

**TOWN OF PAWLEYS ISLAND**  
*SOUTH CAROLINA*

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

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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, 2014, 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, 2014, 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 30 through 35 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 25, 2015 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 25, 2015

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2014**

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, 2014. 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 decreased \$585,326, which represents a 7.4% decrease from fiscal year end 2013.
- The unrestricted net position totaled \$1,705,364 at year-end compared to \$2,586,168 at the end of 2013. 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 \$1,425,782 compared to \$1,214,465 at the end of 2013, an increase of 17.4%. The increase is primarily the result of property owner donations toward the underground wire project. These donations accounted for \$243,510 in revenue for 2014. Partially offsetting this increase was a 5.1% decrease in Accommodations Tax revenue of \$37,115.
- Total expenditures totaled \$1,988,104 compared to \$726,828 at the end of 2013. The increase in expenditures is primarily a result of the first payment of \$1,278,426 to Santee Cooper to proceed with phase 1 of the underground wire project, and \$25,459 to Coastal Science and Engineering (CSE) to conduct an assessment of the island's beach erosion and develop a preliminary design for Groin restorations. Expenditures for general government increased by \$21,566 primarily as a result of having a full-time Assistant Administrator for the full year.
- Our principal operating fund, the General Fund, had \$757,680 in year 2014 revenues versus \$508,132 in year 2013. The increase was primarily the result of property owner donations toward the underground wire project amounting to \$243,510. Other operating income consisted of inter-governmental revenues, interest, and accommodations tax and license fee income. The General Fund had \$1,594,719 in expenditures versus \$374,899 in 2013 as explained above, with the increase attributed to the underground wire project expenses for the year.

- 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 2014. 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 18-29 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 30-35 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 \$7,337,855 as of December 31, 2014, a decrease of 7.4% over the net position of \$7,923,181 as of December 31, 2013.

The major portion of the Town's net position (68.5%) is its investment in specific restricted funds, which represents resources that are subject to internal and 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 (23.2%) reflects its unrestricted part of the 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, 2014 and December 31, 2013:

NET POSITION  
GOVERNMENTAL ACTIVITIES

	2014	2013
Current and Other Assets	\$ 6,868,670	\$ 7,398,397
Capital Assets	602,694	628,896
Total Assets	\$ 7,471,364	\$ 8,027,293
Current Liabilities	\$ 133,509	\$ 104,112
Total Liabilities	\$ 133,509	\$ 104,112
Net Position:		
Net Investment in Capital Assets	\$ 602,694	\$ 628,896
Restricted	5,029,797	4,708,117
Unrestricted	1,705,364	2,586,168
Total Net Position	\$ 7,337,855	\$ 7,923,181

*\*The amounts included above for 2013 have been reclassified for comparative purposes.*

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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

	2014	2013
Revenues:		
Program Revenues:		
Charges for Services	\$ 44,508	\$ 48,887
Operating Grants and Contributions	263,260	20,785
General Revenues:		
Accommodations Taxes	687,374	724,489
Franchise Fees	45,736	39,053
State Shared Revenues, Fees in Lieu of Taxes	375,322	368,357
Other Revenues	9,582	12,894
Total Revenues	\$ 1,425,782	\$ 1,214,465
Expenses:		
General Government	\$ 172,715	\$ 150,018
Public Safety	408,570	389,632
Streets and Sanitation	1,310,737	33,633
Tourism and Promotion	84,188	96,616
Beach Renourishment	34,898	15,582
Total Expenses	\$ 2,011,108	\$ 685,481
 Increase (Decrease) in Net Position	 \$ (585,326)	 \$ 528,984
Net Position – Beginning	7,923,181	7,394,197
Net Position – Ending	\$ 7,337,855	\$ 7,923,181

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>2014</u>		<u>2013</u>	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
General Government	\$ 172,715	\$ (148,729)	\$ 150,018	\$ (125,913)
Public Safety	408,570	(388,048)	389,632	(364,850)
Streets and Sanitation	1,310,737	(1,067,227)	33,633	(33,633)
Tourism and Promotion	84,188	(84,188)	96,616	(96,616)
Beach Renourishment	34,898	(15,148)	15,582	5,203
Totals	<u>\$ 2,011,108</u>	<u>\$ (1,703,340)</u>	<u>\$ 685,481</u>	<u>\$ (615,809)</u>

As seen from the above table, the total net cost of the Town's activities for 2014 was \$1,703,340, as opposed to \$615,809 for the year 2013, an increase of \$1,087,531. Some of the costs were paid by those who directly benefited from the activities or by contributions and grants. Total expenses increased by \$1,325,627 primarily as a result of payments to Santee Cooper for the 1<sup>st</sup> phase of the underground wire project. Program revenue increased by \$238,096 as a result of donations by property owners to cover their share of the underground wire project.

The amount that the taxpayers financed through accommodations taxes for the year 2014 amounted to \$687,374 as opposed to \$724,489 for the year 2013. 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 decreased from \$2,708,717 as of December 31, 2013 to \$1,726,525 as of December 31, 2014. Of this amount, \$1,723,628 constitutes an assigned fund balance, approved by Council to be used towards completion costs of the underground wire project. The remainder is reported as "non-spendable" or "restricted" to indicate it is not available for new spending.

The decrease in total combined fund balances of all governmental funds by \$559,482 can be attributed to the following factors:

- Total revenues in 2014 totaled \$1,428,622 compared to \$1,214,331 at the end of 2013. The increase is primarily the result of property owner donations for their portion of the underground wire project.
- Total expenditures totaled \$1,988,104 compared to \$726,828 at the end of 2013. This increase is primarily the result of payments totaling \$1,278,426 to Santee Cooper to begin phase 1 of the underground wire project.

Total combined fund balances of all governmental funds at year-end amounted to \$6,737,584 a decrease of 7.7% from 2013. Of this amount, \$5,011,152 represents restricted fund balances, primarily restricted by Town Ordinance for future beach re-nourishment expenditures.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the actual expenditures in the general fund were less than the final budget by \$75,009 or 4.5%. Expenses were impacted predominately by less than budgeted costs to maintain police vehicles and slightly lower payments to the underground conversion project than budgeted. Actual revenues exceeded final budget by \$145,480 or 23.8%. Revenues were impacted predominately by greater than budgeted revenues in certain license tax programs and underground wire project donations.

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. State accommodations taxes were on budget with the 2014 actual income falling short of budget by only \$17. The Town has determined that, for many years, the Town has had more tourism related expenditures than revenues from State A-tax tourism related 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 tourism related 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 \$145,153 transfer to the Accommodations Tax Fund from the General Fund for the year 2014.

Variations between original and final budgeted amounts are a result of supplemental appropriations and expenditure revisions approved by Council during the year. During 2014, there was a net increase in expenditure appropriations of approximately \$1,286,606 for the general fund, primarily for payment to Santee Cooper for phase 1 of the underground wire project.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets: As of December 31, 2014, the Town had invested \$602,694 in net capital assets, including land, buildings and improvements, and other vehicles and equipment. Total capital assets decreased by \$26,202 with depreciation expense for the year of \$23,984.

The following schedule presents capital asset balances net of depreciation for the year ended December 31, 2014 and December 31, 2013.

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

	2014	2013
Land and Improvements	\$ 530,061	\$ 533,433
Buildings and Improvements	5,751	6,261
Vehicles, Furniture, and Equipment	66,882	89,202
Total Capital Assets, Net	\$ 602,694	\$ 628,896

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 2015 fiscal year will show an increase of about 2% in rentals expected for accommodations on which Accommodations Taxes are based, as well as revenue from license and fee programs consistent with 2014. Voluntary property owner donations to the underground wire project is predicted to be lower by about \$65,000 since a significant number of property owners elected to pay their full amount in either the first or the first 4 years instead of spreading their payments out over 10 years. 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 as a function of reduced investable assets.

Expenses are expected to decrease about \$260,000 over 2014 predominately because the payment to Santee Cooper for phase 2 of the underground wire project will be about \$375,000 less than the phase 1 payment made in 2014. This decrease will be offset by an increase in police department capital outlay expenditures for a replacement all-terrain vehicle, replacement of outdated radios, and warranty for the license plate cameras on the causeways.

**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, 2014**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 258,142
Investments	1,423,186
Receivables (Net of Allowance for Uncollectibles)	56,812
Prepaid Items	2,804
Restricted Assets:	
Cash and Cash Equivalents	19,874
Investments	5,107,852
Capital Assets:	
Nondepreciable - Land	503,500
Depreciable (Net of Accumulated Depreciation)	
Land Improvements	26,561
Buildings and Improvements	5,751
Vehicles and Equipment	66,882
Total Assets	<u>\$ 7,471,364</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 13,740
Compensated Absences Payable	4,348
Unearned Police Fine Revenues	421
Unearned Grant Revenues	115,000
Total Liabilities	<u>\$ 133,509</u>
<b>NET POSITION</b>	
Net Investment In Capital Assets	\$ 602,694
Restricted For:	
Public Safety	93
Tourism and Promotion	18,645
Beach Renourishment	5,011,059
Unrestricted	1,705,364
Total Net Position	<u><u>\$ 7,337,855</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, 2014**

<b>FUNCTIONS/PROGRAMS</b>	<b>Program Revenues</b>				<b>Net (Expense) Revenue and Change in Net Position</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>
Governmental Activities:					
General Government	\$ 172,715	\$ 23,986	\$ -	\$ -	\$ (148,729)
Public Safety	408,570	20,522	-	-	(388,048)
Streets and Sanitation	1,310,737	-	243,510	-	(1,067,227)
Tourism and Promotion	84,188	-	-	-	(84,188)
Beach Renourishment	34,898	-	19,750	-	(15,148)
Total Governmental Activities	\$ 2,011,108	\$ 44,508	\$ 263,260	\$ -	\$ (1,703,340)
<b>GENERAL REVENUES</b>					
					\$ 687,374
Accommodations Taxes					45,736
Franchise Fees					375,322
State Shared Revenues and Fees in Lieu of Taxes					9,155
Unrestricted Investment Earnings					427
Miscellaneous Revenues					1,118,014
Total General Revenues					\$ 1,118,014
<b>CHANGE IN NET POSITION</b>					
					\$ (585,326)
<b>NET POSITION - BEGINNING</b>					
					7,923,181
<b>NET POSITION - ENDING</b>					
					\$ 7,337,855

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

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2014**

	<b>General Fund</b>	<b>Accommodations Tax Fund</b>	<b>Beach Renourishment Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 237,656	\$ 20,486	\$ -	\$ 258,142
Cash and Cash Equivalents - Restricted	93	-	19,781	19,874
Investments	1,423,186	-	-	1,423,186
Investments - Restricted	119,446	-	4,988,406	5,107,852
Receivables (Net)	26,763	27,117	2,932	56,812
Prepays	2,804	-	-	2,804
Due From Other Funds	39,131	-	-	39,131
Total Assets	\$ 1,849,079	\$ 47,603	\$ 5,011,119	\$ 6,907,801
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 5,208	\$ 8,472	\$ 60	\$ 13,740
Unearned Police Fine Revenues	421	-	-	421
Unearned Grant Revenues	115,000	-	-	115,000
Due To Other Funds	-	39,131	-	39,131
Total Liabilities	\$ 120,629	\$ 47,603	\$ 60	\$ 168,292
<b>Deferred Inflows of Resources</b>				
Unavailable Police Fine Revenues	\$ 1,925	\$ -	\$ -	\$ 1,925
Total Deferred Inflows of Resources	\$ 1,925	\$ -	\$ -	\$ 1,925
<b>Fund Balances</b>				
<b>Nonspendable:</b>				
Prepaid Items	\$ 2,804	\$ -	\$ -	\$ 2,804
<b>Restricted For:</b>				
Victim's Assistance Program	93	-	-	93
Beach Renourishment	-	-	5,011,059	5,011,059
<b>Assigned For:</b>				
Underground Conversion	1,723,628	-	-	1,723,628
Total Fund Balances	\$ 1,726,525	\$ -	\$ 5,011,059	\$ 6,737,584
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,849,079	\$ 47,603	\$ 5,011,119	\$ 6,907,801

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, 2014**

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

Ending fund balances - governmental funds balance sheet	\$	6,737,584
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		602,694
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.		1,925
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>(4,348)</u>
Net position of governmental activities	\$	<u><u>7,337,855</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, 2014**

	<b>General Fund</b>	<b>Accommodations Tax Fund</b>	<b>Beach Renourishment Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Accommodations Tax	\$ 36,249	\$ 213,733	\$ 437,392	\$ 687,374
Franchise Fees	45,736	-	-	45,736
Fines and Fees	22,162	-	-	22,162
Local Government State Aid	2,206	-	-	2,206
Interest Income	9,088	67	19,750	28,905
MASC Programs	373,116	-	-	373,116
Special Events	23,986	-	-	23,986
Donations - Underground Wire	243,510	-	-	243,510
Miscellaneous	1,627	-	-	1,627
Total Revenues	\$ 757,680	\$ 213,800	\$ 457,142	\$ 1,428,622
<b>EXPENDITURES</b>				
Current				
General Government	\$ 106,044	\$ 59,326	\$ -	\$ 165,370
Public Safety	184,467	200,631	-	385,098
Streets and Sanitation	1,295,929	14,808	-	1,310,737
Tourism and Promotion	-	84,188	-	84,188
Beach Renourishment	-	-	34,432	34,432
Capital Outlay				
General Government	2,025	-	-	2,025
Public Safety	6,254	-	-	6,254
Total Expenditures	\$ 1,594,719	\$ 358,953	\$ 34,432	\$ 1,988,104
<b>EXCESS (DEFICIENCY) OF</b>				
<b>REVENUES OVER EXPENDITURES</b>	\$ (837,039)	\$ (145,153)	\$ 422,710	\$ (559,482)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	\$ -	\$ 145,153	\$ -	\$ 145,153
Transfers Out	(145,153)	-	-	(145,153)
Total Other Financing Sources (Uses)	\$ (145,153)	\$ 145,153	\$ -	\$ -
<b>NET CHANGE IN FUND BALANCES</b>	\$ (982,192)	\$ -	\$ 422,710	\$ (559,482)
<b>FUND BALANCES - BEGINNING</b>	2,708,717	-	4,588,349	7,297,066
<b>FUND BALANCES - ENDING</b>	\$ 1,726,525	\$ -	\$ 5,011,059	\$ 6,737,584

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, 2014**

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

Net change in fund balances - total governmental funds	\$	(559,482)
<p>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 depreciation expense exceeded capital outlay in the current period.</p>		
		(23,984)
<p>In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, only the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the book value of the capital assets sold or otherwise disposed of.</p>		
		(2,218)
<p>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.</p>		
		(1,640)
<p>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.</p>		
		<u>1,998</u>
Change in net position of governmental activities	\$	<u><u>(585,326)</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, 2014**

**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 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.

*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.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

*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.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

The fair value of the Town's position in the South Carolina Local Government Investment Pool (SCLGIP) is the same as the value of the pool shares. The SCLGIP is not registered with the Securities and Exchange Commission as an investment company. The State Treasurer is responsible for oversight of the SCLGIP.

**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.

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.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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, 2014**

**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, 2014 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.

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.

**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.

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**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**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, 2014**

**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**

**Deposits**

At year end, the Town's carrying amount of deposits with financial institutions (including certificates of deposit) was \$6,687,916 excluding petty cash of \$100, and the corresponding bank balance was \$6,702,785.

*Custodial Credit Risk* – For deposits, this 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, 2014, \$4,022,119 of the Town's bank balance of \$6,702,785 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. As of December 31, 2014, \$180 of the Town's bank balance was uninsured and uncollateralized.

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

**Investments**

State statutes authorize the Town to invest in obligations of the United States and agencies thereof, general obligations of the State of South Carolina or any of its political units, savings and loan associations to the extent that the same are insured by an agency of the federal government, certificates of deposit where the certificates are collaterally secured by securities of the type described above, or deposit accounts with banking institutions. The statutes provide that all authorized investments shall have maturities consistent with the time or times when the invested monies will be needed in cash. Statutes also allow the State Treasurer to assist local governments in investing funds. The Town is under no contractual agreements that restrict investment alternatives.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 2 - CASH & INVESTMENTS (continued)**

As of December 31, 2014, the Town's investments consisted of deposits with the South Carolina Local Government Investment Pool (SCLGIP) in the amount of \$121,038 and the corresponding account balance was \$81,038. It is the policy of the State Treasurer that the weighted average maturity of the LGIP portfolio not exceed 60 days.

*Custodial Credit Risk* - For investments, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Since deposits with the SCLGIP are not evidenced by securities that exist in physical or book-entry form, they are not exposed to custodial credit risk.

*Credit Risk* - The Town's investment in the SCLGIP was unrated. Funds deposited into the State Treasurer's investment pool are used to purchase: 1) direct obligations of the U.S. government, 2) federal agency securities, 3) repurchase agreements secured by the U.S. government and/or federal agency securities and 4) commercial paper rated A1/P1 (S&P/Moody's highest rating). Because the Town only invests in the SCLGIP, it does not have a policy regarding credit risk of its investment portfolio.

*Concentration of Credit Risk* - The Town's investment policy places no limit on the amount it may invest in any one issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in external investment pools are excluded from this disclosure requirement.

*Interest Rate Risk* - The Town's investment policy is to mitigate interest rate risk and ensure the preservation of capital in the overall portfolio. The Town manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio. Currently, the Town only invests in the external investment pool of the State Treasurer that limits its weighted average maturity to 60 days or less.

**NOTE 3 - RESTRICTED ASSETS**

Restricted assets of the Town at December 31, 2014 consist of the following:

	General	Beach Renourishment	Total
Cash and Investments Restricted for:			
Victims Assistance	\$ 93	\$ -	\$ 93
Underground Conversion	119,446	-	119,446
Beach Renourishment	-	5,008,187	5,008,187
	\$ 119,539	\$ 5,008,187	\$ 5,127,726

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**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**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	\$ 19,598	\$ -	\$ -	\$ 19,598
Fines and Fees	3,660	-	-	3,660
Intergovernmental	489	-	-	489
Interest	3,016	-	-	3,016
A-Tax	-	27,117	2,932	30,049
Gross Receivables	<u>\$ 26,763</u>	<u>\$ 27,117</u>	<u>\$ 2,932</u>	<u>\$ 56,812</u>
Less: Allowance for Uncollectible	-	-	-	-
Net Receivables	<u><u>\$ 26,763</u></u>	<u><u>\$ 27,117</u></u>	<u><u>\$ 2,932</u></u>	<u><u>\$ 56,812</u></u>

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2014 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	169,853	-	(31,093)	138,760
Total Capital Assets, Being Depreciated	<u>\$ 241,416</u>	<u>\$ -</u>	<u>\$ (31,093)</u>	<u>\$ 210,323</u>
Less Accumulated Depreciation For:				
Land Improvements	\$ (20,658)	\$ (3,372)	\$ -	\$ (24,030)
Buildings and Improvements	(14,711)	(510)	-	(15,221)
Vehicles, Furniture, and Equipment	(80,651)	(20,102)	28,875	(71,878)
Total Accumulated Depreciation	<u>\$ (116,020)</u>	<u>\$ (23,984)</u>	<u>\$ 28,875</u>	<u>\$ (111,129)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 125,396</u>	<u>\$ (23,984)</u>	<u>\$ (2,218)</u>	<u>\$ 99,194</u>
Capital Assets, Net	<u><u>\$ 628,896</u></u>	<u><u>\$ (23,984)</u></u>	<u><u>\$ (2,218)</u></u>	<u><u>\$ 602,694</u></u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 5 - CAPITAL ASSETS (continued)**

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

<b>Governmental Activities:</b>	
General Government	\$ 3,416
Public Safety	20,102
Beach Renourishment	<u>466</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 23,984</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, 2014 follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 39,131	\$ -
A-Tax Fund	<u>-</u>	<u>39,131</u>
Total	<u>\$ 39,131</u>	<u>\$ 39,131</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:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 145,153
A-Tax Fund	<u>145,153</u>	
Total	<u>\$ 145,153</u>	<u>\$ 145,153</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, 2014**

**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%
Assistant Administrator	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, 2014 were approximately \$26,060 and \$35,448, respectively. Annual covered wages amounted to \$352,306.

**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, 2014, 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, 2014, 2013, and 2012.

**NOTE 9 - NET POSITION RESTRICTED BY ENABLING LEGISLATION**

The Town has restricted total net position of its governmental activities in the amount of \$5,011,059 through enabling legislation for beach renourishment.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 10 - CONTINGENCIES**

In the opinion of Town management, after consultation with legal counsel, there are no material claims or litigation 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 – HURRICANE AND STORM DAMAGE REDUCTION PROJECT**

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, 2014, \$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, 2014.

**NOTE 12 - UNDERGROUND WIRE PROJECT**

In March of 2014, Town Council approved a project with Santee Cooper that expands the initial underground wire project and places all of the remaining electrical lines on the island underground. Following is an analysis of the construction costs at December 31, 2014:

	Estimated Completion Date	Estimated Project Costs	Less: Spent To Date	Remaining Balance
Underground Wire Project	Summer 2018	\$ 3,500,000	\$ 1,278,426	\$ 2,221,574
		\$ 3,500,000	\$ 1,278,426	\$ 2,221,574

The Town anticipates funding the \$3,500,000 project as follows:

Voluntary Property Owner Contributions - To be collected over 10 year period	\$ 1,452,500
Franchise Funds (described below) - To be collected over 10 year period	567,000
Town Share	1,480,500
Total Project Costs	\$ 3,500,000

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. Santee Cooper will discontinue their franchise match at the completion of the third phase of the underground wire project. The Town will continue its 5% franchise fee and use it towards final project costs. As of December 31, 2014 the "Underground Facilities Franchise Fund" held by Santee Cooper contained \$1,416,058 which included a contribution of \$1,278,426 from the Town for Phase I of the new project.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
State Accommodations Tax	\$ 36,250	\$ 36,250	\$ 36,249	\$ (1)
Franchise Fees	38,000	38,000	45,736	7,736
Fines and Fees	20,000	16,100	22,162	6,062
Local Government State Aid	3,000	3,000	2,206	(794)
Interest Income	14,000	14,000	9,088	(4,912)
MASC Programs	340,000	340,000	373,116	33,116
Special Events	20,000	20,000	23,986	3,986
Donations - Underground Wire	-	143,850	243,510	99,660
Miscellaneous	-	1,000	1,627	627
Total Revenues	\$ <u>471,250</u>	\$ <u>612,200</u>	\$ <u>757,680</u>	\$ <u>145,480</u>
<b>EXPENDITURES</b>				
General Government				
Advertising	\$ 500	\$ 500	\$ 307	\$ 193
Bank Charges	75	75	15	60
Capital Outlay	5,000	5,000	2,025	2,975
Communications	1,500	1,500	1,011	489
Computer	2,000	2,000	287	1,713
Decorations	1,200	1,200	1,872	(672)
Dues and Subscriptions	1,000	1,500	1,991	(491)
Health Insurance	3,600	3,600	3,600	-
Wellness Program	700	700	-	700
Insurance	13,000	13,000	12,158	842
Mileage Reimbursement	675	675	1,235	(560)
Miscellaneous	1,500	1,500	1,218	282
Ordinance Review/Revision	3,000	3,000	1,217	1,783
Postage	600	600	554	46
Printing	2,350	2,350	1,587	763
Professional Services	23,100	20,100	16,532	3,568
Rent	1,045	1,045	1,045	-
Repairs and Maintenance	3,500	3,500	1,028	2,472
Retirement	3,017	3,017	3,436	(419)
Salaries and Labor	32,780	32,780	35,300	(2,520)
Special Events	11,900	11,900	12,580	(680)
Supplies	3,000	3,000	3,196	(196)
Taxes and Licenses	4,552	4,552	3,079	1,473
Telephone	630	630	586	44
Training and Seminars	500	1,000	860	140
Utilities	1,100	1,350	1,350	-
Total General Government	\$ <u>121,824</u>	\$ <u>120,074</u>	\$ <u>108,069</u>	\$ <u>12,005</u>



**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES (continued)</b>				
Public Safety				
Automotive	\$ 21,500	\$ 21,500	\$ 15,631	\$ 5,869
Beach Access Security	-	1,100	991	109
Capital Outlay	5,800	8,700	6,254	2,446
Communications	2,100	2,100	1,913	187
Computer	2,500	2,500	1,189	1,311
Dues and Subscriptions	500	500	585	(85)
Health Insurance	10,560	10,560	10,560	-
Wellness Program	1,400	1,400	890	510
Insurance	8,200	8,200	7,418	782
Magistrate	2,160	2,340	2,160	180
Mileage Reimbursement	1,300	1,300	416	884
Miscellaneous	2,500	2,500	969	1,531
Printing	1,000	1,000	-	1,000
Repairs and Maintenance	1,700	1,700	1,533	167
Retirement	7,166	7,166	7,598	(432)
Salaries and Labor	107,338	107,338	108,278	(940)
Supplies	3,200	3,200	3,414	(214)
Taxes and Licenses	9,624	9,624	8,962	662
Telephone	4,200	4,200	4,538	(338)
Training and Seminars	1,500	2,200	856	1,344
Uniforms	4,500	4,500	2,227	2,273
Victim Services	-	4,300	4,339	(39)
Total Public Safety	\$ <u>198,748</u>	\$ <u>207,928</u>	\$ <u>190,721</u>	\$ <u>17,207</u>
Streets and Sanitation				
Animal Control	\$ 1,000	\$ 1,000	\$ 161	\$ 839
Annual Cleanup	1,050	1,050	1,229	(179)
Mowing	1,500	1,500	1,467	33
Park Maintenance	2,000	2,000	1,645	355
Repairs and Maintenance	8,000	8,000	3,844	4,156
Street Sign Work	2,500	2,500	60	2,440
Supplies	3,500	3,500	2,323	1,177
Trash Removal	3,000	3,750	3,648	102
Underground Conversion	40,000	1,318,426	1,281,552	36,874
Total Streets and Sanitation	\$ <u>62,550</u>	\$ <u>1,341,726</u>	\$ <u>1,295,929</u>	\$ <u>45,797</u>
Total Expenditures	\$ <u>383,122</u>	\$ <u>1,669,728</u>	\$ <u>1,594,719</u>	\$ <u>75,009</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ <u>88,128</u>	\$ <u>(1,057,528)</u>	\$ <u>(837,039)</u>	\$ <u>220,489</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer to Accommodations Tax Fund	\$ (139,650)	\$ (141,920)	\$ (145,153)	\$ (3,233)
Total Other Financing Sources (Uses)	\$ (139,650)	\$ (141,920)	\$ (145,153)	\$ (3,233)
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (51,522)</b>	<b>\$ (1,199,448)</b>	<b>\$ (982,192)</b>	<b>\$ 217,256</b>
<b>FUND BALANCE - BEGINNING</b>	<u>2,708,717</u>	<u>2,708,717</u>	<u>2,708,717</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 2,657,195</u></u>	<u><u>\$ 1,509,269</u></u>	<u><u>\$ 1,726,525</u></u>	<u><u>\$ 217,256</u></u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
ACCOMMODATIONS TAX FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
State Accommodations Tax	\$ 213,750	\$ 213,750	\$ 213,733	\$ (17)
Interest Income	-	-	67	67
Total Revenues	<u>\$ 213,750</u>	<u>\$ 213,750</u>	<u>\$ 213,800</u>	<u>\$ 50</u>
<b>EXPENDITURES</b>				
General Government				
Salaries and Benefits	\$ 54,340	\$ 54,340	\$ 56,607	\$ (2,267)
Telephone	1,470	1,470	1,368	102
Utilities	1,100	1,350	1,351	(1)
Total General Government	<u>\$ 56,910</u>	<u>\$ 57,160</u>	<u>\$ 59,326</u>	<u>\$ (2,166)</u>
Advertising and Promotion				
Contributions	\$ 12,000	\$ 12,000	\$ 12,105	\$ (105)
PICA Promotion Committee	64,125	64,125	67,495	(3,370)
Brochure	2,000	2,000	1,756	244
Website	3,800	3,800	2,832	968
Total Advertising and Promotion	<u>\$ 81,925</u>	<u>\$ 81,925</u>	<u>\$ 84,188</u>	<u>\$ (2,263)</u>
Public Safety				
Insurance	\$ 12,300	\$ 12,300	\$ 11,126	\$ 1,174
Salaries and Benefits	189,315	189,585	189,505	80
Total Public Safety	<u>\$ 201,615</u>	<u>\$ 201,885</u>	<u>\$ 200,631</u>	<u>\$ 1,254</u>
Streets and Sanitation				
Annual Cleanup	\$ 2,450	\$ 2,450	\$ 2,869	\$ (419)
Mowing	3,500	3,500	3,424	76
Trash Removal	7,000	8,750	8,515	235
Total Streets and Sanitation	<u>\$ 12,950</u>	<u>\$ 14,700</u>	<u>\$ 14,808</u>	<u>\$ (108)</u>
Total Expenditures	<u>\$ 353,400</u>	<u>\$ 355,670</u>	<u>\$ 358,953</u>	<u>\$ (3,283)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (139,650)</u>	<u>\$ (141,920)</u>	<u>\$ (145,153)</u>	<u>\$ (3,233)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from General Fund	\$ 139,650	\$ 141,920	\$ 145,153	\$ 3,233
Total Other Financing Sources (Uses)	<u>\$ 139,650</u>	<u>\$ 141,920</u>	<u>\$ 145,153</u>	<u>\$ 3,233</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ -	\$ -	\$ -	\$ -
<b>FUND BALANCE - BEGINNING</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Accommodations Tax	\$ 425,000	\$ 425,000	\$ 437,392	\$ 12,392
Interest Income	16,000	16,000	19,750	3,750
Total Revenues	<u>\$ 441,000</u>	<u>\$ 441,000</u>	<u>\$ 457,142</u>	<u>\$ 16,142</u>
<b>EXPENDITURES</b>				
Beach Renourishment Projects				
Beach Management	\$ 10,000	\$ 10,000	\$ 8,760	\$ 1,240
Beach Renourishment	-	36,410	25,459	10,951
Sand Fence Project	4,000	4,000	213	3,787
Terminal Groin Support	45,000	5,000	-	5,000
Total Beach Renourishment	<u>\$ 59,000</u>	<u>\$ 55,410</u>	<u>\$ 34,432</u>	<u>\$ 20,978</u>
Total Expenditures	<u>\$ 59,000</u>	<u>\$ 55,410</u>	<u>\$ 34,432</u>	<u>\$ 20,978</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 382,000</u>	<u>\$ 385,590</u>	<u>\$ 422,710</u>	<u>\$ 37,120</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 382,000	\$ 385,590	\$ 422,710	\$ 37,120
<b>FUND BALANCE - BEGINNING</b>	<u>4,588,349</u>	<u>4,588,349</u>	<u>4,588,349</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 4,970,349</u></u>	<u><u>\$ 4,973,939</u></u>	<u><u>\$ 5,011,059</u></u>	<u><u>\$ 37,120</u></u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**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 \$3,283 for the year ended December 31, 2014.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**COURT FINES**

Court Fines Collected	\$	19,787
Court Fines Retained by Town		<u>(19,787)</u>
 Court Fines Remitted to the State Treasurer	 \$	 <u><u>-</u></u>

**COURT ASSESSMENTS**

Court Assessments Collected	\$	4,544
Court Assessments Retained by Town		<u>(541)</u>
 Court Assessments Remitted to the State Treasurer	 \$	 <u><u>4,003</u></u>

**COURT SURCHARGES**

Court Surcharges Collected	\$	2,575
Court Surcharges Retained by Town		<u>(75)</u>
 Court Surcharges Remitted to the State Treasurer	 \$	 <u><u>2,500</u></u>

**DPS PULLOUTS**

DPS Pullouts Collected	\$	300
DPS Pullouts Retained by Town		<u>-</u>
 DPS Pullouts Remitted to the State Treasurer	 \$	 <u><u>300</u></u>

**VICTIMS SERVICES**

Court Assessments Allocated to Victim Services	\$	541
Court Surcharges Allocated to Victim Services		<u>75</u>
 Total Funds Allocated to Victim Services	 \$	 616
Victim Services Expenditures		(4,339)
Prior Year Carryforward		<u>3,816</u>
 Victim Services Funds Available for Carryforward	 \$	 <u><u>93</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, 2014, 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 25, 2015.

***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 and significant deficiencies.

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 2014-001 described in the accompanying schedule of findings and responses to be a material weakness.

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 25, 2015



**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**A. Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on the basic financial statements.
2. One control deficiency was disclosed during the audit of the basic financial statements. This deficiency is reported as a material weakness.
3. No instances of material noncompliance were disclosed during the audit of the financial statements.
4. There were no major federal award programs for the year ended December 31, 2014; 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, 2014; 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, 2014; 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**

***2014-001 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, 2014**

**B. Findings - Financial Statement Audit (continued)**

*2014-001 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.

**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, 2014**

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, 2014.