

TOWN OF PAWLEYS ISLAND
SOUTH CAROLINA

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2018

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Robert D. Harper, Jr. CPA
Stacey C. Moree CPA
P. O. Box 1550
106 Wall Street, Litchfield
Pawleys Island, SC 29585
Tel (843) 237-9125
Fax (843) 237-1621
E-mail: HPM@sc.rr.com

Robin B. Poston CPA
P. O. Box 576
307 Church Street
Georgetown, SC 29442
Tel (843) 527-3413
Fax (843) 546-7277
E-mail: HPM2@sc.rr.com

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, 2018, 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, 2018, 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 32 through 37 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 October 7, 2019 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
October 7, 2019

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2018**

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, 2018. 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 \$587,469, which represents a 7.5% increase from fiscal year end 2017.
- The unrestricted net position totaled \$835,413 at year-end compared to \$830,591 at the end of 2017. 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 \$1,787,447 compared to \$2,352,903 at the end of 2017, a decrease of 24.0%. The decrease is primarily the result of receiving less grants and reimbursements for storm damage costs after Hurricane events, and far less in pledges and private donations to help fund the new Town Hall. The underground wire donations accounted for \$113,280 in revenue for 2018, which is \$83,133 less than collected in 2017. The decrease is the result of a growing number of property owners paying off the balance owed and discontinuing the installment payments. The town collected 4.2% more in total Accommodations Tax revenue, which can be attributed to slightly more properties being offered as short-term vacation rentals, and less market disruption during the hurricane season.
- Total expenditures totaled \$1,958,485 compared to \$1,375,863 at the end of 2017. The increase in expenditures is predominately due to the costs associated with the construction of the new Town Hall and police department facility.
- Our principal operating fund, the General Fund, had \$662,513 in year 2018 revenues versus \$761,589 in year 2017. The lower total revenue is the due to the decrease in underground wire payments and less reimbursements for storm damage related expenses. Other operating income consisted of inter-governmental revenues, interest, and accommodations tax and license fee income. The General Fund had \$499,332 in expenditures versus \$435,546 in 2017, the increase is

attributed to the purchase of a new police vehicle and the need for additional police department manpower for evacuation during Hurricane Florence.

- 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 2018. 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 four 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, beach re-nourishment fund, and capital projects 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 18-31 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 32-37 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 by \$8,376,041 as of December 31, 2018, an increase of 7.5% compared to the net position of \$7,788,572 as of December 31, 2017.

The major portion of the Town's net position (72.6%) 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. A smaller portion of the Town's net position (9.8%) reflects its unrestricted part of the net position that that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other requirements.

The following table presents a summary of the Town's net position for the year ended December 31, 2018 and December 31, 2017:

NET POSITION
GOVERNMENTAL ACTIVITIES

	2018	2017
Current and Other Assets	\$ 7,026,380	\$ 7,195,982
Capital Assets	1,460,371	678,235
Total Assets	\$ 8,486,751	\$ 7,874,217
 Current Liabilities	\$ 110,710	\$ 85,645
Total Liabilities	\$ 110,710	\$ 85,645
 Net Position:		
Net Investment in Capital Assets	\$ 1,460,371	\$ 678,235
Restricted	6,080,257	6,279,746
Unrestricted	835,413	830,591
Total Net Position	\$ 8,376,041	\$ 7,788,572

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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 or decrease in net position as a result of those activities:

CHANGE IN NET POSITION
GOVERNMENTAL ACTIVITIES

	2018	2017
Revenues:		
Program Revenues:		
Charges for Services	\$ 56,946	\$ 46,940
Operating Grants and Contributions	316,382	587,558
Capital Grants and Contributions	198,400	563,126
General Revenues:		
Accommodations Taxes	774,659	743,450
Franchise Fees	49,616	44,974
State Shared Revenues, Fees in Lieu of Taxes	364,654	352,320
Other Revenues	26,790	14,535
Total Revenues	\$ 1,787,447	\$ 2,352,903
Expenses:		
General Government	\$ 291,479	\$ 257,095
Public Safety	500,382	466,713
Streets and Sanitation	46,185	48,256
Tourism and Promotion	100,275	89,396
Beach Renourishment	261,657	508,685
Total Expenses	\$ 1,199,978	\$ 1,370,145
 Increase (Decrease) in Net Position	 \$ 587,469	 \$ 982,758
Net Position – Beginning	7,788,572	6,805,814
Net Position – Ending	\$ 8,376,041	\$ 7,788,572

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>2018</u>		<u>2017</u>	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
General Government	\$ 291,479	\$ (38,633)	\$ 257,095	\$ 344,281
Public Safety	500,382	(482,174)	466,713	(451,014)
Streets and Sanitation	46,185	67,095	48,256	148,157
Tourism and Promotion	100,275	(100,275)	89,396	(89,396)
Beach Renourishment	261,657	(74,263)	508,685	(124,549)
Totals	<u>\$ 1,199,978</u>	<u>\$ (628,250)</u>	<u>\$ 1,370,145</u>	<u>\$ (172,521)</u>

As seen from the above table, the total net cost of the Town's activities for 2018 was \$628,250 as opposed to \$172,521 for the year 2017, an increase of \$455,729. Some of the costs were paid by those who directly benefited from the activities or by contributions and grants. Total expenses decreased by \$170,167 which can be primarily attributed to lower beach management costs. The reduction is the result of the town's decision to put its beach renourishment project on hold to partner with the United States Army Corps of Engineers to complete their approved 2004 federal project. With the Army Corp's involvement it greatly reduced the town's need for engineering services. Program revenue decreased by \$625,896 as a result of receiving less grants and reimbursements for storm damage costs after Hurricane events, and far less in pledges and private donations to help fund the new Town Hall.

The amount that the taxpayers financed through accommodations taxes for the year 2018 amounted to \$774,659 as opposed to \$743,450 for the year 2017. 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 \$809,754 as of December 31, 2017 to \$762,186 as of December 31, 2018. Of this amount, \$761,321 constitutes an "unassigned" fund balance, which is available for spending at the government's discretion. The remainder is reported as "non-spendable", "restricted", or "assigned" to indicate it is not available for new spending.

The increase in total combined fund balances of all governmental funds by \$67,580 can be attributed to the following factors:

- Total revenues in 2018 totaled \$2,023,826 compared to \$2,533,272 at the end of 2017. The decrease is primarily the result of receiving less grant funds and reimbursements for storm damage costs after Hurricane events, and less in private donations to fund the new Town Hall facility.
- Total expenditures in 2018 totaled \$1,958,485 compared to \$1,375,863 at the end of 2017. This increase is primarily due to the purchase and up fit of a police vehicle, and the cost of construction for the Town Hall and Police Department.
- The town's decision to put its beach renourishment project on hold to partner with the United States Army Corps of Engineers reduced the town's need for engineering services. As a result, beach renourishment expenses decreased by \$247,028 from the previous year.

Total combined fund balances of all governmental funds at year-end amounted to \$6,868,190, an increase of 1.0% from 2017. Of this amount, \$6,051,543 represents total restricted fund balances, primarily restricted by Town Ordinance for future beach renourishment expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the actual expenditures in the general fund were less than the final budget by \$45,531 or 8.4%. Expenses were impacted by less than budgeted costs for streets and sanitation, court expenses and ordinance review. Actual revenues exceeded final budget by \$14,193 or 2.2%. Revenues were impacted predominately by greater than budgeted income from grants and business license taxes collected by the Municipal Association of South Carolina on behalf of the town.

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 the beach re-nourishment fund, is provided in this report as required supplementary information. Local and State accommodations taxes exceeded budget by \$14,800 which can be explained by a less disruptive hurricane season which translated into improved occupancy rates. 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 \$92,388 transfer to the Accommodations Tax Fund from the General Fund for the year 2018.

Variations between original and final budgeted amounts are a result of supplemental appropriations and expenditure revisions approved by Council during the year. During 2018, there was a net increase in expenditure appropriations of approximately \$50,531 for the general fund, primarily the result of purchasing a new police vehicle and necessary equipment (lightbar, radar, etc.).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: As of December 31, 2018, the Town had invested \$1,460,371 in net capital assets, including land, buildings and improvements, and other vehicles and equipment. Total capital assets increased by \$782,136 with depreciation expense for the year of \$32,667.

The following schedule presents capital asset balances net of depreciation for the year ended December 31, 2018 and December 31, 2017.

CAPITAL ASSETS (NET OF DEPRECIATION) GOVERNMENTAL ACTIVITIES		
	2018	2017
Land and Improvements	\$ 592,561	\$ 574,928
Construction in Progress	783,076	26,457
Buildings and Improvements	3,714	4,223
Vehicles, Furniture, and Equipment	81,020	72,627
Total Capital Assets, Net	\$ 1,460,371	\$ 678,235

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

Vacation rental income is expected to increase in 2019, which will result in more revenue generated by Accommodations Taxes. The same trend is unlikely to influence revenue obtained from license and fee programs, producing results consistent with 2018. Voluntary donations to the underground wire project will begin to taper off with a growing number of property owners already satisfying their financial contribution to the project. Fine and fee income will remain consistent with last year, and interest income will continue to be a relevant source of revenue as a function of reasonable yields from the Town’s funds on deposit.

In January of 2019 the town council unanimously approved reducing the town's police force by 1 full-time position. A decision that trimmed the full time police department staff by 20% and reduced the department's annual operating budget by 6.4%. The concern is the department's ability to provide adequate staffing during the summer tourism season and avoid overextending the officers through longer hours. It's possible that longer hours could translate into excessive overtime and inadvertently negate the savings created by eliminating a position.

Beach renourishment is on schedule for 2019 and the total project cost will be approximately \$14,900,000. The State of South Carolina will contribute \$5,700,000 towards the project and the town will provide another \$6,100,000 from its beach fund reserve balance. The town will issue a Local Accommodations Tax Revenue Bond to fund the remaining \$2,800,000, which will be repaid over a 15 year period with future local accommodations tax revenue dedicated for beach renourishment. The project will deplete the beach fund reserve balance and greatly diminish the town's capacity to rebuild it since most of the future local accommodations tax revenue will go to servicing debt.

When the Town agreed to move forward with the underground wire project back in 2014, it agreed to pay Santee Cooper an upfront \$220,000 contingency to account for uncertainty that could potentially affect the final cost of the project. Santee Cooper failed to collect the contingency at the beginning of the contract; therefore the Town is still contingently liable for part of or all of the contingency factor at the completion of the project. The project wrapped up in October 2018 and in March 2019 Santee Cooper informed the Town that, due largely to the accelerated timeline requested by the Town to hire a local attorney to obtain property easements to conduct the work, the actual project costs exceeded the estimated project costs by \$333,702. Forty percent of the town's franchise fees are still being held by Santee Cooper for the purpose of underground wire work and it is being applied to the outstanding balance, although this is not a long term solution. Santee Cooper understands the town's current budget constraints and they have said they are willing to work with us to the best of their abilities on satisfying the debt.

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 Administrator at 323 Myrtle Avenue, Pawleys Island, SC 29585.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 367,660
Investments	474,115
Receivables (Net of Allowance for Uncollectibles)	426,561
Prepaid Items	854
Restricted Assets:	
Cash and Cash Equivalents	108,347
Investments	5,648,843
Capital Assets:	
Nondepreciable:	
Land	528,500
Construction in Progress	783,076
Depreciable (Net of Accumulated Depreciation)	
Land Improvements	64,061
Buildings and Improvements	3,714
Vehicles and Equipment	81,020
Total Assets	<u>\$ 8,486,751</u>
LIABILITIES	
Accounts Payable	\$ 98,824
Salaries and Benefits Payable	6,602
Compensated Absences Payable	4,324
Unearned Police Fine Revenues	960
Total Liabilities	<u>\$ 110,710</u>
NET POSITION	
Net Investment In Capital Assets	\$ 1,460,371
Restricted For:	
Public Safety	11
Tourism and Promotion	28,714
Beach Renourishment	6,051,532
Unrestricted	835,413
Total Net Position	<u>\$ 8,376,041</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, 2018**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position Governmental Activities
	Charges for Services	Operating Grants and Contributions		Grants and Contributions	
Governmental Activities:					
General Government	\$ 291,479	\$ 38,738	\$ 15,708	\$ 198,400	\$ (38,633)
Public Safety	500,382	18,208	-	-	(482,174)
Streets and Sanitation	46,185	-	113,280	-	67,095
Tourism and Promotion	100,275	-	-	-	(100,275)
Beach Renourishment	261,657	-	187,394	-	(74,263)
Total Governmental Activities	\$ 1,199,978	\$ 56,946	\$ 316,382	\$ 198,400	\$ (628,250)
GENERAL REVENUES					
					\$ 774,659
Accommodations Taxes					49,616
Franchise Fees					364,654
State Shared Revenues and Fees in Lieu of Taxes					13,026
Unrestricted Investment Earnings					13,764
Miscellaneous Revenues					1,215,719
Total General Revenues					\$ 1,215,719
CHANGE IN NET POSITION					
					\$ 587,469
NET POSITION - BEGINNING					
					7,788,572
NET POSITION - ENDING					
					\$ 8,376,041

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

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	<u>General Fund</u>	<u>Accommodations Tax Fund</u>	<u>Beach Renourishment Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 238,414	\$ 10,011	\$ -	\$ 119,235	\$ 367,660
Cash and Cash Equivalents - Restricted	11	-	108,336	-	108,347
Investments	474,115	-	-	-	474,115
Investments - Restricted	-	-	5,648,843	-	5,648,843
Receivables (Net)	37,365	40,613	302,583	46,000	426,561
Prepays	854	-	-	-	854
Due From Other Funds	40,091	1,139	-	-	41,230
Total Assets	<u>\$ 790,850</u>	<u>\$ 51,763</u>	<u>\$ 6,059,762</u>	<u>\$ 165,235</u>	<u>\$ 7,067,610</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 7,298	\$ 11,899	\$ 6,864	\$ 72,763	\$ 98,824
Salaries and Benefits Payable	6,602	-	-	-	6,602
Unearned Police Fine Revenues	960	-	-	-	960
Due To Other Funds	-	39,864	1,366	-	41,230
Total Liabilities	<u>\$ 14,860</u>	<u>\$ 51,763</u>	<u>\$ 8,230</u>	<u>\$ 72,763</u>	<u>\$ 147,616</u>
Deferred Inflows of Resources					
Unavailable Police Fine Revenues	\$ 2,060	\$ -	\$ -	\$ -	\$ 2,060
Unavailable Grant Revenues	11,744	-	-	-	11,744
Unavailable Pledge Revenues	-	-	-	38,000	38,000
Total Deferred Inflows of Resources	<u>\$ 13,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,000</u>	<u>\$ 51,804</u>
Fund Balances					
Nonspendable:					
Prepaid Items	\$ 854	\$ -	\$ -	\$ -	\$ 854
Restricted For:					
Victim's Assistance Program	11	-	-	-	11
Beach Renourishment	-	-	6,051,532	-	6,051,532
Assigned For:					
New Town Hall	-	-	-	54,472	54,472
Unassigned	761,321	-	-	-	761,321
Total Fund Balances	<u>\$ 762,186</u>	<u>\$ -</u>	<u>\$ 6,051,532</u>	<u>\$ 54,472</u>	<u>\$ 6,868,190</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 790,850</u>	<u>\$ 51,763</u>	<u>\$ 6,059,762</u>	<u>\$ 165,235</u>	<u>\$ 7,067,610</u>

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, 2018

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

Ending fund balances - governmental funds balance sheet	\$	6,868,190
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,460,371
Other long-term assets, such as taxes, fines, grants, and pledges receivable, are not available to pay for current period expenditures and, therefore, are reported as deferred inflows in the funds.		51,804
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>(4,324)</u>
Net position of governmental activities	\$	<u><u>8,376,041</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, 2018

	General Fund	Accommodations Tax Fund	Beach Renourishment Fund	Capital Projects Fund	Total Governmental Funds
REVENUES					
Accommodations Tax	\$ 38,109	\$ 249,061	\$ 487,489	\$ -	\$ 774,659
Franchise Fees	49,616	-	-	-	49,616
Fines and Fees	15,813	-	-	-	15,813
Local Government State Aid	2,323	-	-	-	2,323
Interest Income	11,054	-	113,063	1,972	126,089
MASC Programs	362,331	-	-	-	362,331
Special Events	38,738	-	-	-	38,738
Donations - Underground Wire	113,280	-	-	-	113,280
Donations - Town Hall	-	-	-	128,400	128,400
Brick Sales - Town Hall	-	-	-	84,000	84,000
Grants	15,885	-	297,328	-	313,213
Miscellaneous	15,364	-	-	-	15,364
Total Revenues	\$ 662,513	\$ 249,061	\$ 897,880	\$ 214,372	\$ 2,023,826
EXPENDITURES					
Current					
General Government	\$ 193,333	\$ 87,747	\$ -	\$ 6,089	\$ 287,169
Public Safety	231,411	233,292	-	-	464,703
Streets and Sanitation	28,250	17,935	-	-	46,185
Tourism and Promotion	-	100,275	-	-	100,275
Beach Renourishment	-	-	257,196	-	257,196
Capital Outlay					
General Government	1,340	-	-	756,619	757,959
Public Safety	44,998	-	-	-	44,998
Total Expenditures	\$ 499,332	\$ 439,249	\$ 257,196	\$ 762,708	\$ 1,958,485
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	\$ 163,181	\$ (190,188)	\$ 640,684	\$ (548,336)	\$ 65,341
OTHER FINANCING SOURCES AND FINANCING (USES)					
Insurance Proceeds	\$ 2,239	\$ -	\$ -	\$ -	\$ 2,239
Transfers In	-	190,188	-	120,600	310,788
Transfers Out	(212,988)	-	(97,800)	-	(310,788)
Total Other Financing Sources and Financing (Uses)	\$ (210,749)	\$ 190,188	\$ (97,800)	\$ 120,600	\$ 2,239
NET CHANGE IN FUND BALANCE	\$ (47,568)	\$ -	\$ 542,884	\$ (427,736)	\$ 67,580
FUND BALANCES - BEGINNING	809,754	-	5,508,648	482,208	6,800,610
FUND BALANCES - ENDING	\$ 762,186	\$ -	\$ 6,051,532	\$ 54,472	\$ 6,868,190

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, 2018**

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

Net change in fund balances - total governmental funds	\$	67,580
<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 capital outlays exceeded depreciation expense in the current period.</p>		
		757,136
<p>Contributions of capital assets are reported as revenues in the statement of activities, but are not recognized as revenues in governmental funds. This is the fair value of property donated for construction of the new town hall facility.</p>		
		25,000
<p>Revenues in the statement of activities, such as taxes, fines, grants, and pledges 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>		
		(261,379)
<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>(868)</u>
Change in net position of governmental activities	\$	<u><u>587,469</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, 2018

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, 2018

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 and hospitality 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, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Projects Fund: Used to account for capital expenditures related to construction of a new Town Hall and to account for the funds collected to finance construction costs.

The Town reports the General Fund, Accommodations Tax Fund, Beach Renourishment Fund, and the Capital Projects 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 South Carolina Local Government Investment Pool (SCLGIP) investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The SCLGIP is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or governing body of any political subdivision of the State, may be deposited. The SCLGIP is a 2a 7-like pool which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. The State Treasurer is responsible for oversight of the SCLGIP. The fair value of the Town's position in the SCLGIP is the same as the value of the pool shares. The total value of the SCLGIP is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by SCLGIP participants at any time and may be withdrawn upon 24 hours' notice. The SCLGIP is included as an investment trust fund in the State of South Carolina Comprehensive Annual Financial Report. The underlying security ratings of the investments in the SCLGIP are classified in risk category "A". Detailed information may be obtained from the SCLGIP's complete financial statements by writing the Office of the State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211.

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.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 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 their acquisition 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

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2018 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.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 prepaid items or advances from other funds) 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, 2018

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.

Fair Value

The fair value measurement and disclosure framework provides for a three-tier fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Town can access at the measurement date.

Level 2 – Inputs to the valuation methodology, other than quoted prices included in Level 1, that are observable for an asset or liability either directly or indirectly and include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology that are unobservable for an asset or liability and include:

- Fair value is often based on developed models in which there are few, if any, observable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable values or reflective of future fair values. The Town believes that the valuation methods used are appropriate and consistent with GAAP. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no significant changes from the prior year in the methodologies used to measure fair value.

NOTE 2 - CASH & INVESTMENTS

Deposits

At year end, the Town's carrying amount of deposits with financial institutions (including certificates of deposit) was \$475,907 excluding petty cash of \$100, and the corresponding bank balance was \$478,481.

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, 2018, none of the Town's bank balances of \$478,481 were exposed to custodial credit risk because they were fully insured by the Federal Deposit Insurance Corporation.

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.

As of December 31, 2018, the Town's investments consisted of deposits with the South Carolina Local Government Investment Pool (SCLGIP) in the amount of \$6,122,958 and the corresponding account balance was \$6,122,958. 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.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 - CASH & INVESTMENTS (continued)

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, 2018 consist of the following:

	<u>General</u>	<u>Beach Renourishment</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 11	\$ 108,336	\$ 108,347
Investments	-	5,648,843	5,648,843
Total	<u>\$ 11</u>	<u>\$ 5,757,179</u>	<u>\$ 5,757,190</u>

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>Capital Projects</u>	<u>Total</u>
Receivables:					
Franchise Fees	\$ 22,560	\$ -	\$ -	\$ -	\$ 22,560
Fines and Fees	2,480	-	-	-	2,480
Intergovernmental	11,744	-	297,328	-	309,072
State Aid	581	-	-	-	581
A-Tax	-	40,613	5,255	-	45,868
Pledges	-	-	-	46,000	46,000
Gross Receivables	<u>\$ 37,365</u>	<u>\$ 40,613</u>	<u>\$ 302,583</u>	<u>\$ 46,000</u>	<u>\$ 426,561</u>
Less: Allowance for Uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Receivables	<u>\$ 37,365</u>	<u>\$ 40,613</u>	<u>\$ 302,583</u>	<u>\$ 46,000</u>	<u>\$ 426,561</u>

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 4 – RECEIVABLES (continued)

The Town expects to collect all receivables within the subsequent year with the exception of pledges receivable. The following schedule lists pledges receivable by year.

<u>Year Ended December 31</u>	<u>Pledges Receivable</u>
2019	\$ 28,000
2020	<u>18,000</u>
Totals	<u>\$ 46,000</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated				
Land	\$ 503,500	\$ 25,000	\$ -	\$ 528,500
Construction in Progress	<u>26,457</u>	<u>756,619</u>	<u>-</u>	<u>783,076</u>
Total Capital Assets, Not Depreciated	<u>\$ 529,957</u>	<u>\$ 781,619</u>	<u>\$ -</u>	<u>\$ 1,311,576</u>
Capital Assets, Being Depreciated				
Land Improvements	\$ 110,509	\$ -	\$ -	\$ 110,509
Buildings and Improvements	20,972	-	-	20,972
Vehicles, Furniture, and Equipment	<u>189,216</u>	<u>33,184</u>	<u>-</u>	<u>222,400</u>
Total Capital Assets, Being Depreciated	<u>\$ 320,697</u>	<u>\$ 33,184</u>	<u>\$ -</u>	<u>\$ 353,881</u>
Less Accumulated Depreciation For:				
Land Improvements	\$ (39,081)	\$ (7,367)	\$ -	\$ (46,448)
Buildings and Improvements	(16,749)	(509)	-	(17,258)
Vehicles, Furniture, and Equipment	<u>(116,589)</u>	<u>(24,791)</u>	<u>-</u>	<u>(141,380)</u>
Total Accumulated Depreciation	<u>\$ (172,419)</u>	<u>\$ (32,667)</u>	<u>\$ -</u>	<u>\$ (205,086)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 148,278</u>	<u>\$ 517</u>	<u>\$ -</u>	<u>\$ 148,795</u>
Capital Assets, Net	<u>\$ 678,235</u>	<u>\$ 782,136</u>	<u>\$ -</u>	<u>\$ 1,460,371</u>

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

Governmental Activities:	
General Government	\$ 3,415
Public Safety	24,791
Beach Renourishment	<u>4,461</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 32,667</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018 follows.

	Due From <u>Other Funds</u>	Due To <u>Other Funds</u>
General Fund	\$ 40,091	\$ -
A-Tax Fund	1,139	39,864
Beach Renourishment	-	1,366
Total	<u>\$ 41,230</u>	<u>\$ 41,230</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	\$ -	\$ 212,988
A-Tax Fund	190,188	-
Beach Renourishment	-	97,800
Capital Projects	120,600	-
Total	<u>\$ 310,788</u>	<u>\$ 310,788</u>

In October 2018, the Town made a non-routine transfer of \$120,000 from the General Fund to the Capital Projects Fund for construction costs related to the new Town Hall Facility.

NOTE 7 - RETIREMENT PLAN

The Town contributes to a defined contribution pension plan established under the provisions of IRS Code Section 401(A) and Section 457 for its full-time employees. The plan is administered by ICMA-RC.

Benefit terms, including contribution requirements, for the plan are established and may be amended by Town Council. Participation in the plan is voluntary; however, for those employees that elect participation, both employees and the employer are required to contribute to the plan at the rates listed below as established in the plan document. Each employee is also allowed to voluntarily contribute to the plan up to allowed IRS limits. Each participant directs the investment of their individual plan account.

For the year ended December 31, 2018, required employee contributions totaled \$31,037, and the Town recognized pension expense of \$33,571.

	<u>Employee</u>	<u>Employer</u>
Chief of Police	10.0%	10.5%
Administrator	10.0%	12.0%
Police Officers and Clerk	6.0%	6.5%

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 7 - RETIREMENT PLAN (continued)

Employees are immediately vested in their own contributions and earnings on those contributions and become fully vested in Town contributions and earnings on Town contributions after five years of credited service with the Town. Nonvested Town contributions are forfeited upon termination of employment. There were no forfeitures for the current year. As of December 31, 2018, the Town reported no outstanding payables to the plan.

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, 2018, 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, 2018, 2017, and 2016.

NOTE 9 - NET POSITION RESTRICTED BY ENABLING LEGISLATION

The Town has restricted total net position of its governmental activities in the amount of \$6,051,532 through enabling legislation for beach renourishment with a local accommodations and hospitality tax.

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.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 11 – OPERATING LEASES

During November 2016, the Town entered into a contingent rental agreement for office equipment. The Town is only charged for copies and supplies under the contingent rental agreement. Total cost for the contingent rental agreement in 2018 was \$878.

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, 2018:

	Completion Date	Total Estimated Project Costs	Project Costs Net of Available Franchise Funds	Less: Spent To Date
Underground Wire Project	October 2018	\$ 3,500,000	\$ 3,071,426	\$ 3,071,426
		<u>\$ 3,500,000</u>	<u>\$ 3,071,426</u>	<u>\$ 3,071,426</u>

The Town funded 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)	567,000
Town Share	<u>1,480,500</u>
Total Project Costs	<u>\$ 3,500,000</u>

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 part of the project, the Town agreed to pay Santee Cooper an upfront \$220,000 contingency to account for uncertainty that could potentially affect the final cost of the project. Santee Cooper failed to collect the contingency at the beginning of the contract; therefore the Town is still contingently liable for part of or all of the contingency factor at the completion of the project. The project wrapped up in October 2018 and in March 2019 Santee Cooper informed the Town that, due largely to the accelerated timeline requested by the Town to hire a local attorney to obtain property easements to conduct the work, the actual project costs exceeded the estimated project costs by \$333,702. Forty percent of the town's franchise fees are still being held by Santee Cooper for the purpose of underground wire work and it is being applied to the outstanding balance, although this is not a long term solution. Santee Cooper understands the town's current budget constraints and they have said they are willing to work with us to the best of their abilities on satisfying the debt.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 13 – STORM DAMAGE PROJECTS

The Town suffered significant coastal erosion from the effects of Hurricane Irma. The total costs of this work was \$297,328, which 100% of was approved for reimbursement by FEMA and was received in 2019. This amount has been recorded as a receivable in the financial statements for December 31, 2018.

NOTE 14 – CONSTRUCTION & OTHER COMMITMENTS

At December 31, 2018, the Town had outstanding contracts related to construction of a new Town Hall Facility and a Groin Repair Project. The commitments are as follows:

	Estimated Completion Date	Commitment	Expenditures Incurred	Remaining Commitment December 31, 2018
Town Hall Facility	January 2019	\$ 706,607	\$ 706,607	\$ -
Groin Repair Project	April 2019	371,462	-	371,462
		<u>\$ 1,078,069</u>	<u>\$ 706,607</u>	<u>\$ 371,462</u>

NOTE 15 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

GASB has issued Statement No. 87 *Leases*, to provide guidance for lease contracts for nonfinancial assets – including vehicles, heavy equipment, and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). This guidance is intended to align the accounting and financial reporting of lease transactions more closely with their economic substance. The guidance is based on the underlying principle that leases are financings of the right to use an underlying asset for a period of time. It will eliminate the current distinction between operating and capital leases by treating all leases as financings. This standard is applicable for periods beginning after December 15, 2019. The Town has not yet determined the impact of this statement on the financial statements.

NOTE 16 – SUBSEQUENT EVENTS

Beach Renourishment Project

In July 2019 the Town signed a construction contract for the beach renourishment project. Total project costs will be approximately \$14,900,000. The State of South Carolina will contribute \$5,700,000 towards the project and the town will provide another \$6,100,000 from its beach fund reserve balance. The Town will issue a Local Accommodations Tax Revenue Bond to fund the remaining \$2,800,000, which will be repaid over a 15 year period with future local accommodations tax revenue dedicated for beach renourishment. As of the date of this report, the first reading of the ordinance has passed to authorize the issuance of the Local Accommodations Tax Revenue Bond.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<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	\$ 38,250	\$ 38,250	\$ 38,109	\$ (141)
Franchise Fees	46,000	46,000	49,616	3,616
Fines and Fees	33,000	33,000	15,813	(17,187)
Local Government State Aid	2,000	2,000	2,323	323
Interest Income	7,100	7,100	11,054	3,954
MASC Programs	350,000	350,000	362,331	12,331
Special Events	32,000	32,000	38,738	6,738
Donations - Underground Wire	135,000	135,000	113,280	(21,720)
Grants	-	-	15,885	15,885
Miscellaneous	4,970	4,970	15,364	10,394
Total Revenues	\$ <u>648,320</u>	\$ <u>648,320</u>	\$ <u>662,513</u>	\$ <u>14,193</u>
EXPENDITURES				
General Government				
Advertising	\$ 500	\$ 500	\$ 239	\$ 261
Bank Charges	600	600	303	297
Capital Outlay	5,000	5,000	1,340	3,660
Communications	1,500	1,500	300	1,200
Computer	5,000	5,000	4,687	313
Decorations	1,200	1,200	2,594	(1,394)
Dues and Subscriptions	2,500	2,500	1,962	538
Health Insurance	7,200	7,200	7,216	(16)
Insurance	15,000	15,000	10,353	4,647
Mileage Reimbursement	2,600	3,600	3,839	(239)
Miscellaneous	2,000	2,000	1,676	324
Ordinance Review/Revision	10,000	10,000	5,224	4,776
Postage	1,000	1,000	1,213	(213)
Printing	2,700	2,700	1,746	954
Professional Services	30,500	36,500	35,496	1,004
Rent	6,000	6,000	5,668	332
Repairs and Maintenance	2,800	2,800	1,436	1,364
Retirement	6,200	6,600	6,897	(297)
Salaries and Labor	55,646	62,141	64,375	(2,234)
Special Events	15,800	15,800	21,448	(5,648)
Supplies	3,000	3,000	2,863	137
Taxes and Licenses	5,550	5,550	4,728	822
Telephone	990	990	805	185
Town Hall Hurricane Expense	-	-	5,534	(5,534)
Training and Seminars	1,000	1,000	353	647
Utilities	1,750	1,750	2,378	(628)
Total General Government	\$ <u>186,036</u>	\$ <u>199,931</u>	\$ <u>194,673</u>	\$ <u>5,258</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<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	\$ 16,000	\$ 20,000	\$ 20,155	\$ (155)
Beach Access Security	7,850	7,850	8,541	(691)
Capital Outlay	9,400	51,026	44,998	6,028
Communications	3,300	3,300	2,862	438
Computer	3,000	3,000	2,463	537
Court Expenses	19,500	19,500	4,237	15,263
Dues and Subscriptions	700	700	350	350
Health Insurance	12,633	12,633	12,554	79
Insurance	9,000	9,000	7,836	1,164
Magistrate	2,160	2,160	2,160	-
Mileage Reimbursement	800	800	890	(90)
Miscellaneous	2,000	2,000	2,309	(309)
Printing	500	2,100	2,063	37
Repairs and Maintenance	2,000	2,000	1,321	679
Retirement	19,900	7,960	7,910	50
Salaries and Labor	121,653	121,653	119,587	2,066
Supplies	3,500	3,500	5,364	(1,864)
Tag Readers	6,600	6,600	6,427	173
Taxes and Licenses	10,100	10,100	9,627	473
Telephone	6,200	6,200	7,004	(804)
Training and Seminars	3,000	3,000	3,541	(541)
Uniforms	4,000	4,000	3,915	85
Victim Services	1,000	1,000	295	705
Total Public Safety	\$ <u>264,796</u>	\$ <u>300,082</u>	\$ <u>276,409</u>	\$ <u>23,673</u>
Streets and Sanitation				
Animal Control	\$ 800	\$ 800	\$ 860	\$ (60)
Annual Cleanup	1,200	1,200	960	240
Mowing	1,650	1,650	1,714	(64)
Park Maintenance	3,000	3,000	1,602	1,398
Repairs and Maintenance	23,200	23,200	7,748	15,452
Street Sign Work	3,000	3,000	2,866	134
Supplies	3,000	3,000	2,144	856
Trash Removal	1,650	3,000	5,013	(2,013)
Underground Conversion	6,000	6,000	5,343	657
Total Streets and Sanitation	\$ <u>43,500</u>	\$ <u>44,850</u>	\$ <u>28,250</u>	\$ <u>16,600</u>
Total Expenditures	\$ <u>494,332</u>	\$ <u>544,863</u>	\$ <u>499,332</u>	\$ <u>45,531</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>153,988</u>	\$ <u>103,457</u>	\$ <u>163,181</u>	\$ <u>59,724</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<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)				
Insurance Proceeds	\$ -	\$ -	\$ 2,239	\$ 2,239
Transfer to Accommodations Tax Fund	(77,366)	(87,411)	(92,388)	(4,977)
Transfer to Capital Projects Fund	(13,792)	-	(120,600)	(120,600)
Total Other Financing Sources (Uses)	\$ (91,158)	\$ (87,411)	\$ (210,749)	\$ (123,338)
NET CHANGE IN FUND BALANCE	\$ 62,830	\$ 16,046	\$ (47,568)	\$ (63,614)
FUND BALANCE - BEGINNING	809,754	809,754	809,754	-
FUND BALANCE - ENDING	\$ <u>872,584</u>	\$ <u>825,800</u>	\$ <u>762,186</u>	\$ <u>(63,614)</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
ACCOMMODATIONS TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
State Accommodations Tax	\$ 251,750	\$ 251,750	\$ 249,061	\$ (2,689)
Total Revenues	<u>\$ 251,750</u>	<u>\$ 251,750</u>	<u>\$ 249,061</u>	<u>\$ (2,689)</u>
EXPENDITURES				
General Government				
Salaries and Benefits	\$ 74,596	\$ 81,491	\$ 83,490	\$ (1,999)
Telephone	2,310	2,310	1,879	431
Utilities	1,750	1,750	2,378	(628)
Total General Government	<u>\$ 78,656</u>	<u>\$ 85,551</u>	<u>\$ 87,747</u>	<u>\$ (2,196)</u>
Advertising and Promotion				
Contributions	\$ 10,000	\$ 10,000	\$ 17,520	\$ (7,520)
Advertising and Promotion Organization	79,500	79,500	78,651	849
Brochure	2,000	2,000	1,647	353
Website	3,200	3,200	2,457	743
Total Advertising and Promotion	<u>\$ 94,700</u>	<u>\$ 94,700</u>	<u>\$ 100,275</u>	<u>\$ (5,575)</u>
Public Safety				
Insurance	\$ 13,500	\$ 13,500	\$ 11,754	\$ 1,746
Salaries and Benefits	225,760	225,760	221,538	4,222
Total Public Safety	<u>\$ 239,260</u>	<u>\$ 239,260</u>	<u>\$ 233,292</u>	<u>\$ 5,968</u>
Streets and Sanitation				
Annual Cleanup	\$ 2,800	\$ 2,800	\$ 2,240	\$ 560
Mowing	3,850	3,850	3,998	(148)
Trash Removal	3,850	7,000	11,697	(4,697)
Total Streets and Sanitation	<u>\$ 10,500</u>	<u>\$ 13,650</u>	<u>\$ 17,935</u>	<u>\$ (4,285)</u>
Total Expenditures	<u>\$ 423,116</u>	<u>\$ 433,161</u>	<u>\$ 439,249</u>	<u>\$ (6,088)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>\$ (171,366)</u>	<u>\$ (181,411)</u>	<u>\$ (190,188)</u>	<u>\$ (8,777)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	\$ 77,366	\$ 87,411	\$ 92,388	\$ 4,977
Transfer from Beach Renourishment Fund	94,000	94,000	97,800	3,800
Total Other Financing Sources (Uses)	<u>\$ 171,366</u>	<u>\$ 181,411</u>	<u>\$ 190,188</u>	<u>\$ 8,777</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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Local Accommodations Tax	\$ 470,000	\$ 470,000	\$ 487,489	\$ 17,489
Interest Income	55,000	55,000	113,063	58,063
Grants	228,000	228,000	297,328	69,328
Total Revenues	<u>\$ 753,000</u>	<u>\$ 753,000</u>	<u>\$ 897,880</u>	<u>\$ 144,880</u>
EXPENDITURES				
Beach Renourishment Projects				
Beach Management	\$ 15,000	\$ 15,000	\$ 15,721	\$ (721)
Groin Repair	250,000	20,000	10,406	9,594
Renourishment and Storm Damage	630,000	330,000	231,069	98,931
Total Beach Renourishment	<u>\$ 895,000</u>	<u>\$ 365,000</u>	<u>\$ 257,196</u>	<u>\$ 107,804</u>
Total Expenditures	<u>\$ 895,000</u>	<u>\$ 365,000</u>	<u>\$ 257,196</u>	<u>\$ 107,804</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (142,000)</u>	<u>\$ 388,000</u>	<u>\$ 640,684</u>	<u>\$ 252,684</u>
OTHER FINANCING SOURCES (USES)				
Transfer to Accommodations Tax Fund	<u>\$ (94,000)</u>	<u>\$ (94,000)</u>	<u>\$ (97,800)</u>	<u>\$ (3,800)</u>
Total Other Financing Sources (Uses)	<u>\$ (94,000)</u>	<u>\$ (94,000)</u>	<u>\$ (97,800)</u>	<u>\$ (3,800)</u>
NET CHANGE IN FUND BALANCE	\$ (236,000)	\$ 294,000	\$ 542,884	\$ 248,884
FUND BALANCE - BEGINNING	<u>5,508,648</u>	<u>5,508,648</u>	<u>5,508,648</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 5,272,648</u></u>	<u><u>\$ 5,802,648</u></u>	<u><u>\$ 6,051,532</u></u>	<u><u>\$ 248,884</u></u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 \$6,088 for the year ended December 31, 2018.

TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest Income	\$ -	\$ -	\$ 1,972	\$ 1,972
Donations - Town Hall	110,000	310,000	128,400	(181,600)
Brick Sales - Town Hall	100,000	100,000	84,000	(16,000)
Total Revenues	<u>\$ 210,000</u>	<u>\$ 410,000</u>	<u>\$ 214,372</u>	<u>\$ (195,628)</u>
EXPENDITURES				
General Government				
Capital Outlay	\$ 661,000	\$ 746,000	\$ 756,619	\$ (10,619)
Fund Raising Expenses	10,000	10,000	3,861	6,139
Miscellaneous	35,000	35,000	2,228	32,772
Total General Government	<u>\$ 706,000</u>	<u>\$ 791,000</u>	<u>\$ 762,708</u>	<u>\$ 28,292</u>
Total Expenditures	<u>\$ 706,000</u>	<u>\$ 791,000</u>	<u>\$ 762,708</u>	<u>\$ 28,292</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (496,000)</u>	<u>\$ (381,000)</u>	<u>\$ (548,336)</u>	<u>\$ (167,336)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	\$ 13,792	\$ -	\$ 120,600	\$ 120,600
Total Other Financing Sources (Uses)	<u>\$ 13,792</u>	<u>\$ -</u>	<u>\$ 120,600</u>	<u>\$ 120,600</u>
NET CHANGE IN FUND BALANCE	\$ (482,208)	\$ (381,000)	\$ (427,736)	\$ (46,736)
FUND BALANCE - BEGINNING	<u>482,208</u>	<u>482,208</u>	<u>482,208</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ 101,208</u>	<u>\$ 54,472</u>	<u>\$ (46,736)</u>

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
UNIFORMED SCHEDULE OF COURT FINES, ASSESSMENTS, AND SURCHARGES (PER ACT 96)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>MUNICIPAL COURT</u>
MUNICIPAL FUNDS COLLECTED BY CLERK OF COURT	
Court Fines and Assessments:	
Court Fines and Assessments Collected	\$ 12,067
Court Fines and Assessments Remitted to State Treasurer	-
	<hr/>
Total Court Fines & Assessments Retained	\$ <u>12,067</u>
Surcharges and Assessments Retained for Victim Services	
Surcharges Collected and Retained	\$ 50
Assessments Retained	232
	<hr/>
Total Surcharges and Assessments Retained for Victim Services	\$ <u>282</u>
VICTIM SERVICES FUNDS COLLECTED	
Carryforward from Previous Year - Beginning Balance	\$ 24
Victim Services Revenue:	
Victim Service Fines Retained by Town	-
Victim Service Assesments Retained by Town	232
Victim Service Surcharges Retained by Town	50
	<hr/>
Total Funds Allocated to Victim Service Fund	\$ <u>306</u>
Expenditures for Victim Assistance Program:	
Victim Service Contract:	
Georgetown County	\$ 295
	<hr/>
Total Expenditures from Victim Assistance Program	\$ <u>295</u>
Total Victim Service Funds Retained by Town	\$ 11
Less: Prior Year Deficit Repayment	<hr/> -
Carryforward Funds - End of Year	\$ <u><u>11</u></u>



Robert D. Harper, Jr. CPA
Stacey C. Moree CPA
P. O. Box 1550
106 Wall Street, Litchfield
Pawleys Island, SC 29585
Tel (843) 237-9125
Fax (843) 237-1621
E-mail: HPM@sc.rr.com

Robin B. Poston CPA
P. O. Box 576
307 Church Street
Georgetown, SC 29442
Tel (843) 527-3413
Fax (843) 546-7277
E-mail: HPM2@sc.rr.com

**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, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 7, 2019.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify the deficiency 2018-001, described in the accompanying schedule of findings and responses that we consider to be a material weakness.

Compliance and Other Matters

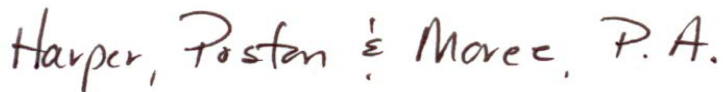
As part of obtaining reasonable assurance about whether the Town’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 response 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. This 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.
Certified Public Accountants

Pawleys Island, South Carolina
October 7, 2019

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018; 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, 2018; 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, 2018; 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's Uniform Guidance; therefore, there was no threshold for distinguishing between Types A and B programs.
9. Risk relative to major federal award programs was not required to be assessed.

B. Findings - Financial Statement Audit

2018-001 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.

Repeat Audit Finding: This finding was also reported in the prior audit period as finding 2017-001.

**TOWN OF PAWLEYS ISLAND, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

B. Findings - Financial Statement Audit (continued)

2018-001 Financial Statement Preparation (continued)

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.

Management's Response and Planned Corrective Action: 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.