations: The Town should hold discussions with the CPW to fully understand its future charges and the methodology the CPW will use in charging/invoicing the Town so that these costs can be appropriately accrued and budgeted for.

Response: There have been some misunderstandings about the contract and how the capital improvements component was calculated. The Town is now receiving estimates of the future payments that relate to the capital improvements component of the cost of water purchased from Charleston Water Systems on a regular basis.
