



December 15, 2015

To the Honorable Mayor and Members of Town Council
Town of Kiawah Island
21 Beachwalker Drive
Kiawah Island, South Carolina

We have audited the financial statements of the governmental activities of the Town of Kiawah Island (the “Town”) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 2, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note I to the financial statements.

The Town implemented Governmental Accounting Standard Boards (“GASB”) Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB #68”) and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (“GASB #71”) and collectively “Statements”) in the year ended June 30, 2015. These Statements require the Town to recognize a net pension liability, deferred outflows of resources (including pension contributions made after the measurement date) and deferred inflows of resources for its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System, cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e. the Statement of Net Position) and presents more extensive note disclosures.

The adoption of these Statements had no impact on the Town’s governmental fund financial statements, which continue to report expenditures in the amount of the contractually required contributions, as required by the South Carolina Public Employee Benefit Authority who administers the plans. However, the adoption has resulted in the restatement of the Town’s net position as of July 1, 2014 for its government-wide financial statements to reflect the reporting of net pension liabilities and deferred outflows of resources for each of its qualified pension plans in accordance with the provisions of these Statements. Net position of the Town’s government-wide financial statements as of July 1, 2014 was decreased by approximately \$2,121,000, reflecting the cumulative change in accounting principle related to the adoption of these Statements. See Note IV.B in the notes to the financial statements for more information regarding the Town’s retirement plans.

Except for the above, no new significant accounting policies were adopted and the application of existing policies was not significantly changed during the year ended June 30, 2015. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant sensitive estimates affecting the Town’s financial statements were:

Management's estimate of the useful lives of capital assets and the resulting depreciation expense is based on historical data and industry standards. Management's estimate of the net pension liability and related deferred inflows/outflows is based on actuarial valuations. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. For purposes of this communication, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Town's financial reporting process (that may or may not cause future financial statements to be materially misstated). Since it is inherently judgmental to determine what adjustments would or would not have been detected except through our auditing procedures, a schedule of all adjusting entries is attached, including those prepared by the Town as part of their closing process after we obtained the initial trial balance.

In our judgment, there were no material known unrecorded and uncorrected misstatements, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 15, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Matters for Council's Consideration

During the course of our audit, we became aware of some matters that are opportunities for strengthening internal controls and improving operating efficiency. The memorandum (Attachment A) that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our independent auditor's report dated December 15, 2015 on the financial statements for the Town.

We have already discussed our comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

In addition to the matters discussed in Attachment A, we have noted other findings that have been reported in the compliance section of the financial statements for the year ended June 30, 2015.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, and pension schedules, which are required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, as listed in the table of contents, which accompanies the financial statements but are not RSI. With respect to this information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled this information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Very truly yours,



Greene, Finney & Horton, LLP
Certified Public Accountants

ATTACHMENT A

TOWN OF KIAWAH ISLAND
MATTERS FOR CONSIDERATION
YEAR ENDED JUNE 30, 2015

2015-1: ACCOUNTING POLICIES AND PROCEDURES MANUAL

Condition:	The Town's accounting and financial reporting policies and procedures are not formally documented in writing.
Criteria:	Formal written policies and procedures should be prepared for all significant accounting and reporting processes and functions in order to: <ul style="list-style-type: none">• Provide an easier transition for new employees;• Ensure employees, management, and the Council have a proper understanding of the financial policies and procedures; and• Ensure actual procedures are operating as planned.
Context/Effect:	Informal policies may result in errors or omissions for staff performing non-routine functions or for staff replacing a vacancy or filling in for other staff.
Recommendation:	Due to the importance of maintaining internal control over the accounting and financial reporting processes, we recommend that the Town consider preparing a systematic written accounting policies and procedures manual.
Response:	The Town is currently in the process of reviewing accounting policies manuals of other municipalities along with the State recommendations on internal controls to use a guideline in preparation of Town's financial policies and procedures manual. The manual will be prepared and presented to Town Council to be adopted in this fiscal year.

2015-2: FRAUD RISK MANAGEMENT PROGRAM

Condition:	The Town does not have a formally documented fraud risk management program in place.
Criteria:	A documented fraud risk management program will assist management and those charged with governance in ensuring that the risks due to fraud are appropriately evaluated and assessed and timely addressed.
Context/Effect:	Current informal policies may result in areas being overlooked and not assessed or evaluated appropriately.
Recommendation:	We recommend that the Town consider the implementation of a formal fraud risk management program to ensure that the risks due to fraud are appropriately evaluated, assessed and addressed. This program should include a regular evaluation and update once the initial assessment is completed, as this program should be on-going.
Response:	The Town agrees with importance of conducting a fraud risk assessment and implementing a formal program. Currently the Town is assessing the framework that the final program will have.

Town of Kiawah Island
 June 30, 2015
 Greene, Finney & Horton LLP
 Journal Entries Report : Adjusting Entries
 Prepared by: BM
 Reviewed by:
 12/11/2015 2:59PM

Entry #	Status	Account/Code	Description	Debit	Credit
AJE 1	Posted	240-40000-40003	LOCAL ACCOMMODATION TAX	79,007.28	
		100-40000-40001	STATE ACCOMODATIONS TAX		3,950.36
		200-40000-40001	STATE ACCOMODATIONS TAX		75,056.92
		240-00005-00000	CLAIM ON CASH		79,007.28
		100-00005-00000	CLAIM ON CASH	3,950.36	
		200-00005-00000	CLAIM ON CASH	75,056.92	
<p>To reclassify the 3rd quarter state accommodations tax revenues that were recorded to the local accommodations tax fund.</p>					
AJE 2	Posted	100-40000-40005	AID TO SUBDIVISION		8,253.05
		100-13201-00000	DUE FROM STATE AGENCIES	8,253.05	
<p>To record the receivable related to the 4th quarter state aid to subdivisions revenues.</p>					
AJE 3	Posted	100-13100-00000	Interest Receivable	4,551.85	
		100-40000-49000	INTEREST REVENUE		4,551.85
		230-13100-00000	Interest Receivable	322.75	
		230-40000-49000	INTEREST REVENUE		322.75
		240-13100-00000	Interest Receivable	1,554.43	
		240-40000-49000	INTEREST REVENUE		1,554.43
		300-13100-00000	Interest Receivable	808.33	
		300-40000-49000	INTEREST REVENUE		808.33
<p>To adjust the accrued interest receivable to the amount per the investment statement as of June 30, 2015.</p>					
AJE 4	Posted	990-00001-00000	POOLED CASH	94,522.46	
		990-21300-00001	DUE TO OTHER FUNDS		94,522.46
		100-00005-00000	CLAIM ON CASH	94,522.46	
		100-40000-40000	BUSINESS LICENSE REVENUE		94,522.46
<p>To write-off outstanding checks that were included on the June 2015 reconciliation, but had cleared the bank in 2015.</p>					
TOTALS				<u>362,549.89</u>	<u>362,549.89</u>