

TOWN OF PAWLEYS ISLAND
SOUTH CAROLINA

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2013

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
TABLE OF CONTENTS
DECEMBER 31, 2013**

	<u>PAGE</u>
FINANCIAL STATEMENTS:	
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-11
Basic Financial Statements:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	12
Statement of Activities	13
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
<i>Notes to Financial Statements</i>	18-28
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund	29-31
Budgetary Comparison Schedule - Accommodations Tax Fund	32
Budgetary Comparison Schedule - Beach Renourishment Fund	33
Notes to Required Supplementary Information	34
Supplemental Schedules:	
Schedule of Fines, Assessments, and Surcharges - General Fund	35
INFORMATION REQUIRED BY GOVERNMENT AUDITING STANDARDS:	
Independent Auditor’s Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36-37
Schedule of Findings and Responses	38-39
Summary Schedule of Prior Audit Findings	40



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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of Town Council
Town of Pawleys Island, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Pawleys Island, South Carolina, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Pawleys

Island, South Carolina, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 29 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Harper, Poston & Moree, P.A.

Harper, Poston & Moree, P.A.
Certified Public Accountants

Pawleys Island, South Carolina
June 12, 2014

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2013**

The discussion and analysis of The Town of Pawleys Island's financial performance provides an overall review of the Town's financial activities for the year ended December 31, 2013. We encourage readers to consider this information in conjunction with the additional information in the Town's financial statements and the accompanying notes to those financial statements.

We hope that the financial comparisons provided this year will be more meaningful to the reader and will be of assistance in explaining the Town's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The Town's total net position increased \$528,984 which represents a 7.2% increase from fiscal year end 2012.
- The unrestricted net position totaled \$2,586,168 at year end compared to \$2,542,710 at the end of 2012. This is the excess of the Town's unrestricted assets over its liabilities and may be used to meet ongoing obligations to its citizens and creditors.
- Total revenues totaled \$1,214,465 compared to \$1,310,632 at the end of 2012, a decrease of 7.3%. The decrease is primarily the result of a \$174,000 reduction in shared revenues and fees in lieu of taxes as a result of the State going to a new computer system for distributing the Broker Tax and determining that some brokers had been improperly reporting fees and taxes. Partially offsetting this reduction was a 15% increase in Accommodations Tax revenue of \$95,000.
- Total expenditures totaled \$726,828 compared to \$687,371 at the end of 2012. The increase in expenditures is primarily a result of the purchase of a new police vehicle for \$32,000 to replace a depreciated vehicle, the purchase of a license plate reader system for \$35,000, and an increase in Tourism and Promotion expenditures of \$24,000 offset by the increase in Accommodations Tax Revenue.
- Our principal operating fund, the General Fund, had \$508,132 in year 2013 revenues versus \$695,114 in year 2012. These revenues primarily consisted of inter-governmental revenues, interest, and accommodations tax and license fee income. The General Fund had \$374,899 in expenditures versus \$364,002 in 2012 as explained above.
- The Town did not have any long-term debt outstanding at year end.

OVERVIEW OF 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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. A description of these statements and some related definitions follow:

Government-wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business. These statements outline functions of the Town that are principally supported by general revenue items and intergovernmental revenues (governmental activities). The Town imposed no property taxes in 2013. The governmental activities of the Town include general government, public safety, street and sanitation; tourism and promotion; and beach re-nourishment. The government-wide financial statements can be found on pages 12 and 13 of this report.

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

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

Fund Financial Statements: 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be classified as governmental funds.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spend-able resources, as well as on balances of spend-able resources available at the end of the year. Such information may be useful in evaluating the Town's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental

funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on pages 15 and 17 of this report.

The Town maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, accommodations tax fund, and the beach re-nourishment fund, all of which are considered to be major funds.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-28 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules as required supplementary information for the general fund, accommodations tax fund, and beach re-nourishment fund, all of which have annual appropriated budgets. Required supplementary information can be found on pages 29-34 of this report.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities and deferred inflows by \$7,923,181 as of December 31, 2013, an increase of 7.2% over the net position of \$7,394,197 as of December 31, 2012.

The major portion of the Town's net position (59.4%) is its investment in specific restricted funds, which represents resources that are subject to external restrictions on how they may be used. The Town uses these funds to designate assets for specific future expenditures, primarily beach re-nourishment; consequently, these assets are not available for future spending on other items. The second largest portion of the Town's net position (32.6%) reflects its unrestricted part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other requirements.

The Town's financial position is the product of several financial transactions including the net results of activities, reserves set aside for expenditures on future projects, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following table presents a summary of the Town's net position for the year ended December 31, 2013 and December 31, 2012:

NET POSITION
GOVERNMENTAL ACTIVITIES

	2013	2012
Current and Other Assets	\$ 7,398,397	\$ 6,913,308
Capital Assets	628,896	583,927
Total Assets	\$ 8,027,293	\$ 7,497,235
Current Liabilities	\$ 101,736	\$ 102,538
Total Liabilities	\$ 101,736	\$ 102,538
Deferred Inflows of Resources	\$ 2,376	\$ 500
Net Position:		
Net Investment in Capital Assets	\$ 628,896	\$ 583,927
Restricted	4,708,117	4,267,560
Unrestricted	2,586,168	2,542,710
Total Net Position	\$ 7,923,181	\$ 7,394,197

**The amounts included above for 2012 have been reclassified for comparative purposes due to implementation of GASB 65 during the current year.*

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Changes in Net Position and Revenues and Expenses of Governmental Activities: The following table presents the revenues and expenses from the Governmental Activities of the Town and the resulting increase in net position as a result of those activities:

CHANGE IN NET POSITION
GOVERNMENTAL ACTIVITIES

	2013	2012
Revenues:		
Program Revenues:		
Charges for Services	\$ 48,887	\$ 37,340
Operating Grants and Contributions	20,785	51,815
General Revenues:		
Accommodations Taxes	724,489	629,287
Franchise Fees	39,053	36,697
State Shared Revenues, Fees in Lieu of Taxes	368,357	542,385
Other Revenues	12,894	15,054
Total Revenues	\$ 1,214,465	\$ 1,312,578
Expenses:		
General Government	\$ 150,018	\$ 146,658
Public Safety	389,632	389,710
Streets and Sanitation	33,633	46,642
Tourism and Promotion	96,616	71,918
Beach Renourishment	15,582	15,653
Total Expenses	\$ 685,481	\$ 670,581
 Increase (Decrease) in Net Position	 \$ 528,984	 \$ 641,997
Net Position – Beginning	7,394,197	6,752,200
Net Position – Ending	\$ 7,923,181	\$ 7,394,197

Governmental activities: The following table presents the cost of the five major Town functional activities: general government, public safety, street and sanitation, tourism and promotion and beach re-nourishment.

The table also shows each function's net cost (total cost less charges for services generated by the activities and grants and contributions provided for specific programs). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

	<u>2013</u>		<u>2012</u>	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
General Government	\$ 150,018	\$ (125,913)	\$ 146,658	\$ (104,516)
Public Safety	389,632	(364,850)	389,710	(372,270)
Streets and Sanitation	33,633	(33,633)	46,642	(37,967)
Tourism and Promotion	96,616	(96,616)	71,918	(71,918)
Beach Renourishment	15,582	5,203	15,653	5,245
Totals	<u>\$ 685,481</u>	<u>\$ (615,809)</u>	<u>\$ 670,581</u>	<u>\$ (581,426)</u>

As seen from the above table, the total net cost of the Town's activities for 2013 was \$615,809, as opposed to \$581,426 for the year 2012, an increase of \$34,000. Some of the costs were paid by those who directly benefited from the activities or by contributions and grants. Total expenses increased by \$15,000 and program revenue decreased by \$19,000 primarily as a result of decreased operating grants and contributions.

The amount that the taxpayers financed through accommodations taxes for the year 2013 amounted to \$724,489 as opposed to \$629,287 for the year 2012. The Town paid the remaining costs of governmental activities with franchise and license fees, interest, state-shared revenues, contributions and other unrestricted miscellaneous revenue sources and charges.

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 spend-able resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the year.

The General Fund is the principal operating fund of the Town. The General Fund's fund balance increased from \$2,643,664 as of December 31, 2012 to \$2,708,717 as of December 31, 2013. Of this amount, \$2,611,083 constitutes an unassigned fund balance, which is available for spending at the government's discretion, compared to \$2,569,756 for the year end 2012. The remainder is reported as "non-spendable" or "restricted" to indicate it is not available for new spending.

The increase in total combined fund balances of all governmental funds of \$487,503 can be attributed to the following factors:

- Total revenues in 2013 totaled \$1,214,331 compared to \$1,310,632 at the end of 2012. The decrease is primarily the result of decreased State shared revenues and fees in lieu of taxes, partially offset by an increase in accommodations taxes.
- Total expenditures totaled \$726,828 compared to \$687,371 at the end of 2012. This increase is primarily due to the purchase and up fit of a police vehicle, the purchase of a license plate reader system, and an increase in tourism and promotion expenditures which were offset by an increase in Accommodations Tax revenue.

Total combined fund balances of all governmental funds at year end amounted to \$7,297,066 an increase of 7.2% from 2012. Of this amount, \$4,684,842 represents restricted fund balances, primarily restricted by Town Ordinance for future beach re-nourishment expenditures.

For 2013 the Town was required to implement GASB 65, requiring that certain items previously classified as "Deferred Revenues" be reclassified as "Deferred Inflow of Resources". The only item which met the definition was police fines, which were \$5,941 in 2013 and \$3,931 in 2012. These funds are not available for payment of current period liabilities.

BUDGETARY HIGHLIGHTS

Over the course of the year, the actual expenditures in the general fund were less than the final budget by \$39,521 or 9.5%. Actual revenues fell short of final budget by \$31,418 or 5.8%. Revenues were impacted predominately by lower than budgeted revenues in certain license tax programs. The Beach Renourishment fund expenses were less than budget by \$53,000 primarily due to \$40,000 budgeted for groin litigation but not expended.

A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the general fund, as well as the accommodations tax fund and beach re-nourishment fund, is provided in this report as required supplementary information. Local accommodations taxes exceeded budget by \$21,781 because of an increase in rental occupancy in the Town. The Town has determined that, for many years, the Town has had more tourism related expenditures than revenues the Town has collected from State A-tax revenues, with the General Fund paying for all excess expenditures. The Town has determined that there was little likelihood that the Town would ever collect enough State A-tax money to repay our General Fund, so the Town Council passed an ordinance to adopt a policy that, on an annual basis when expenditures exceed State A-tax revenues, the General Fund will pay the excess Tourism related expenditures without expectation of the A-tax fund ever repaying the General Fund. The result of this was a \$68,180 transfer to the Accommodations Tax Fund from the General Fund for the year 2013.

Variations between original and final budgeted amounts are a result of supplemental appropriations and expenditure revisions approved by Council during the year. During 2013, there was a net increase in expenditure appropriations of approximately \$42,000 for the general fund, primarily for legal costs expected to be reimbursed in 2014, and capital costs to add cameras to the entrances to the island to assist in public protection and safety.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: As of December 31, 2013, the Town had invested \$628,896 in net capital assets, including land, buildings and improvements, and other vehicles and equipment. Total capital assets increase was \$61,638 with depreciation expense for the year of \$16,669.

The following schedule presents capital asset balances net of depreciation for the year ended December 31, 2013 and December 31, 2012.

**CAPITAL ASSETS
(NET OF DEPRECIATION)
GOVERNMENTAL ACTIVITIES**

	2013	2012
Land and Improvements	\$ 533,433	\$ 536,806
Buildings and Improvements	6,261	6,771
Vehicles, Furniture, and Equipment	89,202	40,350
Total Capital Assets, Net	\$ 628,896	\$ 583,927

Additional information on the Town’s capital assets can be found in Note 5 of this audit report.

Debt Administration: At year-end, the Town had no long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The 2014 fiscal year will show an increase of about 3% in occupancy rates expected for accommodations on which Accommodations Taxes are based, as well as a continuation of the decrease in license and fee programs as discussed earlier. Fine and fee income will increase as a function of increased traffic and usage of the Island roads, and interest income will continue to decrease.

Expenses are expected to increase about \$85,000 over 2013 with another Police Car replacement in the budget, \$45,000 again budgeted for groin litigation, expected underground wire costs for the new underground wire project of \$40,000, and the full year cost of an Assistant Administrator hired in the 4th Quarter of 2012, all offset by reduced capital expenditures.

CONTACTING THE TOWN’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town’s finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report should be addressed to the Town’s Mayor at 321 Myrtle Avenue, Pawleys Island, SC 29585.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 49,234
Investments	2,524,180
Receivables (Net of Allowance for Uncollectibles)	64,482
Prepaid Items	1,141
Restricted Assets:	
Cash and Cash Equivalents	24,253
Investments	4,735,107
Capital Assets:	
Nondepreciable - Land	503,500
Depreciable (Net of Accumulated Depreciation)	
Land Improvements	29,933
Buildings and Improvements	6,261
Vehicles and Equipment	89,202
Total Assets	<u>\$ 8,027,293</u>
LIABILITIES	
Accounts Payable	\$ 16,801
Accrued Salaries Payable	3,589
Compensated Absences Payable	6,346
Unearned Grant Revenues	75,000
Total Liabilities	<u>\$ 101,736</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Police Fines	\$ 2,376
Total Deferred Inflows of Resources	<u>\$ 2,376</u>
NET POSITION	
Net Investment In Capital Assets	\$ 628,896
Restricted For:	
Public Safety	3,816
Streets and Sanitation	92,677
Tourism and Promotion	23,275
Beach Renourishment	4,588,349
Unrestricted	2,586,168
Total Net Position	<u><u>\$ 7,923,181</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$ 150,018	\$ 24,105	\$ -	\$ -	\$ (125,913)
Public Safety	389,632	24,782	-	-	(364,850)
Streets and Sanitation	33,633	-	-	-	(33,633)
Tourism and Promotion	96,616	-	-	-	(96,616)
Beach Renourishment	15,582	-	20,785	-	5,203
Total Governmental Activities	\$ 685,481	\$ 48,887	\$ 20,785	\$ -	\$ (615,809)
GENERAL REVENUES					
					\$ 724,489
Accommodations Taxes					39,053
Franchise Fees					368,357
State Shared Revenues and Fees in Lieu of Taxes					12,660
Unrestricted Investment Earnings					234
Miscellaneous Revenues					1,144,793
Total General Revenues					\$ 1,144,793
CHANGE IN NET POSITION					
					\$ 528,984
NET POSITION - BEGINNING					
					7,394,197
NET POSITION - ENDING					
					\$ 7,923,181

The accompanying notes are an integral part of these financial statements.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General Fund	Accommodations Tax Fund	Beach Renourishment Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 38,490	\$ 10,744	\$ -	\$ 49,234
Cash and Cash Equivalents - Restricted	3,816	-	20,437	24,253
Investments	2,524,180	-	-	2,524,180
Investments - Restricted	171,963	-	4,563,144	4,735,107
Receivables (Net)	26,464	33,250	4,768	64,482
Prepays	1,141	-	-	1,141
Due From Other Funds	34,019	-	-	34,019
Total Assets	\$ 2,800,073	\$ 43,994	\$ 4,588,349	\$ 7,432,416
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 6,826	\$ 9,975	\$ -	\$ 16,801
Accrued Salaries Payable	3,589	-	-	3,589
Unearned Grant Revenues	75,000	-	-	75,000
Due To Other Funds	-	34,019	-	34,019
Total Liabilities	\$ 85,415	\$ 43,994	\$ -	\$ 129,409
Deferred Inflows of Resources				
Deferred Police Fines	\$ 5,941	\$ -	\$ -	\$ 5,941
Total Deferred Inflows of Resources	\$ 5,941	\$ -	\$ -	\$ 5,941
Fund Balances				
Nonspendable:				
Prepaid Items	\$ 1,141	\$ -	\$ -	\$ 1,141
Restricted For:				
Victim's Assistance Program	3,816	-	-	3,816
Underground Conversion	92,677	-	-	92,677
Beach Renourishment	-	-	4,588,349	4,588,349
Unassigned	2,611,083	-	-	2,611,083
Total Fund Balances	\$ 2,708,717	\$ -	\$ 4,588,349	\$ 7,297,066
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,800,073	\$ 43,994	\$ 4,588,349	\$ 7,432,416

The accompanying notes are an integral part of these financial statements.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
DECEMBER 31, 2013

Amounts reported for governmental activities in the statement of net position are different because:

Ending fund balances - governmental funds balance sheet	\$	7,297,066
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		628,896
Other long-term assets, such as taxes, fines, and fees receivable, are not available to pay for current period expenditures and, therefore, are reported as deferred inflows in the funds.		3,565
Long-term liabilities, such as compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(6,346)</u>
Net position of governmental activities	\$	<u><u>7,923,181</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund	Accommodations Tax Fund	Beach Renourishment Fund	Total Governmental Funds
REVENUES				
Accommodations Tax	\$ 39,135	\$ 268,573	\$ 416,781	\$ 724,489
Franchise Fees	39,053	-	-	39,053
Fines and Fees	24,648	-	-	24,648
Local Government State Aid	2,219	-	-	2,219
Interest Income	12,600	60	20,785	33,445
MASC Programs	366,138	-	-	366,138
Special Events	24,105	-	-	24,105
Miscellaneous	234	-	-	234
Total Revenues	\$ 508,132	\$ 268,633	\$ 437,566	\$ 1,214,331
EXPENDITURES				
Current				
General Government	\$ 105,350	\$ 38,464	\$ -	\$ 143,814
Public Safety	175,753	189,612	-	365,365
Streets and Sanitation	21,512	12,121	-	33,633
Tourism and Promotion	-	96,616	-	96,616
Beach Renourishment	-	-	15,116	15,116
Capital Outlay				
General Government	2,376	-	-	2,376
Public Safety	69,908	-	-	69,908
Total Expenditures	\$ 374,899	\$ 336,813	\$ 15,116	\$ 726,828
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	\$ 133,233	\$ (68,180)	\$ 422,450	\$ 487,503
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ -	\$ 68,180	\$ -	\$ 68,180
Transfers Out	(68,180)	-	-	(68,180)
Total Other Financing Sources (Uses)	\$ (68,180)	\$ 68,180	\$ -	\$ -
NET CHANGE IN FUND BALANCES	\$ 65,053	\$ -	\$ 422,450	\$ 487,503
FUND BALANCES - BEGINNING	2,643,664	-	4,165,899	6,809,563
FUND BALANCES - ENDING	\$ 2,708,717	\$ -	\$ 4,588,349	\$ 7,297,066

The accompanying notes are an integral part of these financial statements.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	487,503
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is the amount by which capital outlay (\$61,638) exceeded depreciation expense (\$16,669) in the current period.		44,969
Revenues in the statement of activities, such as taxes, fines, and fees that will not be collected for several months after year end and do not provide for current financial resources, are not reported as revenues in the funds.		134
Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and, therefore, are not recognized as expenditures in the governmental funds.		<u>(3,622)</u>
Change in net position of governmental activities	\$	<u><u>528,984</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Pawleys Island, South Carolina conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

Reporting Entity

The Town of Pawleys Island, South Carolina (the Town) was incorporated on September 4, 1985 as a municipal corporation under the laws of the State of South Carolina. The Town's governing body consists of an elected mayor and four-member council. The Town operates under the Council form of government.

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. A component unit is included in the reporting entity if it is both fiscally dependent on the primary government and there is potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government. Based on this criteria the Town has determined it has no component units and is not a component unit of any other organization. Therefore, the Town reports as a primary entity.

Government-Wide and Fund Financial Statements

The financial statement presentation for the Town meets the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and related amendments, interpretations, and pronouncements. The financial statement presentation provides a comprehensive, entity-wide perspective of the Town's net position, revenues, expenses and changes in net position that replaces the fund-group perspective previously required.

The Town implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the current year. This statement defines which assets and liabilities are to be reported as deferred outflows and inflows of resources and identifies items previously reported as assets and liabilities that GASB has determined should be recognized as revenues, expenses or expenditures when incurred and not reported in the statement of net position or balance sheet. The implementation of this statement does not have any impact on the Town's financial statements other than a change in the categories presented in the statement of net position and balance sheet.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, 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. Indirect expense allocations are eliminated for the statement of activities.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2) operating grants and contributions, and 3) capital 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*. Internally dedicated resources are also reported as general revenues.

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and demonstrate legal compliance. Separate fund financial statements are presented for governmental, proprietary, and fiduciary activities (even though the latter are excluded from the government-wide financial statements). The emphasis in the fund financial statements is on *major funds*. Major individual funds are reported as separate columns in the fund financial statements. All nonmajor funds are aggregated and reported in a single column on each of the fund financial statements. Major funds are determined in accordance with criteria established by the Governmental Accounting Standards Board.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 payment is due.

The Town considers taxes, certain fines and fees, intergovernmental revenues, and interest to be susceptible to accrual. Major revenues that are determined not to be susceptible to accrual because they are either not available soon enough to pay liabilities of the current period or are not objectively measurable includes licenses and permits.

The Town utilizes the following governmental funds:

General Fund: The general fund is the primary operating fund of the Town. The general fund accounts for all financial resources except those that are required to be reported in another fund.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Revenue Fund: The special revenue fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Town uses the following special revenue funds:

Accommodations Tax Fund: Used to account for revenue received from state revenue sharing which finances the costs of Town tourism and promotion.

Beach Renourishment Fund: Used to account for the collection of local accommodations tax which is legally restricted by Town ordinance to finance the costs of public and private beach renourishment projects.

The Town reports the General Fund, Accommodations Tax Fund, and the Beach Renourishment Fund as major governmental funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, and deferred outflows/inflows of resources at the date of the financial statements and revenues, expenditures/expenses, and other sources and uses recognized during the reporting period. Actual results could differ from those amounts.

Cash, Cash Equivalents, and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in obligations of the United States and its agencies, general obligations of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal depository insurance, certificates of deposit collaterally secured, and repurchase agreements secured by the foregoing obligations.

Receivables

All receivables are shown at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Such allowances are estimated based upon such factors as length of delinquency, historical analysis, and available means for collection enforcement.

Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Interfund receivables and payables outstanding at year end are eliminated upon consolidation of governmental activities in the government-wide statement of net position.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Prepaid Items

Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both the government-wide and fund financial statements. The Town had primarily one item of this nature and that is prepaid insurance.

Restricted Assets

Certain assets of the Town are classified as restricted on the balance sheet when specific limitations are placed upon their use. Restricted assets of the Town include cash deposits and investments set aside as required by state statute for providing services to victims and witnesses of crimes; the underground conversion project; and beach renourishment projects.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Asset	Years
Land Improvements	10 - 40
Buildings and Improvements	10 - 40
Vehicles and Equipment	5 - 10
Furniture and Fixtures	10

Depreciation for capital assets that can be specifically identified with a function is included in the direct expenses for that function. Depreciation for capital assets that serve essentially all functions is included in the statement of activities as a separate line item "depreciation - unallocated."

GASB Statement No. 34 requires governments to report and depreciate new infrastructure effective with the year of implementation. Infrastructure assets include roads, bridges, sidewalks, etc. Neither their historical cost nor related depreciation has been previously reported in the financial statements. The Town is not required to implement the retroactive reporting provisions of GASB Statement No. 34 and has elected not to do so.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits; however, there is no liability for unpaid accumulated sick leave since the Town does not have a policy to pay any amounts when employees separate from service with the Town. All vacation pay is accrued when incurred in the government-wide financial statements. A liability is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The Town's entire liability for compensated absences at December 31, 2013 is considered to be a current liability.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town currently has two types of items that qualify for reporting in this category. *Unavailable revenues* are reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. *Imposed nonexchange revenues* collected in advance of a legally enforceable claim are reported in both the statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources (revenue) when an enforceable claim exists. The availability criterion must also be met for recognition in the governmental funds.

Net Position/Fund Balances

The Town's net position in the government-wide financial statements is classified as follows:

Net Investment in Capital Assets: This represents the Town's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included.

Restricted Net Position: Restricted net position includes resources in which the Town is legally or contractually obligated to spend in accordance with restrictions externally imposed by third parties or imposed by law through constitutional provisions or enabling legislation, including that passed by the government itself.

Unrestricted Net Position: Any remaining balance of net position is reported as unrestricted, including management assignments and commitments.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the governmental fund financial statements, equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance – Consists of amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted Fund Balance – Consists of amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned Fund Balance – Consists of amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned Fund Balance – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for a specific purpose. When fund balance resources are available for a specific purpose in more than one classification, it is the Town of Pawleys Island's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Nonexchange Transactions

The standards established by GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*", provide accounting and reporting for the following four categories of nonexchange transactions: 1) derived tax revenues, 2) imposed nonexchange revenues, 3) government-mandated nonexchange transactions, and 4) voluntary nonexchange transactions. Nonexchange transactions involve financial or capital resources in which the government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange.

Assets from derived tax revenues are recognized when the underlying exchange has occurred or when the resources are received, whichever first. Revenues are recognized when the underlying exchange has occurred and resources are available to the government.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets from imposed nonexchange revenues are recognized when an enforceable legal claim has arisen or when resources are received, whichever occurs first. Revenues are recognized when resources are required to be used or the first period that use is permitted. Resources must also be available to the government.

Assets, liabilities, deferred outflows/inflows of resources, revenues, and expenditures from government-mandated and voluntary nonexchange transactions are generally recognized when all eligibility requirements have been met. Resources received before eligibility requirements are fulfilled are reported as unearned revenues or deferred inflows of resources, as appropriate, depending upon whether time requirements have been met. Eligibility requirements can include one or more of the following:

1. The recipient has the characteristics specified by the provider.
2. Time requirements specified by the provider have been met.
3. The provider offers resources on a reimbursement basis and allowable costs have been incurred.
4. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

NOTE 2 - CASH & INVESTMENTS

At year end, the Town's carrying amount of deposits (including certificates of deposit) was \$7,332,674 excluding petty cash of \$100, and the corresponding bank balance was \$7,356,320.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may 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 December 31, 2013, \$1,745,000 of the Town's bank balance of \$7,356,320 was exposed to custodial credit risk because it was uninsured, although collateralized with securities held by the pledging bank's trust department or agent in the Town's name.

For purposes of risk categorization, certificates of deposit not meeting the criteria for cash and cash equivalents are included with deposits.

NOTE 3 - RESTRICTED ASSETS

Restricted assets of the Town at December 31, 2013 consist of the following:

	General	Beach Renourishment	Total
Cash and Investments Restricted for:			
Victims Assistance	\$ 3,816	\$ -	\$ 3,816
Underground Conversion	171,963	-	171,963
Beach Renourishment	-	4,583,581	4,583,581
	\$ 175,779	\$ 4,583,581	\$ 4,759,360

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 4 - RECEIVABLES

Receivables as of year-end for individual major funds are as follows. There were no allowances for uncollectible amounts associated with any receivable at year end.

	<u>General</u>	<u>A-Tax</u>	<u>Beach Renourishment</u>	<u>Total</u>
Receivables:				
Franchise Fees	\$ 19,917	\$ -	\$ -	\$ 19,917
Fines and Fees	3,908	-	-	3,908
Intergovernmental	789	-	-	789
Interest	1,850	-	-	1,850
A-Tax	<u>-</u>	<u>33,250</u>	<u>4,768</u>	<u>38,018</u>
Gross Receivables	\$ 26,464	\$ 33,250	\$ 4,768	\$ 64,482
Less: Allowance for Uncollectible	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Receivables	<u>\$ 26,464</u>	<u>\$ 33,250</u>	<u>\$ 4,768</u>	<u>\$ 64,482</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated				
Land	\$ 503,500	\$ -	\$ -	\$ 503,500
Total Capital Assets, Not Depreciated	<u>\$ 503,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 503,500</u>
Capital Assets, Being Depreciated				
Land Improvements	\$ 50,591	\$ -	\$ -	\$ 50,591
Buildings and Improvements	20,972	-	-	20,972
Vehicles, Furniture, and Equipment	<u>108,215</u>	<u>61,638</u>	<u>-</u>	<u>169,853</u>
Total Capital Assets, Being Depreciated	<u>\$ 179,778</u>	<u>\$ 61,638</u>	<u>\$ -</u>	<u>\$ 241,416</u>
Less Accumulated Depreciation For:				
Land Improvements	\$ (17,285)	\$ (3,373)	\$ -	\$ (20,658)
Buildings and Improvements	(14,201)	(510)	-	(14,711)
Vehicles, Furniture, and Equipment	<u>(67,865)</u>	<u>(12,786)</u>	<u>-</u>	<u>(80,651)</u>
Total Accumulated Depreciation	<u>\$ (99,351)</u>	<u>\$ (16,669)</u>	<u>\$ -</u>	<u>\$ (116,020)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 80,427</u>	<u>\$ 44,969</u>	<u>\$ -</u>	<u>\$ 125,396</u>
Capital Assets, Net	<u>\$ 583,927</u>	<u>\$ 44,969</u>	<u>\$ -</u>	<u>\$ 628,896</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 - CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs of the Town as follows:

Governmental Activities:	
General Government	\$ 3,417
Public Safety	12,786
Beach Renourishment	<u>466</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 16,669</u></u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The composition of interfund balances as of December 31, 2013 follows:

	Due From <u>Other Funds</u>	Due To Other <u>Funds</u>
General Fund	\$ 34,019	\$ -
A-Tax Fund	<u>-</u>	<u>34,019</u>
Total	<u><u>\$ 34,019</u></u>	<u><u>\$ 34,019</u></u>

Transfers are used to move certain revenues to finance various program costs that the government must account for in other funds in accordance with budgetary authorizations. A schedule of interfund transfers is as follows:

	Transfers In <u></u>	Transfers Out <u></u>
General Fund	\$ -	\$ 68,180
A-Tax Fund	<u>68,180</u>	<u></u>
Total	<u><u>\$ 68,180</u></u>	<u><u>\$ 68,180</u></u>

NOTE 7 - RETIREMENT PLAN

Plan Description

Full-time police officers of the Town participate in a defined contribution pension and retirement plan established under the provisions of IRS Code Section 401(A). Employee contributions qualify for federal income tax treatment permitted by and made pursuant to IRS Code Section 414(h)(2). Each participant directs the investment of their individual plan account. Participants are immediately vested in their contributions to the plan. Vesting in the Town's matching contributions is based on years of service. A participant is vested after five years of credited service.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 7 - RETIREMENT PLAN (continued)

Funding Policy

Both employees and employer are required to contribute to the plan at the rates established in the plan document. Each employee is allowed to voluntarily contribute to the plan an amount equal to the individual voluntary rate established by the agreement. Required contributions are as follows:

	Employee	Employer
Chief of Police	6.5%	10.5%
Police Officers and Clerk	6.0%	6.5%

Required employer and employee contributions to the plan for the plan year ended December 31, 2013 were approximately \$20,237 and \$24,612, respectively. Annual covered wages amounted to \$283,523.

NOTE 8 - RISK MANAGEMENT

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against casualty risks, the Town is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments in South Carolina.

The Town pays annual premiums to the State Insurance Reserve Fund for its general insurance. The State Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims.

The Town acquires insurance for job related injury and illness (workers' compensation). Workers' compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. General blanket and fidelity bond insurance was also maintained.

During December 31, 2013, the Town did not experience any uninsured claims. There is no liability or expenditure recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

There were no significant reductions in coverage from the previous year and no settlements have exceeded insurance coverage for the past three years ended December 31, 2013, 2012, and 2011.

NOTE 9 - NET POSITION RESTRICTED BY ENABLING LEGISLATION

The Town has restricted total net position of its governmental activities in the amount of \$4,681,026 through enabling legislation for the following items: The Town has restricted \$92,677 for the underground conversion project and \$4,588,349 for beach renourishment.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 10 - CONTINGENCIES

There are presently two lawsuits pending against the Town, which do not seek monetary damages. In the opinion of Town management, after consultation with legal counsel, there are no material claims or lawsuits against the Town that are not covered by insurance or whose settlement would materially affect the Town's financial position.

The Town also participates in certain federal and/or state assisted grant programs. These programs are subject to program compliance audits by grantors or their representatives. Liability for reimbursement, if any, which may arise as a result of these audits is not believed to be material.

NOTE 11 - COMMITMENTS

A cost-sharing agreement has been entered into with the U.S. Army Corps of Engineers for the Hurricane and Storm Damage Reduction project. Total project costs of the design phase are estimated to be \$597,000 of which the Town's cost share requirement is 25% of total project costs which is equal to \$149,250. As of December 31, 2013, \$113,400 remains on deposit with the Corps of Engineers for the design phase of the project. The design phase of the project has not been completed as of December 31, 2013.

NOTE 12 - UNDERGROUND WIRE PROJECT

In April of 2005, the Town Council approved an extension of the Santee Cooper Franchise agreement and raised its franchise fee to 5%. As part of the extension agreement, Santee Cooper is obligated to match 40% of the franchise fees collected from the date of the extension of the franchise. This matching fund is being held by Santee Cooper for the purpose of defraying future costs of putting the electrical lines on the island underground. As of December 31, 2013 the "Underground Facilities Franchise Fund" held by Santee Cooper contained \$238,547.

NOTE 13 - SUBSEQUENT EVENTS

In March of 2014, Town Council voted to approve a project with Santee Cooper that will expand the initial underground wire project and place all of the remaining electrical lines on the island underground. The project is expected to begin in late 2014. To fund the project over 10 years, the Santee Cooper franchise fund and voluntary contributions will pay \$1,033,000, with \$1,685,000 to be paid by the Town's general fund. The balance is to be paid by the involved property owners over a 10 year period.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State Accommodations Tax	\$ 35,500	\$ 39,050	\$ 39,135	\$ 85
Franchise Fees	38,000	38,000	39,053	1,053
Fines and Fees	14,000	14,000	24,648	10,648
Local Government State Aid	3,000	3,000	2,219	(781)
Interest Income	14,000	14,000	12,600	(1,400)
MASC Programs	530,000	410,000	366,138	(43,862)
Special Events	20,000	20,000	24,105	4,105
Miscellaneous	1,500	1,500	234	(1,266)
Total Revenues	<u>\$ 656,000</u>	<u>\$ 539,550</u>	<u>\$ 508,132</u>	<u>\$ (31,418)</u>
EXPENDITURES				
General Government				
Advertising	\$ 500	\$ 500	\$ 1,080	\$ (580)
Bank Charges	75	75	157	(82)
Capital Outlay	5,000	5,000	2,376	2,624
Communications	1,500	1,500	1,710	(210)
Computer	2,000	2,000	2,481	(481)
Decorations	1,200	1,200	1,359	(159)
Don't Box the Neck	-	-	7,403	(7,403)
Dues and Subscriptions	1,000	1,000	1,272	(272)
Election Expenses	-	1,200	2,350	(1,150)
Health Insurance	2,700	2,700	2,550	150
Wellness Program	697	697	29	668
Insurance	13,500	13,500	12,142	1,358
Mileage Reimbursement	750	750	607	143
Miscellaneous	1,500	1,500	1,648	(148)
Ordinance Review/Revision	4,063	5,063	3,379	1,684
Postage	600	600	573	27
Printing	2,200	2,200	1,689	511
Professional Services	22,200	27,200	22,756	4,444
Rent	1,045	1,045	1,045	-
Repairs and Maintenance	3,500	3,500	2,669	831
Retirement	1,509	1,509	1,832	(323)
Salaries and Labor	20,887	20,887	19,120	1,767
Special Events	11,600	13,600	11,456	2,144
Supplies	3,000	3,000	2,487	513
Taxes and Licenses	2,908	2,908	1,721	1,187
Telephone	690	690	711	(21)
Training and Seminars	500	500	15	485
Utilities	1,100	1,100	1,109	(9)
Total General Government	<u>\$ 106,224</u>	<u>\$ 115,424</u>	<u>\$ 107,726</u>	<u>\$ 7,698</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (continued)				
Public Safety				
Automotive	\$ 22,500	\$ 22,500	\$ 17,853	\$ 4,647
Capital Outlay	43,000	78,000	69,908	8,092
Communications	2,100	2,100	1,909	191
Computer	2,500	2,500	1,821	679
Dues and Subscriptions	500	500	195	305
Health Insurance	10,560	10,560	10,080	480
Wellness Program	1,051	1,051	1,121	(70)
Insurance	7,400	7,400	7,976	(576)
Magistrate	2,160	2,160	2,160	-
Mileage Reimbursement	1,000	1,000	901	99
Miscellaneous	5,000	5,000	2,328	2,672
Printing	1,000	1,000	1,951	(951)
Repairs and Maintenance	1,700	1,700	841	859
Retirement	6,903	6,903	6,666	237
Salaries and Labor	103,434	101,434	101,540	(106)
Supplies	3,700	3,700	2,522	1,178
Taxes and Licenses	9,498	9,498	8,457	1,041
Telephone	2,970	2,970	1,892	1,078
Training and Seminars	1,500	1,500	1,257	243
Uniforms	4,500	4,500	4,283	217
Total Public Safety	\$ <u>232,976</u>	\$ <u>265,976</u>	\$ <u>245,661</u>	\$ <u>20,315</u>
Streets and Sanitation				
Animal Control	\$ 1,500	\$ 1,500	\$ 553	\$ 947
Annual Cleanup	1,200	1,200	955	245
Mowing	1,320	1,320	1,503	(183)
Park Maintenance	2,500	2,500	1,417	1,083
Repairs and Maintenance	8,000	8,000	5,636	2,364
Street Sign Work	7,000	7,000	5,406	1,594
Supplies	3,500	3,500	2,820	680
Trash Removal	3,000	3,000	2,735	265
Underground Conversion	5,000	5,000	487	4,513
Total Streets and Sanitation	\$ <u>33,020</u>	\$ <u>33,020</u>	\$ <u>21,512</u>	\$ <u>11,508</u>
Total Expenditures	\$ <u>372,220</u>	\$ <u>414,420</u>	\$ <u>374,899</u>	\$ <u>39,521</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>283,780</u>	\$ <u>125,130</u>	\$ <u>133,233</u>	\$ <u>8,103</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Transfer to Accommodations Tax Fund	\$ (124,614)	\$ (67,164)	\$ (68,180)	\$ (1,016)
Total Other Financing Sources (Uses)	\$ (124,614)	\$ (67,164)	\$ (68,180)	\$ (1,016)
NET CHANGE IN FUND BALANCE	\$ 159,166	\$ 57,966	\$ 65,053	\$ 7,087
FUND BALANCE - BEGINNING	<u>2,643,664</u>	<u>2,643,664</u>	<u>2,643,664</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 2,802,830</u>	<u>\$ 2,701,630</u>	<u>\$ 2,708,717</u>	<u>\$ 7,087</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
ACCOMMODATIONS TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State Accommodations Tax	\$ 199,500	\$ 266,950	\$ 268,573	\$ 1,623
Interest Income	-	-	60	60
Total Revenues	<u>\$ 199,500</u>	<u>\$ 266,950</u>	<u>\$ 268,633</u>	<u>\$ 1,683</u>
EXPENDITURES				
General Government				
Salaries and Benefits	\$ 37,783	\$ 37,783	\$ 35,695	\$ 2,088
Telephone	1,610	1,610	1,659	(49)
Utilities	1,100	1,100	1,110	(10)
Total General Government	<u>\$ 40,493</u>	<u>\$ 40,493</u>	<u>\$ 38,464</u>	<u>\$ 2,029</u>
Advertising and Promotion				
Contributions	\$ 12,000	\$ 12,000	\$ 8,500	\$ 3,500
PICA Promotion Committee	59,850	72,850	84,813	(11,963)
Brochure	1,000	1,000	-	1,000
Website	3,000	3,000	3,303	(303)
Total Advertising and Promotion	<u>\$ 75,850</u>	<u>\$ 88,850</u>	<u>\$ 96,616</u>	<u>\$ (7,766)</u>
Public Safety				
Insurance	\$ 11,100	\$ 11,100	\$ 11,965	\$ (865)
Salaries and Benefits	183,791	180,791	177,647	3,144
Total Public Safety	<u>\$ 194,891</u>	<u>\$ 191,891</u>	<u>\$ 189,612</u>	<u>\$ 2,279</u>
Streets and Sanitation				
Annual Cleanup	\$ 2,800	\$ 2,800	\$ 2,230	\$ 570
Mowing	3,080	3,080	3,508	(428)
Trash Removal	7,000	7,000	6,383	617
Total Streets and Sanitation	<u>\$ 12,880</u>	<u>\$ 12,880</u>	<u>\$ 12,121</u>	<u>\$ 759</u>
Total Expenditures	<u>\$ 324,114</u>	<u>\$ 334,114</u>	<u>\$ 336,813</u>	<u>\$ (2,699)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (124,614)</u>	<u>\$ (67,164)</u>	<u>\$ (68,180)</u>	<u>\$ (1,016)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	<u>\$ 124,614</u>	<u>\$ 67,164</u>	<u>\$ 68,180</u>	<u>\$ 1,016</u>
Total Other Financing Sources (Uses)	<u>\$ 124,614</u>	<u>\$ 67,164</u>	<u>\$ 68,180</u>	<u>\$ 1,016</u>
NET CHANGE IN FUND BALANCE	\$ -	\$ -	\$ -	\$ -
FUND BALANCE - BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BEACH RENOURISHMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Accommodations Tax	\$ 395,000	\$ 395,000	\$ 416,781	\$ 21,781
Interest Income	20,000	20,000	20,785	785
Total Revenues	<u>\$ 415,000</u>	<u>\$ 415,000</u>	<u>\$ 437,566</u>	<u>\$ 22,566</u>
EXPENDITURES				
Beach Renourishment Projects				
Beach Management	\$ 15,000	\$ 15,000	\$ 6,443	\$ 8,557
Beach Vitex Removal	1,000	1,000	-	1,000
Sand Fence Project	7,000	7,000	3,398	3,602
Terminal Groin Support	-	45,000	5,275	39,725
Total Beach Renourishment	<u>\$ 23,000</u>	<u>\$ 68,000</u>	<u>\$ 15,116</u>	<u>\$ 52,884</u>
Total Expenditures	<u>\$ 23,000</u>	<u>\$ 68,000</u>	<u>\$ 15,116</u>	<u>\$ 52,884</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 392,000</u>	<u>\$ 347,000</u>	<u>\$ 422,450</u>	<u>\$ 75,450</u>
NET CHANGE IN FUND BALANCE	\$ 392,000	\$ 347,000	\$ 422,450	\$ 75,450
FUND BALANCE - BEGINNING	<u>4,165,899</u>	<u>4,165,899</u>	<u>4,165,899</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 4,557,899</u></u>	<u><u>\$ 4,512,899</u></u>	<u><u>\$ 4,588,349</u></u>	<u><u>\$ 75,450</u></u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013**

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP) as applicable to governments for all governmental funds maintained by the Town. Amounts presented in the “*Original*” budget column in the budgetary comparison schedule reflect amounts originally adopted by ordinance. Amounts presented in the “*Final*” budget column include any supplemental appropriations or amendments formally authorized by Town Council. All annual appropriations lapse at year end.

In establishing the budget, individual departments submit their proposed budgets to Mayor and Council. The Mayor and Council in turn consider the budgets of individual departments and the Town as a whole. The overall legally enacted budget ordinance is formally approved after two public readings. Public readings allow individual citizens of the Town an opportunity to have input in the budgetary process. The Mayor has the authority to amend line item transfers in the budget without Council’s approval; however, any change to total budgeted revenues or expenditures requires Council’s authorization.

Formal budgetary accounting is employed as a management control for funds of the Town. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of money are recorded in order to reserve that portion of the applicable appropriations, is not utilized by the Town and is not part of budgetary integration.

NOTE 2 - PRESENTATION

The budgetary comparison schedule presents the general fund and each major individual special revenue fund for which an annual budget is legally adopted.

NOTE 3 - EXPENDITURES IN EXCESS OF BUDGET

Actual expenditures of the Accommodations Tax Fund exceeded budgetary appropriations by \$2,699 for the year ended December 31, 2013. This excess was a result of under-budgeted expenditures for the Town’s 30% advertising and promotion allocation due to an increase in state accommodations tax revenues.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

COURT FINES

Court Fines Collected	\$	23,492
Court Fines Retained by Town		<u>(23,492)</u>
 Court Fines Remitted to the State Treasurer	 \$	 <u><u>-</u></u>

COURT ASSESSMENTS

Court Assessments Collected	\$	2,612
Court Assessments Retained by Town		<u>(325)</u>
 Court Assessments Remitted to the State Treasurer	 \$	 <u><u>2,287</u></u>

COURT SURCHARGES

Court Surcharges Collected	\$	1,773
Court Surcharges Retained by Town		<u>(150)</u>
 Court Surcharges Remitted to the State Treasurer	 \$	 <u><u>1,623</u></u>

DPS PULLOUTS

DPS Pullouts Collected	\$	100
DPS Pullouts Retained by Town		<u>-</u>
 DPS Pullouts Remitted to the State Treasurer	 \$	 <u><u>100</u></u>

VICTIMS SERVICES

Court Assessments Allocated to Victim Services	\$	325
Court Surcharges Allocated to Victim Services		<u>150</u>
 Total Funds Allocated to Victim Services	 \$	 475
Victim Services Expenditures		-
Prior Year Carryforward		<u>3,341</u>
 Victim Services Funds Available for Carryforward	 \$	 <u><u>3,816</u></u>



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

To the Mayor and Members of Town Council
Town of Pawleys Island, South Carolina

We have audited, 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, the financial statements of the governmental activities and each major fund of the Town of Pawleys Island, South Carolina as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 12, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies, 13-B1 and 13-B2, described in the accompanying schedule of findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Auditee’s Response to Findings

The Town’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Harper, Poston & Moree, P.A.

Harper, Poston & Moree, P.A.
Certified Public Accountants

Pawleys Island, South Carolina
June 12, 2014

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements.
2. Two control deficiencies were disclosed during the audit of the basic financial statements. These deficiencies are reported as material weaknesses.
3. No instances of noncompliance were disclosed during the audit of the financial statements.
4. There were no major federal award programs for the year ended December 31, 2013; therefore, no control deficiencies were disclosed for major federal award programs.
5. There were no major federal award programs for the year ended December 31, 2013; therefore, no auditor's report on compliance for major federal award programs was issued.
6. There were no major federal award programs for the year ended December 31, 2013; therefore, no audit findings relative to major federal award programs are disclosed in the following schedule.
7. No federal award programs were required to be tested as major programs.
8. The Town did not fall under the requirements of OMB Circular A-133; therefore, there was no threshold for distinguishing between Types A and B programs.
9. Risk relative to major federal award programs was not assessed.

B. Findings - Financial Statement Audit

13-B1 Financial Statement Preparation

Control Deficiency: The Town's accounting staff does not prepare the year-end entries necessary to convert its cash basis records to the accrual basis of accounting and does not prepare the financial statements and related note disclosures.

Criteria: Controls over the preparation of year-end adjusting entries and the financial statements are necessary in preventing and detecting misstatements that could occur in the financial statements.

Cause: Town personnel do not possess the technical skills necessary to prepare accrual basis financial statements.

Effect: Errors or misstatements could occur and not be detected by management.

Recommendation: Management should continue to consult with outside accountants on significant accounting matters and take steps towards gaining the experience needed to prepare financial statements that are presented in accordance with generally accepted accounting principles.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

B. Findings - Financial Statement Audit (continued)

13-B1 Financial Statement Preparation (continued)

Management's Response: Management has evaluated the cost/benefit of employing personnel with the technical skills necessary to prepare financial statements on the full accrual basis of accounting and has determined that the cost to the Town outweighs its benefit at the present time. To help mitigate the risk of material misstatement in the financial statements, management ensures that all journal entries are reviewed prior to posting and the financial statements are approved prior to issuance.

13-B2 Segregation of Duties

Control Deficiency: The Town does not maintain overall adequate segregation of duties.

Criteria: Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with management's assertions and that assets are safeguarded against loss or theft.

Cause: Entity size.

Effect: Errors could occur and not be detected by management.

Recommendation: The size of the Town's accounting and administrative staff precludes implementation of certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. Council should remain directly involved with the financial affairs of the Town as a result of this situation.

Management's Response: Several procedures were established during 1998 which address internal controls and the segregation of duties. Each department head is responsible for the review and approval of transactions and invoices for the department. All invoices are then approved by either the Mayor or a member of Council. Checks are then required to have dual signatures of the Mayor, specified members of Council, or the Town Clerk. Council is, therefore, intimately and directly involved with the financial affairs of the Town as a result of these procedures. In late 2013, the Town hired an assistant administrator. In 2014, procedures were put into place utilizing the assistant administrator to provide appropriate segregation of duties in addition to existing internal procedures.

C. Findings and Questioned Costs - Federal Award Program Audit

Not applicable.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013**

There are no prior year audit findings relating to federal award programs that are required by OMB Circular A-133 to be reported in the Summary Schedule of Prior Audit Findings for the year ended December 31, 2013.