

CITY OF ISLE OF PALMS, SOUTH CAROLINA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



CITY OF ISLE OF PALMS, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2012

INTRODUCTORY SECTION

	<u>Page Number</u>
Table of Contents	i
List of Elected and Appointed Officials	iii

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	1
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets	14
Statement of Activities	15
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Net Assets - Proprietary Fund	23
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund	24
Statement of Cash Flows - Proprietary Fund	25
Statement of Assets and Liabilities - Fiduciary Fund - Agency Fund	26
<i>Notes to the Basic Financial Statements</i>	27

(Continued)

CITY OF ISLE OF PALMS, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2012

FINANCIAL SECTION (CONTINUED)

	<u>Page Number</u>
REQUIRED SUPPLEMENTARY INFORMATION	
<u>Budgetary Comparison Schedules:</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budgets and Actual - General Fund	52
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budgets and Actual - Municipal Accommodations Fee Fund	53
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budgets and Actual - State Accommodations Tax Fund	54
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budgets and Actual - Hospitality Tax Fund	55
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budgets and Actual - Beach Restoration Fund	56
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Non-Major Governmental Funds	60
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds	62
<u>General Fund</u>	
Schedule of Detailed Revenues and Expenditures - Budget and Actual	64
Schedule of Expenditures by Type - Actual	72
Schedule of Fines, Assessments, and Surcharges	74
<u>COMPLIANCE SECTION</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75

CITY OF ISLE OF PALMS, SOUTH CAROLINA
LIST OF ELECTED AND APPOINTED OFFICIALS
YEAR ENDED JUNE 30, 2012

MAYOR

Dick Cronin

CITY COUNCIL MEMBERS

Barbara Bergwerf

Marty Bettelli

Ryan Buckhannon

Jimmy Carroll

Michael Loftus

Sandy Stone

Doug Thomas

Jimmy Ward

APPOINTED OFFICIALS

City Administrator	Linda Lovvorn Tucker
Assistant to Administrator	Emily Dziuban
City Treasurer	Deborah Schimsa Suggs
City Clerk	Marie Copeland
Clerk of Court	Amy Lee
Building Official	William Seabrook
Director of Building, Planning, and Zoning	Douglas Kerr
Fire Chief	Ann M. Graham
Chief of Police	Thomas E. Buckhannon, III
Public Works Director	Donnie Pitts
Recreation Director	Norma Jean Page





INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of City Council
City of Isle of Palms
Isle of Palms, South Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Isle of Palms, South Carolina (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Isle of Palms, South Carolina, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules, as listed in the table of contents, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is 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 supplementary 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
October 8, 2012

CITY OF ISLE OF PALMS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

The management of the City of Isle of Palms ("City") offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to not only consider the information presented here, but also the information provided in the basic financial statements and notes to the basic financial statements to enhance their understanding of the City's overall financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by approximately \$21,736,000 (*net assets*). Of this amount, approximately \$17,557,000 and \$4,179,000 were related to the City's governmental and business-type activities, respectively. In addition, the City's unrestricted net assets (which may be used to meet the government's ongoing obligations to citizens and creditors) were approximately \$6,673,000 for its governmental activities and approximately \$735,000 for its business-type activities.
- The City's total revenues of approximately \$12,371,000 exceeded total expenses of approximately \$11,401,000 resulting in an increase of approximately \$970,000 in net assets.
- At the close of fiscal year 2012, the City's governmental funds reported combined ending fund balances of approximately \$10,630,000, an increase of approximately \$634,000 over the prior year's fund balance. Approximately 22% of the total fund balance, or approximately \$2,361,000, is available for spending at the City's discretion (*unassigned fund balance*). This unassigned fund balance equates to approximately 30% of total General Fund expenditures for the year ended June 30, 2012.
- The City added capital assets of approximately \$739,000 during the current fiscal year. The capital asset additions related primarily to the completion of the drainage project in the area of 53rd – 57th Avenue and the purchase of numerous vehicles and equipment. Capital asset additions were offset by depreciation expense of approximately \$1,332,000 and \$127,000 for governmental and business-type activities, respectively. As depreciation expense was greater than the capital asset additions for the year, total capital assets decreased by approximately \$720,000 (3%) from fiscal year 2011.
- The City's total debt (including capital leases) decreased by approximately \$1,567,000 (10%) during the current fiscal year due to normally scheduled debt service payments and the early payoff of a capital lease for a Mack refuse truck.
- The City's bond rating from Moody's Investors Service improved from Aa2 to Aa1 in May 2012. The City continues to hold an "AA" rating from Standard & Poor's.

OVERVIEW OF FINANCIAL STATEMENTS

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

Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements.

Government-Wide Basic Financial Statements. The basic financial statements include two statements that present different views of the City. These are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The *statement of net assets* presents information on all of the City's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Basic Financial Statements (Continued)

The government-wide basic financial statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include general government, public safety, building, planning and engineering, public works, recreation, and non-departmental services. Taxes, business licenses, building permits, and state and federal grant revenues finance most of these activities. The business-type activities are the City's marina operations. The government-wide basic financial statements can be found as listed in the table of contents.

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

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

The City maintains eleven (11) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, Capital Projects Fund, Municipal Accommodations Fee Fund, State Accommodations Tax Fund, Hospitality Tax Fund and Beach Restoration Fund – since they are considered major funds. Information from the other five (5) governmental funds is combined into aggregated presentations – non-major governmental funds. Individual fund data for each of these non-major governmental funds are provided in the form of combining schedules elsewhere in this report. The basic governmental fund financial statements can be found as listed in the table of contents.

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

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. *Agency Funds* are used to account for assets the City holds on behalf of others. The City's 1% Volunteer Fire Department Fund is used by the City to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by insurance companies. Agency funds are custodial in nature and do not present results of operations. The basic financial statement of the fiduciary fund can be found as listed in the table of contents.

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Basic Financial Statements (Continued)

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information. Budgetary comparison schedules have been provided for the General Fund and all of the major special revenue funds with legally adopted budgets to demonstrate compliance with their budgets. Required supplementary information can be found as listed in the table of contents.

Supplementary information, including non-major governmental funds, is presented immediately following the required supplementary information. These schedules can be found as listed in the table of contents.

Figure A-1 Major Features of the City’s Government-Wide and Fund Basic Financial Statements				
	Government-Wide Basic Financial Statements	Fund Basic Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary.	Activities the City operates similar to private businesses, in the City’s case, all activities related to the marina.	Instances in which the City is the trustee or agent for someone else’s resources, in the City’s case, the 1% Volunteer Fire Department Fund.
Required Financial Statements	<ul style="list-style-type: none"> ▪ Statement of Net Assets. ▪ Statement of Activities. 	<ul style="list-style-type: none"> ▪ Balance Sheet. ▪ Statement of Revenues, Expenditures, and Changes in Fund Balances. 	<ul style="list-style-type: none"> ▪ Statement of Net Assets. ▪ Statement of Revenues, Expenses and Changes in Net Assets. ▪ Statement of Cash Flows. 	<ul style="list-style-type: none"> ▪ Statement of Fiduciary Assets and Liabilities.
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used and liabilities that come due during the year or soon, thereafter; no capital assets or long-term obligations included.	All assets and liabilities, both financial and capital and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the City's net assets as of June 30, 2012 compared to June 30, 2011:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:						
Current and Other Assets	\$ 12,076,411	12,341,466	866,106	1,358,422	12,942,517	\$ 13,699,888
Capital Assets, Net	18,971,475	19,588,776	5,976,595	6,079,254	24,948,070	25,668,030
Total Assets	<u>31,047,886</u>	<u>31,930,242</u>	<u>6,842,701</u>	<u>7,437,676</u>	<u>37,890,587</u>	<u>39,367,918</u>
Liabilities:						
Long-Term Obligations	11,957,779	13,133,878	2,585,000	2,970,000	14,542,779	16,103,878
Other Liabilities	1,533,115	2,400,531	78,963	97,892	1,612,078	2,498,423
Total Liabilities	<u>13,490,894</u>	<u>15,534,409</u>	<u>2,663,963</u>	<u>3,067,892</u>	<u>16,154,857</u>	<u>18,602,301</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	7,880,481	7,603,546	3,444,203	3,171,073	11,324,684	10,774,619
Restricted	3,003,049	2,879,172	-	-	3,003,049	2,879,172
Unrestricted	6,673,462	5,913,115	734,535	1,198,711	7,407,997	7,111,826
Total Net Assets	<u>\$ 17,556,992</u>	<u>16,395,833</u>	<u>4,178,738</u>	<u>4,369,784</u>	<u>21,735,730</u>	<u>\$ 20,765,617</u>

The City's total assets of approximately \$37,891,000 decreased approximately \$1,477,000 from the prior year primarily due to expenses associated with drainage, beach restoration, and marina dredging as well as depreciation expense. Total liabilities as of June 30, 2012 decreased by approximately \$2,447,000 from the prior year primarily due to a \$1,561,000 decrease in long-term obligations resulting primarily from normally scheduled debt service payments and the early payoff of a capital lease for a Mack refuse truck and the use of unearned revenue related to the beach restoration project.

The City's net assets increased by approximately \$970,000 during the current fiscal year due to current year revenues exceeding current year expenses. Please see the discussion following the next table regarding this increase.

The City's assets exceeded liabilities by approximately \$21,736,000 as of June 30, 2012. Approximately 52% of total net assets (\$11,325,000) reflect the City's investment in capital assets (i.e., land, buildings, furniture and equipment, infrastructure, etc.) less any related outstanding debt and capital leases used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 14% of net assets (\$3,003,000) represent resources that are subject to external restrictions on how they may be used. These net assets are restricted primarily for special revenue programs which are restricted by the revenue source.

The remaining portion of the City's net assets (34% or \$7,408,000) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current and prior fiscal year, the City is able to report positive balances in all three categories of net assets.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the City’s net assets for fiscal year 2012 compared to 2011.

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011 *	2012	2011	2012	2011 *
Revenues:						
Program Revenues:						
Charges for Services	\$ 3,052,573	2,920,184	404,693	377,845	3,457,266	\$ 3,298,029
Capital Grants and Contributions	675,318	867,771	-	-	675,318	867,771
General Revenues:						
Taxes	7,854,136	7,387,012	-	-	7,854,136	7,387,012
Other	381,776	257,017	3,073	3,845	384,849	260,862
Total Revenues	<u>11,963,803</u>	<u>11,431,984</u>	<u>407,766</u>	<u>381,690</u>	<u>12,371,569</u>	<u>11,813,674</u>
Expenses:						
General Government	1,449,627	1,403,775	-	-	1,449,627	1,403,775
Public Safety	5,092,285	5,020,410	-	-	5,092,285	5,020,410
Building, Planning and Engineering	365,412	346,749	-	-	365,412	346,749
Public Works	1,423,069	1,544,311	-	-	1,423,069	1,544,311
Recreation	987,260	956,109	-	-	987,260	956,109
Non-Departmental	621,125	304,250	-	-	621,125	304,250
Interest on Long-Term Obligations	486,436	527,279	-	-	486,436	527,279
Marina	-	-	976,242	383,492	976,242	383,492
Total Expenses	<u>10,425,214</u>	<u>10,102,883</u>	<u>976,242</u>	<u>383,492</u>	<u>11,401,456</u>	<u>10,486,375</u>
Change in Net Assets Before Transfers	1,538,589	1,329,101	(568,476)	(1,802)	970,113	1,327,299
Transfers	(377,430)	(370,654)	377,430	370,654	-	-
Change in Net Assets	<u>1,161,159</u>	<u>958,447</u>	<u>(191,046)</u>	<u>368,852</u>	<u>970,113</u>	<u>1,327,299</u>
Net Assets - Beginning of Year	<u>16,395,833</u>	<u>15,437,386</u>	<u>4,369,784</u>	<u>4,000,932</u>	<u>20,765,617</u>	<u>19,438,318</u>
Net Assets - End of Year	<u>\$ 17,556,992</u>	<u>16,395,833</u>	<u>4,178,738</u>	<u>4,369,784</u>	<u>21,735,730</u>	<u>\$ 20,765,617</u>

* Certain amounts in the prior year have been reclassified to agree to the current year presentation.

Governmental Activities: Governmental activities had a net increase in net assets of approximately \$1,161,000.

Compared to the prior year, total governmental activities revenue increased by approximately \$532,000 or 5%. Key changes compared to the prior year were as follows:

- Revenues (charges for services) related to licensing increased by approximately \$163,000 or 7% due primarily to increased building activity, reflecting overall improvement in the City’s economy.
- General revenues resulting from tourism (accommodations and hospitality taxes combined) were up approximately \$456,000 or 17% due to continued strong tourism activity.
- The City recorded other revenue of approximately \$139,000 related to the termination and partial net asset payout of the South Carolina Local Government Assurance Group, the City’s prior health insurance provider.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Expenses related to total governmental activities increased by approximately \$322,000, or 3%, from the prior year. Key changes as compared to the prior year were as follows:

- Salary and fringe expense increased by approximately \$26,000, or less than 1%.
- Expenses related to beach renourishment increased \$273,000 as the City completed a budgeted focused erosion project on the north end of the island.
- Because State Accommodations Tax Revenues were approximately 25% higher than the prior year, the tourism promotion transfer to the Charleston Area Visitors Bureau was also up 25% or \$87,000 from fiscal year 2011.
- Interest on long-term obligations decreased approximately \$41,000 as the City paid down existing debt. No new debt was issued in fiscal year 2012.

Business-Type Activities: Net assets related to business-type activities (i.e., the marina) decreased by approximately \$191,000. This decrease was due to the completion of a significant dredging project at the marina costing approximately \$605,000. The dredging expense was partially offset by budgeted transfers in of \$100,000 each from the State Accommodations Tax Fund and the Hospitality Tax Fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At June 30, 2012, the City's governmental funds reported a combined ending fund balance of approximately \$10,630,000, an increase of approximately \$634,000 or 6% over the prior year's combined fund balance.

Approximately 22% of the total governmental fund balance (\$2,361,000) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is not available for new spending because it has already been constrained: (1) for tourism-related expenditures or operating expenses incurred to serve tourists (\$2,671,000), (2) for recovery efforts on future disasters (\$1,844,000), (3) for recreation center improvement (\$523,000), (4) for drainage initiatives (\$268,000), (5) for debt service (\$188,000), (6) other capital projects (\$2,254,000), and (7) for other purposes primarily related to either police department initiatives, island beautification, victims' services, narcotics programs, beach maintenance, and inventories (\$521,000).

The General Fund is the primary operating fund of the City. At June 30, 2012, the total fund balance was approximately \$4,797,000. As a measure of the General Fund's liquidity, it is useful to compare total unassigned fund balance to total General Fund expenditures. Total unassigned fund balance of the General Fund (\$2,361,000) represents approximately 30% of total General Fund expenditures (\$7,933,000).

Highlights for General Fund revenues and other financing sources were as follows:

- Property tax revenue is stable. Charleston County re-assessed property taxes in 2011, resulting in an overall decrease in assessed value for the City. As a result, the City's millage rate was raised slightly from 22.2 mills to 22.9 mills to maintain consistent revenue.
- Total General Fund revenues were up by approximately \$337,000 from the prior year. The most significant increases were in licenses and permits (up \$163,000 due to increased building activity and strengthening economy) and other (\$139,000 miscellaneous revenue related to the termination and partial net asset payout of prior health insurance plan).

CITY OF ISLE OF PALMS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

- In order to maintain the level of service that residents and visitors expect, the City supplemented General Fund revenues with tourism-related revenues, where appropriate. In fiscal year 2012, \$472,000 of tourism-related revenue was transferred into the General Fund to help pay for public safety and public works efforts required for tourism.

Total General Fund expenditures were approximately \$78,000 greater than fiscal year 2011:

- Salary and fringe expense (the largest component of General Fund expenditures) increased by approximately \$26,000, or less than 1%. The increase was primarily attributable to performance based merit increases.
- Fuel expense increased approximately \$62,000 due to increased cost per gallon of diesel and unleaded fuel.
- The General Fund is the only significant ongoing source of funding for the City's Capital Projects Fund. In fiscal year 2012, the General Fund transferred approximately \$775,000 to the Capital Projects Fund.

The total fund balance of the remaining governmental funds (Capital Projects, Special Revenue, and Non-major Funds) increased by approximately \$428,000 from the prior year. Highlights for these funds were as follows:

- The Capital Projects Fund expended approximately \$282,000 to complete the drainage project in the area of 53rd – 57th Avenues and \$167,000 for various capital purchases. The ending fund balance in the Capital Projects Fund was approximately \$2,966,000.
- Accommodations-related revenues continued to strengthen in fiscal year 2012 with an overall increase of \$399,000 or 19% over the prior year. Accommodations funds were expended for various tourism-related efforts, including maintenance of the Front Beach area and public restrooms, a portion of lease payments on fire and public works vehicles, purchases of police and public works vehicles, purchase of a fire department boat, debt service on the recreation center and marina, and special events such as the 4th of July fireworks show. At June 30, 2012, the Municipal Accommodations Fee Fund had a fund balance of approximately \$1,036,000 while the State Accommodations Tax Fund had a balance of approximately \$1,259,000.
- The fund balance for the Hospitality Tax Fund at June 30, 2012 was approximately \$376,000. Hospitality tax revenues (including interest) were approximately \$549,000 in 2012. In 2012, these funds were used to support capital purchases in the Police Department, fund a portion of the debt service on Fire Station #2 GO bond, and fund City-wide expenses related to landscaping and street sweeping.
- The Beach Restoration Fund expended approximately \$412,000 to address an erosion "hot spot" on the north end of the island. This focused erosion project consisted of scraping sand from a nearby shoal to restore the beach. The funds expended were remaining in the escrow account established to complete the large 2008 restoration project.

Proprietary Fund. The City's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Net assets of the Marina Enterprise Fund at the end of fiscal year 2012 amounted to approximately \$4,179,000. Please see "Business-Type Activities" discussion in the previous section for details.

Fiduciary Fund. The Volunteer Fire Department Fund is used by the City to account for the receipt and disbursement of funds received from the State relating to the payment of one percent of the premiums received by fire insurance companies. Agency funds are custodial in nature and do not present results of operations. The Fiduciary Fund had amounts held in custody for others of approximately \$63,000 at June 30, 2012.

General Fund Budgetary Highlights: If budget amendments are made, they generally fall into one of three categories: amendments made to adjust the estimates used to prepare the original budget ordinance once exact information is available; amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and increases in appropriations that become necessary to maintain services. The City did not make any budget amendments during fiscal year 2012.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City’s net investment in capital assets as of June 30, 2012 amounted to approximately \$24,948,000. This investment in capital assets primarily includes land, construction in progress, buildings, improvements, vehicles, equipment, and other infrastructure. The City’s capital assets (net of depreciation) as of June 30, 2012 and 2011 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,913,446	2,913,446	3,035,786	3,035,786	5,949,232	\$ 5,949,232
Construction in Progress	39,540	737,619	-	-	39,540	737,619
Land Improvements	1,977,041	1,102,411	2,328,074	2,394,535	4,305,115	3,496,946
Buildings and Improvements	11,787,209	12,353,539	379,266	416,147	12,166,475	12,769,686
Vehicles and Vehicle Equipment	1,476,732	1,653,636	-	-	1,476,732	1,653,636
Equipment	758,300	803,627	-	1,008	758,300	804,635
Furniture and Fixtures	19,207	24,498	-	-	19,207	24,498
Docks	-	-	233,469	231,778	233,469	231,778
Total	\$ 18,971,475	19,588,776	5,976,595	6,079,254	24,948,070	\$ 25,668,030

The total decrease in the City’s capital assets for fiscal year 2012 was approximately \$720,000 or 3%. Major capital asset events during fiscal year 2012 included the following:

- Capital asset additions of approximately \$715,000 consisted primarily of:
 - Completion of the drainage project in the vicinity of 53rd – 57th Avenues - \$282,000.
 - Engineering and design costs associated with a second phase of drainage work in the vicinity of 45th to 52nd Avenues - \$14,000
 - Purchase of a new fuel dispensing and management system - \$36,000
 - Purchase of new Court management software - \$19,000
 - Repair of watersports dock at the City’s marina - \$24,000
 - Purchase of other vehicles and equipment - \$340,000.
- Depreciation expense of approximately \$1,332,000 for governmental activities and \$127,000 for business-type activities.

Additional information on the City’s capital assets can be found in Notes I and III of the notes to the basic financial statements.

Debt

As of June 30, 2012, the City had total outstanding debt and capital leases of approximately \$14,278,000. Of this total, \$13,190,000 was general obligation debt backed by the full faith and credit of the City. The City’s total debt and capital lease obligations as of June 30, 2012 and 2011 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 10,605,000	11,150,000	2,585,000	2,970,000	13,190,000	\$ 14,120,000
Bank Loan	602,268	889,637	-	-	602,268	889,637
Capital Lease Obligations	485,994	835,230	-	-	485,994	835,230
Total	\$ 11,693,262	12,874,867	2,585,000	2,970,000	14,278,262	\$ 15,844,867

CITY OF ISLE OF PALMS, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt (Continued)

The total decrease in the City's debt and capital leases for fiscal year 2012 was approximately \$1,567,000 or 10%. Major events during fiscal year 2012 included the following:

- Early retirement of a capital lease for a garbage truck of approximately \$143,000
- Scheduled principal payments on general obligation bonds and a bank loan of approximately \$1,218,000.
- Scheduled principal payments on capital leases of approximately \$206,000.

The State of South Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The City's statutory debt limit at June 30, 2012 was approximately \$16,608,000. The City had \$9,260,000 of bonded debt subject to the 8% limit and thus as of June 30, 2012 had an unused legal debt margin of approximately \$7,348,000.

The City's bond rating from Moody's Investors Service improved from Aa2 to Aa1 in May 2012. The City continues to hold an "AA" rating from Standard & Poor's.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials and staff considered many factors when setting the fiscal year 2013 budget. The state of the economy, tourism activity, anticipated building activity, future capital needs and the best interests of the City's residents were all taken into account.

- **Millage:** The City's 2013 budget projects maintaining a millage rate of 22.9.
- **General Fund Revenues:** Given some uncertainty related to the effects of the 2011 Charleston County property tax reassessment, the fiscal year 2013 property tax budget was conservatively decreased by approximately \$200,000. On the other hand, given recent historical collections, the budgets for licensing revenues were increased by approximately \$86,000.
- **Transfers into the General Fund:** The City continues to offset tourism related expenditures in the General Fund with transfers in from tourism-related funds. The fiscal year 2013 budget includes a total of approximately \$586,000 to offset public safety and public works expenses related to providing services to tourists.
- **Tourism-Related Revenues:** Total revenues from State Accommodations Tax, Municipal Accommodations Fee and Hospitality Tax are budgeted based on the most recent collections. The total fiscal year 2013 budget for these revenues is \$2,757,000, which is a 14% increase over the fiscal year 2012 budget.
- **Salaries and Wages:** The 2013 budget includes a 3% provision for merit-based salary and wage adjustments.
- **Recreation Field Lights:** The 2013 budget includes approximately \$400,000 for the replacement of field lights at the Recreation Department. The City has been reserving money for this purpose since fiscal year 2008.

REQUESTS FOR CITY INFORMATION

This financial report is designed to provide a general overview of the City of Isle of Palms' finances for all those with an interest in the government's financing. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, Post Office Drawer 508, Isle of Palms, South Carolina 29451. General information about the City can be obtained from the website at www.iop.net.



Basic Financial Statements

CITY OF ISLE OF PALMS, SOUTH CAROLINA

STATEMENT OF NET ASSETS

JUNE 30, 2012

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 7,135,100	760,973	\$ 7,896,073
Cash and Cash Equivalents - Restricted	3,468,038	-	3,468,038
Taxes Receivable, Net	255,816	-	255,816
Other Receivables, Net	1,011,823	52,525	1,064,348
Due from Other Governments	165,423	-	165,423
Inventory	40,211	-	40,211
Bond Issuance Costs, Net	-	52,608	52,608
Capital Assets:			
Non-Depreciable	2,952,986	3,035,786	5,988,772
Depreciable, Net	16,018,489	2,940,809	18,959,298
TOTAL ASSETS	31,047,886	6,842,701	37,890,587
LIABILITIES			
Accounts Payable	486,063	12,156	498,219
Other Accrued Liabilities	153,366	15,500	168,866
Court Assessments/Victims' Rights Liabilities	43,240	-	43,240
Accrued Interest	158,905	51,307	210,212
Unearned Revenue	691,541	-	691,541
Long-Term Obligations:			
Due Within One Year	1,276,628	390,000	1,666,628
Due in More Than One Year	10,681,151	2,195,000	12,876,151
TOTAL LIABILITIES	13,490,894	2,663,963	16,154,857
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	7,880,481	3,444,203	11,324,684
Restricted For:			
Tourism Related Expenditures	2,671,269	-	2,671,269
Debt Service	187,782	-	187,782
Victims' Services	66,159	-	66,159
Narcotics Program	30,139	-	30,139
Beautification	47,700	-	47,700
Unrestricted	6,673,462	734,535	7,407,997
TOTAL NET ASSETS	\$ 17,556,992	4,178,738	\$ 21,735,730

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

<u>FUNCTIONS/PROGRAMS</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
PRIMARY GOVERNMENT:							
Governmental Activities:							
General Government	\$ 1,449,627	-	-	675,318	(774,309)	-	\$ (774,309)
Public Safety	5,092,285	104,463	-	-	(4,987,822)	-	(4,987,822)
Building, Planning, and Engineering	365,412	2,382,112	-	-	2,016,700	-	2,016,700
Public Works	1,423,069	-	-	-	(1,423,069)	-	(1,423,069)
Recreation	987,260	243,228	-	-	(744,032)	-	(744,032)
Non-Departmental	621,125	322,770	-	-	(298,355)	-	(298,355)
Interest on Long Term Obligations	486,436	-	-	-	(486,436)	-	(486,436)
Total Governmental Activities	10,425,214	3,052,573	-	675,318	(6,697,323)	-	(6,697,323)
Business-Type Activities:							
Marina	976,242	404,693	-	-	-	(571,549)	(571,549)
TOTAL PRIMARY GOVERNMENT	\$ 11,401,456	3,457,266	-	675,318	(6,697,323)	(571,549)	(7,268,872)
General Revenues:							
Taxes:							
Property Taxes Levied for General Purposes					3,591,997	-	3,591,997
Property Taxes Levied for Debt Service Purposes					644,003	-	644,003
Local Option Sales Taxes					517,717	-	517,717
Hospitality Taxes					547,677	-	547,677
Accommodations Taxes					2,552,742	-	2,552,742
Intergovernmental					155,246	-	155,246
Interest Income					27,088	3,073	30,161
Gain on Disposal of Capital Assets					19,015	-	19,015
Miscellaneous					180,427	-	180,427
Transfers In (Out)					(377,430)	377,430	-
Total General Revenues and Transfers					7,858,482	380,503	8,238,985
CHANGE IN NET ASSETS					1,161,159	(191,046)	970,113
NET ASSETS, Beginning of Year					16,395,833	4,369,784	20,765,617
NET ASSETS, End of Year					17,556,992	4,178,738	\$ 21,735,730

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2012

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS FUND</u>
ASSETS		
Cash and Cash Equivalents	\$ 4,792,683	2,339,910
Cash and Cash Equivalents - Restricted	595,782	-
Taxes Receivable	255,816	-
Accounts Receivable	124,684	-
Due From:		
Other Governments	165,423	-
Other Funds	10,085	706,915
Inventory	40,211	-
TOTAL ASSETS	<u>\$ 5,984,684</u>	<u>3,046,825</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 211,424	80,626
Other Accrued Liabilities	153,366	-
Court Assessments/Victims' Rights Liabilities	43,240	-
Due To:		
Other Funds	707,754	-
Deferred Revenue, Property Taxes	71,733	-
Deferred/Unearned Revenue, Other	-	-
TOTAL LIABILITIES	<u>1,187,517</u>	<u>80,626</u>
FUND BALANCES		
Nonspendable:		
Inventory	40,211	-
Restricted:		
Victims' Services	-	-
Narcotics Program	-	-
Debt Service	187,782	-
Tourism Related Expenditures	-	-
Beautification	47,700	-
Committed:		
Recovery Effort on Future Disasters	1,843,637	-
Recreation Center	-	425,908
Assigned:		
Drainage Improvements	-	268,464
Beach Maintenance	316,786	-
Recreation Center	-	17,500
Capital Projects	-	2,254,327
Other	-	-
Unassigned	2,361,051	-
TOTAL FUND BALANCES	<u>4,797,167</u>	<u>2,966,199</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,984,684</u>	<u>3,046,825</u>

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

MUNICIPAL ACCOM- MODATIONS FEE FUND	STATE ACCOM- MODATIONS TAX FUND	HOSPITALITY TAX FUND	BEACH RESTORATION FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
-	-	-	-	2,507	\$ 7,135,100
691,930	972,513	336,030	696,875	174,908	3,468,038
-	-	-	-	-	255,816
363,604	427,332	68,205	-	27,998	1,011,823
-	-	-	-	-	165,423
-	-	-	-	839	717,839
-	-	-	-	-	40,211
1,055,534	1,399,845	404,235	696,875	206,252	\$ 12,794,250
19,064	140,769	28,512	5,334	334	\$ 486,063
-	-	-	-	-	153,366
-	-	-	-	-	43,240
-	-	-	-	10,085	717,839
-	-	-	-	-	71,733
-	-	-	691,541	-	691,541
19,064	140,769	28,512	696,875	10,419	2,163,782
-	-	-	-	-	40,211
-	-	-	-	66,159	66,159
-	-	-	-	30,139	30,139
-	-	-	-	-	187,782
1,036,470	1,259,076	375,723	-	-	2,671,269
-	-	-	-	-	47,700
-	-	-	-	-	1,843,637
-	-	-	-	-	425,908
-	-	-	-	-	268,464
-	-	-	-	-	316,786
-	-	-	-	79,115	96,615
-	-	-	-	-	2,254,327
-	-	-	-	20,420	20,420
-	-	-	-	-	2,361,051
1,036,470	1,259,076	375,723	-	195,833	10,630,468
1,055,534	1,399,845	404,235	696,875	206,252	\$ 12,794,250

CITY OF ISLE OF PALMS, SOUTH CAROLINA

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

JUNE 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 10,630,468**

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

Property taxes and other revenues that will be collected in the future, but are not available soon enough to pay for the current period's expenditures are, therefore, deferred in the funds.	71,733
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets was \$27,814,839 and the accumulated depreciation was \$8,843,364.	18,971,475
Accrued interest payable was recognized for governmental activities, but was not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(158,905)
Long-term obligations, including bonds payable and capital leases, are not due or payable in the current period and, therefore, are not reported in the governmental funds.	
Debt	(11,207,268)
Capital Leases	(485,994)
Compensated Absences	(264,517)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 17,556,992**

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



CITY OF ISLE OF PALMS, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2012

	GENERAL FUND	CAPITAL PROJECTS FUND
REVENUES		
Property Taxes	\$ 4,284,412	-
Local Option Sales Tax	517,717	-
Hospitality Taxes	-	-
Intergovernmental	252,113	254,033
Licenses and Permits	2,382,111	-
Fines and Forfeitures	95,541	-
Contributions of Cash	-	-
Revenues from Use of Property	322,770	-
Interest	12,934	5,455
Other	405,289	-
TOTAL REVENUES ALL SOURCES	8,272,887	259,488
EXPENDITURES		
Current:		
General Government	749,877	14,132
Public Safety	4,283,728	7,204
Building, Planning, and Engineering	308,111	19,675
Public Works	1,021,812	87,129
Recreation	778,714	5,085
Non-Departmental	39,415	-
Capital Outlay	-	448,764
Debt Service:		
Principal	408,000	142,586
Interest	342,973	13,445
TOTAL EXPENDITURES	7,932,630	738,020
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	340,257	(478,532)
OTHER FINANCING SOURCES (USES)		
Transfers In	629,144	794,001
Transfers Out	(775,295)	-
Sale of Capital Assets	11,745	-
TOTAL OTHER FINANCING SOURCES (USES)	(134,406)	794,001
NET CHANGES IN FUND BALANCES	205,851	315,469
FUND BALANCES, Beginning of Year	4,591,316	2,650,730
FUND BALANCES, End of Year	\$ 4,797,167	2,966,199

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

MUNICIPAL ACCOM- MODATIONS FEE FUND	STATE ACCOM- MODATIONS TAX FUND	HOSPITALITY TAX FUND	BEACH RESTORATION FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
-	-	-	-	-	\$ 4,284,412
-	-	-	-	-	517,717
-	-	547,677	-	-	547,677
1,090,406	1,365,469	-	-	-	2,962,021
-	-	-	-	-	2,382,111
-	-	-	-	8,921	104,462
-	-	-	421,286	-	421,286
-	-	-	-	-	322,770
2,438	2,722	1,181	1,979	378	27,087
-	-	-	-	18,368	423,657
1,092,844	1,368,191	548,858	423,265	27,667	11,993,200
16,390	496,272	-	36,870	832	1,314,373
-	3,139	52,444	-	3,255	4,349,770
-	-	1,052	-	-	328,838
69,914	10,276	65,807	-	-	1,254,938
139	23,357	-	-	1,295	808,590
53,531	153,435	-	374,744	-	621,125
56,456	89,423	36,595	-	7,099	638,337
153,325	103,325	87,000	287,369	-	1,181,605
37,815	8,279	72,299	28,113	-	502,924
387,570	887,506	315,197	727,096	12,481	11,000,500
705,274	480,685	233,661	(303,831)	15,186	992,700
-	-	-	315,482	-	1,738,627
(621,365)	(345,897)	(315,853)	(11,651)	(45,996)	(2,116,057)
-	7,270	-	-	-	19,015
(621,365)	(338,627)	(315,853)	303,831	(45,996)	(358,415)
83,909	142,058	(82,192)	-	(30,810)	634,285
952,561	1,117,018	457,915	-	226,643	9,996,183
1,036,470	1,259,076	375,723	-	195,833	\$ 10,630,468

CITY OF ISLE OF PALMS, SOUTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2012

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 634,285**

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

Property taxes and other revenues that will be collected in the future, but are not available soon
enough to pay for the current period's expenditures are, therefore, deferred in the funds. (48,412)

Bond principal payments and capital lease payments are expenditures in the governmental funds, but
the repayment reduces long-term obligations in the Statement of Net Assets. 1,181,605

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the
governmental funds because interest is recognized as an expenditure in the funds when it is due
and payable and thus requires the use of current financial resources. In the Statement of Activities,
however, interest expense is recognized as the interest accrues, regardless of when it is due and
payable. This adjustment relates to the change in accrued interest from the prior year. 16,488

Some expenses reported in the Statement of Activities do not require the use of current financial
resources and, therefore, are not reported as expenditures in the governmental funds. (5,506)

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the
cost of those assets that are considered capital asset additions are allocated over their estimated
useful lives as depreciation expense. This is the amount by which depreciation expense (\$1,331,998)
exceeded capital asset additions (\$714,697) in the current period. (617,301)

TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 1,161,159**

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

STATEMENT OF NET ASSETS - PROPRIETARY FUND

JUNE 30, 2012

	<u>MARINA</u> <u>ENTERPRISE FUND</u> <u>JUNE 30, 2012</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 760,973
Accounts Receivable	52,525
Total Current Assets	<u>813,498</u>
Noncurrent Assets:	
Bond Issuance Costs, Net	52,608
Capital Assets:	
Land	3,035,786
Land Improvements	2,655,808
Buildings and Improvements	846,998
Docks	556,982
Equipment	262,228
Less: Accumulated Depreciation	(1,381,207)
Total Noncurrent Assets	<u>6,029,203</u>
TOTAL ASSETS	<u>6,842,701</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	12,156
Accrued Interest	51,307
Security Deposits	15,500
Bond Payable, Current Portion	390,000
Total Current Liabilities	<u>468,963</u>
Noncurrent Liabilities:	
Bond Payable, Net of Current Portion	2,195,000
TOTAL LIABILITIES	<u>2,663,963</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,444,203
Unrestricted	734,535
TOTAL NET ASSETS	<u><u>\$ 4,178,738</u></u>

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2012

	<u>MARINA ENTERPRISE FUND 2012</u>
OPERATING REVENUES	
Lease Income	\$ 404,693
TOTAL OPERATING REVENUES	<u>404,693</u>
OPERATING EXPENSES	
Depreciation	127,059
Insurance	79,814
Professional Services	7,950
Contracted Services	604,606
Utilities	660
Maintenance and Service Contracts	1,341
Advertising	5,648
TOTAL OPERATING EXPENSES	<u>827,078</u>
OPERATING INCOME (LOSS)	<u>(422,385)</u>
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	3,073
Amortization of Bond Issue Costs	(9,211)
Interest Expense	(139,953)
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>(146,091)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(568,476)</u>
Transfers In	<u>377,430</u>
CHANGE IN NET ASSETS	<u>(191,046)</u>
NET ASSETS, Beginning of Year	<u>4,369,784</u>
NET ASSETS, End of Year	<u><u>\$ 4,178,738</u></u>

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2012

	<u>MARINA</u> <u>ENTERPRISE FUND</u> <u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 400,626
Cash Payments to Suppliers for Goods and Services	(704,608)
NET CASH USED IN OPERATING ACTIVITIES	<u>(303,982)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfer from Other Funds	380,361
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>380,361</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Bonds	(385,000)
Interest Paid on Bonds	(147,293)
Capital asset additions	(24,400)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(556,693)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Earnings	3,073
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,073</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(477,241)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,238,214</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 760,973</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:	
Operating Loss	\$ (422,385)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:	
Depreciation Expense	127,059
Change Due to (Increase) Decrease in Operating Assets:	
Other Receivable	2,933
Change Due to Increase (Decrease) in Operating Liabilities:	
Other Payables	(11,589)
Net Cash Used In Operating Activities	<u>\$ (303,982)</u>
SUPPLEMENTAL INFORMATION FOR NON-CASH ACTIVITIES:	
Depreciation Expense	\$ 127,059
Amortization Expense	\$ 9,211

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND - AGENCY FUND

JUNE 30, 2012

	<u>VOLUNTEER FIRE</u>
ASSETS	
Cash and Cash Equivalents - Restricted	\$ 63,571
TOTAL ASSETS	<u>\$ 63,571</u>
LIABILITIES	
Accounts Payable	\$ 155
Due To Volunteer Fire Department	63,416
TOTAL LIABILITIES	<u>\$ 63,571</u>

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

The City of Isle of Palms, South Carolina (the “City”) encompasses an area of approximately 4.5 square miles. Incorporated in 1953, the City has grown into a recreational center for the coastal area of South Carolina. It serves over 4,100 full-time City residents and about 300,000 to 500,000 tourists annually. The City operates under a Council form of government. The mayor and eight members of council (the “Council”) establish policy for the City. Administrative functions are directed by the City Administrator.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the City’s basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government’s operations and data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize they are legally separate from the City. Based on the criteria above, the City has no blended or discretely presented component unit.

The Isle of Palms Water and Sewer Commission (“Commission”) was considered as a possible discretely presented component unit. It was determined the City’s ability to approve bonded debt was ministerial in nature (not substantive), and it would not be misleading to exclude the Commission as a component unit of the City. The Commission’s financial statements may be obtained at 1300 Palm Boulevard, Isle of Palms, South Carolina 29451.

Major Operations

The City’s major operations include general government, public safety (police and fire protection), building, planning and engineering, public works, recreation, non-departmental, and marina.

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

The government-wide basic financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City (the “Primary Government”). The effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The *General Fund, a major fund* and a budgeted fund, is the general operating fund of the City and accounts for all revenues and expenditures of the City except those required to be accounted for in other funds. All general tax revenues and other receipts that (a) are not allocated by law or contractual agreement to other funds or (b) that have not been restricted, committed, or assigned to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Special revenue funds are used to account for and report the proceeds of specific revenue sources (that are expected to continue to comprise a substantial portion of the inflows of the fund) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The City has the following special revenue funds:

- i) The *Municipal Accommodations Fee Fund, a major fund* and a budgeted fund, is used to account for the accumulation of resources from the fee imposed on the rental of some accommodations within the City and the allocation of Charleston County Accommodations Fees received. These funds are restricted and thus can only be spent for tourism related expenditures.
- ii) The *State Accommodations Tax Fund, a major fund* and a budgeted fund, is used to account for the accumulation of resources from the accommodations taxes levied by the State of South Carolina and remitted to the City. These funds are restricted and thus can only be spent for advertising, promotion, and tourism related expenditures.
- iii) The *Hospitality Tax Fund, a major fund* and a budgeted fund, is used to account for and report the financial resources received and disbursed related to the City's 2% fee imposed on prepared food and beverage sales within the City. These funds are restricted and thus can only be spent for tourism related expenditures.
- iv) The *Beach Restoration Fund, a major fund* and a budgeted fund, is used to account for the accumulation of resources from the City, state/local grants, and private contributions (from affected homeowners) all of which were restricted for the nourishment, monitoring, and regulatory compliance related to the 2008 beach restoration project. A new area of erosion within the 2008 project boundary was identified and addressed in fiscal year 2012 using residual funding from the original project.
- v) The *special revenue funds, non-major funds*, are used to account for the specific revenue sources (other than major capital projects) that are restricted by donor, law, or administrative actions to expenditures for specified purposes. Most of these funds have a legally adopted budget and any remaining fund balance is generally restricted for the purpose of the specific revenue source. The City has the following non-major special revenue funds:

Federal Narcotics
Aisle of Palms

State Narcotics
Recreation Building

Victims' Assistance

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The *Capital Projects Fund, a major fund* and a budgeted fund, is used to account for financial resources expended for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Funds). These funds are also used to carry on specified ongoing major improvement projects or major equipment acquisitions usually spanning more than one fiscal year.

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

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

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

The **Marina Enterprise Fund**, a budgeted fund, is used to account for the City’s marina operations.

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

C. Assets, Liabilities and Equity

1. *Cash, Cash Equivalents, and Investments*

Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and investments in the South Carolina Local Government Investment Pool (“Pool”) to be cash equivalents. Securities with original maturities of more than three months when initially purchased are reported as investments.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

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

Investments

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

- (a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
- (b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
- (e) Certificates of Deposit ("CD's") where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the Certificates of Deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
- (f) Repurchase agreements when collateralized by securities as set forth in this section.
- (g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

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

- Certificates of Deposit ("CD") are bond-type investments issued by a bank when a person or company deposits a certain amount of money for a determined amount of time. The maturity can be up to five years, and interest is paid to the holder of the CD at an agreed upon rate. Money removed before maturity is subject to a penalty.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

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

Investments (Continued)

- South Carolina Local Government Investment Pool (the "Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools,*" investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.

2. *Receivables and Payables*

During the course of its operations, the City has numerous transactions occurring between funds. These transactions include expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. To the extent that certain transactions between funds had not been paid or received as of year end, balances of interfund amounts or payables have been recorded. All trade and property taxes receivable are shown net of an allowance for uncollectibles.

3. *Inventories and Prepaids*

Prepaid items and inventories (consisting of fuel and expendable supplies) in the governmental funds are reported under the consumption method as they are recorded as an expenditure at the time individual inventory items are consumed. Inventories are valued at cost (first-in, first-out). Inventories in the General Fund are offset by a fund balance reserve to reflect that portion of fund balance does not represent available expendable resources.

4. *Capital Assets*

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

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. As allowed by GASB #34, the City has elected to prospectively report public domain ("infrastructure") general capital assets. Therefore, infrastructure capital assets acquired prior to July 1, 2000 have not been recorded. Public domain capital assets consist of roads, bridges, curbs and gutters, streets, and sidewalks, drainage systems, lighting systems and similar assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The City maintains a minimum capitalization threshold of \$1,000 for all capital assets.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

4. Capital Assets (Continued)

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

Description	Governmental and Business- Type Activities
Buildings	20-50 years
Marina Docks and Related Capital Assets	40 years
Improvements	10-20 years
Vehicles, Fixtures, and Equipment	5-15 years

5. Compensated Absences

The City's general leave policy allows the accumulation of unused vacation leave up to a maximum of thirty (30) days and unused sick leave up to a maximum of ninety (90) days. Employees terminating or retiring are paid for accumulated vacation leave based on their hourly rate of pay earned at the time of separation or retirement. Sick leave can only be used while employed with the City and will not be paid out at termination or retirement.

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

6. Accrued Liabilities and Long-Term Obligations

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

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

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

7. Fund Balance

In accordance with GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*” (“GASB #54”), the City classifies its governmental fund balances as follows:

Nonspendable – includes amounts that inherently cannot be spent either because it is not in spendable form (i.e. prepaids, inventories, etc.) or because of legal or contractual requirements (i.e. principal on an endowment, etc.).

Restricted – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action made by the highest level of decision making authority (City Council) before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed amounts for the City consist of amounts passed and approved by resolution by City Council (“Council”).

Assigned – includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed and that such assignments are made before the report issuance date. The City reserves the right to assign fund balance by a simple majority vote of Council. Council by an approved resolution in its June 26, 2012 meeting also formally granted the Mayor and City Administrator the right to assign fund balance (when deemed appropriate).

Unassigned – includes amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts of restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The City generally uses restricted amounts to be spent first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, the City generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

City Council approved by resolution on June 26, 2012 a financial goal to have sufficient fund balance in the General Fund (operating fund) with sufficient working capital and a margin of safety to address cyclical fluctuations in revenues and expenditures. The City shall generally strive to maintain a fund balance in the General Fund at fiscal year-end in which the total fund balance is 30% of total General Fund expenditures and unassigned fund balance is 20% of total General Fund expenditures.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

8. Net Assets

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

9. Accounting Estimates

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

10. Comparative Data

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a GAAP basis. During the months of February through May, the City's Administration, with other department input, develops a preliminary budget model for operational and capital expenditures, and develops revenue projections as a proposed means of financing the proposed expenditures. The City Treasurer and the City Administrator refine the budget model, develop objectives and update trends related to service efforts and accomplishments during the month of April. During May, the proposed budget is presented by the City Administrator to City Council. The budget includes proposed expenditures and the means for financing them.

Public meetings are conducted to obtain taxpayer comments. A target date in June is set for legal enactment of the budget through passage of an ordinance. The ordinance sets the limit at the fund level, for which expenditures may not exceed appropriations. After two readings of the budget, the City Council legally adopts the budget through the passage of the ordinance. After the City completes the formal budget process, the City prepares and issues the budget report.

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

For each assigned account, the department is obligated to stay within budget by each major expenditure category of personnel, operating, and capital. The City Administrator has the authority to transfer funds within departments and across departmental accounts. All unused expenditure appropriations lapse at year-end.

During the fiscal year, there were no amendments to the original adopted budget.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City’s deposits might not be recovered. The City does not have a deposit policy for custodial credit risk, but follows the investment policy statutes of the State of South Carolina. As of June 30, 2012, none of the City’s bank balances of approximately \$3,054,000 (with a carrying value of approximately \$2,954,000) were exposed to custodial credit risk.

Investments

As of June 30, 2012, the City had the following investments and maturities:

Investment Type	Fair Value	Credit Rating	Weighted Average Maturity (In Years)
South Carolina Local Government Investment Pool	\$ 8,473,348	Unrated	^

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

Interest Rate Risk: The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates, but they do follow the investment policy statutes of the State of South Carolina.

The City does not typically buy security investments and thus has not developed a policy for credit risk, custodial credit risk, or concentration of credit risk for these types of investments.

Certain cash, cash equivalents and investments of the City are legally restricted for specified purposes. The major types of restrictions at June 30, 2012 were those imposed by the revenue source (i.e. hospitality tax, accommodation taxes, grants, etc.).

The following table reconciles the amounts reported as deposits and investments in the notes to the financial statements to cash and cash equivalents and investments reported in the financial statements:

Statement of Net Assets	Amount
Cash and Cash Equivalents	\$ 7,896,073
Cash and Cash Equivalents - Restricted	3,468,038
<hr/> Statement of Assets and Liabilities - Fiduciary Fund - Agency Fund <hr/>	
Cash and Cash Equivalents	63,571
Total Cash and Investments per Basic Financial Statements	\$ 11,427,682
<hr/> Notes <hr/>	
Carrying Value of Deposits	\$ 2,954,334
Investments	8,473,348
Total Cash and Investments per Notes to the Basic Financial Statements	\$ 11,427,682

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

B. Receivables and Deferred/Unearned Revenue

Property Taxes and Other Receivables

The City’s 2011 property taxes were levied on September 30, 2011 and were due beginning on this date based on the assessed valuation on real and personal property (including vehicles) of approximately \$207,600,000 as of January 1, 2011. Property taxes were considered late on January 17, 2012. Motor vehicle property tax is levied and collected on a portion of taxable vehicles monthly. Penalties and charges are assessed if taxes are not paid by the following dates:

- January 17 through February 1 - 3% penalty for tax due
- February 2 through March 15 - 10% penalty for tax due
- March 16 - Lien Date - 15% penalty for tax due plus \$15 for a delinquent execution charge
- Unpaid Taxes After One Year - Property is sold by the County Tax Collector at the annual tax sale held the first Monday in November each year.

Assessed values are established by the Charleston County Tax Assessor and the South Carolina Tax Commission. The City’s total tax rate for the 2011 property tax year was 22.9 mills. City property taxes are billed and collected by Charleston County under a joint billing and collection agreement.

Amounts received by Charleston County, but not yet remitted to the City at year end, are included as Taxes Receivable on the governmental fund balance sheet and on the government-wide statement of net assets.

Local option sales taxes, collected by the State of South Carolina, but not yet remitted to the City at year end, are included as due from other governments on the governmental fund balance sheet and on the government-wide statement of net assets.

The City’s taxes receivable, other receivables, and due from other governments consist of the following:

	General	Municipal	State	Hospitality	Other	Marina	
	Fund	Accommodations	Tax Fund	Tax	Governmental	Enterprise	Totals
		Fee Fund		Fund	Funds	Fund	
Property taxes	\$ 261,171	-	-	-	-	-	\$ 261,171
Allowance for Uncollectibles	(5,355)	-	-	-	-	-	(5,355)
Local Option Sales Tax	165,423	-	-	-	-	-	165,423
Accommodations Taxes	28,741	363,604	427,332	-	-	-	819,677
Hospitality Taxes	-	-	-	68,205	-	-	68,205
Marina Operations	-	-	-	-	-	52,525	52,525
Franchise Fees	46,822	-	-	-	-	-	46,822
State Aid to Subdivisions	19,285	-	-	-	-	-	19,285
Grant Income	-	-	-	-	27,998	-	27,998
Other	29,836	-	-	-	-	-	29,836
Net Receivables	\$ 545,923	363,604	427,332	68,205	27,998	52,525	\$ 1,485,587

Receivables of the Marina Enterprise Fund consist of amounts due from the Marina’s tenants. There is no allowance for uncollectible amounts other than for property taxes.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

B. Receivables and Deferred/Unearned Revenue (Continued)

Deferred/Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental Funds and Enterprise Funds also defer revenue recognition in connection with resources that have been received, but not yet earned (unearned revenue).

At June 30, 2012, the various components of deferred/unearned revenue were as follows:

<u>Primary Government</u>	<u>Fund</u>	<u>Deferred</u>	<u>Unearned</u>	<u>Total</u>
Property Taxes Receivable	General	\$ 71,733	-	\$ 71,733
Cash Contributions	Beach Restoration	-	691,541	691,541
Total Deferred/Unearned Revenue		<u>\$ 71,733</u>	<u>691,541</u>	<u>\$ 763,274</u>

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

Interfund balances at June 30, 2012, consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
<u>Governmental Funds:</u>		
General Fund	\$ 10,085	\$ 707,754
Capital Projects Fund	706,915	-
Victims' Assistance Fund	839	-
Aisle of Palms Fund	-	10,085
Totals	<u>\$ 717,839</u>	<u>\$ 717,839</u>

The Capital Projects receivable of approximately \$707,000 from the General Fund relates primarily to an assignment of funds for future capital projects. The Aisle of Palms Fund payable relates to the front beach lighting project that was paid from the General Fund. All interfund balances are expected to be paid back within one year.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

C. Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Transfers between funds for the year ended June 30, 2012, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Governmental Funds:</u>		
General Fund	\$ 629,144	\$ 775,295
Capital Projects Fund	794,001	-
Municipal Accommodations Fee Fund	-	621,365
State Accommodations Tax Fund	-	345,897
Hospitality Tax Fund	-	315,853
Beach Restoration Fund	315,482	11,651
Victims' Assistance Fund	-	27,290
Recreation Building Fund	-	18,706
<u>Proprietary Fund:</u>		
Marina Enterprise Fund	377,430	-
Totals	<u>\$ 2,116,057</u>	<u>\$ 2,116,057</u>

Transfers made out of the General Fund were primarily to fund future capital projects. Transfers made out of the Municipal Accommodations Fee Fund were mainly to finance debt service payments in the Beach Restoration Fund and to offset Public Safety and Public Works costs in the General Fund. Transfers made out of the Hospitality Tax Fund were to offset Public Safety costs in the General Fund and dredging costs in the Marina Fund. Transfers from the State Accommodations Tax Fund were primarily for marina debt service, marina dredging, and beach maintenance.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

D. Capital Assets

Capital asset activity for the City's governmental activities for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 2,913,446	-	-	-	\$ 2,913,446
Construction In Progress	737,619	361,425	-	(1,059,504)	39,540
Total Capital Assets, Non-Depreciable	3,651,065	361,425	-	(1,059,504)	2,952,986
Capital Assets, Depreciable:					
Land Improvements	2,113,569	-	29,141	1,059,504	3,143,932
Buildings and Improvements	15,221,613	6,530	97,321	-	15,130,822
Vehicles and Vehicle Equipment	4,116,346	178,740	134,282	-	4,160,804
Equipment	2,461,565	168,002	277,762	-	2,351,805
Furniture and Fixtures	78,089	-	3,599	-	74,490
Total Capital Assets, Depreciable	23,991,182	353,272	542,105	1,059,504	24,861,853
Less: Accumulated Depreciation for:					
Land Improvements	1,011,158	184,874	29,141	-	1,166,891
Buildings and Improvements	2,868,074	572,860	97,321	-	3,343,613
Vehicles and Vehicle Equipment	2,462,710	355,644	134,282	-	2,684,072
Equipment	1,657,938	213,329	277,762	-	1,593,505
Furniture and Fixtures	53,591	5,291	3,599	-	55,283
Total Accumulated Depreciation	8,053,471	1,331,998	542,105	-	8,843,364
Total Capital Assets, Depreciable, Net	15,937,711	(978,726)	-	1,059,504	16,018,489
Governmental Activities Capital Assets, Net	\$ 19,588,776	(617,301)	-	-	\$ 18,971,475

The cost of equipment recorded under capital lease was approximately \$1,896,000. Accumulated amortization on the equipment recorded under capital lease was approximately \$996,000 at June 30, 2012. Amortization of assets, recorded under capital lease obligations, has been included with depreciation expense.

Capital asset additions and depreciation expense for the City's governmental activities was charged to functions/programs as follows:

Functions/Programs	Capital Asset Additions	Depreciation Expense
Governmental Activities:		
General Government	\$ 25,563	\$ 135,254
Public Safety	222,095	737,009
Building, Planning, and Engineering	6,530	36,574
Public Works	432,318	232,031
Recreation	28,191	191,130
Total - Governmental Activities	\$ 714,697	\$ 1,331,998

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

D. Capital Assets (Continued)

Capital asset activity for the City’s business-type activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Non-Depreciable					
Land	\$ 3,035,786	-	-	-	\$ 3,035,786
Total Capital Assets, Non-Depreciable	<u>3,035,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,035,786</u>
Capital Assets, Depreciable					
Land Improvements	2,655,808	-	-	-	2,655,808
Buildings and Improvements	846,998	-	-	-	846,998
Docks	532,582	24,400	-	-	556,982
Equipment	262,228	-	-	-	262,228
Total Capital Assets, Depreciable	<u>4,297,616</u>	<u>24,400</u>	<u>-</u>	<u>-</u>	<u>4,322,016</u>
Less: Accumulated Depreciation for:					
Land Improvements	261,273	66,461	-	-	327,734
Buildings and Improvements	430,851	36,881	-	-	467,732
Docks	300,804	22,709	-	-	323,513
Equipment	261,220	1,008	-	-	262,228
Total Accumulated Depreciation	<u>1,254,148</u>	<u>127,059</u>	<u>-</u>	<u>-</u>	<u>1,381,207</u>
Total Capital Assets, Depreciable, Net	<u>3,043,468</u>	<u>(102,659)</u>	<u>-</u>	<u>-</u>	<u>2,940,809</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,079,254</u>	<u>(102,659)</u>	<u>-</u>	<u>-</u>	<u>\$ 5,976,595</u>

E. Long-Term Obligations

The City issues bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds (“GOB”) are direct obligations and pledge the full faith and credit of the City. The City’s Bank Loan (“BL”) is an obligation of the City that is secured by revenue from a specific source. Capital Lease (“CL”) obligations are special obligations of the City payable from the general revenues of the City. The full faith, credit and taxing powers of the City are not pledged for the payment of the bank loan or capital lease obligations nor the interest thereon.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

E. Long-Term Obligations (Continued)

Details on the City's outstanding debt and capital leases as of June 30, 2012 are as follows:

	Principal Outstanding at Year End
<i>General Obligation Bonds and Bank Loan</i>	
\$2,900,000 General Obligation Bonds Series 2003 ("Series 2003") issued in July 2003 to finance the expansion of the recreation center and was approved through voter referendum and thus is not subject to the 8% debt limit. Principal is payable annually and interest, at 3.55%, semi-annually. Annual debt service requirements range from approximately \$171,000 to \$243,000 through June, 2023 and are being paid 60% by the General Fund and 40% by the Municipal Accommodations Fee Fund.	\$ 1,955,000
\$3,650,000 General Obligation Bonds Series 2006 ("Series 2006") issued in August 2006 to defray the cost of constructing and equipping Fire Station 2 and making certain other expenditures related thereto. Principal is payable annually and interest, at 3.99%, semi-annually. Annual debt service requirements range from approximately \$176,000 to \$286,000 through July, 2026. Debt service payments were first paid from the prior year residual bond proceeds and then were paid 60% by the Hospitality Tax Fund and 40% by the General Fund.	2,875,000
\$2,925,000 General Obligation Bond ("Series 2008A") issued in April 2008 to refinance the remaining balance on the \$4,250,000 General Obligation Bond series 1999 (issued in January 1999) which originally purchased the Marina, was approved through voter referendum, and thus is not subject to the 8% debt limit. Principal is payable annually and interest, at 5.15%, semi-annually. Annual debt service requirements range from approximately \$308,000 to \$371,000 through February, 2019 and are being paid by the Marina Enterprise Fund.	1,975,000
\$6,700,000 General Obligation Bonds Series 2008 ("Series 2008B") issued in August 2008 to defray the cost of constructing and equipping a new public safety building and renovating certain municipal facilities. Principal is payable annually and interest, at 4.14%, semi-annually. Annual debt service requirements range from approximately \$343,000 to \$540,000 through March, 2028 and are being paid 100% by the General Fund.	5,775,000
\$1,000,000 General Obligation Bond ("Series 2009") issued in April 2009 to defray the cost to construct a new marina bulkhead and renovate certain related municipal facilities. Principal is payable annually and interest, at 4.39%, semi-annually. Annual debt service requirements range from approximately \$125,000 to \$165,000 through March, 2016 and are being paid by the Marina Enterprise Fund.	610,000
\$1,700,000 Bank Loan ("Bank Loan - 06/08") obtained in June 2008 to finance a portion of the beach nourishment project. Annual payments of \$315,482, including interest at 3.16% are due each June 10 th through 2014 and are being paid 100% by the Municipal Accommodations Fee Fund.	<u>602,268</u>
Total General Obligation Bonds and Bank Loan	<u>\$13,792,268</u>

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

E. Long-Term Obligations (Continued)

	Principal Outstanding at Year End
<u>Capital Leases</u>	
The City entered into a \$693,483 capital lease on September 4, 2003 ("CL – 09/03") to finance the purchase of a ladder fire truck. Annual payments of \$82,113, including interest at 3.97%, are due each September 4 th , through 2012.	\$ 78,977
The City entered into a \$471,000 capital lease on May 5, 2004 ("CL – 05/04") to finance the purchase of a mini pumper/ladder fire truck. Annual payments of \$55,210, including interest at 3.72%, are due each May 5 th , through 2013.	53,230
The City entered into an \$112,271 capital lease on July 29, 2005 ("CL – 07/05") to finance the purchase of a Mack sanitation truck. Annual payments of \$15,720, including interest at 3.38%, are due each July 29 th , through 2012.	15,205
The City entered into an \$115,000 capital lease on August 30, 2006 ("CL – 08/06") to finance the purchase of a Caterpillar wheel loader. Annual payments of \$16,559, including interest at 4.26%, are due each August 30 th , through 2013.	31,116
The City entered into a \$162,200 capital lease on November 1, 2007 ("CL – 11/07") to finance the purchase of a Mack sanitation truck. Annual payments of \$22,996, including interest at 3.77%, are due each November 1 st , through 2014.	64,096
The City entered into a \$342,155 capital lease on August 26, 2009 ("CL – 08/09") to finance the purchase of a pumper fire truck. Annual payments of \$40,383, including interest at 3.89%, are due each August 1 st , through 2018.	243,370
	<u>485,994</u>
Total Capital Lease Obligations	<u>\$ 485,994</u>

General obligation bonds have been issued for both governmental and proprietary/enterprise activities. Bonds are reported in the Enterprise Funds if they are expected to be repaid from Enterprise Fund operations.

Lease payments for all of the capital leases are generally paid with a combination of monies from the Capital Projects Fund (using general government reserves), the Municipal Accommodations Fee Fund, and the State Accommodations Tax Fund (using tourism-restricted funds). The leases are secured by the property being financed.

Interest paid on the debt issued by the City is exempt from federal income tax. The City sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities (via the Pool), especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The City had no arbitrage liability at June 30, 2012.

The City incurred interest expense of approximately \$486,000 and \$140,000 for its governmental and business-type activities debt, respectively.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

E. Long-Term Obligations (Continued)

Presented below is a summary of changes in long-term obligations for the year ended June 30, 2012, for the City's governmental and business-type activities:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
GOB Debt:					
GOB - Series 2003	\$ 2,080,000	-	125,000	1,955,000	\$ 135,000
GOB - Series 2006	3,020,000	-	145,000	2,875,000	150,000
GOB - Series 2008B	6,050,000	-	275,000	5,775,000	275,000
Total GOB Debt	11,150,000	-	545,000	10,605,000	560,000
Bank Loan - 06/08	889,637	-	287,369	602,268	296,450
Total GOB Debt and Bank Loan	12,039,637	-	832,369	11,207,268	856,450
Capital Leases:					
CL - 09/03	154,939	-	75,962	78,977	78,977
CL - 05/04	104,550	-	51,320	53,230	53,230
CL - 07/05	29,914	-	14,709	15,205	15,205
CL - 08/06	45,727	-	14,611	31,116	15,234
CL - 11/07	83,928	-	19,832	64,096	20,580
CL - 08/09	273,128	-	29,758	243,370	30,916
CL - 08/10	143,044	-	143,044	-	-
Total Capital Leases	835,230	-	349,236	485,994	214,142
Accrued Compensated Absences	259,011	201,748	196,242	264,517	206,036
Total Governmental Activities	\$ 13,133,878	201,748	1,377,847	11,957,779	\$ 1,276,628
Business-Type Activities:					
GOB Debt:					
GOB - Series 2008A	\$ 2,225,000	-	250,000	1,975,000	\$ 250,000
GOB - Series 2009	745,000	-	135,000	610,000	140,000
Total GOB Debt	\$ 2,970,000	-	385,000	2,585,000	\$ 390,000

Resources from the General Fund, Municipal Accommodations Fee Fund, State Accommodations Tax Fund, and Hospitality Tax Fund have been used to liquidate the governmental activities debt and capital lease obligations. Resources from the Marina Enterprise Fund have been used to liquidate the business-type activities debt. The accrued compensated absences liability has been liquidated through the General Fund.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or City shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or City voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of June 30, 2012, the City had \$9,260,000 of bonded debt subject to the 8% limit of approximately \$16,608,000 available, resulting in an unused legal debt margin of approximately \$7,348,000.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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

E. Long-Term Obligations (Continued)

Debt Service Requirements to Maturity

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

Year Ending June 30,	GOB and Bank Loan		Capital Lease Obligations		Totals
	Principal	Interest	Principal	Interest	
<u>Governmental Activities</u>					
2013	\$ 856,450	442,233	214,142	18,837	\$ 1,531,662
2014	875,818	410,701	69,356	10,582	1,366,457
2015	610,000	378,498	55,529	7,850	1,051,877
2016	650,000	354,347	34,666	5,717	1,044,730
2017	690,000	328,606	36,015	4,369	1,058,990
2018-2022	3,810,000	1,217,213	76,286	4,479	5,107,978
2023-2027	3,265,000	463,309	-	-	3,728,309
2028	450,000	18,630	-	-	468,630
Totals	\$ 11,207,268	3,613,537	485,994	51,834	\$ 15,358,633
<u>Business-Type Activities</u>					
2013	\$ 390,000	128,492	-	-	\$ 518,492
2014	425,000	109,470	-	-	534,470
2015	430,000	88,723	-	-	518,723
2016	440,000	67,757	-	-	507,757
2017	300,000	46,350	-	-	346,350
2018-2019	600,000	46,350	-	-	646,350
Totals	\$ 2,585,000	487,142	-	-	\$ 3,072,142

F. Marina Revenue

The City owned Marina earns revenues from the rental of Marina facilities as noted below:

- The City dock lease – annual income of approximately \$184,000. The lease is through September 20, 2014. The lease can be extended for two additional five year terms.
- Marina store rental – annual income of approximately \$102,000. The lease was renewed through January 31, 2015.
- Marina restaurant rental – annual income of approximately \$99,000. The lease has been renewed through October 31, 2014. There are two additional three year renewal options that could extend the lease term until October 31, 2020.
- Water sports dock rental – annual income of approximately \$20,000. The lease has been renewed through September 30, 2015.

Estimated future annual lease income for the long-term leases in effect as of June 30, 2012 are as follows:

Year Ending June 30,	Amount
2013	\$ 328,392
2014	328,392
2015	199,577
2016	\$ 5,040

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. For all of these risks, the City is a member of the South Carolina Municipal Insurance Reserve Fund (“SCMIRF”), a public entity risk pool operating as a common risk management and insurance program for local governments for general risk. The City pays an annual premium for this coverage. For the year ended June 30, 2012, the City’s premium costs totaled approximately \$205,000. SCMIRF’s net assets from its most recently issued audited financial statements at December 31, 2011, totaled approximately \$29,608,000.

The City has also joined together with other municipalities in the state to form the South Carolina Municipal Insurance Trust (“SCMIT”), a public entity risk pool operating as a common risk management and insurance program for workers’ compensation. The City pays an annual premium to SCMIT. For the year ended June 30, 2012, the City made premium payments totaling approximately \$65,000. The Trust uses reinsurance agreements to reduce its exposure to large workers’ compensation losses. SCMIT’s net assets from its most recently issued audited financial statements at December 31, 2011, totaled approximately \$45,904,000.

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

Health Insurance

The City provides a health insurance program for its employees through the SC State Health Plan (“Health Plan”). The City pays a monthly premium to the insurer for its health coverage (insured plan) with the insurer being responsible for claims.

B. Pension Disclosures

South Carolina Retirement and Police Officers’ Retirement System

South Carolina Retirement and Police Officers’ Retirement System: All full-time City employees, except for fire and police department sworn service personnel, are required to participate in the South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan. City sworn police officers and firefighting personnel are required to participate in the South Carolina Police Officers’ Retirement System (“SCPORS”), a cost-sharing multiple-employer defined benefit pension plan. Both the SCRS and the SCPORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. The Plans’ provisions are established under Title 9 of the South Carolina Code of Law. Only the South Carolina State Budget and Control Board has authority to establish and amend the funding policy. A comprehensive annual financial report containing financial statements and required supplementary information for the SCRS and SCPORS is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29211-1960.

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

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

IV. OTHER INFORMATION (CONTINUED)

B. Pension Disclosures (Continued)

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

	SCRS Rates			SCPORS Rates		
	2010	2011	2012	2010	2011	2012
<u>Employer Rate</u>						
Retirement	9.24%	9.24%	9.39%	10.65%	11.13%	11.36%
Group Life Insurance Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Benefit	N/A	N/A	N/A	0.20%	0.20%	0.20%
Total	<u>9.39%</u>	<u>9.39%</u>	<u>9.54%</u>	<u>11.05%</u>	<u>11.53%</u>	<u>11.76%</u>
Employee Rate	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>	<u>6.50%</u>

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

Year Ending June 30,	SCRS Contributions			SCPORS Contributions		
	Required	% Contributed	% of Covered Payroll	Required	% Contributed	% of Covered Payroll
2012	\$ 162,789	100%	9.54%	\$ 262,426	100%	11.76%
2011	157,268	100%	9.39%	268,823	100%	11.53%
2010	\$ 155,217	100%	9.39%	\$ 242,378	100%	11.05%

C. Other Postemployment Benefits

Upon retirement from the City, employees who meet certain eligibility requirements have the option to retain health insurance through the Health Plan paying the applicable retiree rate. The Health Plan and the City's Personnel Manual establish the requirements for post employment healthcare benefits. Presently there is one retired participant.

In 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("Statement"). This Statement establishes standards for the measurement, recognition and display of Other Post Employment Benefits ("OPEB") expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The City adopted Statement No. 45 in fiscal year 2010. No liability or expenditure is recorded as of June 30, 2012 due to the fact that the City's current OPEB plan requires retirees to pay the full cost of an age adjusted retiree rate rather than a blended group rate.

D. Beach Restoration

During 2007, severe beach erosion occurred along approximately one-half mile of the City's seven mile beach. To address this problem, the City is managing a public-private jointly funded effort to restore the eroded beach, thereby protecting the City's greatest natural asset as well as millions of dollars of property. The City's monetary contribution to the project in 2008 consisted of \$200,000 budgeted for beach restoration and an additional \$1,700,000 obtained via a bank loan secured by future municipal accommodations fee revenues. Private contributions of approximately \$7,108,000 were received from the affected property owners in 2008. In 2009, the City also received project support from Charleston County for \$900,000 and approximately \$671,000 from the South Carolina Department of Health and Environmental Control Office of Coastal Resource Management ("OCRM"). The OCRM grant was restricted to the area of the project where public access existed.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

IV. OTHER INFORMATION (CONTINUED)

D. Beach Restoration (Continued)

The City is recognizing the funds received for this public-private jointly funded project (beach restoration and focused erosion) as revenue as the expenditures are incurred (using the City's contribution and grant and loan proceeds first before utilizing the private donations). During 2012, the City incurred expenditures and recognized revenue of approximately \$421,000 resulting in a deferred/unearned liability in the financial statements at June 30, 2012 of approximately \$692,000 related to private contributions. The construction phase of the project was substantially completed as of July 2008 with certain required post-project monitoring functions completed during 2009 and 2010. The monitoring phase, as required by the permitting agencies OCRM and the United States Army Corp of Engineers, was completed during 2012.

E. Commitments and Contingencies

The City receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the City at June 30, 2012.

In July 2010, the City entered into a five year contract with a vendor for drainage ditch maintenance on the island for approximately \$438,000.

In April 2012, the City awarded a contract to a sports lighting company for approximately \$348,000 to install the lights for the Recreation Department ball fields. The construction occurred subsequent to year-end.

F. Litigation

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

G. Pending Implementation of GASB Statement on Pensions

GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*" ("Statement"), was issued by the Governmental Accounting Standards Board ("GASB") in June 2012. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that are provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple employer plan will now be required to recognize a liability for its proportionate share of the net pension liability of that plan. It is GASB's intention that this new Statement will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the City's financial obligations to current and former employees for past services rendered.

In particular, the City will be required to report a net pension liability for its participation in the SCRS and SCPORS on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Assets) and present more extensive note disclosures. In general, it should not have a significant impact on the City's governmental funds.

The effect of implementation of this Statement has not been determined at this time, but it is anticipated that it will materially decrease the City's unrestricted net assets. This Statement is required to be implemented by the City no later than the fiscal year ending June 30, 2015.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

IV. OTHER INFORMATION (CONTINUED)

H. Subsequent Events

In August 2012, the City entered into an agreement to purchase a one acre lot at the intersection of 18th Avenue and Palm Boulevard and to accept 18th Avenue as a public road, conditional on the approval of Greenbelt funding.



Required Supplementary Information

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

- Budgetary Comparison Schedules
 - General Fund
 - Municipal Accommodations Fee Fund
 - State Accommodations Tax Fund
 - Hospitality Tax Fund
 - Beach Restoration Fund

CITY OF ISLE OF PALMS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Property Taxes	\$ 4,235,222	4,235,222	4,284,412	\$ 49,190
Local Option Sales Tax	493,000	493,000	517,717	24,717
Intergovernmental	232,866	232,866	252,113	19,247
Licenses and Permits	2,254,880	2,254,880	2,382,111	127,231
Fines	124,000	124,000	95,541	(28,459)
Interest	19,723	19,723	12,934	(6,789)
Revenues From Use of Properties (Marina excluded)	380,717	380,717	322,770	(57,947)
Other Revenues	238,625	238,625	417,034	178,409
TOTAL REVENUES ALL SOURCES	7,979,033	7,979,033	8,284,632	305,599
EXPENDITURES				
General Government:				
Mayor and Council	93,120	93,120	63,171	(29,949)
Administration	630,773	630,773	546,500	(84,273)
Judicial and Legal	160,027	160,027	140,206	(19,821)
Public Safety:				
Police Department	2,229,908	2,229,908	2,073,624	(156,284)
Fire Department	2,317,086	2,317,086	2,210,104	(106,982)
Building, Planning, and Engineering	331,151	331,151	308,111	(23,040)
Public Works	1,098,776	1,098,776	1,021,812	(76,964)
Recreation:				
Recreation Department	708,031	708,031	697,005	(11,026)
Recreation Programs	86,750	86,750	81,709	(5,041)
Non-Departmental:				
Parking Meters	46,644	46,644	39,415	(7,229)
Debt Service:				
Principal	408,000	408,000	408,000	-
Interest	342,973	342,973	342,973	-
TOTAL EXPENDITURES	8,453,239	8,453,239	7,932,630	(520,609)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(474,206)	(474,206)	352,002	826,208
OTHER FINANCING SOURCES (USES)				
Transfers In	694,802	694,802	629,144	(65,658)
Transfers Out	(111,096)	(111,096)	(775,295)	(664,199)
TOTAL OTHER FINANCING SOURCES (USES)	583,706	583,706	(146,151)	(729,857)
NET CHANGES IN FUND BALANCES	109,500	109,500	205,851	96,351
FUND BALANCE, Beginning of Year	4,591,316	4,591,316	4,591,316	-
FUND BALANCES, End of Year	\$ 4,700,816	4,700,816	4,797,167	\$ 96,351

Note: The City's original and final budget for 2012 reflected an expected surplus of \$109,500.

Note: The above schedule reflects the sale of capital assets of \$11,745 in other revenues, but is reflected as an other financing source in the statement of revenues, expenditures, and changes in fund balances - governmental funds.

Note: This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
MUNICIPAL ACCOMMODATIONS FEE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Accommodations Fee Revenue	\$ 650,000	650,000	777,538	\$ 127,538
County Accommodations Fee Revenue	230,000	230,000	312,868	82,868
Interest	3,600	3,600	2,438	(1,162)
TOTAL REVENUES	883,600	883,600	1,092,844	209,244
EXPENDITURES				
Current:				
General Government	29,110	29,110	16,390	(12,720)
Public Works	94,200	94,200	69,914	(24,286)
Recreation	-	-	139	139
Non-Departmental:				
Public Restrooms	96,181	96,181	53,531	(42,650)
Capital Outlay	174,300	174,300	56,456	(117,844)
Debt Service:				
Principal	153,325	153,325	153,325	-
Interest	37,988	37,988	37,815	(173)
TOTAL EXPENDITURES	585,104	585,104	387,570	(197,534)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	298,496	298,496	705,274	406,778
OTHER FINANCING SOURCES (USES)				
Transfers Out	(656,941)	(656,941)	(621,365)	35,576
Sale of Capital Assets	2,250	2,250	-	(2,250)
TOTAL OTHER FINANCING SOURCES (USES)	(654,691)	(654,691)	(621,365)	33,326
NET CHANGES IN FUND BALANCES	(356,195)	(356,195)	83,909	440,104
FUND BALANCES, Beginning of Year	952,561	952,561	952,561	-
FUND BALANCES, End of Year	\$ 596,366	596,366	1,036,470	\$ 440,104

Note: The City's original and final budget reflected the use of fund balance of \$356,195 for 2012. Actual results were considerably better than budget since \$0 fund balance was used.

Note: This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
STATE ACCOMMODATIONS TAX FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Accommodations Tax Revenue	\$ 1,045,000	1,045,000	1,365,469	\$ 320,469
Interest	3,800	3,800	2,722	(1,078)
TOTAL REVENUES	1,048,800	1,048,800	1,368,191	319,391
EXPENDITURES				
Current:				
General Government	435,800	435,800	496,272	60,472
Public Safety	3,125	3,125	3,139	14
Public Works	11,500	11,500	10,276	(1,224)
Recreation:				
Recreation Department	32,000	32,000	23,357	(8,643)
Non-Departmental:				
Public Restrooms	186,188	186,188	153,435	(32,753)
Capital Outlay	319,500	319,500	89,423	(230,077)
Debt Service:				
Principal	103,325	103,325	103,325	-
Interest	8,452	8,452	8,279	(173)
TOTAL EXPENDITURES	1,099,890	1,099,890	887,506	(212,384)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(51,090)	(51,090)	480,685	531,775
OTHER FINANCING SOURCES (USES)				
Transfers Out	(386,854)	(386,854)	(345,897)	40,957
Sale of Capital Assets	2,250	2,250	7,270	5,020
TOTAL OTHER FINANCING SOURCES (USES)	(384,604)	(384,604)	(338,627)	45,977
NET CHANGES IN FUND BALANCES	(435,694)	(435,694)	142,058	577,752
FUND BALANCES, Beginning of Year	1,117,018	1,117,018	1,117,018	-
FUND BALANCES, End of Year	\$ 681,324	681,324	1,259,076	\$ 577,752

Note: The City's original and final budget reflected the use of fund balance of \$435,694 for 2012. Actual results were considerably better than budget since \$0 fund balance was used.

Note: This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
HOSPITALITY TAX FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Hospitality Taxes	\$ 489,000	489,000	547,677	\$ 58,677
Interest	2,100	2,100	1,181	(919)
TOTAL REVENUES	491,100	491,100	548,858	57,758
EXPENDITURES				
Current:				
Public Safety	56,420	56,420	52,444	(3,976)
Building, Planning, and Engineering	1,200	1,200	1,052	(148)
Public Works	69,000	69,000	65,807	(3,193)
Capital Outlay	36,000	36,000	36,595	595
Debt Service:				
Principal	87,000	87,000	87,000	-
Interest	72,299	72,299	72,299	-
TOTAL EXPENDITURES	321,919	321,919	315,197	(6,722)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	169,181	169,181	233,661	64,480
OTHER FINANCING SOURCES (USES)				
Transfers Out	(313,972)	(313,972)	(315,853)	(1,881)
TOTAL OTHER FINANCING SOURCES (USES)	(313,972)	(313,972)	(315,853)	(1,881)
NET CHANGES IN FUND BALANCES	(144,791)	(144,791)	(82,192)	62,599
FUND BALANCES, Beginning of Year	457,915	457,915	457,915	-
FUND BALANCES, End of Year	\$ 313,124	313,124	375,723	\$ 62,599

Note: The City's original and final budget for 2012 reflected the use of fund balance of \$144,791. Actual results were considerably better than budget and only \$82,192 of fund balance was used.

Note: This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

CITY OF ISLE OF PALMS, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
BEACH RESTORATION FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Contributions	\$ 673,304	673,304	421,286	\$ (252,018)
Interest	3,852	3,852	1,979	(1,873)
TOTAL REVENUES	677,156	677,156	423,265	(253,891)
EXPENDITURES				
Current:				
General Government	77,156	77,156	36,870	(40,286)
Non-Departmental	600,000	600,000	374,744	(225,256)
Debt Service:				
Principal	287,369	287,369	287,369	-
Interest	28,113	28,113	28,113	-
TOTAL EXPENDITURES	992,638	992,638	727,096	(265,542)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(315,482)	(315,482)	(303,831)	11,651
OTHER FINANCING SOURCES (USES)				
Transfers In	315,482	315,482	315,482	-
TOTAL OTHER FINANCING SOURCES (USES)	315,482	315,482	303,831	(11,651)
NET CHANGES IN FUND BALANCES	-	-	-	-
FUND BALANCES, Beginning of Year	-	-	-	-
FUND BALANCES, End of Year	\$ -	-	-	\$ -

Note: This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

Other Supplementary Information

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS

SPECIAL REVENUE FUNDS

To account for the proceeds of specific revenue sources (other than fiduciary funds or capital project funds) that are received by the City of Isle of Palms (“City”) that are either legally restricted or designated for specified purposes.

FEDERAL AND STATE NARCOTICS FUNDS - To account for the accumulation of funds seized by the City from illegal drug trafficking. These funds are used by the City to deter illegal drug use through investigation and education.

VICTIMS’ ASSISTANCE FUND – To account for monies set aside to assist victims of crimes in accordance with state law.

AISLE OF PALMS FUND – To account for donations received for the planting of palm trees by the City, and funds collected for the purchase of bricks, benches, and palm trees in connection with the Front Beach Enhancement Project.

RECREATION BUILDING FUND – To account for donations made to the City’s Recreation Department.



CITY OF ISLE OF PALMS, SOUTH CAROLINA

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2012

	FEDERAL NARCOTICS FUND
ASSETS	
Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents - Restricted	13,723
Accounts Receivable	-
Due from other funds	-
TOTAL ASSETS	<u>\$ 13,723</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts Payable	\$ -
Due to other funds	-
TOTAL LIABILITIES	<u>-</u>
FUND BALANCES	
Restricted	13,723
Assigned	-
TOTAL FUND BALANCES	<u>13,723</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,723</u>

STATE NARCOTICS FUND	VICTIMS' ASSISTANCE FUND	AISLE OF PALMS FUND	RECREATION BUILDING FUND	TOTAL NON-MAJOR FUNDS
-	-	2,507	-	\$ 2,507
16,416	65,429	-	79,340	174,908
-	-	27,998	-	27,998
-	839	-	-	839
16,416	66,268	30,505	79,340	\$ 206,252
-	109	-	225	\$ 334
-	-	10,085	-	10,085
-	109	10,085	225	10,419
16,416	66,159	-	-	96,298
-	-	20,420	79,115	99,535
16,416	66,159	20,420	79,115	195,833
16,416	66,268	30,505	79,340	\$ 206,252

CITY OF ISLE OF PALMS, SOUTH CAROLINA

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2012

	FEDERAL NARCOTICS FUND
REVENUES	
Fines and Forfeits	\$ -
Interest	24
Other	-
TOTAL REVENUES	24
EXPENDITURES	
Current:	
General Government	-
Public Safety	4
Recreation	-
Capital Outlay	-
TOTAL EXPENDITURES	4
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	20
OTHER FINANCING SOURCES (USES)	
Transfers (Out)	-
TOTAL OTHER FINANCING SOURCES (USES)	-
NET CHANGE IN FUND BALANCES	20
FUND BALANCES, Beginning of Year	13,703
FUND BALANCES, End of Year	\$ 13,723

STATE NARCOTICS FUND	VICTIMS' ASSISTANCE FUND	AISLE OF PALMS FUND	RECREATION BUILDING FUND	TOTAL NON-MAJOR FUNDS
-	8,921	-	-	\$ 8,921
31	156	4	163	378
-	-	810	17,558	18,368
31	9,077	814	17,721	27,667
-	-	832	-	832
4	3,247	-	-	3,255
-	-	-	1,295	1,295
-	-	-	7,099	7,099
4	3,247	832	8,394	12,481
27	5,830	(18)	9,327	15,186
-	(27,290)	-	(18,706)	(45,996)
-	(27,290)	-	(18,706)	(45,996)
27	(21,460)	(18)	(9,379)	(30,810)
16,389	87,619	20,438	88,494	226,643
16,416	66,159	20,420	79,115	\$ 195,833

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	2012		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
PROPERTY TAXES	\$ 4,235,222	4,284,412	\$ 49,190
LOCAL OPTION SALES TAX	493,000	517,717	24,717
INTERGOVERNMENTAL			
State Aid to Subdivisions	77,157	75,573	(1,584)
State Accommodations Tax Administrative Fee	80,000	96,867	16,867
State Shared Funds - Alcohol	36,000	39,900	3,900
Intergovernmental Transfers	39,709	39,773	64
Total Intergovernmental	232,866	252,113	19,247
LICENSES AND PERMITS			
Business Licenses	554,000	677,587	123,587
Residential Rental Licenses	467,000	475,314	8,314
Insurance Licenses	630,000	619,058	(10,942)
Public Utilities	444,000	449,477	5,477
Building Permits	105,000	123,218	18,218
Telecommunication Licenses	50,000	33,667	(16,333)
Alarm Permits	1,380	1,150	(230)
Animal Licenses	3,500	2,640	(860)
Total Licenses and Permits	2,254,880	2,382,111	127,231
FINES AND FORFEITS	124,000	95,541	(28,459)
INTEREST			
Interest Income	19,317	12,762	(6,555)
Court Generated Interest	406	172	(234)
Total Interest	19,723	12,934	(6,789)
REVENUES FROM USE OF PROPERTIES			
Parking Lot Revenue	110,000	105,636	(4,364)
Parking Meter Revenue	270,717	217,134	(53,583)
Total Revenues From Use of Properties	380,717	322,770	(57,947)
OTHER REVENUES			
Recreation Program Income	94,000	103,239	9,239
Recreation Instructors Income	\$ 124,000	139,989	\$ 15,989

(Continued)

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	2012		
	FINAL BUDGET	ACTUAL	VARIANCE
OTHER REVENUES (CONTINUED)			
Sales of Assets	\$ 12,750	11,745	\$ (1,005)
Miscellaneous	1,750	157,427	155,677
Cart Purchase Revenue	3,750	3,300	(450)
Boat Ramp Fees	1,000	900	(100)
Recycling Revenue	1,300	343	(957)
Kennel Fees	75	91	16
Total Other Revenues	238,625	417,034	178,409
TOTAL REVENUES	\$ 7,979,033	8,284,632	\$ 305,599
EXPENDITURES			
GENERAL GOVERNMENT			
<u>Mayor and Council:</u>			
Salaries	\$ 17,000	17,000	\$ -
Payroll Taxes	1,301	1,301	-
Retirement	53,137	29,290	(23,847)
Workers Compensation	333	189	(144)
Membership and Dues	-	50	50
Print and Office Supplies	100	167	67
Meetings and Seminars	9,000	5,592	(3,408)
Vehicle, Fuel, and Oil	500	519	19
Telephone	1,680	871	(809)
Insurance	1,769	2,004	235
Miscellaneous and Contingency	4,500	3,795	(705)
Citizens and Employee Services	3,800	2,393	(1,407)
Total Mayor and Council	93,120	63,171	(29,949)
ADMINISTRATION			
Salaries - Supervisors	305,631	313,220	7,589
Salaries - Employees	13,787	5,690	(8,097)
Payroll Taxes	24,435	23,059	(1,376)
Retirement	29,994	30,436	442
Group Health Insurance	28,540	26,273	(2,267)
Workers Compensation	4,034	2,161	(1,873)
Print and Office Supplies	12,800	9,221	(3,579)
Bank Service Charges	100	(152)	(252)
Membership and Dues	4,160	3,856	(304)
Membership and Seminars	4,000	5,717	1,717
Vehicle, Fuel, and Oil	\$ 3,200	2,469	\$ (731)

(Continued)

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	2012		
	FINAL BUDGET	ACTUAL	VARIANCE
ADMINISTRATION (CONTINUED)			
Electric and Gas	\$ 7,000	3,514	\$ (3,486)
Telephone and Cable	9,500	7,911	(1,589)
Water and Sewer	2,865	1,747	(1,118)
Noncapital Tools and Equipment	1,250	519	(731)
Maintenance and Service Contracts	20,247	12,142	(8,105)
Machine and Equipment Repair	1,000	64	(936)
Cleaning and Sanitary Supplies	2,500	1,379	(1,121)
Medical and Lab	800	274	(526)
Advertising	10,000	3,798	(6,202)
Insurance	16,075	17,108	1,033
Rent and Leases	9,370	8,644	(726)
Employee Training	15,500	8,151	(7,349)
Professional Services	89,635	48,070	(41,565)
Election Expenses	3,000	2,396	(604)
Miscellaneous	11,350	8,833	(2,517)
Total Administration	<u>630,773</u>	<u>546,500</u>	<u>(84,273)</u>
JUDICIAL AND LEGAL			
Salaries - Full-time	50,240	50,597	357
Salaries - Overtime	4,588	125	(4,463)
Salaries - Part-time	21,000	18,494	(2,506)
Payroll Taxes	5,801	5,221	(580)
Retirement	7,120	6,595	(525)
Group Health Insurance	5,626	5,238	(388)
Workers Compensation	678	562	(116)
Print and Office Supplies	4,250	3,087	(1,163)
Bank Service Charges	700	-	(700)
Membership and Dues	400	65	(335)
Membership and Seminars	1,000	392	(608)
Telephone and Cable	3,600	3,170	(430)
Maintenance and Service Contracts	4,770	857	(3,913)
Insurance	454	518	64
Employee Training	3,000	3,000	-
Professional Services	46,000	41,708	(4,292)
Non-capital Tools & Equipment	200	-	(200)
Miscellaneous and Contingency	600	577	(23)
Total Judicial and Legal	<u>160,027</u>	<u>140,206</u>	<u>(19,821)</u>
TOTAL GENERAL GOVERNMENT	<u>\$ 883,920</u>	<u>749,877</u>	<u>\$ (134,043)</u>

(Continued)

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	2012		
	FINAL BUDGET	ACTUAL	VARIANCE
PUBLIC SAFETY			
<u>Police Department:</u>			
Salaries - Supervisors	\$ 1,218,449	1,184,342	\$ (34,107)
Salaries - Employees	106,238	88,085	(18,153)
Salaries - Part Time	22,090	-	(22,090)
Payroll Taxes	103,028	93,274	(9,754)
Retirement	146,727	142,098	(4,629)
Group Health Insurance	205,193	194,078	(11,115)
Workers Compensation	42,103	20,408	(21,695)
Print and Office Supplies	15,420	15,603	183
Membership and Dues	1,295	1,326	31
Membership and Seminars	1,500	508	(992)
Vehicle, Fuel, and Oil	123,250	99,834	(23,416)
Vehicle Maintenance	27,000	27,373	373
Electric and Gas	22,000	25,665	3,665
Telephone and Cable	34,992	33,989	(1,003)
Water and Sewer	5,500	3,358	(2,142)
Noncapital Tools and Equipment	1,500	1,486	(14)
Maintenance and Service Contracts	40,805	42,526	1,721
Machine and Equipment Repair	6,000	5,900	(100)
Uniforms	16,515	16,272	(243)
Cleaning and Sanitary Supplies	2,000	2,258	258
Medical and Lab	4,500	2,832	(1,668)
Insurance	61,723	52,672	(9,051)
Rent and Leases	2,600	1,919	(681)
Employee Training	8,980	8,181	(799)
Professional Services	5,750	4,484	(1,266)
Miscellaneous and Contingency	3,750	4,057	307
Canine Kennel Expenses	1,000	1,096	96
Total Police Department	2,229,908	2,073,624	(156,284)
<u>Fire Department:</u>			
Salaries - Supervisors	1,180,563	1,169,542	(11,021)
Salaries - Employees	193,800	182,587	(11,213)
Salaries - Part Time	45,803	35,665	(10,138)
Payroll Taxes	108,643	103,257	(5,386)
Retirement	163,227	163,356	129
Group Health Insurance	201,997	185,351	(16,646)
Workers Compensation	46,226	24,127	(22,099)
Unemployment Compensation	\$ -	7,535	\$ 7,535

(Continued)

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	2012		
	FINAL BUDGET	ACTUAL	VARIANCE
PUBLIC SAFETY (CONTINUED)			
<u>Fire Department: (Continued)</u>			
Print and Office Supplies	\$ 7,000	5,062	\$ (1,938)
Membership and Dues	2,000	1,720	(280)
Membership and Seminars	1,500	8	(1,492)
Vehicle, Fuel, and Oil	34,000	27,266	(6,734)
Vehicle Maintenance	50,000	31,849	(18,151)
Electric and gas	32,000	38,682	6,682
Telephone and Cable	37,284	36,089	(1,195)
Water and Sewer	9,000	7,769	(1,231)
Noncapital Tools and Equipment	6,500	6,777	277
Maintenance and Service Contracts	36,592	36,954	362
Machine and Service Repairs	10,000	7,544	(2,456)
Uniforms	22,000	25,958	3,958
Cleaning and Sanitary Supplies	4,000	4,087	87
Medical and Lab	16,000	13,293	(2,707)
Insurance	78,951	69,325	(9,626)
Rent and Leases	2,500	3,515	1,015
Employee Training	14,000	9,870	(4,130)
Professional Services	3,000	3,506	506
Miscellaneous and Contingency	6,500	5,859	(641)
Volunteer Point Allocation	4,000	3,551	(449)
Total Fire Department	<u>2,317,086</u>	<u>2,210,104</u>	<u>(106,982)</u>
TOTAL PUBLIC SAFETY	<u>4,546,994</u>	<u>4,283,728</u>	<u>(263,266)</u>
BUILDING, PLANNING, AND ENGINEERING			
Salaries - Supervisors	193,086	194,046	960
Salaries - Employees	2,791	389	(2,402)
Payroll Taxes	14,985	13,900	(1,085)
Retirement	18,393	18,576	183
Group Health Insurance	30,483	27,584	(2,899)
Workers Compensation	2,463	1,293	(1,170)
Print and Office Supplies	10,500	8,939	(1,561)
Membership and Dues	1,500	596	(904)
Membership and Seminars	750	871	121
Vehicle, Fuel, and Oil	5,675	4,940	(735)
Vehicle Maintenance	1,000	192	(808)
Electric and Gas	7,750	3,853	(3,897)
Telephone and Cable	\$ 5,166	4,831	\$ (335)

(Continued)

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	2012		
	FINAL BUDGET	ACTUAL	VARIANCE
BUILDING, PLANNING, AND ENGINEERING (CONTINUED)			
Water and Sewer	\$ 3,200	1,681	\$ (1,519)
Non-Capital Tools & Equipment	300	193	(107)
Maintenance and Service Contracts	5,500	5,530	30
Machine and Equipment Repair	500	346	(154)
Uniforms	500	372	(128)
Cleaning and Sanitary Supplies	500	314	(186)
Medical and Lab	100	21	(79)
Insurance	12,279	7,052	(5,227)
Rent and Leases	2,680	1,926	(754)
Employee Training	1,300	1,001	(299)
Professional Services	9,000	9,617	617
Miscellaneous and Contingency	750	48	(702)
TOTAL BUILDING, PLANNING AND ENGINEERING	331,151	308,111	(23,040)
PUBLIC WORKS			
Salaries - Supervisors	410,987	409,103	(1,884)
Salaries - Employees	7,652	1,669	(5,983)
Payroll Taxes	32,026	30,826	(1,200)
Retirement	39,310	39,190	(120)
Group Health Insurance	62,553	53,615	(8,938)
Workers Compensation	19,865	10,113	(9,752)
Print and Office Supplies	1,000	649	(351)
Membership and Dues	400	446	46
Meetings and Seminars	500	-	(500)
Vehicle, Fuel, and Oil	97,750	82,220	(15,530)
Vehicle Maintenance	85,000	67,155	(17,845)
Electric and Gas	73,000	70,921	(2,079)
Telephone and Cable	7,440	7,972	532
Water and Sewer	2,500	1,802	(698)
Noncapital Tools and Equipment	1,750	1,492	(258)
Maintenance and Service Contracts	4,930	3,217	(1,713)
Machine and Equipment Repair	5,000	2,407	(2,593)
Uniforms	6,000	5,162	(838)
Cleaning and Sanitary Supplies	2,000	1,786	(214)
Medical and Lab	3,000	2,602	(398)
Emergency/Storm Preparation Costs	3,000	1,747	(1,253)
Street Signs	4,000	639	(3,361)
Insurance	\$ 31,489	25,529	\$ (5,960)

(Continued)

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	2012		
	FINAL BUDGET	ACTUAL	VARIANCE
PUBLIC WORKS (CONTINUED)			
Employee Training	\$ 500	80	\$ (420)
Professional Services	1,500	1,000	(500)
Temporary Labor	162,614	179,959	17,345
Contracted Services	25,160	19,857	(5,303)
Miscellaneous and Contingency	1,250	654	(596)
Garbage Cart - Procurement	6,600	-	(6,600)
TOTAL PUBLIC WORKS	1,098,776	1,021,812	(76,964)
RECREATION			
<u>Recreation Department:</u>			
Salaries - Supervisors	279,114	281,490	2,376
Salaries - Employees	10,814	1,949	(8,865)
Salaries - Part Time	143,464	161,554	18,090
Payroll Taxes	33,154	34,128	974
Retirement	28,170	28,793	623
Group Health Insurance	43,985	36,340	(7,645)
Workers Compensation	7,122	3,983	(3,139)
Unemployment Compensation	-	945	945
Print and Office Supplies	9,500	8,406	(1,094)
Membership and Dues	1,600	1,289	(311)
Membership and Seminars	2,000	1,528	(472)
Vehicle, Fuel, and Oil	6,715	6,154	(561)
Vehicle Maintenance	2,400	1,293	(1,107)
Electric and Gas	37,717	31,442	(6,275)
Telephone and Cable	11,100	10,549	(551)
Water and Sewer	4,800	3,790	(1,010)
Noncapital Tools and Equipment	2,000	1,910	(90)
Maintenance and Service Contracts	29,000	32,490	3,490
Machine and Equipment Repair	2,500	2,824	324
Uniforms	1,950	1,766	(184)
Cleaning and Sanitary Supplies	4,250	4,191	(59)
Medical and Lab	1,000	412	(588)
Insurance	34,876	30,631	(4,245)
Rent and Leases	3,500	3,638	138
Employee Training	3,300	2,100	(1,200)
Miscellaneous and Contingency	4,000	3,410	(590)
Total Recreation Department	\$ 708,031	697,005	\$ (11,026)

(Continued)

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF DETAILED REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	2012		
	FINAL BUDGET	ACTUAL	VARIANCE
RECREATION (CONTINUED)			
<u>Recreation Programs:</u>			
Four Year Old Play Group	\$ 750	478	\$ (272)
Gymnastics	2,500	2,576	76
Special Activities	19,500	18,591	(909)
Day Camp	12,000	10,747	(1,253)
Karate	2,000	1,948	(52)
Aerobics	6,000	4,425	(1,575)
Adult Sports	14,000	12,054	(1,946)
Youth Sports	27,000	28,591	1,591
Keenagers	3,000	2,299	(701)
Total Recreation Instruction	<u>86,750</u>	<u>81,709</u>	<u>(5,041)</u>
TOTAL RECREATION	<u>794,781</u>	<u>778,714</u>	<u>(16,067)</u>
NON-DEPARTMENTAL			
Parking Meters			
Salaries - Overtime	-	1,033	1,033
Salaries - Part Time	42,750	35,315	(7,435)
Payroll Taxes	3,270	2,774	(496)
Workers Compensation	624	293	(331)
Total Parking Meters	<u>46,644</u>	<u>39,415</u>	<u>(7,229)</u>
TOTAL NON-DEPARTMENTAL	<u>46,644</u>	<u>39,415</u>	<u>(7,229)</u>
DEBT SERVICE			
Principal	408,000	408,000	-
Interest	342,973	342,973	-
TOTAL DEBT SERVICE	<u>750,973</u>	<u>750,973</u>	<u>-</u>
TOTAL GENERAL FUND EXPENDITURES	<u>\$ 8,453,239</u>	<u>7,932,630</u>	<u>\$ (520,609)</u>

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES BY TYPE - ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	GENERAL GOVERNMENT		
	MAYOR AND COUNCIL	ADMIN- ISTRATION	JUDICIAL AND LEGAL
Salaries - Full-time	\$ 17,000	313,220	50,597
Salaries - Overtime	-	5,690	125
Salaries - Part Time	-	-	18,494
Payroll Taxes	1,301	23,059	5,221
Retirement	29,290	30,436	6,595
Group Health Insurance	-	26,273	5,238
Workers Compensation	189	2,161	562
Unemployment Compensation	-	-	-
Print and Office Supplies	167	9,221	3,087
Membership and Dues	50	3,856	65
Meeting and Seminars	5,592	5,717	392
Vehicle, Fuel, and Oil	519	2,469	-
Vehicle Maintenance	-	-	-
Electric and gas	-	3,514	-
Telephone and Cable	871	7,911	3,170
Water and Sewer	-	1,747	-
Noncapital Tools and Equipment	-	519	-
Maintenance and Service Contract	-	12,142	857
Machine and Equipment Repair	-	64	-
Uniforms	-	-	-
Cleaning and Sanitary Supplies	-	1,379	-
Storm Preparation & Cleanup	-	-	-
Medical and Lab	-	274	-
Advertising	-	3,798	-
Street Signs	-	-	-
Insurance	2,004	17,108	518
Advertising	-	8,644	-
Employee Training	-	8,151	3,000
Professional Services	-	48,070	41,708
Temporary Labor	-	-	-
Contracted Services	-	-	-
Miscellaneous and Contingency	3,795	8,833	577
Volunteer Point Allocation	-	-	-
Citizens and Employee Services	2,393	-	-
Canine Kennel Expenses	-	-	-
Recreation Instruction Expense	-	-	-
Election Expenses	-	2,396	-
Bank Service Charges	-	(152)	-
TOTAL DEPARTMENTAL EXPENDITURES	\$ 63,171	546,500	140,206

PUBLIC SAFETY		BUILDING,	PUBLIC	NON DEPART-		2012
POLICE	FIRE	PLANNING AND	WORKS	PARKING	MENTAL	
DEPARTMENT	DEPARTMENT	ENGINEERING	DEPARTMENT	RECREATION	METERS	TOTAL
1,184,342	1,169,542	194,046	409,103	281,490	-	\$ 3,619,340
88,085	182,587	389	1,669	1,949	1,033	281,527
-	35,665	-	-	161,554	35,315	251,028
93,274	103,257	13,900	30,826	34,128	2,774	307,740
142,098	163,356	18,576	39,190	28,793	-	458,334
194,078	185,351	27,584	53,615	36,340	-	528,479
20,408	24,127	1,293	10,113	3,983	293	63,129
-	7,535	-	-	945	-	8,480
15,603	5,062	8,939	649	8,406	-	51,134
1,326	1,720	596	446	1,289	-	9,348
508	8	871	-	1,528	-	14,616
99,834	27,266	4,940	82,220	6,154	-	223,402
27,373	31,849	192	67,155	1,293	-	127,862
25,665	38,682	3,853	70,921	31,442	-	174,077
33,989	36,089	4,831	7,972	10,549	-	105,382
3,358	7,769	1,681	1,802	3,790	-	20,147
1,486	6,777	193	1,492	1,910	-	12,377
42,526	36,954	5,530	3,217	32,490	-	133,716
5,900	7,544	346	2,407	2,824	-	19,085
16,272	25,958	372	5,162	1,766	-	49,530
2,258	-	314	1,786	4,191	-	9,928
-	4,087	-	2,602	-	-	6,689
2,832	13,293	21	1,747	412	-	18,579
-	-	-	-	-	-	3,798
-	-	-	639	-	-	639
52,672	69,325	7,052	25,529	30,631	-	204,839
1,919	3,515	1,926	-	3,638	-	19,642
8,181	9,870	1,001	80	2,100	-	32,383
4,484	3,506	9,617	1,000	-	-	108,385
-	-	-	179,959	-	-	179,959
-	-	-	19,857	-	-	19,857
4,057	5,859	48	654	3,410	-	27,233
-	3,551	-	-	-	-	3,551
-	-	-	-	-	-	2,393
1,096	-	-	-	-	-	1,096
-	-	-	-	81,709	-	81,709
-	-	-	-	-	-	2,396
-	-	-	-	-	-	(152)
<u>2,073,624</u>	<u>2,210,104</u>	<u>308,111</u>	<u>1,021,812</u>	<u>778,714</u>	<u>39,415</u>	<u>7,181,657</u>
					Debt Service	750,973
						<u>\$ 7,932,630</u>

CITY OF ISLE OF PALMS, SOUTH CAROLINA

SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED JUNE 30, 2012

Court Fines

Court Fines Collected	\$ 95,541
Court Fines Retained by the City	(95,541)
Total Court Fines Remitted to State Treasurer	<u><u>\$ -</u></u>

Court Assessments

Court Assessments Collected	\$ 40,731
Total Court Assessments Remitted to the State Treasurer	<u><u>\$ 40,731</u></u>

Court Surcharges

Court Surcharges Collected	\$ 24,360
Total Court Surcharges Remitted to the State Treasurer	<u><u>\$ 24,360</u></u>

Court Pullouts

Court Pullouts Collected	\$ 1,050
Total Court Pullouts Remitted to the State Treasurer	<u><u>\$ 1,050</u></u>

Victims' Assistance Fund

Funds Available for Carryforward, Beginning of Year	\$ 87,619
Court Assessments and Surcharges Allocated to Victim Assistance Fund	8,921
Interest Earned	156
Victims' Assistance Fund Expenditures	(3,247)
Victims' Assistance Transfers Out	(27,290)
Funds Available for Carryforward, End of Year	<u><u>\$ 66,159</u></u>

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

The Honorable Mayor and Members of City Council
City of Isle of Palms
Isle of Palms, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Isle of Palms, South Carolina (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's basic financial statements will not be prevented, or detected and corrected on a timely basis.

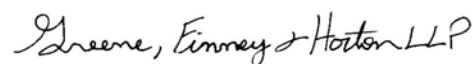
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

We noted a certain matter that we reported to management of the City in a separate letter dated October 8, 2012.

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


Greene, Finney & Horton, LLP
Mauldin, South Carolina
October 8, 2012