

TOWN OF JAMES ISLAND

INDEPENDENT AUDITOR'S REPORT

AND

BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

MAYOR

Bill Woolsey

MAYOR PRO TEMPORE

Leonard Blank

TOWN COUNCIL MEMBERS

Garrett Milliken
Darren "Troy" Mullinax
Joshua P. Stokes

TOWN ADMINISTRATOR

Ashley Kellahan

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October 25, 2017

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, 2017, 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, 2017, 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

Accounting principles generally accepted in the United States of America require that budgetary comparison information, the schedule of proportionate share of net pension liability and the schedule of contributions – state pension plan 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Wilson & Quirk, LLC

THE TOWN OF JAMES ISLAND,
SOUTH CAROLINA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

Exhibit "A"

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 4,744,877
Restricted cash and cash equivalents	3,701,405
Receivables:	
Insurance collection	96,636
Franchise fees	55,839
Local option sales tax	124,488
Hospitality tax	95,070
Business license	22,740
State aid to subdivisions	65,074
Miscellaneous	13,430
<u>Property and Equipment</u> , net of accumulated depreciation	<u>3,271,030</u>
Total assets	<u>12,190,589</u>
<u>Deferred Outflows of Resources</u>	
Related to pensions	<u>220,414</u>
<u>LIABILITIES</u>	
Accounts payable	113,716
Accrued payroll and payroll taxes	75,578
Unearned grant revenue	205,000
Net pension liability	961,408
Long-term liabilities	
Due within one year	200,000
Due in more than one year	<u>2,753,677</u>
Total liabilities	<u>4,309,379</u>
<u>Deferred Inflows of Resources</u>	
<u>Related to Pensions</u>	<u>1,044</u>
<u>NET POSITION</u>	
Investment in capital assets	3,271,030
Restricted for	
Debt service	267,120
Capital projects	2,824,192
Unrestricted	<u>1,738,238</u>
Total Net Position	<u>\$ 8,100,580</u>

See notes to financial statements.

THE TOWN OF JAMES ISLAND,
SOUTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit "B"

<u>Functions/Programs</u>	<u>Expense</u>	Program Revenues			<u>Net (Expense) Revenues and Changes in Net Position</u>
		<u>Operating Grants and Contri- butions</u>	<u>Charges for Services</u>	<u>Capital Grants and Contri- butions</u>	
Primary Government:					
Government Activities:					
General government	\$ 569,474	\$ 00	\$ 00	\$ 00	\$ (569,474)
Elected officials	87,595	00	00	00	(87,595)
Planning	97,429	00	12,170	00	(85,259)
Public works	368,336	00	00	00	(368,336)
Building inspection	83,366	00	12,550	00	(70,816)
Codes & safety	272,961	00	2,116	00	(270,845)
Parks & community	83,252	10,446	00	00	(72,806)
Facilities & equipment	287,940	00	00	1,652	(286,288)
Interest expense	65,530	00	00	00	(65,530)
Total government activity	<u>\$1,915,883</u>	<u>\$10,446</u>	<u>\$26,836</u>	<u>\$ 1,652</u>	<u>(1,876,949)</u>
General Revenues:					
Local option sales tax - revenue					372,067
Local option sales tax - property tax					971,868
State aid to subdivisions					263,946
Franchise fees					419,380
Brokers and insurance tax					544,745
Business licenses					374,646
Stormwater fees					296,029
Hospitality tax					501,543
Interest and other					56,187
Total general revenue					<u>3,800,411</u>
Changes in net position					1,923,462
Net Position - Beginning					<u>6,177,118</u>
Net Position - Ending					<u>\$ 8,100,580</u>

See notes to financial statements.

TOWN OF JAMES ISLAND,
SOUTH CAROLINA
BALANCE SHEET – GOVERNMENTAL FUND
AS OF JUNE 30, 2017

Exhibit "C"

ASSETS	General Fund	Project Fund	Debt Service Fund	Storm Water Fund	Hospitality Tax Fund	Total Governmental Funds
Cash and cash equivalents	\$ 4,744,877	\$ 00	\$ 00	\$ 00	\$ 00	\$ 4,744,877
Restricted cash and cash equivalents	00	2,805,491	267,120	141,564	487,230	3,701,405
Receivables:						
Insurance collection	96,636	00	00	00	00	96,636
Franchise fee	55,839	00	00	00	00	55,839
Local option sales tax	124,488	00	00	00	00	124,488
Hospitality tax	95,070	00	00	00	00	95,070
Business license	22,740	00	00	00	00	22,740
State aid to subdivisions	65,074	00	00	00	00	65,074
Miscellaneous	13,430	00	00	00	00	13,430
Due from project fund	610,093	00	00	00	00	610,093
Total assets	<u>5,828,247</u>	<u>2,805,491</u>	<u>267,120</u>	<u>141,564</u>	<u>487,230</u>	<u>9,529,652</u>
LIABILITIES						
Accounts payable	113,716	00	00	00	00	113,716
Accrued payroll and payroll taxes	35,178	00	00	00	00	35,178
Due to General Fund	00	610,093	00	00	00	610,093
Unearned grant revenue	205,000	00	00	00	00	205,000
Total liabilities	<u>353,894</u>	<u>610,093</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>963,987</u>
FUND BALANCE						
Nonspendable	00	00	00	00	00	00
Restricted	00	2,195,398	267,120	141,564	487,230	3,091,312
Committed	1,181,353	00	00	00	00	1,181,353
Unassigned	4,293,000	00	00	00	00	4,293,000
Total fund balance	<u>5,474,353</u>	<u>2,195,398</u>	<u>267,120</u>	<u>141,564</u>	<u>487,230</u>	<u>8,565,665</u>
Total Liabilities and Fund Balances	<u>\$ 5,828,247</u>	<u>\$ 2,805,491</u>	<u>\$ 267,120</u>	<u>\$ 141,564</u>	<u>\$ 487,230</u>	<u>\$ 9,529,652</u>
Total Fund Balance - Governmental Funds						\$ 8,565,665
Amounts to be 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)						3,271,030
Long-term liabilities are not due and payable in the current period and, therefore, are not recorded in the General Fund						
Compensated absences (vacation time earned)						(40,400)
Net pension liability						(742,038)
Bonds payable						<u>(2,953,677)</u>
Net position of Governmental Activities						<u>\$ 8,100,580</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, 2017

Exhibit "D"
Page 1

	General Fund	Project Fund	Debt Service Fund	Storm Water Fund	Hospitality Tax Fund	Total Governmental Funds
Revenues						
Local option sales tax - revenue	\$ 372,067	\$ 00	\$ 00	\$ 00	\$ 00	\$ 372,067
Local option sales tax - property tax	971,868	00	00	00	00	971,868
State aid to subdivisions	263,946	00	00	00	00	263,946
Permits, planning and other charges	26,836	00	00	00	00	26,836
Business license	374,646	00	00	00	00	374,646
Hospitality tax	00	00	00	00	501,543	501,543
Franchise fees	419,380	00	00	00	00	419,380
Insurance collection program	544,745	00	00	00	00	544,745
Stormwater fees	00	00	00	296,029	00	296,029
Donations and grants	12,098	00	00	00	00	12,098
Interest and other	49,452	3,430	365	2,940	00	56,187
Total revenues	\$ 3,035,038	\$ 3,430	\$ 365	\$ 298,969	\$ 501,543	\$ 3,839,345
Expenditures						
Current:						
General government	518,881	00	00	00	5,015	523,896
Elected officials	78,928	00	00	00	00	78,928
Planning	85,062	00	00	00	00	85,062
Public Works	216,152	00	00	\$140,969	00	357,121
Building Inspection	72,648	00	00	00	00	72,648
Code & Safety	234,842	00	00	00	00	234,842
Parks & Community	81,582	00	00	00	1,670	83,252
Facilities & Equipment	234,702	00	00	00	00	234,702
Capital outlay	631,633	610,093	00	16,436	7,628	1,265,790
Debt services:						
Principal	00	00	200,000	00	00	200,000
Interest	00	00	62,936	00	00	62,936
Total expenditures	2,154,430	610,093	262,936	157,405	14,313	3,199,177
Excess (deficiency) of revenues over expenditures	880,608	(606,663)	(262,571)	141,564	487,230	640,168
Other Financing Sources						
Operating transfers	(263,247)	00	263,247	00	00	00
Net change in fund balance	617,361	(606,663)	676	141,564	487,230	640,168
Fund Balance - Beginning	4,856,992	2,802,061	266,444	00	00	7,925,497
Fund Balance - Ending	\$ 5,474,353	\$ 2,195,398	\$ 267,120	\$ 141,564	\$ 487,230	\$ 8,565,665

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, 2017

Exhibit "D"
Page 2

Net change in fund balances - Total Governmental Fund \$ 640,168

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	1,265,790
Depreciation expense	(53,238)

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	(108,233)
Compensated absence	(18,431)

The repayment of bonds payable consumes current financial resources of governmental funds; however, it does not have any effect on net position. Also, governmental funds report the effect of discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The net effect of these differences in the treatment of bonds payable and bond discount is as follows:

Principal repayments	200,000
Amortization of issuance discounts	<u>(2,594)</u>

Change in Net Position of Governmental Activities	<u><u>\$1,923,462</u></u>
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THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, building inspection, code enforcement, public safety, disaster and emergency preparedness, recreation, and general government. The Town operates under a Council form of government. The Town Council is composed of a mayor and four town council members elected at large.

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.

As required by GAAP, the financial statements must present the Town's financial information with any of its component units. 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 Town both appoints a voting majority of the entity's governing body, and either (1) the Town 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 Town. 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 Town and there is a potential that the entity could either provide specific financial benefits to, or to impose specific financial burdens on the Town.

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 Town having the authority to approve or modify that budget; (b) levy taxes or set rates or charges without approval by the Town and (c) issue bonded debt without approval by the Town. An entity has a financial benefit or burden relationship with the Town if, for example, any one of the following conditions exists: (a) the Town is legally entitled to or can otherwise access the entity's resources, (b) the Town is legally obligated or has otherwise assumed the obligation to finance the deficits or provide financial support to, the entity, or (c) the Town is obligated in some manner for the debt of the entity. Finally, an entity could be a component unit even if it met all the conditions described above for being fiscally independent if excluding it would cause the Town's financial statements to be misleading.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Included in the Town's government wide financial statements is the James Island Public Facilities Corporation, incorporated as a non-member public benefit nonprofit corporation on June 16, 2016. The Corporation's governing board consists of the Mayor, Mayor Pro Tem of the Town and the Town Administrator.

The corporation is the issuer of the Lease Revenue Bonds Series 2016 to acquire, construct, furnish and equip a Town Hall and administrative building for offices for certain Town officials and for other functions and to finance the costs of the issuance of the Series 2016 Bonds. The Town contributed \$266,443.76 of its revenues for deposit into the Debt Service Reserve Account established with respect to the Series 2016 Bonds. The Town is also providing for the debt service payments as the Corporation has no assets other than its interest in the Series 2016 Town Hall project.

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.

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 five governmental funds. 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 Governmental Funds of the financial reporting entity are 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.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Storm Water Fund – This fund is a special revenue fund used to account for storm water fees charged by the Town, collected by the County of Charleston and used for storm water projects within the Town in conjunction with the County.

Hospitality Tax Fund – This fund is a special revenue fund used to account for the 2% sales tax on food and beverage sales within the Town to be used for projects to support hospitality industry.

Project Fund – This fund is used to account for the purchase and construction of the Town Hall project and for the payment of the issuance costs of the Series 2016 Bonds.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on the Series 2016 Bonds.

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.

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.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

D. Assets, Liabilities, Equity, Revenue and Expenses

Cash equivalents – Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by 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 levied a property tax during the year ended June 30, 2017, which was netted to zero by the local option sales tax credit.

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	20 years
Signs	5 years

Restricted Assets

Certain cash and cash equivalents are restricted on the basic financial statements as they have been set aside for specific purposes. These assets have been restricted because their use is (a) limited to purchases of certain capital assets, (b) limited for debt service or (c) limited for other specific purposes.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Governmental 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."

Fund Balances – Governmental Funds:

As of June 30, 2017, fund balances are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the Town. The Town Council is the highest level of decision-making authority for the Town of James Island. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Council.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Town Council is the only party that has the right to make assignments of fund balance through the budget process and agenda items for the Town at this time.

Unassigned – All other spendable amounts.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

E. Use of Restricted Funds

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

F. 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.

G. Subsequent Events

Management has evaluated subsequent events through November 3, 2017, the date the financial statements were available.

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.

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, 2017:

<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>\$8,462,147</u>	<u>\$8,320,583</u>	<u>\$141,564</u>	<u>\$00</u>	<u>\$8,446,282</u>

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4. CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2017, was as follows:

Governmental Activities:	Balance 7/1/16	Additions	Disposals	Balance 6/30/17
Land	\$1,330,930	\$ 317,792	\$ 00	\$1,648,722
Leasehold Improvements	4,650	00	00	4,650
Equipment	77,921	3,265	00	81,186
Vehicles	50,292	00	00	50,292
Park improvements	16,200	430,081	00	446,281
Infrastructure	484,419	175,739	00	660,158
Town signs	12,135	11,226	00	23,361
Construction in progress	150,464	757,768	(430,081)	478,151
	<u>2,127,011</u>	<u>1,695,871</u>	<u>(430,081)</u>	<u>3,392,801</u>
Less: accumulated depreciation	<u>(68,533)</u>	<u>(53,238)</u>	<u>00</u>	<u>(121,771)</u>
Net Capital Assets - Governmenta	<u>\$2,058,478</u>	<u>\$1,642,633</u>	<u>(430,081)</u>	<u>\$3,271,030</u>

Depreciation expense is \$53,238 for the governmental activities and is allocated to facilities and equipment.

NOTE 5. INTERFUND RECEIVABLE, PAYABLE, AND TRANSFERS

The balances of interfund receivables, payables, and transfers at June 30, 2017, were as follows:

<u>Receiving Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
Debt Service	General	\$263,247
General	Project	610,093

The above transfer from the General Fund was to fund the amount of the Debt Service Fund as required by the Lease Revenue Bonds, Series 2016.

The above transfer from the Project Fund was to reimburse the General Fund for the payments made for the new town hall project.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6. LONG-TERM LIABILITIES

Details of the long-term debt as of June 30, 2017, was as follows:

Lease Revenue Bonds - Series 2016

The Lease Revenue Bonds - Series 2016 - issued June 29, 2016, in the amount of \$3,190,000. The interest rate on the bonds ranges from .90% to 2.65%. The bonds are payable in 15 annual installments ranging from \$200,000 to \$245,000 beginning June 1, 2017. The bonds mature on June 1, 2031.

Balance payable at June 30, 2017	\$ 2,990,000
Bond discount	<u>(36,323)</u>
Current value at June 30, 2017	<u>\$ 2,953,677</u>

The following is a summary of the Town's long-term obligations for the year ended June 30, 2017:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Lease Revenue Bonds Series 2016	\$3,151,083	\$ 2,594	\$ (200,000)	\$ 2,953,677	\$ 200,000
Compensated absences	<u>21,969</u>	<u>18,431</u>	<u>00</u>	<u>40,400</u>	<u>00</u>
Total	<u>\$3,173,052</u>	<u>\$ 21,025</u>	<u>\$ (200,000)</u>	<u>\$ 2,994,077</u>	<u>\$ 200,000</u>

Amortization of bond discount was \$2,594 for the year ended June 30, 2017.

Presented below is a summary of the debt service requirements to maturity by year of the Town:

<u>Year Ending June 30</u>	<u>Lease Revenue Bonds Series 2016</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 200,000	\$ 66,444	\$ 266,444
2019	200,000	64,344	264,344
2020	200,000	61,944	261,944
2021	200,000	59,144	259,144
2022	200,000	56,044	256,044
2023-2027	1,050,000	207,182	1,257,182
2028-2031	<u>940,000</u>	<u>62,606</u>	<u>1,002,606</u>
Total	<u>\$2,990,000</u>	<u>\$ 577,708</u>	<u>\$ 3,567,708</u>

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7. 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 (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 through the Retirement Benefits link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

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.

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

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7. EMPLOYEE RETIREMENT SYSTEMS AND PLANS (continued)

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 and employer contributions for Class Two and Class Three members are 8.66 and 11.41 percent of earnable compensation, respectively. Employer contributions for incidental death benefit is .15% of earnable compensation.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—At June 30, 2017, the Town reported a liability of \$961,408 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Town's proportion was .004501%.

For the year ended June 30, 2017, the Town recognized pension expense of \$108,233. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,966	\$ 1,044
Net difference between projected and actual earnings on Pension plan investments	80,885	00
Changes in proportional share and differences between employer contributions and proportional share of total plan employer contributions	62,487	00
Town contributions subsequent to the measurement date	<u>67,076</u>	<u>00</u>
Total	<u>\$220,414</u>	<u>\$ 1,044</u>

The \$67,076 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, 2017. 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:	
2018	\$59,249
2019	56,230
2020	20,557

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7. EMPLOYEE RETIREMENT SYSTEMS AND PLANS (continued)

Actuarial assumptions – The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	2.75 percent
Salary increases	3.5 to 12.5% (varies by service)
Investment rate of return	7.5 percent
Benefit adjustment	Lesser of 1% or \$500 annually

Mortality rates were based on the RP-2000 Combined Mortality Table for Males (multiplied by 100%) or Females (multiplied by 90%).

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. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time 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. An experience report on the Systems was most recently issued as of July 1, 2015. The June 30, 2016, total pension liability, net pension liability, and sensitivity information were determined by the Systems consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2015, actuarial valuations, as adopted by the PEBA Board and SFAA which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the Systems' fiscal year ended June 30, 2016, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital markets outlook at the end of the third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the following table. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7. EMPLOYEE RETIREMENT SYSTEMS AND PLANS (continued)

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
Global Equity	43.0%		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	8.0%		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	20.0%		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	17.0%		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100%		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			<u>7.85%</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. 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 TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7. EMPLOYEE RETIREMENT SYSTEMS AND PLANS (continued)

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2016, for SCRS are presented below:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$45,356,214,752	\$23,996,362,354	\$21,359,852,398	52.9%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

Sensitivity Analysis

The following table represents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 higher (8.50 percent) than the current rate.

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Town's proportionate share of the net pension liability	\$1,199,329	\$961,408	\$763,346

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2016, (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2016.

The Town owed a balance of \$9,282 to SCRS at the end of the year for the second quarter of 2017.

THE TOWN OF JAMES ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8. 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.

NOTE 9. OPERATING LEASE

The Town leases office space under a lease through February 28, 2019. Base rent for the period ending June 30, 2017, was \$6,210 per month plus pro-rata common area expenses. Rent increases 5 percent per annum on the anniversary date of September 1.

Total rental expenditures for the year ended June 30, 2017, for operating leases were \$81,946.

Total remaining minimum rental commitments including estimated pro-rata common area expenses at June 30, 2017:

<u>Year Ended</u>	
June 30, 2018	\$ 87,134
June 30, 2019	<u>59,720</u>
Total	<u>\$146,854</u>

NOTE 10. 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
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

Schedule 1

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Lost - revenue	353,000	353,000	372,067	19,067
Lost - property tax	870,000	870,000	971,868	101,868
State aid to subdivisions	260,000	260,000	263,946	3,946
Franchise fee	510,500	510,500	419,380	(91,120)
Brokers and insurance tax	430,500	430,500	544,745	114,245
Business licenses	230,000	230,000	374,646	144,646
Permits, planning and other charg	37,000	37,000	26,836	(10,164)
Miscellaneous	2,000	2,000	61,550	59,550
Total revenues	<u>2,693,000</u>	<u>2,693,000</u>	<u>3,035,038</u>	<u>342,038</u>
EXPENDITURES:				
General government	481,135	481,135	518,881	(37,746)
Elected officials	87,600	87,600	78,928	8,672
Planning	89,869	89,869	85,062	4,807
Public works	380,820	380,820	216,152	164,668
Building Inspection	65,610	65,610	72,648	(7,038)
Code & Safety	309,198	309,198	234,842	74,356
Parks, Recreation & Community	66,500	66,500	81,582	(15,082)
Facilities & Equipment	256,200	256,200	234,702	21,498
Capital outlay	563,700	563,700	631,633	(67,933)
Total expenditures	<u>2,300,632</u>	<u>2,300,632</u>	<u>2,154,430</u>	<u>146,202</u>
Excess (Deficiency) of revenues over expenditures	392,368	392,368	880,608	488,240
Other financing sources (uses):				
Transfers out	<u>(291,000)</u>	<u>(291,000)</u>	<u>(263,247)</u>	<u>27,753</u>
Revenues Over (Under) Expenditures and Other Uses	101,368	101,368	617,361	515,993
Fund Balance, July 1, 2016	<u>4,856,992</u>	<u>4,856,992</u>	<u>4,856,992</u>	<u>00</u>
Fund Balance, July 1, 2017	<u>\$4,958,360</u>	<u>\$4,958,360</u>	<u>\$5,474,353</u>	<u>\$ 515,993</u>

See notes to financial statements.

TOWN OF JAMES ISLAND
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 REQUIRED SUPPLEMENTAL INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2017

Schedule 2

	Fiscal Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Proportion of the Net Pension Liability	.004501%	.004047%
Proportionate Share of Net Pension Liability	\$961,408	\$767,533
Covered Employee Payroll	\$587,873	\$435,818
Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	163.54%	176.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	52.9%	59.9%

TOWN OF JAMES ISLAND
SCHEDULE OF CONTRIBUTIONS – STATE PENSION PLAN
REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 3

	Fiscal Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Contractually Required Contributions	\$67,076	\$47,548
Contributions in Relation to the Contractually Required Contributions	<u>67,076</u>	<u>47,548</u>
Contribution Deficiency (Excess)	<u>\$ 00</u>	<u>\$ 00</u>
Covered Employee Payroll	\$587,873	\$435,818
Contributions as a Percentage of Covered Employee Payroll	11.41%	10.92%