

TOWN OF JAMES ISLAND
INDEPENDENT AUDITOR'S REPORT
AND
BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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October 22, 2015

INDEPENDENT AUDITOR'S REPORT

Mr. William Woolsey, Mayor and
Town Council Members
Town of James Island, South Carolina

We have audited the accompanying basic financial statements and the related notes of the Town of James Island, South Carolina, as of June 30, 2015 and for the year then ended, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the general fund as of June 30, 2015, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has elected to omit management's discussion and analysis. Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on page 16 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 historic 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 opinion on the basic financial statements is not affected by the missing information.

Wilson & Quirk, LLC

THE TOWN OF JAMES ISLAND,
SOUTH CAROLINA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2015

Exhibit "A"

| <u>ASSETS</u> | <u>Governmental Activities</u> |
|---|------------------------------------|
| Cash and cash equivalents | \$ 3,696,552 |
| Receivables: | |
| Insurance collection | 47,534 |
| Franchise fees | 72,204 |
| Local option sales tax | 231,913 |
| Alcohol beverage license | 2,500 |
| Business license | 9,954 |
| State aid to subdivisions | 58,497 |
| Miscellaneous | 494 |
| Prepaid insurance | 6,600 |
| <u>Property and Equipment</u> , net of accumulated depreciation | <u>440,308</u> |
| Total assets | <u>4,566,556</u> |
| <u>Deferred Outflows of Resources</u> | |
| Related to pensions | <u>58,104</u> |
| <u>LIABILITIES</u> | |
| Accounts payable | 26,036 |
| Accrued payroll and payroll taxes | 9,520 |
| Compensated absences | 22,343 |
| Net pension liability | <u>611,020</u> |
| Total liabilities | <u>668,919</u> |
| <u>Deferred Inflows of Resources</u> | |
| <u>Related to Pensions</u> | <u>51,513</u> |
| <u>NET POSITION</u> | |
| Investment in capital assets | 440,308 |
| Unrestricted | <u>3,463,920</u> |
| Total Net Position | <u>\$ 3,904,228</u> |

See notes to financial statements.

THE TOWN OF JAMES ISLAND,
SOUTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit "B"

| <u>Functions/Programs</u> | <u>Expense</u> | <u>Charges for Services</u> | <u>Net (Expense) Revenues and Changes in Net Position</u> |
|---------------------------------------|---------------------|---------------------------------|---|
| Primary Government: | | | |
| Government Activities: | | | |
| General government | \$ 395,349 | \$ 00 | \$ 395,349 |
| Elected officials | 66,174 | 00 | 66,174 |
| Planning | 65,007 | 11,273 | 53,734 |
| Public works | 164,330 | 00 | 164,330 |
| Building inspection | 53,936 | 7,210 | 46,726 |
| Codes & safety | 207,918 | 1,275 | 206,643 |
| Parks & recreation | 45,148 | 00 | 45,148 |
| Facilities and equipment | <u>204,531</u> | <u>00</u> | <u>204,531</u> |
| Total government activity | <u>\$ 1,202,393</u> | <u>\$ 19,758</u> | <u>1,182,635</u> |
| General Revenues: | | | |
| Local option sales tax – revenue | | | \$ 331,297 |
| Local option sales tax – property tax | | | 856,684 |
| State aid to subdivisions | | | 252,256 |
| Franchise fees | | | 478,856 |
| Brokers and insurance tax | | | 477,949 |
| Business licenses | | | 228,587 |
| Donations | | | 3,982 |
| Liquor licenses | | | 11,500 |
| Other | | | <u>2,791</u> |
| Total general revenue | | | <u>2,643,902</u> |
| Changes in net position | | | 1,461,267 |
| Net Position – Beginning | | | <u>2,442,961</u> |
| Net Position – Ending | | | <u>\$ 3,904,228</u> |

See notes to financial statements.

THE TOWN OF JAMES ISLAND,
SOUTH CAROLINA
BALANCE SHEET – GOVERNMENTAL FUND
AS OF JUNE 30, 2015

Exhibit "C"

| <u>ASSETS</u> | <u>General Fund</u> |
|---|-------------------------|
| Cash and cash equivalents | \$ 3,696,552 |
| Receivables: | |
| Insurance collection receivable | 47,534 |
| Franchise fee receivable | 72,204 |
| Local option sales tax receivable | 231,913 |
| Alcohol beverage license receivable | 2,500 |
| Business license receivable | 9,954 |
| State aid to subdivisions receivable | 58,497 |
| Miscellaneous | 494 |
| Prepaid insurance | <u>6,600</u> |
| Total Assets | <u>\$ 4,126,248</u> |
| <u>LIABILITIES</u> | |
| Accounts payable | \$ 26,036 |
| Accrued payroll and payroll taxes | <u>9,520</u> |
| Total liabilities | <u>35,556</u> |
| <u>FUND BALANCE</u> | |
| Nonspendable | 6,600 |
| Unassigned | <u>4,084,092</u> |
| Total fund balance | 4,090,692 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund (net of accumulated depreciation) | 440,308 |
| Long-term liabilities are not due and payable in the current period, and therefore, are not recorded in the General Fund | |
| Accrued leave | (22,343) |
| Net pension liability | <u>(604,429)</u> |
| Net Position of Governmental Activities | <u>\$ 3,904,228</u> |

See notes to financial statements.

THE TOWN OF JAMES ISLAND,
SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit "D"
Page 1

| | <u>General Fund</u> |
|---|-------------------------|
| <u>Revenues</u> | |
| Local option sales tax – revenue | \$ 331,297 |
| Local option sales tax – property tax | 856,684 |
| State aid to subdivisions | 252,256 |
| Permits | 7,210 |
| Business license | 228,587 |
| Liquor license | 11,500 |
| Franchise fees | 478,856 |
| Plan reviews and rezoning | 9,498 |
| Insurance collection program | 477,949 |
| Other | 2,791 |
| Donations | 3,982 |
| Tree mitigation | <u>3,050</u> |
| Total revenues | <u>2,663,660</u> |
| <u>Expenditures</u> | |
| Current: | |
| General government | 390,709 |
| Elected officials | 66,174 |
| Planning | 64,224 |
| Public Works | 161,704 |
| Building inspection | 51,922 |
| Code & safety | 207,496 |
| Parks and recreation | 45,148 |
| Facilities and equipment | 176,974 |
| Community Service | 10,000 |
| Capital outlay | <u>94,053</u> |
| Total expenditures | <u>1,268,404</u> |
| Excess (deficiency) of revenues over expenditures | 1,395,256 |
| <u>Other Financing Sources</u> | |
| Operating transfers | <u>00</u> |
| Net change in fund balance | 1,395,256 |
| Fund Balance – Beginning | <u>2,695,436</u> |
| Fund Balance – Ending | <u>\$ 4,090,692</u> |

See notes to financial statements.

THE TOWN OF JAMES ISLAND,
SOUTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit "D"
Page 2

| | |
|---|--------------|
| Net change in fund balances – total governmental fund | \$ 1,395,256 |
|---|--------------|

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

Capital outlays are reported as expenditures in the
governmental fund. However, in the statement of
activities, the cost of capital assets is allocated
over their estimated useful lives as depreciation
expense. In the current period, these amounts are:

| | |
|----------------------|----------|
| Capital outlay | 94,053 |
| Depreciation expense | (17,557) |

An item reported in the Statement of Activities does not
require the use of current financial resources and therefore,
are not reported as expenditures in the governmental fund.
This activity consists of:

| | |
|---------------------|----------------|
| Pension accrual | (2,017) |
| Compensated absence | <u>(8,468)</u> |

| | |
|---|---------------------|
| Change in Net Position of Governmental Activities | <u>\$ 1,461,267</u> |
|---|---------------------|

See notes to financial statements.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

General

The Town of James Island (the Town) was created by South Carolina Code Section 5-1-70 and began operations August 2, 2012. Services provided by the Town include zoning, permitting, public works, disaster and emergency preparedness, recreation, elections and general government. The Town is governed by a mayor and town council.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Accounting Principles Board (APB) and the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

A. Financial Reporting Entity

The Town is fiscally autonomous in accordance with Statement Number 14 of the Governmental Accounting Standards Board, therefore is a separate governmental entity.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues, business licenses and fees. The Town does not have any business type activities.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. The Town has one governmental fund. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental funds.

The General Fund of the financial reporting entity is described below:

General Fund – The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined below.

In the fund financial statements, the “current financial resources” measurement focus is used. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. This fund uses the fund balance as its measure of available spendable financial resources at the end of the period.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported when due.

D. Assets, Liabilities, Equity, Revenue and Expenses

Cash equivalents – For the purpose of the Statement of Net Assets, cash, including time deposits includes all demand and savings accounts of the Town.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon an analysis of and the periodic aging of accounts receivable. Accounts receivable consists primarily of franchise fees, sales and intergovernmental taxes. The allowance for uncollectible accounts was -0- for the year.

Property Tax

The Town did not levy property taxes. During the year ended June 30, 2015, the Town received local option sales tax revenues from the State of South Carolina.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Government-wide Statements:

In the government-wide financial statements, capital assets are valued at historical cost, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Items greater than \$500, and have a life expectancy of more than one year, are capitalized.

Depreciation of all exhaustible capital assets is recorded and allocated in the Statement of Activities (See Note 5), with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is computed over the assets' estimated useful lives using the straight-line method of depreciation. The leasehold improvements are amortized over the remaining term of the lease. The range of estimated useful lives by type of asset is as follows:

| | |
|------------------------|-----------|
| Vehicle | 5 years |
| Leasehold improvements | 4.2 years |
| Office Equipment | 3 years |
| Park Improvements | 20 years |
| Infrastructure | 25 years |
| Signs | 5 years |

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Compensated Absences

The Town's policies regarding vacation time permit employees to accumulate earned, but unused, vacation leave. An expense and a liability for vacation pay are accrued as the leave is earned in the government-wide financial statements. The compensated absences liability is liquidated using funds to which the liability accrued as the accumulated leave is used.

Equity Classifications

Government-wide Statements:

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned.

E. Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Subsequent Events

Management has evaluated subsequent events through October 26, 2015, the date the financial statements were available.

G. New Accounting Pronouncements

GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement 27*, is effective for financial statements for periods beginning after June 15, 2014. This statement improves financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows and inflows of resources and expenditures for employers with liabilities to a defined benefit pension plan and employers whose employees are provided with a defined benefit contribution. The Town has implemented this statement in the year ended June 30, 2015.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting – Formal budgets are employed as management control devices for the General Fund. Prior to the beginning of the year, the General Fund is approved by the Town Council. This budget constitutes a legal limit on spending and subsequent budget amendments must be approved. In addition, budget transfers between individuals' accounts are limited to \$10,000.

Permitted Deposits and Investments – State statutes permit the Town to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U. S. Treasury and U. S. Agencies, State obligations and certificates of deposit that are collaterally secured by U.S. or state obligations and certificates of deposit that are collaterally secured by U.S. or state obligations.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3. DEPOSITS AND INVESTMENTS

The Town's deposits and investments are classified by three categories of risk as either (1) insured or collateralized with securities held by the Town or by its agent in the Town's name, (2) collateralized with securities held by the pledging financial institution's trust department or agent, or (3) uncollateralized. Bank balances are not classified if collateralized with securities held by the pledging financial institution or its trust department or agent but not in the Town's name.

The following reflects the allocation of deposits by risk category as of June 30, 2014:

| <u>Type of Deposits</u> | <u>Bank Balance</u> | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Total Carrying Value</u> |
|-------------------------|---------------------|---------------------|-------------------|-------------------|---------------------------------|
| Demand deposits | <u>\$ 3,716,279</u> | <u>\$ 3,696,552</u> | <u>\$ 00</u> | <u>\$ 00</u> | <u>\$ 3,696,552</u> |

NOTE 4. CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2015 was as follows:

| Governmental Activities: | <u>Balance 8/1/14</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 6/30/15</u> |
|-----------------------------------|---------------------------|------------------|------------------|----------------------------|
| Land | \$ 293,800 | \$ 00 | \$ 00 | \$ 293,800 |
| Leasehold Improvements | 4,650 | 00 | 00 | 4,650 |
| Equipment | 42,469 | 7,676 | 00 | 50,145 |
| Vehicles | 23,175 | 00 | 00 | 23,175 |
| Park improvements | 16,200 | 00 | 00 | 16,200 |
| Infrastructure | 00 | 68,011 | 00 | 68,011 |
| Town signs | 00 | 12,135 | 00 | 12,135 |
| Construction in progress | <u>00</u> | <u>6,231</u> | <u>00</u> | <u>6,231</u> |
| | 380,294 | 94,053 | 00 | 474,347 |
| Less: accumulated depreciation | <u>(16,482)</u> | <u>(17,557)</u> | <u>00</u> | <u>(34,039)</u> |
| Net Capital Assets – Governmental | <u>\$ 363,812</u> | <u>\$ 76,496</u> | <u>\$ 00</u> | <u>\$ 440,308</u> |

Depreciation expense is \$17,557 for the governmental activities and is allocated to facilities and equipment.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5. EMPLOYEE RETIREMENT SYSTEMS AND PLANS

Plan Description – The Town contributes to the South Carolina Retirement System (SCRS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Retirement Division of the SC Public Employee Benefit Authority (SC PEBA). The South Carolina State Legislature established the SCRS on July 1, 1945, for the benefit of teachers and employees of the State and its political subdivisions. The Plan's provisions are established under Title 9 of the South Carolina Code of Laws. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the SCRS is issued and publicly available on the web at www.retirement.sc.gov or by submitting a request to the South Carolina Retirement Systems, P.O. Box 11960, Columbia, SC 29211-1960.

Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012 is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five-or-eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired. Group life insurance is paid with a lump-sum payment equal to one year's salary payable to the beneficiary upon the death of an active member with at least one year of service and a lump sum payment to the retiree's beneficiary of up to \$6,000 based on years of service retirement.

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and the employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plan, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year. Required employee contributions for Class Two and Class Three members are 10.75 percent of earnable compensation.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5. EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—At June 30, 2015, the Town reported a liability of \$611,020 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2014, the Town's proportion was .003549%.

For the year ended June 30, 2015, the Town recognized pension expense of \$42,807. At June 30, 2015 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 17,314 | \$ 00 |
| Net difference between projected and actual earnings on Pension plan investments | 00 | 51,513 |
| District contributions subsequent to the measurement date | <u>40,790</u> | <u>00</u> |
| Total | <u>\$ 58,104</u> | <u>\$ 51,513</u> |

The \$40,790 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

| | |
|------|------------|
| 2016 | \$ (7,523) |
| 2017 | (7,523) |
| 2018 | (11,631) |

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5. EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--------------|
| Inflation | 2.75 percent |
| Salary increases | 3.5 percent |
| Investment rate of return | 7.5 percent |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on date through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The long-term expected rate of return on pension plan investments for actuarial purposed is based upon the 30 year capital market outlook at the end of the third quarter 2013. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgement. For actuarial purposes, the long-term expected rate of return is calculated by weighing the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation, which is summarized in the table on the following page:

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5. EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long Term Expected Portfolio Real Rate of Return</u> |
|----------------------------------|--------------------------------|---|
| Short Term | 5% | |
| Cash | 2% | 0.01 |
| Short Duration | 3% | 0.02 |
| Domestic Fixed Income | 13% | |
| Core Fixed Income | 7% | 0.08 |
| High Yield | 2% | 0.07 |
| Bank Loans | 4% | 0.11 |
| Global Fixed Income | 9% | |
| Global Fixed Income | 3% | 0.02 |
| Emerging Markets Debt | 6% | 0.25 |
| Global Public Equity | 31% | 2.42 |
| Global Tactical Asset Allocation | 10% | 0.51 |
| Alternatives | 32% | |
| Hedge Funds (Low Beta) | 8% | 0.32 |
| Private Debt | 7% | 0.71 |
| Private Equity | 9% | 0.92 |
| Real Estate (Broad Market) | 5% | 0.29 |
| Commodities | 3% | 0.15 |
| Total Expected Real Return | <u>100%</u> | 5.88 |
| Inflation for Actuarial Purposes | | <u>2.75</u> |
| Total Expected Nominal Return | | <u>8.63</u> |

Discount rate-The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that the contributions from participating employers in SCRS and PORS will be made based on actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following table presents the sensitivity of the net pension liability to changes in the discount rate:

| | <u>1% Decrease (6.5%)</u> | <u>Discount Rate (7.5%)</u> | <u>1% Increase (8.5%)</u> |
|--|-------------------------------|---------------------------------|-------------------------------|
| Town's proportionate share of The net pension liability | \$ 790,698 | \$ 611,020 | \$ 461,117 |

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5. EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report.

Schedule of the Town's Proportionate Share of the Net Pension Liability
(Last Fiscal Year)

For the year ended June 30

| | |
|---|------------|
| Town's proportion of the net pension liability | .003549% |
| Town's proportionate share of the net pension liability | \$ 611,020 |
| Town's covered employee payroll | \$ 379,443 |
| Town's proportionate share of the net pension liability as a percentage of its covered employee payroll | 161.03% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.9% |

The Town owed a balance of \$-0- to SCRS at the end of the year for the second quarter of 2015.

NOTE 6. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Town is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments. The Town pays an annual premium to the State Insurance Reserve Fund for its general insurance coverage. The State Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims. The Town insures the risk of job-related injury or illness to its employees through South Carolina Counties Worker's Compensation Trust, a public entity risk pool operating for the benefit of local governments. The Town pays an annual premium to the Worker's Compensation Trust for its insurance coverage.

For all of the above risk management programs, the Town has not significantly reduced insurance coverage or settled claims in excess of insurance coverage for the past year. For each of the insurance programs and public entity risk pools, in which they participate, the Town has effectively transferred all risk with no liability for unfunded claims.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7. OPERATING LEASE

The Town leases office space under a lease through August 31, 2016. Base rent for the period ending June 30, 2015 was \$5,360 per month. Rent increases 5 percent per annum on the anniversary date of September 1.

Total rental expenditures for the year ended June 30, 2015 for operating leases were \$73,320.

Total remaining minimum rental commitments at June 30, 2015:

| <u>Year Ended</u> | |
|-------------------|------------------|
| June 30, 2016 | \$ 70,346 |
| June 30, 2017 | <u>12,410</u> |
| Total | <u>\$ 82,756</u> |

NOTE 8. RESTATEMENTS OF NET POSITION – BEGINNING

Beginning Net Position was restated to report net pension liability and deferred outflows related to pensions from the prior year. The effect of the change is as follows:

| | |
|---------------------------------------|---------------------|
| Deferred outflows | \$ 34,152 |
| Net pension liability | <u>(636,564)</u> |
| Net change | (602,412) |
| Net Position – June 30, 2014 | <u>3,045,373</u> |
| Restated Net Position – June 30, 2014 | <u>\$ 2,442,961</u> |

NOTE 9. POST EMPLOYEE BENEFITS OTHER THAN PENSIONS

In June 2004, the Government Accounting Standards Board issued GASB statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions. This statement establishes standards for the measurement, recognition and display of other post-employment benefit expenses, related liabilities and notes. The Town does not provide post employment benefits as defined by GASB No. 45.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10. CONTINGENCY

There is a lawsuit pending seeking a declaratory judgment against the Town for a refund of local option sales tax monies at an estimated potential loss of \$2,377,225 plus fees and interest. The Town is in litigation with the Plaintiffs, and as of the date the financial statements were available to be issued, have successfully rebuked Plaintiff's attempt to seize town monies and have moved to dismiss the claim in its entirety, which is pending. The Town expects to prevail.

THE TOWN OF JAMES ISLAND
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

Schedule 1

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance With</u> |
|---------------------------------------|-------------------------|---------------------|---------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Final Budget</u> |
| | | | | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| Budgetary Fund Balance, July 1, 2014 | <u>\$ 2,695,436</u> | <u>\$ 2,695,436</u> | <u>\$ 2,695,436</u> | <u>\$ 00</u> |
| Resources (Inflows): | | | | |
| Lost – revenue | 327,080 | 327,080 | 331,297 | 4,217 |
| Lost – property tax | 841,060 | 841,060 | 856,684 | 15,624 |
| State aid to subdivisions | 256,060 | 256,060 | 252,256 | (3,804) |
| Franchise fee | 390,500 | 420,500 | 478,856 | 58,356 |
| Brokers and insurance tax | 216,300 | 356,300 | 477,949 | 121,649 |
| Business licenses | 190,000 | 190,000 | 228,587 | 38,587 |
| Building permit fees | 20,000 | 10,000 | 7,210 | (2,790) |
| Plan reviews and rezonings | 2,600 | 2,600 | 9,498 | 6,898 |
| Miscellaneous | 500 | 500 | 2,791 | 2,291 |
| Donations | 00 | 00 | 3,982 | 3,982 |
| Liquor licenses | 7,000 | 7,000 | 11,500 | 4,500 |
| Tree permits | <u>1,500</u> | <u>1,500</u> | <u>3,050</u> | <u>1,550</u> |
| Total resources (inflows) | <u>2,252,600</u> | <u>2,412,600</u> | <u>2,663,660</u> | <u>251,060</u> |
| Amounts available for appropriations | <u>4,948,036</u> | <u>5,108,036</u> | <u>5,359,096</u> | <u>251,060</u> |
| Charges to Appropriations (Outflows): | | | | |
| General government | 408,550 | 408,550 | 390,709 | 17,841 |
| Elected officials | 93,680 | 93,680 | 66,174 | 27,506 |
| Planning | 67,445 | 67,445 | 64,224 | 3,221 |
| Public works | 836,255 | 866,255 | 161,704 | 704,551 |
| Building inspection | 91,990 | 91,990 | 51,922 | 40,068 |
| Code & safety | 189,590 | 244,590 | 207,496 | 37,094 |
| Parks & recreation | 28,500 | 43,500 | 45,148 | (1,648) |
| Facilities & equipment | 243,990 | 233,990 | 176,974 | 57,016 |
| Property tax credits | 800,000 | 800,000 | 00 | 800,000 |
| Capital outlay | 92,600 | 92,600 | 94,053 | (1,453) |
| Community service | <u>00</u> | <u>40,000</u> | <u>10,000</u> | <u>30,000</u> |
| Total charges to appropriations | | | | |
| (outflows) | <u>2,852,600</u> | <u>2,982,600</u> | <u>1,268,404</u> | <u>1,714,196</u> |
| Budgetary Fund Balance, June 30, 2015 | <u>\$ 2,095,436</u> | <u>\$ 2,125,436</u> | <u>\$ 4,090,692</u> | <u>\$ 1,965,256</u> |

See notes to financial statements.