

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

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2010**



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

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**YEAR ENDED JUNE 30, 2010**

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

**LIST OF ELECTED AND APPOINTED OFFICIALS**

**YEAR ENDED JUNE 30, 2010**

MAYOR

Carl Smith

CITY COUNCIL MEMBERS

Mike Perkis, Mayor Pro Tem

Charles "Buddy" Howle

Gerald "Jerry" Kaynard

Madeleine McGee

Pat O'Neil

Mary Jane Watson

APPOINTED OFFICIALS

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

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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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

*Greene, Finney & Horton LLP*

Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
August 25, 2010

# TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2010

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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, 2010. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. We would encourage readers to not only consider the information presented here, but also the information provided in the basic financial statements and notes to the basic financial statements to enhance their understanding the Town's overall financial performance.

### FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the fiscal year by approximately \$10,783,000 (*net assets*). Of this amount, approximately \$3,050,000 and \$7,733,000 were related to the Town's governmental and business-type activities, respectively. In addition, the Town's unrestricted net assets (may be used to meet the government's ongoing obligations to citizens and creditors) were approximately \$1,616,000 for its governmental activities and approximately \$527,000 for its business-type activities.
- The government's total net assets increased by approximately \$108,000 for governmental activities and the net assets decreased by approximately \$119,000 for business-type activities, as total expenses of approximately \$4,695,000 exceeded total revenue of approximately \$4,684,000.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$3,629,000, an increase of approximately \$107,000 over the prior year's fund balance. Approximately 86% of this total amount, or approximately \$3,105,000, 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 \$3,105,000, or 96% of total General Fund expenditures for the year ended June 30, 2010.
- The Town's total capital assets decreased by approximately \$280,000 (4%) during the current fiscal year primarily due to depreciation expense of approximately \$551,000 partially offset by capital asset additions of approximately \$271,000. Capital asset additions were primarily related to the purchase of utility projects and equipment.
- The Town's total debt decreased by approximately \$140,600 (6%) during the current year due to scheduled principal payments.

### OVERVIEW OF FINANCIAL STATEMENTS

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

#### Basic Financial Statements

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

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

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

# TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2010

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### OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2010**

**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				
	Fund Basic Financial Statements			
	Government-Wide 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"> <li>▪ Statement of net assets</li> <li>▪ Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Balance sheet</li> <li>▪ Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>▪ Statement of net assets</li> <li>▪ Statement of revenues, expenses, and changes in net assets</li> <li>▪ Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>▪ Statement of fiduciary net assets</li> <li>▪ Statement of changes in fiduciary net assets (not required for agency funds)</li> </ul>
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, 2010**

**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 2010 compared to 2009:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and Other Assets	\$ 3,737,377	3,645,376	739,024	630,881	4,476,401	\$ 4,276,257
Capital Assets, Net	1,044,297	1,140,471	6,636,420	6,820,353	7,680,717	7,960,824
Contributed Capital, Net	-	-	1,164,473	1,194,777	1,164,473	1,194,777
Total Assets	<u>4,781,674</u>	<u>4,785,847</u>	<u>8,539,917</u>	<u>8,646,011</u>	<u>13,321,591</u>	<u>13,431,858</u>
Liabilities:						
Long-Term Obligations	1,622,586	1,719,425	617,332	661,139	2,239,918	2,380,564
Other Liabilities	109,235	124,495	189,417	132,645	298,652	257,140
Total Liabilities	<u>1,731,821</u>	<u>1,843,920</u>	<u>806,749</u>	<u>793,784</u>	<u>2,538,570</u>	<u>2,637,704</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt (1)	1,044,297	1,140,471	7,205,893	7,381,572	6,735,191	6,872,043
Restricted	389,507	441,450	-	-	389,507	441,450
Unrestricted (1)	1,616,049	1,360,006	527,275	470,655	3,658,323	3,480,661
Total Net Assets	<u>\$ 3,049,853</u>	<u>2,941,927</u>	<u>7,733,168</u>	<u>7,852,227</u>	<u>10,783,021</u>	<u>\$ 10,794,154</u>

Note: The assets and the net assets for the business-type activities have been adjusted to reflect a prior period adjustment. See Note IV.E for an explanation of the prior period adjustment.

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

The Town's total assets of approximately \$13,322,000 decreased approximately \$110,000 over the prior year. The decrease is primarily due to lower capital asset balances related to depreciation and amortization expenses. Total liabilities at June 30, 2010 decreased by approximately \$99,000 from the prior year due to principal payments made during the year on the Town's long-term obligations.

The Town's net assets decreased by approximately \$11,000 during the current fiscal year due to current year expenses exceeding current year revenues. Please see discussion following the next table regarding this decrease.

The Town's assets exceeded liabilities by approximately \$10,783,000 at June 30, 2010. The largest portion of the Town's net assets of approximately \$6,735,000 (approximately 62%) reflects its investment in capital assets (i.e., land, buildings, furniture and equipment, water/sewer infrastructure, etc.) less any related outstanding debt/lease purchase obligations used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since generally the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets of approximately \$390,000 (approximately 4%) represents resources that are subject to external restrictions on how they may be used. These net assets are restricted primarily for special revenue programs which are restricted by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

The remaining portion of the Town's net assets is unrestricted net assets of approximately \$3,658,000 (approximately 34%) may be used to meet the government's ongoing obligations to citizens and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2010**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

The following table shows the changes in the Town's net assets for fiscal year 2010 compared to 2009.

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	\$ 292,390	313,679	1,420,200	1,330,413	1,712,590	\$ 1,644,092
Capital Grants and Contributions	-	7,485	-	-	-	7,485
General Revenues:						
Taxes	2,829,940	2,802,367	-	-	2,829,940	2,802,367
Other	136,833	210,350	4,949	2,510	141,782	212,860
Total Revenues	<u>3,259,163</u>	<u>3,333,881</u>	<u>1,425,149</u>	<u>1,332,923</u>	<u>4,684,312</u>	<u>4,666,804</u>
Expenses:						
Public Works	516,648	496,606	-	-	516,648	496,606
Public Safety	1,747,941	1,613,343	-	-	1,747,941	1,613,343
General Government	914,623	1,051,628	-	-	914,623	1,051,628
Interest on Long-Term Obligations	61,750	74,334	-	-	61,750	74,334
Water	-	-	745,048	750,866	745,048	750,866
Sewer	-	-	709,435	705,087	709,435	705,087
Total Expenses	<u>3,240,962</u>	<u>3,235,911</u>	<u>1,454,483</u>	<u>1,455,953</u>	<u>4,695,445</u>	<u>4,691,864</u>
Change in Net Assets Before Transfers	18,201	97,970	(29,334)	(123,030)	(11,133)	(25,060)
Transfers In (Out)	89,725	198,516	(89,725)	(198,516)	-	-
Change in Net Assets	<u>107,926</u>	<u>296,486</u>	<u>(119,059)</u>	<u>(321,546)</u>	<u>(11,133)</u>	<u>(25,060)</u>
Net Assets - Beginning of Year	2,941,927	2,645,441	7,852,227	6,895,819	10,794,154	9,541,260
Prior Period Adjustment	-	-	-	1,277,954	-	1,277,954
Net Assets - End of Year	<u>\$ 3,049,853</u>	<u>2,941,927</u>	<u>7,733,168</u>	<u>7,852,227</u>	<u>10,783,021</u>	<u>\$ 10,794,154</u>

Note: The expenses and the net assets for the business-type activities have been adjusted to reflect a prior period adjustment. See Note IV.E for an explanation of the prior period adjustment.

Some 2009 revenue and expenses have been reclassified for comparison purposes.

*Governmental Activities:* Governmental activities increased the Town's net assets by approximately \$108,000 in the current year.

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

- Total governmental activities revenues decreased by approximately \$75,000, or less than 2.5%, over the prior year due in part to decreases in accommodations taxes and business license revenue.
- Total governmental activities expenses only increased by approximately \$5,000, over the prior year.
- In 2009, other revenue for the governmental activities includes approximately \$80,000 in revenue from Toler's Cove for the use of the Town's property.
- The transfers-in for the governmental activities includes a transfer to the business activities for approximately \$109,000 and a transfer from the business activities for approximately \$198,000, which netted approximately \$89,000.

## TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2010

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#### GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

*Business-Type Activities:* Net assets for business-type activities (water and sewer services) decreased by approximately \$119,000.

Council passed the budgets for the business-type activities with a short-fall. Council made the decision to fund the capital projects for 2010 with a portion of the net assets of the business-type activities. Council passed a budget which contained a short-fall of approximately \$96,000. Revenue fell slightly short of expectations, and although expenditures were managed conservatively the business-type activities sustained a short-fall slightly more than the shortfall budgeted.

Other contributing factors for the decrease in the net assets for water and sewer were:

- Sewer revenue fell short of expectations by \$21,000.
- Sewer system repairs were approximately \$24,000 more than budgeted.
- Additional increase in the short-fall was due to the amortization and depreciation expenses of approximately \$465,000.

#### 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 \$3,629,000, an increase of approximately \$107,000 over the prior year fund balance. The increase in fund balance was the result of revenues of the Town exceeding its operating expenditures.

Approximately 86% or \$3,105,000 of the total governmental fund balance of approximately \$3,629,000 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 prepaid expenses and inventory (\$77,000), (2) for tourism related expenditures or operating expenses incurred to serve tourists (\$292,000), (3) victims services (\$44,000), (4) tree bank program (\$38,000), and (5) for other purposes (\$73,000).

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the total fund balance was approximately \$3,300,000. 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 (\$3,105,000) represents approximately 96% of total General Fund expenditures.

Highlights for the General Fund were as follows:

- Licenses and franchise fees came in over \$130,000 more than projected.
- During 2010 improvements, such as beach signs and board walks, were made to the beach paths. These expenditures were not budgeted for 2010. Without the additional expenditures, General Fund actual expenditures would have been approximately \$45,000 less than budgeted expenditures.
- There was an additional \$15,900 spent on capital projects for the recreation department. These expenditures were to complete the bandstand project which was started in 2009. This amount was budgeted and was expected to be completed in 2009. This amount was not budgeted for 2010.

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2010**

**FINANCIAL ANALYSIS OF THE TOWN’S FUNDS (CONTINUED)**

**Proprietary Fund.** The Town’s proprietary funds provide the same type of information found in the government-wide basic financial statements but in more detail. Net assets of the Water and Sewer Enterprise Funds at the end of the fiscal year amounted to approximately \$7,733,000. 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 \$96,000 at June 30, 2010.

**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 2010.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

The Town’s investment in capital assets as of June 30, 2010 and June 30, 2009, amounted to approximately \$7,681,000 and \$7,961,000 (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, 2010 and 2009 were as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Land	\$ 37,392	37,392	-	-	37,392	\$ 37,392
Building and Improvements	216,537	215,012	-	-	216,537	215,012
Machinery and Equipment	241,740	264,460	-	-	241,740	264,460
Vehicles and Vehicle Equipment	200,677	272,414	-	-	200,677	272,414
Vehicles, Machinery, and Equipment	-	-	174,292	242,147	174,292	242,147
Fire and Emergency Command System	347,951	351,193	-	-	347,951	351,193
Water/Sewer System	-	-	6,462,128	6,578,206	6,462,128	6,578,206
<b>Total</b>	<b>\$ 1,044,297</b>	<b>1,140,471</b>	<b>6,636,420</b>	<b>6,820,353</b>	<b>7,680,717</b>	<b>\$ 7,960,824</b>

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2010**

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

*Capital Assets (Continued)*

The total decrease in the Town’s investment in capital assets for the current fiscal year was approximately \$280,000 or less than 4%. Major capital asset events during the current fiscal year included the following:

- Capital asset additions of approximately \$80,000 for governmental activities which consisted primarily of the following:
  - Purchase of police equipment of \$14,000.
  - Approximately \$25,000 was spent for additions and replacements of dune boardwalks.
  - Donation of a jet-ski by the Sullivan’s Island Volunteer Fire and Rescue with a value of \$10,700.
  - Improvements to the band stand and other Town structures of approximately \$16,000.
- Capital asset additions of approximately \$190,000 for business-type activities which consisted primarily of the following:
  - Waterline project – portion completed in 2010 for approximately \$77,000.
  - Final disbursement for the sewer plant improvements that were completed in fiscal year 2005 was made during 2010 at a cost of \$108,000.
- Depreciation expense of approximately \$176,000 for governmental activities and \$375,000 of depreciation expense for business-type activities.

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

*Debt Administration*

As of June 30, 2010 and June 30, 2009, the Town had total outstanding debt of approximately \$2,110,000 and \$2,290,000, respectively. Of the Town’s total long-term obligations, approximately \$1,515,000 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, 2010 and 2009 were as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Debt:						
General Obligation Bond	\$ 1,515,000	1,650,000	-	-	1,515,000	\$ 1,650,000
Revenue Bond	-	-	595,000	640,000	595,000	640,000
<b>Total Debt</b>	<b>\$ 1,515,000</b>	<b>1,650,000</b>	<b>595,000</b>	<b>640,000</b>	<b>2,110,000</b>	<b>\$ 2,290,000</b>

The total decrease in the Town’s debt obligations for the current fiscal year was approximately \$180,000 or 8%. Major events during the current fiscal year included the following:

- The Town’s governmental activities had scheduled principal payments on debt obligations of approximately \$135,000.
- The Town’s business-type activities had scheduled principal payments on debt obligations of approximately \$45,000.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2010**

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**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

*Debt Administration (Continued)*

The State of South Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The Town's statutory debt limit at June 30, 2010 was approximately \$5,000,000. The Town had \$1,515,000 of bonded debt subject to the 8% limit and thus resulted in the Town having an unused legal debt margin of approximately \$3,485,000.

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

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

The Town's elected officials and staff considered many factors when setting the fiscal year 2011 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:

- No millage increase.
- Only a slight increase in water and sewer rates.
- Continuation of the water line replacement project.
- Replace three police vehicles.
- Continuing improvements to the beach paths.
- Increased cost of workers' compensation insurance.

**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, 2010

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 968,368	560,832	\$ 1,529,200
Cash and Cash Equivalents - Restricted	336,788	15,700	352,488
Investments	2,192,182	-	2,192,182
Taxes Receivable, Net	30,129	-	30,129
Other Receivables, Net	132,937	147,548	280,485
Prepaid Expenses	76,973	14,944	91,917
Capital Assets:			
Non-Depreciable	37,392	-	37,392
Depreciable, Net	1,006,905	6,636,420	7,643,325
Capacity Capital Contribution, Net	-	1,164,473	1,164,473
<b>TOTAL ASSETS</b>	<b>4,781,674</b>	<b>8,539,917</b>	<b>13,321,591</b>
<b>LIABILITIES</b>			
Accounts Payable	28,198	145,419	173,617
Accrued Interest	15,112	12,644	27,756
Other Accrued Liabilities	65,925	15,654	81,579
Customer Deposits	-	15,700	15,700
Long-Term Obligations:			
Due Within One Year	247,586	69,332	316,918
Due in More Than One Year	1,375,000	548,000	1,923,000
<b>TOTAL LIABILITIES</b>	<b>1,731,821</b>	<b>806,749</b>	<b>2,538,570</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	1,044,297	7,205,894	6,735,191
Restricted For:			
Tourism Related Expenditures	291,635	-	291,635
Other	97,872	-	97,872
Unrestricted	1,616,049	527,274	3,658,323
<b>TOTAL NET ASSETS</b>	<b>\$ 3,049,853</b>	<b>7,733,168</b>	<b>\$ 10,783,021</b>

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, 2010

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
<b>PRIMARY GOVERNMENT:</b>							
Governmental Activities:							
Public Works	\$ 516,648	-	-	-	(516,648)		\$ (516,648)
Public Safety	1,747,941	84,984	-	-	(1,662,957)		(1,662,957)
General Government	914,623	207,406	-	-	(707,217)		(707,217)
Interest on Long Term Obligations	61,750	-	-	-	(61,750)		(61,750)
<b>Total Governmental Activities</b>	<b>3,240,962</b>	<b>292,390</b>	<b>-</b>	<b>-</b>	<b>(2,948,572)</b>		<b>(2,948,572)</b>
Business-Type Activities:							
Water	745,048	856,972	-	-		111,924	111,924
Sewer	709,435	563,228	-	-		(146,207)	(146,207)
<b>Total Business-Type Activities</b>	<b>1,454,483</b>	<b>1,420,200</b>	<b>-</b>	<b>-</b>		<b>(34,283)</b>	<b>(34,283)</b>
<b>TOTAL - PRIMARY GOVERNMENT</b>	<b>\$ 4,695,445</b>	<b>1,712,590</b>	<b>-</b>	<b>-</b>	<b>(2,948,572)</b>	<b>(34,283)</b>	<b>(2,982,855)</b>
<b>General Revenues and Transfers:</b>							
General Revenues:							
Taxes:							
Property Taxes					1,503,958	-	1,503,958
Local Option Sales Taxes					172,711	-	172,711
Hospitality Taxes					212,061	-	212,061
Accommodation Taxes					28,285	-	28,285
Business License Taxes					440,639	-	440,639
Franchise Taxes					472,286	-	472,286
Intergovernmental					83,790	-	83,790
Interest Income					25,323	4,949	30,272
Miscellaneous					27,720	-	27,720
Transfers In (Out)					89,725	(89,725)	-
Total General Revenues and Transfers					3,056,498	(84,776)	2,971,722
<b>CHANGE IN NET ASSETS</b>					<b>107,926</b>	<b>(119,059)</b>	<b>(11,133)</b>
NET ASSETS, Beginning of Year					2,941,927	6,657,450	9,599,377
Prior Period Adjustment					-	1,194,777	1,194,777
NET ASSETS, Beginning of Year, Restated					2,941,927	7,852,227	10,794,154
<b>NET ASSETS, End of Year</b>					<b>3,049,853</b>	<b>7,733,168</b>	<b>\$ 10,783,021</b>

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, 2010**

	<b>GENERAL FUND</b>	<b>STATE ACCOMMODATIONS TAX FUND</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 930,904	-
Cash and Cash Equivalents - Restricted	97,872	8,636
Investments	2,192,182	-
Taxes Receivable, Net	30,129	-
Accounts Receivable, Net	80,116	23
Prepaid Expenses	76,973	-
<b>TOTAL ASSETS</b>	<b>3,408,176</b>	<b>8,659</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable	28,198	-
Other Accrued Liabilities	65,925	-
Deferred Revenue, Property Taxes	14,000	-
<b>TOTAL LIABILITIES</b>	<b>108,123</b>	<b>-</b>
<b>FUND BALANCES</b>		
Reserved:		
Prepaid Expenses	76,973	-
Tourism Related Expenditures	-	8,659
Victims Services	44,207	-
Confederate Memorial	18,547	-
Land Trust	35,118	-
Unreserved:		
Designated For:		
Tree Bank	-	-
Other	20,000	-
Undesignated	3,105,208	-
<b>TOTAL FUND BALANCES</b>	<b>3,300,053</b>	<b>8,659</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,408,176</b>	<b>8,659</b>

The notes to the basic financial statements are an integral part of this statement.  
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<b>LOCAL ACCOMMODATIONS TAX FUND</b>	<b>LOCAL HOSPITALITY TAX FUND</b>	<b>TREE BANK FUND</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
-	-	37,464	\$ 968,368
66,341	163,939	-	336,788
-	-	-	2,192,182
-	-	-	30,129
6,445	46,251	102	132,937
-	-	-	76,973
<b>72,786</b>	<b>210,190</b>	<b>37,566</b>	<b>3,737,377</b>
-	-	-	28,198
-	-	-	65,925
-	-	-	14,000
-	-	-	108,123
-	-	-	76,973
72,786	210,190	-	291,635
-	-	-	44,207
-	-	-	18,547
-	-	-	35,118
-	-	37,566	37,566
-	-	-	20,000
-	-	-	3,105,208
<b>72,786</b>	<b>210,190</b>	<b>37,566</b>	<b>3,629,254</b>
<b>72,786</b>	<b>210,190</b>	<b>37,566</b>	<b>\$ 3,737,377</b>

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

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

**JUNE 30, 2010**

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<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 3,629,254</b>
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.	14,000
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets was \$2,716,206 and the accumulated depreciation was \$1,671,909	1,044,297
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.	(15,112)
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	(1,515,000)
Compensated Absences	(107,586)
<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 3,049,853</u></b>

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, 2010

	GENERAL FUND	STATE ACCOMMODATIONS TAX FUND
<b>REVENUES</b>		
Property Taxes	\$ 1,504,958	-
Local Option Sales Tax	172,711	-
Accommodation Taxes	-	-
Hospitality Taxes	-	-
Licenses	912,925	-
Magistrate and Recorder Fines	72,756	-
State Shared Revenues	93,071	-
Permits	204,498	-
Victims' Rights Fund	12,227	-
Interest	22,546	28
Other	27,722	-
<b>TOTAL REVENUES ALL SOURCES</b>	<b>3,023,414</b>	<b>28</b>
<b>EXPENDITURES</b>		
Current:		
Public Works	481,339	-
Public Safety	1,638,721	-
General Government	887,049	1,487
Capital Outlay	36,281	-
Debt Service:		
Principal	135,000	-
Interest	63,097	-
<b>TOTAL EXPENDITURES</b>	<b>3,241,487</b>	<b>1,487</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(218,073)</b>	<b>(1,459)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In	493,129	-
Transfers Out	(108,790)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>384,339</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>166,266</b>	<b>(1,459)</b>
FUND BALANCES, Beginning of Year	3,133,787	10,118
<b>FUND BALANCES, End of Year</b>	<b>\$ 3,300,053</b>	<b>8,659</b>

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

<b>LOCAL ACCOMMODATIONS TAX FUND</b>	<b>LOCAL HOSPITALITY TAX FUND</b>	<b>TREE BANK FUND</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
-	-	-	\$ 1,504,958
-	-	-	172,711
19,004	-	-	19,004
-	212,060	-	212,060
-	-	-	912,925
-	-	-	72,756
-	-	-	93,071
-	-	2,907	207,405
-	-	-	12,227
917	1,563	270	25,324
-	-	-	27,722
<b>19,921</b>	<b>213,623</b>	<b>3,177</b>	<b>3,260,163</b>
-	-	-	481,339
-	-	-	1,638,721
-	-	-	888,536
-	-	-	36,281
-	-	-	135,000
-	-	-	63,097
-	-	-	3,242,974
<b>19,921</b>	<b>213,623</b>	<b>3,177</b>	<b>17,189</b>
-	-	-	493,129
(100,000)	(194,614)	-	(403,404)
(100,000)	(194,614)	-	89,725
<b>(80,079)</b>	<b>19,009</b>	<b>3,177</b>	<b>106,914</b>
152,865	191,181	34,389	3,522,340
<b>72,786</b>	<b>210,190</b>	<b>37,566</b>	<b>\$ 3,629,254</b>

**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, 2010**

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**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 106,914**

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

Property taxes and other revenues that will be collected in the future, but are not available soon  
enough to pay for the current period's expenditures are therefore deferred in the funds. (1,000)

Bond principal payments and lease purchase payments are expenditures in the governmental funds, but  
the repayment reduces long-term obligations in the Statement of Net Assets. 135,000

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the  
governmental funds because interest is recognized as an expenditure in the funds when it is due  
and payable and thus requires the use of current financial resources. In the Statement of Activities,  
however, interest expense is recognized as the interest accrues, regardless of when it is due and  
payable. This adjustment relates to the change in accrued interest from the prior year. 1,347

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. (38,161)

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 (\$79,635)  
was less than depreciation expense (\$175,809) in the current period (96,174)

**TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 107,926**

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, 2010

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>		
	<b>WATER</b>	<b>SEWER</b>	<b>TOTAL</b>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 378,341	182,491	\$ 560,832
Cash and Cash Equivalents - Restricted	15,700	-	15,700
Accounts Receivable, Net	82,012	65,536	147,548
Prepaid Expenses	6,064	8,880	14,944
Total Current Assets	<b>482,117</b>	<b>256,907</b>	<b>739,024</b>
<b>Noncurrent Assets:</b>			
<b>Capital Assets:</b>			
Depreciable, Net	3,184,721	3,451,699	6,636,420
Capacity Capital Contribution, Net	1,164,473	-	1,164,473
Total Noncurrent Assets	<b>4,349,194</b>	<b>3,451,699</b>	<b>7,800,893</b>
<b>TOTAL ASSETS</b>	<b>4,831,311</b>	<b>3,708,606</b>	<b>8,539,917</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	126,950	18,469	145,419
Accrued Interest	-	12,644	12,644
Other Accrued Liabilities	7,827	7,827	15,654
Customer Deposits	15,700	-	15,700
Compensated Absences Liability	11,166	11,166	22,332
Revenue Bond Payable - Current Portion	-	47,000	47,000
Total Current Liabilities	<b>161,643</b>	<b>97,106</b>	<b>258,749</b>
<b>Noncurrent Liabilities:</b>			
Revenue Bond Payable - Net of Current Portion	-	548,000	548,000
<b>TOTAL LIABILITIES</b>	<b>161,643</b>	<b>645,106</b>	<b>806,749</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	4,349,194	2,856,699	7,205,893
Unrestricted	320,474	206,801	527,275
<b>TOTAL NET ASSETS</b>	<b>\$ 4,669,668</b>	<b>3,063,500</b>	<b>\$ 7,733,168</b>

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, 2010

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>		
	<b>WATER</b>	<b>SEWER</b>	<b>TOTAL</b>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 833,437	553,663	\$ 1,387,100
Meter Connections, Sewer Tie-In Fees, and Other Revenue	23,535	9,565	33,100
<b>TOTAL OPERATING REVENUES</b>	<b>856,972</b>	<b>563,228</b>	<b>1,420,200</b>
<b>OPERATING EXPENSES</b>			
Salaries	162,028	163,911	325,939
Payroll Taxes	11,922	12,061	23,983
Hospitalization Insurance	23,973	23,973	47,946
Retirement	14,721	15,007	29,728
Gas and Oil - Vehicles	4,316	5,030	9,346
Diesel Fuel and Equipment	2,996	18,141	21,137
Repairs and Maintenance - Diesel Equipment	5,307	-	5,307
Vehicle Repairs	1,949	1,607	3,556
Supplies and Tools	11,401	8,079	19,480
Office Supplies	9,214	9,323	18,537
Lab Supplies	1,649	4,876	6,525
Telephone	5,350	5,350	10,700
Power and Lights	2,707	51,433	54,140
Insurance	17,574	21,400	38,974
System Repairs and Improvements	26,816	59,327	86,143
Sludge Disposal	-	20,745	20,745
Grit Disposal	-	935	935
Property & Equipment <\$5,000	3,382	2,449	5,831
CPW and Other Capital Improvements	41,657	28,420	70,077
Dues and Certifications	6,306	6,896	13,202
Training and Seminars	1,570	1,544	3,114
Professional Engineering Fees	1,008	7,767	8,775
Professional Services	5,000	5,000	10,000
Lab Analysis, Inspection, and Chemicals	12,623	21,853	34,476
Wholesale Water Purchase	94,640	-	94,640
Depreciation	193,112	181,959	375,071
Amortization	83,177	6,443	89,620
Miscellaneous	650	618	1,268
<b>TOTAL OPERATING EXPENSES</b>	<b>745,048</b>	<b>684,147</b>	<b>1,429,195</b>
<b>OPERATING INCOME (LOSS)</b>	<b>111,924</b>	<b>(120,919)</b>	<b>(8,995)</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>			
Interest Income	3,682	1,267	4,949
Interest Expense	-	(25,288)	(25,288)
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<b>3,682</b>	<b>(24,021)</b>	<b>(20,339)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>115,606</b>	<b>(144,940)</b>	<b>(29,334)</b>
Transfers In	-	108,790	108,790
Transfers Out	(198,515)	-	(198,515)
<b>CHANGE IN NET ASSETS</b>	<b>(82,909)</b>	<b>(36,150)</b>	<b>(119,059)</b>
NET ASSETS, Beginning of Year	3,557,800	3,099,650	6,657,450
Prior Period Adjustment	1,194,777	-	1,194,777
NET ASSETS, Beginning of Year, Restated	4,752,577	3,099,650	7,852,227
<b>NET ASSETS, End of Year</b>	<b>\$ 4,669,668</b>	<b>3,063,500</b>	<b>\$ 7,733,168</b>

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, 2010

**BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS**

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 860,901	562,603	\$ 1,423,504
Cash Payments to Suppliers for Goods and Services	(202,659)	(274,825)	(477,484)
Cash Payments to Employees	(212,048)	(214,356)	(426,404)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>446,194</u>	<u>73,422</u>	<u>519,616</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfer from (to) Other Funds	(198,515)	108,790	(89,725)
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(198,515)</u>	<u>108,790</u>	<u>(89,725)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of Capital Assets	(76,253)	(114,885)	(191,138)
Capacity Capital Contribution	(52,873)	-	(52,873)
Principal Paid on Debt and Lease Purchase	-	(45,000)	(45,000)
Interest Paid on Debt and Lease Purchase	-	(26,244)	(26,244)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(129,126)</u>	<u>(186,129)</u>	<u>(315,255)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment Earnings	3,682	1,267	4,949
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,682</u>	<u>1,267</u>	<u>4,949</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>122,235</b>	<b>(2,650)</b>	<b>119,585</b>
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>271,806</u>	<u>185,141</u>	<u>456,947</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<b>\$ 394,041</b>	<b>182,491</b>	<b>\$ 576,532</b>
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Operating Income (Loss)	\$ 111,924	(120,919)	\$ (8,995)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Depreciation Expense	193,112	181,959	375,071
Amortization Expense	83,177	6,443	89,620
Change Due to (Increase) Decrease in Operating Assets:			
Other Receivable	2,079	(625)	1,454
Prepaid Expenses	1,738	1,808	3,546
Change Due to Increase (Decrease) in Operating Liabilities:			
Other Payables	51,718	4,160	55,878
Compensated Absences	596	596	1,192
Customer Deposits	1,850	-	1,850
Net Cash Provided by Operating Activities	<u>\$ 446,194</u>	<u>73,422</u>	<u>\$ 519,616</u>
<b>SUPPLEMENTAL INFORMATION FOR NONCASH ACTIVITIES:</b>			
Depreciation Expense	\$ 193,112	181,959	\$ 375,071
Amortization Expense	83,177	6,443	89,620
	<u>\$ 276,289</u>	<u>188,402</u>	<u>\$ 464,691</u>

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

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

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

**JUNE 30, 2010**

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**ASSETS**

Cash and Cash Equivalents	\$	95,759
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>95,759</b>

**LIABILITIES**

Due To Volunteer Fire Department	\$	95,759
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>95,759</b>

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, 2010

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

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. The Reporting Entity

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

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

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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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, 2010

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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 **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, 2010

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

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

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

**C. Assets, Liabilities and Equity**

*1. Cash, Cash Equivalents, and Investments*

**Cash and Cash Equivalents**

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

**Investments**

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

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

Investments (Continued)

- (d) Certificates of Deposit and funds in deposit accounts with banking institutions in the state of South Carolina provided that such certificates and funds in deposit accounts are collaterally secured by securities
- (e) General obligations or revenue bonds of any of the counties, political subdivisions or municipal corporations of the State of South Carolina
- (f) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), and (e) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**2. Receivables and Payables**

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

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

**3. Inventories and Prepaids**

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

**4. Capital Assets**

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

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

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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**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 and for beautification purposes.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2010**

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**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, 2010

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 into during the year are not budgeted, (b) revenues from grants, contributions, and other unusual sources are not budgeted, and (c) capital expenditures that are made using bond proceeds are not budgeted. Expenditures related to non-budgeted revenues are not budgeted. Lease payments are budgeted as part of the capital budgets for the applicable departments. None of the items above applied to the fiscal year ended June 30, 2010.

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, 2010, none of the Town’s bank balances of \$3,989,558 (with a carrying value of \$2,165,336) were exposed to custodial credit risk.

*Investments*

As of June 30, 2010, the Town had the following investments and maturities (as defined by GASB #40):

Investment Type	Fair Value	Maturity	Moody's	Credit Ratings S&P	Fitch
State Local Government Investment Pool	\$ 451,229	^	unrated	unrated	unrated
Treasury Obligations Fund	612,523	< 1 year	Aaa	AAAm	unrated
Federal Home Loan Bks Bonds 1390	100,125	< 1 year	AAA	AAA	unrated
Federal Home Loan Bks Bonds Ser 1475	151,078	< 1 year	AAA	AAA	unrated
Federal Home Ln Bks Fixed Rate AU-8012	127,423	< 5 year	AAA	AAA	unrated
Federal Farm Cr Bks Cons Systemwide Bds	155,907	< 5 year	AAA	AAA	unrated
Federal Farm Cr Bks Cons Systemwide Bds	150,750	< 5 year	AAA	AAA	unrated
Federal Farm Cr Bks Cons Systemwide Bds	151,570	< 5 year	AAA	AAA	unrated
Federal Farm Cr Bks Cons Systemwide Bds	103,688	< 5 year	AAA	AAA	unrated
Total	\$ 2,004,293				

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

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

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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

A. Deposits and Investments (Continued)

*Investments (Continued)*

**Custodial Credit Risk for Investments:** Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town’s investment policy requires that a third party hold collateral in the Town’s name and shall provide the Town with evidence of ownership. None of the Town’s security investments were exposed to custodial credit risk at June 30, 2010.

**Credit Risk for Investments:** Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town’s investment policy states that credit risk shall be mitigated by investing in safe institutions and by diversifying the fund so that the failure of any one issuer would not unduly harm the Town’s cash flow.

**Concentration of Credit Risk for Investments:** The Town’s investment policy limits investment in any one issuer greater than fifty (50) percent, with the exception of US government securities and the South Carolina Local Government Investment Pool. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures.

Certain cash and cash equivalents of the Town are legally restricted for specified purposes. The major types of restrictions at June 30, 2010 were those imposed by the revenue source (i.e. hospitality tax, accommodations tax, etc.).

**Reconciliation to Statement of Net Assets**

Statement of Net Assets	Amount
Unrestricted Current Assets:	
Cash and Cash Equivalents	\$ 1,529,200
Investments	2,192,182
Restricted Current Assets:	
Cash and Cash Equivalents, Restricted	352,488
	4,073,870
Statement of Net Assets - Fiduciary Fund - Agency Fund	
Unrestricted Current Assets:	
Cash and Cash Equivalents	95,759
<b>Total per the basic financial statements</b>	<b>\$ 4,169,629</b>
Notes	
Carrying Value of Deposits	\$ 2,165,336
Investments	2,004,293
<b>Total per the notes</b>	<b>\$ 4,169,629</b>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2010**

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

**B. Property Taxes, Other Receivables, and Deferred Revenue**

The Town's 2009 property taxes are levied on October 1, 2009 and were due beginning on this date based on the assessed valuation as of January 1, 2009. Property taxes were considered late on January 15, 2010. 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 2009 property tax year was 207.2 mills (181.0 mills for Charleston County and 26.2 mills for the Town). Town property taxes are billed and collected by Charleston County under a joint billing and collection agreement.

The Town had receivables of \$147,549 related to business-type activities at June 30, 2010 which consisted of outstanding charges to customers for water and sewer services. No allowance for uncollectible accounts was considered necessary. The Town had net receivables related to governmental activities at June 30, 2010, of the following:

	General Fund	State Accommodations Tax Fund	Local Accommodations Tax Fund	Hospitality Tax Fund	Tree Bank Fund	Totals
Property Taxes	\$ 30,129	-	-	-	-	\$ 30,129
Accommodations Taxes	-	-	6,265	-	-	6,265
Hospitality Taxes	-	-	-	45,805	-	45,805
Franchise Fees	12,500	-	-	-	-	12,500
State Aid to Subdivisions	11,934	-	-	-	-	11,934
Local Options Sales Tax	32,796	-	-	-	-	32,796
Miscellaneous	22,886	23	180	446	102	23,637
Net Receivables	<u>\$ 110,245</u>	<u>23</u>	<u>6,445</u>	<u>46,251</u>	<u>102</u>	<u>\$ 163,066</u>

There were no material allowances for uncollectible amounts.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2010, the General Fund had \$14,000 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, 2010

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

C. Interfund Receivables, Payables, and Transfers

At June 30, 2010, there were no interfund receivables and payables.

Transfers between funds for the year ended June 30, 2010, consisted of the following:

Fund	Transfers In	Transfers Out
<b>Major Governmental Funds:</b>		
General Fund	\$ 493,129	\$ 108,790
Local Accommodations Tax Fund	-	100,000
Local Hospitality Tax Fund	-	194,614
<b>Major Enterprise Funds:</b>		
Water Fund	-	198,515
Sewer Fund	108,790	-
Totals	<u>\$ 601,919</u>	<u>\$ 601,919</u>

The transfers are primarily due to the individual funds reimbursing the General Fund for expenditures incurred. The transfer from General Fund to Sewer Fund is for reimbursement of payments.

D. Capital Assets

Capital asset activity for the Town's governmental activities for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
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	410,786	22,187	-	432,973
Machinery and Equipment	533,407	24,811	31,977	526,241
Playground Equipment	170,656	24,658	1,378	193,936
Vehicles	977,563	-	-	977,563
Fire and Emergency Command Center	540,122	7,979	-	548,101
Total Capital Assets, Depreciable	<u>2,632,534</u>	<u>79,635</u>	<u>33,355</u>	<u>2,678,814</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	195,774	20,662	-	216,436
Machinery and Equipment	331,323	61,967	31,977	361,313
Playground Equipment	108,280	10,222	1,378	117,124
Vehicles	705,149	71,737	-	776,886
Fire and Emergency Command Center	188,929	11,221	-	200,150
Total Accumulated Depreciation	<u>1,529,455</u>	<u>175,809</u>	<u>33,355</u>	<u>1,671,909</u>
Total Capital Assets, Depreciable, Net	<u>1,103,079</u>	<u>(96,174)</u>	<u>-</u>	<u>1,006,905</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,140,471</u>	<u>(96,174)</u>	<u>-</u>	<u>\$ 1,044,297</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2010**

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

**D. Capital Assets (Continued)**

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

	Functions/Programs	Amount
Governmental Activities:		
Public Works		\$ 33,439
Public Safety		103,111
General Government		39,259
Total Depreciation Expense - Governmental Activities		<u>\$ 175,809</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital Assets, Depreciable				
Water System	\$ 4,344,502	76,253	-	\$ 4,420,755
Sewer System	4,809,384	108,790	-	4,918,174
Lab Equipment	14,774	6,095	-	20,869
Vehicles and Equipment	221,738	-	20,642	201,096
Leased Equipment	607,304	-	-	607,304
Total Capital Assets, Depreciable	<u>9,997,702</u>	<u>191,138</u>	<u>20,642</u>	<u>10,168,198</u>
Less: Accumulated Depreciation for:				
Water System	1,171,284	161,776	-	1,333,060
Sewer System	1,404,396	139,345	-	1,543,741
Lab Equipment	14,139	727	-	14,866
Vehicles and Equipment	168,963	19,762	20,642	168,083
Leased Equipment	418,567	53,461	-	472,028
Total Accumulated Depreciation	<u>3,177,349</u>	<u>375,071</u>	<u>20,642</u>	<u>3,531,778</u>
Total Capital Assets, Being Depreciated, Net	<u>6,820,353</u>	<u>(183,933)</u>	<u>-</u>	<u>6,636,420</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,820,353</u>	<u>(183,933)</u>	<u>-</u>	<u>\$ 6,636,420</u>

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

	Functions/Programs	Amount
Business-Type Activities:		
Water		\$ 193,112
Sewer		181,959
Total Depreciation Expense - Business-Type Activities		<u>\$ 375,071</u>

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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

D. Capital Assets (Continued)

**Capacity Capital Contribution**

The Town entered into a contract with the Commissioners of Public Works in July 1994 to purchase water for a 30 year period. As a part of this agreement, the Town paid \$1,986,216 as an initial capacity capital contribution from the Water Fund. The Town has paid additional capital contributions of \$297,644 since fiscal year 2005, for a total of \$2,283,860 as of June 30, 2010. This asset is being amortized over 30 years. The accumulated amortization is \$1,119,387 and the net asset is \$1,164,473 as of June 30, 2010. The amortization expense for fiscal year 2010 was \$83,177.

E. Long-Term Obligations

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

Details on the Town's outstanding debt issues and lease purchase obligations for the governmental activities and business-type activities as of June 30, 2010 are as follows:

**General Obligation Bonds**

\$2,250,000 General Obligation Bonds (October 2003) were issued to finance initial stages of the water line replacement and upgrade project. Principal is payable annually and interest is payable semi-annually with interest at 3.99%. Debt service requirements range from \$196,970 - 203,900 per year through October 1, 2018 and are funded with resources from the General Fund.

Principal Outstanding  
at Year End

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\$ 1,515,000

**Revenue Bonds**

\$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, 2019, plus interest at 4.25% which is due semi-annually on January 1st and July 1st. Debt service requirements range from \$71,244 - 74,590. 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, 2010.

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\$ 595,000

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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
<b>Governmental Activities:</b>					
Debt:					
GO Bond - 10/03	\$ 1,650,000	-	135,000	1,515,000	\$ 140,000
Compensated Absences	69,425	73,905	35,744	107,586	107,586
Total Governmental Activities	<u>\$ 1,719,425</u>	<u>73,905</u>	<u>170,744</u>	<u>1,622,586</u>	<u>\$ 247,586</u>
<b>Business-Type Activities:</b>					
Debt:					
Revenue Bond - 7/04 - Sewer	\$ 640,000	-	45,000	595,000	\$ 47,000
Compensated Absences	21,139	11,743	10,550	22,332	22,332
Total Business-Type Activities	<u>\$ 661,139</u>	<u>11,743</u>	<u>55,550</u>	<u>617,332</u>	<u>\$ 69,332</u>

The Town paid interest of \$63,097, and \$25,288 for its governmental and business-type activities, respectively.

Interest paid on the debt issued by the Town is exempt from federal income tax. The Town sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The Town had no arbitrage liability at June 30, 2010.

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, 2010, the Town had \$1,515,000 of bonded debt subject to the 8% limit of approximately \$5,000,000 resulting in an unused legal debt margin of approximately \$3,485,000.

TOWN OF SULLIVAN’S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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

E. Long-Term Obligations (Continued)

Debt Service Requirements to Maturity

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

Year Ending June 30,	Debt		Totals
	Principal	Interest	
<b>Governmental Activities</b>			
2011	\$ 140,000	57,656	\$ 197,656
2012	145,000	51,970	196,970
2013	155,000	45,985	200,985
2014	160,000	39,701	199,701
2015	170,000	33,117	203,117
2016-2020	745,000	61,147	806,147
Totals	<u>\$ 1,515,000</u>	<u>289,576</u>	<u>\$ 1,804,576</u>
<b>Business-Type Activities</b>			
2011	\$ 47,000	24,289	\$ 71,289
2012	50,000	22,228	72,228
2013	52,000	20,060	72,060
2014	55,000	17,786	72,786
2015	58,000	15,385	73,385
2016-2020	333,000	36,784	369,784
Totals	<u>\$ 595,000</u>	<u>136,532</u>	<u>\$ 731,532</u>

F. Net Assets

The Town used the proceeds from the general Obligation Bond (see Note III.E) to fund the water line replacement and upgrade project. The \$1,515,000 balance outstanding at June 30, 2010 is included in the calculation of the Governmental Activities unrestricted net assets in the Statement of Net Assets, but the cost of the water lines are included in the Business-type Activities net assets invested in capital assets, net of related debt. Consequently, unrestricted net assets, and net assets invested in capital assets, net of related debt, of the Town are not equal to a simple combination of those net asset components of the Governmental and Business-Type activities.

IV. OTHER INFORMATION

A. Risk Management

*Participation in Public Entity Risk Pools for Property and Casualty Insurance*

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. For all of these risks, the Town is a member of the South Carolina Municipal Insurance Reserve Fund (“SCMIRF”), a public entity risk pool operating as a common risk management and insurance program for local governments for general risk. The Town pays an annual premium for this coverage. For the year ended June 30, 2010, the Town made premium payments totaling approximately \$128,000. SCMIRF’s net assets from its most recently issued audited financial statements at December 31, 2009 totaled approximately \$25,402,000.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2010**

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**IV. OTHER INFORMATION (CONTINUED)**

**A. Risk Management (Continued)**

***Participation in Public Entity Risk Pools for Property and Casualty Insurance (Continued)***

The Town has also joined together with other municipalities in the state to form the South Carolina Municipal Insurance Trust ("SCMIT"), a public entity risk pool operating as a common risk management and insurance program for worker's compensation. The Town pays an annual premium to SCMIT. In the year ended June 30, 2010, the Town made premium payments totaling approximately \$128,000. 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, 2009 totaled approximately \$34,484,000.

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, 2010, the Town made premium payments totaling approximately \$210,000. The SCLGAG's net assets from its most recently issued audited financial statements at June 30, 2009 were approximately \$7,150,000.

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

**B. Pension Disclosures**

***South Carolina Retirement and Police Officers' Retirement System***

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

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

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

IV. OTHER INFORMATION (CONTINUED)

B. Pension Disclosures (Continued)

*South Carolina Retirement and Police Officers' Retirement System (Continued)*

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

	SCRS Rates			SCPORS Rates		
	2008	2009	2010	2008	2009	2010
<u>Employer Rate</u>						
Retirement	9.24%	9.24%	9.24%	10.30%	10.65%	10.65%
Group Life Insurance Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Benefit	N/A	N/A	N/A	0.20%	0.20%	0.20%
	<u>9.39%</u>	<u>9.39%</u>	<u>9.39%</u>	<u>10.70%</u>	<u>11.05%</u>	<u>11.05%</u>
 Employee Rate	 <u>6.50%</u>	 <u>6.50%</u>	 <u>6.50%</u>	 <u>6.50%</u>	 <u>6.50%</u>	 <u>6.50%</u>

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

Year Ending June 30,	SCRS Contributions			SCPORS Contributions		
	Required	% Contributed	% of Covered Payroll	Required	% Contributed	% of Covered Payroll
2010	\$ 75,034	100%	9.39%	\$ 108,249	100%	11.05%
2009	75,374	100%	9.39%	99,873	100%	11.05%
2008	\$ 68,194	100%	9.21%	\$ 81,489	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.

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, 2010.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2010**

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**IV. OTHER INFORMATION (CONTINUED)**

**E. Prior Period Adjustment**

The Town entered into a contract with the Commissioners of Public Works in July 1994 for the rights to purchase water for a 30 year period. As a part of this agreement, the Town paid \$1,986,216 as an initial capacity capital contribution, plus additional capital contributions of \$244,771 through June 30, 2009, for a total contribution of \$2,230,987 as of June 30, 2009. These contributions should have been capitalized and amortized over the 30 year life of the agreement. On July 1, 2009, the Town recorded a prior year adjustment of \$1,194,777 to recognize the Capital Contribution of \$2,230,987, as well as the accumulated amortization of \$1,036,210, in the Water Fund.

**F. Subsequent Events**

Effective October 1, 2010, the Town's health insurance provider will be the South Carolina Employee Insurance Program.

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# Required Supplementary Information

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

- Budgetary Comparison Schedule
  - General Fund

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

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

**YEAR ENDED JUNE 30, 2010**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE POSITIVE (NEGATIVE)</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
<b>REVENUES</b>				
Property Taxes	\$ 1,436,000	1,436,000	1,504,958	\$ 68,958
Local Option Sales Tax	189,000	189,000	172,711	(16,289)
Licenses and Franchise Fees	783,000	783,000	912,925	129,925
Magistrate and Recorder Fines	62,000	62,000	72,756	10,756
State Shared Revenues	100,000	100,000	93,071	(6,929)
Permits	221,000	221,000	204,498	(16,502)
Victims' Rights Fund	8,000	8,000	12,227	4,227
Interest Income	27,500	27,500	22,546	(4,954)
Other	15,013	15,013	27,722	12,709
<b>TOTAL REVENUES ALL SOURCES</b>	<b>2,841,513</b>	<b>2,841,513</b>	<b>3,023,414</b>	<b>181,901</b>
<b>EXPENDITURES</b>				
Maintenance	510,190	510,190	481,339	28,851
Police	772,322	772,322	748,166	24,156
Fire	890,639	890,639	904,649	(14,010)
Recreation	35,000	35,000	39,317	(4,317)
Building	205,430	205,430	173,557	31,873
Administrative	937,447	937,447	894,459	42,988
<b>TOTAL EXPENDITURES</b>	<b>3,351,028</b>	<b>3,351,028</b>	<b>3,241,487</b>	<b>109,541</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(509,515)</b>	<b>(509,515)</b>	<b>(218,073)</b>	<b>291,442</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	509,515	509,515	493,129	(16,386)
Transfers Out	-	-	(108,790)	(108,790)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>509,515</b>	<b>509,515</b>	<b>384,339</b>	<b>(125,176)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>166,266</b>	<b>166,266</b>
FUND BALANCES, Beginning of Year	3,133,787	3,133,787	3,133,787	-
<b>FUND BALANCES, End of Year</b>	<b>\$ 3,133,787</b>	<b>3,133,787</b>	<b>3,300,053</b>	<b>\$ 166,266</b>

## Other Supplementary Information

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

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

**YEAR ENDED JUNE 30, 2010**

	<b>2010</b>		<b>VARIANCE POSITIVE (NEGATIVE)</b>
	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	
<b>MAINTENANCE</b>			
Operating Expenditures:			
Salaries	\$ 142,900	126,664	\$ 16,236
Payroll Taxes	10,500	8,926	1,574
Health Insurance	17,000	10,867	6,133
Retirement	10,600	8,622	1,978
Gas and Oil - Vehicles	10,000	7,760	2,240
Diesel Fuel	3,500	1,741	1,759
Vehicle Repairs	4,500	3,102	1,398
Supplies and Materials	18,500	22,640	(4,140)
Uniforms	3,000	1,479	1,521
Telephone	4,500	648	3,852
Power and Lights	29,000	33,150	(4,150)
Insurance	27,000	24,788	2,212
800 MHZ Radios	1,200	95	1,105
System Repairs and Improvements	30,000	24,444	5,556
Garbage Disposal Service - Subcontract	162,000	151,350	10,650
Container Servicing	9,000	9,778	(778)
Causeway Maintenance	4,500	44,500	(40,000)
Miscellaneous	3,500	785	2,715
Total Operating Expenditures	491,200	481,339	9,861
Capital Expenditures:			
Lease Purchase Payments	18,990	-	18,990
<b>TOTAL EXPENDITURES</b>	<b>510,190</b>	<b>481,339</b>	<b>28,851</b>
<b>POLICE</b>			
Operating Expenditures:			
Salaries	386,000	417,191	(31,191)
Payroll Taxes	28,850	30,915	(2,065)
Health Insurance	55,000	59,506	(4,506)
Retirement	42,700	44,443	(1,743)
Gas and Oil - Vehicles	46,000	35,697	10,303
Diesel Fuel	600	199	401
Vehicle Repairs	22,000	31,486	(9,486)
Supplies and Materials	18,000	8,533	9,467
Telephone	14,000	9,069	4,931
Power and Lights	5,800	4,921	879
Uniforms	8,000	5,807	2,193
Insurance	47,000	52,828	(5,828)
800 MHZ Radios	\$ 8,172	3,150	\$ 5,022

(Continued)

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

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

**YEAR ENDED JUNE 30, 2010**

	<b>2010</b>		<b>VARIANCE POSITIVE (NEGATIVE)</b>
	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	
Property & Equipment <\$5,000	\$ 10,000	-	\$ 10,000
System Repairs and Improvements	17,000	7,049	9,951
Dues and Certifications	500	315	185
Training and Seminars	7,000	2,435	4,565
Dispatching Services	19,200	19,164	36
Miscellaneous	2,000	1,364	636
Total Operating Expenditures	<u>737,822</u>	<u>734,072</u>	<u>3,750</u>
Capital Expenditures:			
Lease Purchase Payments	34,500	-	34,500
Capital Outlay	-	14,094	(14,094)
<b>TOTAL EXPENDITURES</b>	<u><b>772,322</b></u>	<u><b>748,166</b></u>	<u><b>24,156</b></u>
 <b>FIRE</b>			
Operating Expenditures:			
Salaries	505,000	514,231	(9,231)
Payroll Taxes	37,600	37,899	(299)
Health Insurance	72,000	75,926	(3,926)
Retirement	55,800	55,780	20
Gas and Oil - Vehicles	8,000	8,301	(301)
Diesel Fuel	5,500	4,410	1,090
Vehicle Repairs	10,500	27,266	(16,766)
Supplies and Materials	16,000	21,315	(5,315)
Telephone	11,000	8,816	2,184
Uniforms	7,500	11,812	(4,312)
Power and Lights	9,500	8,673	827
Insurance	52,000	62,966	(10,966)
Building Repairs	15,500	16,153	(653)
800 MHZ Radios	16,000	3,719	12,281
Property & Equipment <\$5,000	5,000	7,257	(2,257)
System Repairs and Improvements	14,000	5,509	8,491
Dues and Certifications	1,000	176	824
Training and Seminars	9,000	10,380	(1,380)
Dispatching Services	19,200	19,624	(424)
Miscellaneous	6,000	4,436	1,564
Total Operating Expenditures	<u>876,100</u>	<u>904,649</u>	<u>(28,549)</u>
Capital Expenditures:			
Lease Purchase Payments	14,539	-	14,539
<b>TOTAL EXPENDITURES</b>	<u><b>\$ 890,639</b></u>	<u><b>904,649</b></u>	<u><b>\$ (14,010)</b></u>

(Continued)

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

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

**YEAR ENDED JUNE 30, 2010**

	<b>2010</b>		<b>VARIANCE POSITIVE (NEGATIVE)</b>
	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	
<b>RECREATION</b>			
Operating Expenditures:			
Supplies and Materials	\$ 3,000	2,279	\$ 721
Power and Lights	6,500	7,739	(1,239)
Insurance	2,000	2,119	(119)
Maintenance Recreation Area	2,000	-	2,000
Property & Equipment <\$5,000	2,000	-	2,000
Miscellaneous	19,500	11,293	8,207
Total Operating Expenditures	<u>35,000</u>	<u>23,430</u>	<u>11,570</u>
Capital Expenditures:			
Capital Outlay	-	15,887	(15,887)
<b>TOTAL EXPENDITURES</b>	<u><u>35,000</u></u>	<u><u>39,317</u></u>	<u><u>(4,317)</u></u>
<b>BUILDING</b>			
Operating Expenditures:			
Salaries	117,130	105,623	11,507
Payroll Taxes	8,400	7,605	795
Health Insurance	16,000	15,785	215
Retirement	12,400	11,025	1,375
Gas and Oil - Vehicles	2,500	1,381	1,119
Office Supplies	5,000	1,412	3,588
Supplies - Building Official	2,000	1,436	564
Telephone	3,000	1,221	1,779
County-Wide Digital Radio System	300	-	300
Utilities	1,100	1,058	42
Insurance	5,200	6,046	(846)
System Repair and Maintenance	2,500	123	2,377
Dues and Certifications	1,000	460	540
Training and Seminars	2,000	1,973	27
Board of Zoning Appeals	3,000	1,054	1,946
Design and Review Board	10,000	6,528	3,472
Tree Commission	1,500	1,827	(327)
Triming and Pruning	11,400	9,000	2,400
Equipment	1,000	-	1,000
<b>TOTAL EXPENDITURES</b>	<u><u>\$ 205,430</u></u>	<u><u>173,557</u></u>	<u><u>\$ 31,873</u></u>

(Continued)

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
GENERAL FUND

YEAR ENDED JUNE 30, 2010

	2010		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
<b>ADMINISTRATIVE</b>			
Operating Expenditures:			
Salaries	\$ 328,280	323,656	\$ 4,624
Payroll Taxes	24,045	23,289	756
Health Insurance	29,500	26,005	3,495
Retirement	30,390	29,615	775
Office Supplies	22,500	25,179	(2,679)
Travel Allowance - Recorder	500	-	500
Advertising	2,000	2,959	(959)
Recorder's Supplies	1,000	688	312
Telephone	13,000	10,992	2,008
Power and Lights	5,000	4,821	179
Insurance	72,000	67,926	4,074
System Repairs and Improvements	30,000	36,641	(6,641)
Dues and Certifications	3,000	2,481	519
Training and Seminars	4,000	3,677	323
Municipal	1,500	-	1,500
Professional Engineering Fees	57,000	20,641	36,359
Fee Simple Deed Costs	100	-	100
Victim's Rights Fund	3,000	1,641	1,359
Professional Services	80,000	79,098	902
800 MHZ Radios	1,000	-	1,000
Building Repair and Improvements	5,000	10,765	(5,765)
Property & Equipment <\$5,000	7,000	4,295	2,705
Bonds Debt Services	198,516	198,097	419
Council Expenditures	5,200	2,813	2,387
Planning Expense	3,500	347	3,153
Operating Lease	1,480	1,838	(358)
Miscellaneous	5,000	10,695	(5,695)
Total Operating Expenditures	933,511	888,159	45,352
Capital Expenditures:			
Lease Purchase Payments	3,936	-	3,936
Capital Outlay	-	6,300	(6,300)
TOTAL EXPENDITURES	937,447	894,459	42,988
<b>TOTAL GENERAL FUND EXPENDITURES</b>	<b>\$ 3,351,028</b>	<b>3,241,487</b>	<b>\$ 109,541</b>

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, 2010

	2010		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
<b>OPERATING REVENUES</b>			
Sewer Service Charges	\$ 572,896	553,663	\$ (19,233)
Other Revenue	11,800	9,565	(2,235)
<b>TOTAL OPERATING REVENUES</b>	<b>584,696</b>	<b>563,228</b>	<b>(21,468)</b>
<b>OPERATING EXPENSES</b>			
Salaries	175,216	163,911	11,305
Payroll Taxes	13,404	12,061	1,343
Hospitalization Insurance	22,116	23,973	(1,857)
Retirement	15,965	15,007	958
Gas and Oil - Vehicles	5,500	5,030	470
Diesel Fuel and Equipment	7,300	18,141	(10,841)
Vehicle Repairs	2,800	1,607	1,193
Supplies and Tools	12,000	8,079	3,921
Office Supplies	9,300	9,323	(23)
Lab Supplies	3,700	4,876	(1,176)
Telephone	5,000	5,350	(350)
Power and Lights	46,000	51,433	(5,433)
Insurance	17,000	21,400	(4,400)
System Repairs and Improvements	35,000	59,327	(24,327)
Sludge Disposal	17,000	20,745	(3,745)
Grit Disposal	1,400	935	465
Property & Equipment <\$5,000	9,000	2,449	6,551
Capital Improvements	68,000	28,420	39,580
Depreciation Expense	-	181,959	(181,959)
Amortization Expense	-	6,443	(6,443)
Dues and Certifications	6,500	6,896	(396)
Training and Seminars	5,000	1,544	3,456
Professional Engineering Fees	20,000	7,767	12,233
Professional Services	5,000	5,000	-
Bond Interest	75,000	25,288	49,712
Lab Analysis, Inspection, and Chemicals	12,200	21,853	(9,653)
Miscellaneous	2,625	618	2,007
Total Operating Expenses	592,026	709,435	(117,409)
OPERATING INCOME (LOSS)	(7,330)	(146,207)	(138,877)
CAPITAL EXPENDITURES (Including Lease Purchase Payments)	(32,170)	-	32,170
<b>NONOPERATING REVENUES</b>			
Interest Income	1,500	1,267	(233)
Transfers In from Other Funds	-	108,790	108,790
NET INCOME (LOSS)	\$ (38,000)	(36,150)	\$ 1,850
<b>INCREASE IN NET ASSETS</b>		<b>(36,150)</b>	
NET ASSETS, Beginning of Year		3,099,650	
<b>NET ASSETS, End of Year</b>		<b>\$ 3,063,500</b>	

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, 2010

	2010		VARIANCE POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
<b>OPERATING REVENUES</b>			
Water Sales	\$ 837,065	833,437	\$ (3,628)
Meter Connections	20,200	23,535	3,335
<b>TOTAL OPERATING REVENUES</b>	<b>857,265</b>	<b>856,972</b>	<b>(293)</b>
<b>OPERATING EXPENSES</b>			
Salaries	175,216	162,028	13,188
Payroll Taxes	13,404	11,922	1,482
Hospitalization Insurance	22,116	23,973	(1,857)
Retirement	15,965	14,721	1,244
Gas and Oil - Vehicles	5,500	4,316	1,184
Diesel Fuel and Equipment	2,300	2,996	(696)
Repairs and Maintenance - Diesel Equipment	5,000	5,307	(307)
Vehicle Repairs	2,800	1,949	851
Supplies and Tools	26,500	11,401	15,099
Office Supplies	9,300	9,214	86
Lab Supplies	2,200	1,649	551
Telephone	5,000	5,350	(350)
Power and Lights	2,800	2,707	93
Insurance	13,000	17,574	(4,574)
System Repairs and Improvements	25,000	26,816	(1,816)
Property & Equipment <\$5,000	4,000	3,382	618
Capital Improvements	90,000	-	90,000
Amortization	-	83,177	(83,177)
Depreciation	-	193,112	(193,112)
Dues and Certifications	10,100	6,306	3,794
Training and Seminars	4,500	1,570	2,930
Professional Engineering Fees	37,000	1,008	35,992
Professional Services	5,000	5,000	-
Lab Analysis, Inspection, and Chemicals	8,100	12,623	(4,523)
CPW Improvements	116,000	41,657	74,343
Wholesale Water Purchases	100,000	94,640	5,360
Miscellaneous	3,064	650	2,414
Total Operating Expenses	703,865	745,048	(41,183)
<b>OPERATING INCOME (LOSS)</b>	<b>153,400</b>	<b>111,924</b>	<b>(41,476)</b>
<b>CAPITAL EXPENDITURES (Including Lease Purchase Payments)</b>	<b>(12,900)</b>	<b>-</b>	<b>12,900</b>
<b>NONOPERATING REVENUES</b>			
Interest Income	1,500	3,682	2,182
Transfers Out to Other Funds	(200,000)	(198,515)	1,485
<b>NET INCOME (LOSS)</b>	<b>\$ (58,000)</b>	<b>(82,909)</b>	<b>\$ (24,909)</b>
<b>INCREASE IN NET ASSETS</b>		<b>(82,909)</b>	
NET ASSETS, Beginning of Year		3,557,800	
PRIOR PERIOD ADJUSTMENT		1,194,777	
NET ASSETS, Beginning of Year, Restated		4,752,577	
<b>NET ASSETS, End of Year</b>		<b>\$ 4,669,668</b>	

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

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

**YEAR ENDED JUNE 30, 2010**

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	<u><b>2010</b></u>
<b>COURT FINES</b>	
Court Fines Collected	\$ 77,930
Court Fines Retained by Town	(77,930)
Court Fines Remitted to the State Treasurer	<u>\$ -</u>
<b>COURT ASSESSMENTS</b>	
Court Assessments Collected	\$ 61,667
Court Assessments Allocated to Victim Services	(6,710)
Court Assessments Remitted to the State Treasurer	<u>\$ 54,957</u>
<b>COURT SURCHARGES</b>	
Court Surcharges Collected	\$ 28,490
Court Surcharges Allocated to Victim Services	(5,517)
Court Surcharges Remitted to the State Treasurer	<u>\$ 22,973</u>
<b>VICTIMS SERVICES</b>	
Court Assessments Allocated to Victim Services	\$ 6,710
Court Surcharges Allocated to Victim Services	5,517
Funds Allocated to Victim Services	<u>12,227</u>
Victim Services Expenditures	(1,641)
Funds Available for Carry Forward	10,586
Victim Services Balance at Beginning of Year	<u>33,621</u>
<b>Victim Services Balance at End of Year</b>	<u><u>\$ 44,207</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 the Town Council  
Town of Sullivan's Island  
Sullivan's Island, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Sullivan's Island, South Carolina (the "Town"), as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 25, 2010. 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 opinion 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and response, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of finding and response as item 2010-1 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we have reported to the management of the Town in a separate letter dated August 25, 2010.

The Town's response to the finding identified in our audit is described in the accompanying schedule of finding and response. We did not audit the Town's response and, accordingly, we express no opinion on it.

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



Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
August 25, 2010

TOWN OF SULLIVAN'S ISLAND, SOUTH CAROLINA

SCHEDULE OF FINDING AND RESPONSE

YEAR ENDED JUNE 30, 2010

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**2010-1: MATERIAL WEAKNESS-PRIOR PERIOD ADJUSTMENT**

**Condition:** The Town recorded a prior period adjustment to correct an error from prior years. The Town entered into a contract with Commissioners of Public Works in 1994 and has made payments since that time totaling approximately \$2.2 million that represent a capacity reservation fee. These payments should have been capitalized when paid, but were instead expensed.

**Criteria:** The Town should have identified these payments as needing to be capitalized in earlier years.

**Cause:** The current comptroller and administrator were not here in 1994; they were not aware of the capacity reservation fee of \$1.9 million paid at that time.

**Context and Effect:** The capacity reservation fee is an asset that has value, but that value was not recognized on the balance sheet, because the payments had not been capitalized. This prior period adjustment records the net value of the asset.

**Recommendation:** The Town should ensure that any future payments that provide benefit over more than one year are capitalized and amortized over the estimated remaining useful life.

**Response:** Each year Greene, Finney & Horton, LLP has performed the audit of the Town's financial statements, there has been a discussion between the Town's management and the auditors regarding the yearly capital charges paid to CWS over the years because of the complexity of the transactions. During the discussion as part of the audit for fiscal year 2010 it was discovered, through looking back at the Town's financial statements from fiscal years 1994 and 1995, the initial capacity/capital contribution was erroneously expensed when the amount was paid. Because of this error, it was determined that the prior period adjustment referred to above needed to be made.

It is unclear to the Town's current management the reasoning behind the initial recording of the capacity charges and there are no financial records from sixteen years ago describing the reasoning why the transactions were handle in such way. There may have been a material weakness at that time.

We do not agree there is a material weakness currently present. Internal controls are in place and have been in place for the past few years that ensure payments that provide benefit over more than one year are capitalized and amortized over the estimated useful life. These internal controls like any internal control for any entity should and will continue to improve.