

**THE TOWN OF EDISTO BEACH**

**EDISTO BEACH, SOUTH CAROLINA**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2016**

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

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Edisto Beach, South Carolina

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## **INDEPENDENT AUDITOR'S REPORT**

**The Mayor and Town Council  
The Town of Edisto Beach  
Edisto Beach, South Carolina**

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Edisto Beach, South Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Edisto Beach, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the schedule of revenues, expenditures and changes in fund balances – budget and actual for the general fund on page 54, and the pension information on pages 55 and 56 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the financial statements, and other knowledge I obtained during my audit of the financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Edisto Beach's financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying combining and individual fund financial statements and schedules on pages 57 through 60 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, I have also issued my report dated November 30, 2016, on my consideration of the Town of Edisto Beach's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Edisto Beach's internal control over financial reporting and compliance.

K. Eve McCoy, CPA, LLC

November 30, 2016

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

As management of the Town of Edisto Beach (Town), we offer readers the Town's financial statements with this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. We encourage readers to not only consider the information presented here, but also the information provided in the basic financial statements and notes to the basic financial statements to enhance their understanding of the Town's overall financial performance.

**FINANCIAL HIGHLIGHTS**

The assets of the Town exceeded its liabilities at the close of the fiscal year. Total net position was \$17,514,113. Of this amount, approximately \$13,495,630 and \$4,018,483 were related to the Town's governmental and business-type activities, respectively. In addition, the Town's unrestricted net position (may be used to meet the government's ongoing obligations to citizens and creditors) were approximately \$2,766,618 for its governmental activities and approximately \$2,672,217 for its business-type activities.

The Town's total net position decreased over last year's net position by \$552,666 due to a combination of tax revenue increases, intergovernmental revenue increases, grants and miscellaneous revenues. According to GASB 68, net pension obligation \$2,519,001 is reported under liabilities. Total revenues of approximately \$5,524,511 exceeded total expenses of approximately \$4,971,845.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$7,746,191, an increase of approximately \$960,617, over the prior year's fund balance. Approximately 58% of this total amount, or approximately \$4,474,213, is available for spending at the Town's discretion (unrestricted fund balance).

At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$3,675,230, or 84% of the total General Fund fund balance for the year ended June 30, 2016.

The Town's revenue bond rating using the new Standard and Poor's criteria is A+, but Management feels this was evaluated and did not include key points and asked for a re-evaluation which did not happen. The General Obligation Bond rating is AA+.

The following tables provide a summary of the Town's changes in net position for the year ended June 30, 2016:

|                           |               |
|---------------------------|---------------|
| Total net position        | \$ 17,514,113 |
| Increase in net position  | \$ 552,666    |
| Restricted net position   | \$ 3,392,408  |
| Unrestricted net position | \$ 5,438,835  |
| Decrease in total debt    | \$ (95,158)   |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the Town.

**Government-Wide Financial Statements**

The Town's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the Town's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

**Government-Wide Basic Financial Statements**

The basic financial statements include two statements that present different views of the Town. These are designed to provide readers with a broad overview of the Town's finances in a manner similar to private-sector business.

The statement of net position presents information on all of the Town's net position and liabilities, with the differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Evaluation of the overall economic health of the Town would extend to other nonfinancial factors such as the condition of Town infrastructure in addition to the financial information provided in this report.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. An important purpose of the design of the statement of activities is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers.

Both government-wide financial statements distinguish governmental activities of the Town that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The government-wide basic financial statements are divided into two categories: (1) governmental activities; and (2) business-type activities. The governmental activities include general government, public safety, public works, recreation and culture, beach preservation and interest. Business-type activities include water and sewer services.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

**FUND BASIC FINANCIAL STATEMENTS**

The fund basic financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

The Town has two kinds of funds:

*Governmental funds* are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Town's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

A budgetary comparison statement for the general fund can be found in a later section of this report. This statement demonstrates compliance with the Town's adopted and final revised budget.

The Town has three major governmental funds: (1) General Fund, (2) Local Accommodations Tax Special Revenue Fund, and (3) Hospitality Tax Special Revenue Fund.

*Proprietary funds* are reported in the fund financial statements and generally report services for which the Town charges customers a fee.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

The Town maintains one type of proprietary fund. Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Town uses an enterprise fund to account for water and sewer operations.

**Notes to the Financial Statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Supplementary information follows the notes to the financial statements.

Major funds are reported in the basic financial statements as discussed. Combining and individual statements and schedules for non-major funds are presented in a subsequent section of this report.

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE**

At the close of the most recent fiscal year, the Town's assets exceeded liabilities by \$17,514,113.

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Town as a whole.

The Town's net position at fiscal year-end is \$17,514,113. This is a \$552,666 increase over last year's net position of \$16,961,447. The following table provides a summary of the Town's net position at June 30:

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

**SUMMARY OF NET POSITION**

|   | Governmental<br>Activities |                      | Business-Type<br>Activities |                     | Totals               |                      | Amount<br>Change    | %<br>Change |
|---|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|---------------------|-------------|
|   | 2016                       | 2015                 | 2016                        | 2015                | 2016                 | 2015                 |                     |             |
| Current and other assets                        | \$ 8,018,238               | \$ 7,015,065         | \$ 3,841,270                | \$ 3,695,153        | \$ 11,859,508        | \$ 10,710,218        | \$ 1,149,290        | 10.73%      |
| Capital assets                                  | <u>9,672,034</u>           | <u>10,408,248</u>    | <u>2,745,836</u>            | <u>2,611,380</u>    | <u>12,417,870</u>    | <u>13,019,628</u>    | <u>(601,758)</u>    | -4.62%      |
| <b>Total Assets</b>                             | <u>\$ 17,690,272</u>       | <u>\$ 17,423,313</u> | <u>\$ 6,587,106</u>         | <u>\$ 6,306,533</u> | <u>\$ 24,277,378</u> | <u>\$ 23,729,846</u> | <u>\$ 547,532</u>   | 2.31%       |
| Deferred outflows of resources                  | <u>\$ 178,283</u>          | <u>\$ 163,190</u>    | <u>\$ 138,281</u>           | <u>\$ 147,739</u>   | <u>\$ 316,564</u>    | <u>\$ 310,929</u>    | <u>\$ 5,635</u>     | 1.81%       |
| Long-term liabilities                           | \$ 3,979,601               | \$ 3,839,572         | \$ 2,178,802                | \$ 2,211,202        | \$ 6,158,403         | \$ 6,050,774         | \$ 107,629          | 1.78%       |
| Other liabilities                               | <u>365,434</u>             | <u>322,400</u>       | <u>504,342</u>              | <u>484,195</u>      | <u>869,776</u>       | <u>806,595</u>       | <u>63,181</u>       | 7.83%       |
| <b>Total Liabilities</b>                        | <u>\$ 4,345,035</u>        | <u>\$ 4,161,972</u>  | <u>\$ 2,683,144</u>         | <u>\$ 2,695,397</u> | <u>\$ 7,028,179</u>  | <u>\$ 6,857,369</u>  | <u>\$ 170,810</u>   | 2.49%       |
| Deferred inflows of resources                   | <u>\$ 27,890</u>           | <u>\$ 163,686</u>    | <u>\$ 23,760</u>            | <u>\$ 58,273</u>    | <u>\$ 51,650</u>     | <u>\$ 221,959</u>    | <u>\$ (170,309)</u> | -76.73%     |
| <b>Net Position</b>                             |                            |                      |                             |                     |                      |                      |                     |             |
| Invested in capital assets, net of related debt | \$ 7,457,034               | \$ 8,128,248         | \$ 1,225,836                | \$ 1,056,380        | \$ 8,682,870         | \$ 9,184,628         | \$ (501,758)        | -5.46%      |
| Restricted                                      | 3,271,978                  | 2,902,151            | 120,430                     | 117,551             | 3,392,408            | 3,019,702            | 372,706             | 12.34%      |
| Unrestricted                                    | <u>2,766,618</u>           | <u>2,230,446</u>     | <u>2,672,217</u>            | <u>2,526,671</u>    | <u>5,438,835</u>     | <u>4,757,117</u>     | <u>681,718</u>      | 14.33%      |
| <b>Total Net Position</b>                       | <u>\$ 13,495,630</u>       | <u>\$ 13,260,845</u> | <u>\$ 4,018,483</u>         | <u>\$ 3,700,602</u> | <u>\$ 17,514,113</u> | <u>\$ 16,961,447</u> | <u>\$ 552,666</u>   | 3.26%       |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

**Net Position**

Net position of the Town's governmental activities increased by 1.77% to \$13,495,630. However, much of those net positions either are restricted as to the purposes for which they can be used, or are invested in capital assets (buildings, equipment and such). Unrestricted net position increased by 24.0% to \$2,766,618.

Net position of the Town's business-type activities decreased 26.4% to \$2,672,217. These resources cannot be used to add to the net position surplus in governmental activities. The Town generally can only use these net positions to finance the continuing operations of the business-type activities.

The following table provides a summary of the Town's changes in net position for the year ended June 30:

**SUMMARY OF CHANGES IN NET POSITION**

|                                  | <u>Governmental Activities</u> |                     | <u>Business-Type Activities</u> |                     | <u>Totals</u>       |                     | <u>Amount Change</u> | <u>% Change</u> |
|----------------------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|----------------------|-----------------|
|                                  | <u>2016</u>                    | <u>2015</u>         | <u>2016</u>                     | <u>2015</u>         | <u>2016</u>         | <u>2015</u>         |                      |                 |
| <b>Revenues</b>                  |                                |                     |                                 |                     |                     |                     |                      |                 |
| Program revenues                 |                                |                     |                                 |                     |                     |                     |                      |                 |
| Charges for services             | \$ 598,385                     | \$ 446,313          | \$ 1,421,099                    | \$ 1,437,149        | \$ 2,019,484        | \$ 1,883,462        | \$ 136,022           | 7.22%           |
| Operating grants & contributions | 43,611                         | 3,127               | -                               | -                   | 43,611              | 3,127               | 40,484               | 1294.66%        |
| Capital grants & contributions   | 54,541                         | -                   | -                               | -                   | 54,541              | -                   | 54,541               | 100.00%         |
| General revenues                 |                                |                     |                                 |                     |                     |                     |                      |                 |
| Property taxes                   | 1,015,708                      | 1,012,593           | -                               | -                   | 1,015,708           | 1,012,593           | 3,115                | 0.31%           |
| Local option sales taxes         | 163,417                        | 150,134             | -                               | -                   | 163,417             | 150,134             | 13,283               | 8.85%           |
| Accommodations taxes             | 719,538                        | 732,249             | -                               | -                   | 719,538             | 732,249             | (12,711)             | -1.74%          |
| Hospitality taxes                | 186,230                        | 174,346             | -                               | -                   | 186,230             | 174,346             | 11,884               | 6.82%           |
| Business taxes                   | 727,610                        | 696,306             | -                               | -                   | 727,610             | 696,306             | 31,304               | 4.50%           |
| Intergovernmental revenues       | 368,238                        | 295,594             | -                               | -                   | 368,238             | 295,594             | 72,644               | 24.58%          |
| Other                            | 212,433                        | 166,343             | 13,701                          | 5,756               | 226,134             | 172,099             | 54,035               | 31.40%          |
| <b>Total Revenues</b>            | <b>\$ 4,089,711</b>            | <b>\$ 3,677,005</b> | <b>\$ 1,434,800</b>             | <b>\$ 1,442,905</b> | <b>\$ 5,524,511</b> | <b>\$ 5,119,910</b> | <b>\$ 404,601</b>    | <b>7.90%</b>    |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

**SUMMARY OF CHANGES IN NET POSITION**

|                                   | Governmental<br>Activities |                      | Business-Type<br>Activities |                     | Totals               |                      | Amount<br>Change  | %<br>Change   |
|-----------------------------------|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|-------------------|---------------|
|                                   | 2016                       | 2015                 | 2016                        | 2015                | 2016                 | 2015                 |                   |               |
| <b>Expenses</b>                   |                            |                      |                             |                     |                      |                      |                   |               |
| <b>General</b>                    |                            |                      |                             |                     |                      |                      |                   |               |
| government                        | \$ 1,362,006               | \$ 1,203,396         | \$ -                        | \$ -                | \$ 1,362,006         | \$ 1,203,396         | \$ 158,610        | 13.18%        |
| Public safety                     | 1,182,436                  | 1,195,657            | -                           | -                   | 1,182,436            | 1,195,657            | (13,221)          | -1.11%        |
| Public works                      | 212,323                    | 198,687              | -                           | -                   | 212,323              | 198,687              | 13,636            | 6.86%         |
| Recreation &<br>culture           | 225,777                    | 168,011              | -                           | -                   | 225,777              | 168,011              | 57,766            | 34.38%        |
| <b>Beach</b>                      |                            |                      |                             |                     |                      |                      |                   |               |
| preservation                      | 762,190                    | 775,982              | -                           | -                   | 762,190              | 775,982              | (13,792)          | -1.78%        |
| Interest on<br>long-term debt     | 110,194                    | 112,860              | -                           | -                   | 110,194              | 112,860              | (2,666)           | -2.36%        |
| Water & sewer                     | -                          | -                    | 1,116,919                   | 1,171,734           | 1,116,919            | 1,171,734            | (54,815)          | -4.68%        |
| <b>Total Expenses</b>             | <b>\$ 3,854,926</b>        | <b>\$ 3,654,593</b>  | <b>\$ 1,116,919</b>         | <b>\$ 1,171,734</b> | <b>\$ 4,971,845</b>  | <b>\$ 4,826,327</b>  | <b>\$ 145,518</b> | <b>3.02%</b>  |
| <b>Change in Net<br/>Position</b> | <b>\$ 234,785</b>          | <b>\$ 22,412</b>     | <b>\$ 317,881</b>           | <b>\$ 271,171</b>   | <b>\$ 552,666</b>    | <b>\$ 293,583</b>    | <b>\$ 259,083</b> | <b>88.25%</b> |
| <b>Beginning Net<br/>Position</b> | <b>13,260,845</b>          | <b>13,238,433</b>    | <b>3,700,602</b>            | <b>3,429,431</b>    | <b>16,961,447</b>    | <b>16,667,864</b>    | <b>293,583</b>    | <b>1.76%</b>  |
| <b>Ending Net Position</b>        | <b>\$ 13,495,630</b>       | <b>\$ 13,260,845</b> | <b>\$ 4,018,483</b>         | <b>\$ 3,700,602</b> | <b>\$ 17,514,113</b> | <b>\$ 16,961,447</b> | <b>\$ 552,666</b> | <b>3.26%</b>  |

**CHANGES IN NET POSITION**

The Town's total revenues increased by 7.90% to \$5,524,511. Approximately 51% of the Town's revenue comes from some type of tax. Another 36.5% comes from fees charged for services, and the balance is from intergovernmental revenues, grants and contributions and miscellaneous sources.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

Following is a discussion of the governmental and business-type activities separately.

**Governmental Activities**

Revenues for the Town's governmental activities increased by \$412,706 to \$4,089,711 due to increases in property taxes, hospitality taxes, accommodations taxes and business taxes. Garbage fees were increased this year.

Total expenses increased by \$200,333 to \$3,854,926. These increases were attributed to the salary and associated benefit increases, engineering for the beach nourishment project and enhanced mosquito control services. The garbage fee was increased on May 12, 2016, by 15% from \$170.84 to \$196.62 to account for increases in the new contract.

**Business-Type Activities**

Revenues for charges for services were adjusted this fiscal year. The water rate was increased by 5% on May 12, 2016 to account for an increase in infrastructure repairs.

Total expenses for the Town's business-type activities decreased from 2015 to 2016.

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

**Governmental Funds**

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements.

Governmental funds reported ending fund balances of \$7,746,191. Of this year-end total, approximately \$3,675,230 is unassigned indicating availability for continuing Town service requirements.

Restricted, committed and assigned fund balances include: \$2,287,782 of Local Accommodations funds restricted to beach preservation projects, \$6,271 committed to the development of the Bay Creek Park fka Bell property acquired in 2007, \$962,188 (Hospitality and Accommodations Taxes) restricted to the promotion of recreation and tourism, \$22,008 (Alcohol Permitting and I & I) restricted to other projects and \$72,433 assigned to the Volunteer Fire Department.

The total ending fund balances of governmental funds show an increase of \$960,617 over the prior year.

**Major Governmental Funds**

The General Fund is the Town's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund increased by \$591,429. Of the total fund balance of \$4,395,509, \$720,279 is committed as determined by Town Council. These funds are committed to the General Equipment Vehicle Replacement Fund which accrues funds as vehicle and equipment are depreciated and Edisto Pride which receives funds from Keep America Beautiful.

**Proprietary Funds**

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

**Major Proprietary Funds**

The Town's major proprietary fund is the water and sewer fund. The net position of the water and sewer fund increased by \$317,881.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Comparing the fiscal year 2016 original budget to the final budget shows a net change of \$0.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Town's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2016, was \$9,672,034 and \$2,745,836, respectively. See Note 3 for additional information about changes in capital assets during the fiscal year.

**CAPITAL ASSETS**  
**NET OF ACCUMULATED DEPRECIATION**

|                                       | <u>Governmental</u>        |                             | <u>Business-Type</u>       |                            | <u>Totals</u>               |                             | <u>Total</u><br><u>% Change</u> |
|---------------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|---------------------------------|
|                                       | <u>2016</u>                | <u>2015</u>                 | <u>2016</u>                | <u>2015</u>                | <u>2016</u>                 | <u>2015</u>                 |                                 |
| <b>Non-Depreciable Assets:</b>        |                            |                             |                            |                            |                             |                             |                                 |
| Land and other non-depreciable assets | \$ 7,020,943               | \$ 7,020,943                | \$ 599,265                 | \$ 302,256                 | \$ 7,620,208                | \$ 7,323,199                | 4.06%                           |
| <b>Depreciable Assets:</b>            |                            |                             |                            |                            |                             |                             |                                 |
| Buildings                             | 420,418                    | 403,132                     | 24,763                     | 28,916                     | 445,181                     | 432,048                     | 3.04%                           |
| Improvements other than buildings     | 302,026                    | 350,422                     |                            |                            | 302,026                     | 350,422                     | -13.81%                         |
| Infrastructure                        | 1,030,647                  | 1,678,082                   | 1,969,153                  | 2,094,622                  | 2,999,800                   | 3,772,704                   | -20.49%                         |
| Machinery and equipment               | 898,000                    | 955,669                     | 152,655                    | 185,586                    | 1,050,655                   | 1,141,255                   | -7.94%                          |
| <b>Total</b>                          | <b><u>\$ 9,672,034</u></b> | <b><u>\$ 10,408,248</u></b> | <b><u>\$ 2,745,836</u></b> | <b><u>\$ 2,611,380</u></b> | <b><u>\$ 12,417,870</u></b> | <b><u>\$ 13,019,628</u></b> | <b>-4.62%</b>                   |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

**Long-Term Debt**

At the end of the fiscal year, the Town had bonded debt outstanding of \$1,520,000 supported by pledged revenues generated primarily by the business-type activities of the Town (revenue bonds) and \$2,215,000 supported by general revenues generated by the governmental activities of the Town (general obligation bonds). Total long-term debt is \$3,775,448 of which \$40,448 is for compensated absences. Long-term debt decreased by \$95,158.

**Bond Ratings**

General Obligation Bond ratings are disclosed on the face of the final official statements for the bonds. The rating on General Obligation Bonds increased by three levels to an AA+ by Standard and Poor's Rating Service (S&P) as reported on June 24, 2014. On September 1, 2015, Standard and Poor's Rating Service reaffirmed the Town's A+ long-term rating on revenue bonds. Management has identified key information that was not considered in the evaluation and feels the A+ rating is low.

The rating reflects the opinion of the following factors for the town, including its:

- Stable, diverse, and primarily residential customer base;
- Historically strong financial performance highlighted with high coverage and liquidity margins; and
- Affordable rates given the Town's very strong income levels provide for rate flexibility.

See Note 4 for additional information about changes in bonds during the fiscal year.

**ECONOMIC ENVIRONMENT AND NEXT YEAR'S BUDGET AND RATES**

The Town's water and sewer revenue bonds require rate increases to operate and maintain the Town's system as needed. A water and sewer rate study was completed in 2011 which provided guidance on future rate increases. Water rates were increased by 5% May 12, 2016.

In fiscal year 2016, the Town experienced critical issues with water supply which resulted in the escalation of the water system improvement project. Water system improvements are projected to be funded \$7,200,000 through revenue bonds and will address supply, capacity and water quality issues. The funding of this project will result in water rate increases as outlined in a water rate study to fund this project. The anticipated increase in 2017 will be 15%. It is also anticipated that a new well will be installed by July 2017.

Beach Nourishment is scheduled to begin in 2017 and all current and some anticipated tourism taxes are needed to fund the cost of the project originally estimated at \$12,000,000-\$14,000,000. Due to Hurricanes Joaquin and Matthew damages, the project costs have increased to \$15,000,000. The Town has applied for Federal Emergency Management Agency grants for both of these events. The Town has also applied for \$7,000,000 in grant funding from the Parks, Recreation and Tourism Department. Colleton County has pledged \$4,000,000 towards this project and Edisto Beach has \$3,000,000.

Hurricane Matthew caused significant damage to Edisto Beach in October of 2016. The damages were so significant, the approved budget had to be amended to address the costs associated with the debris removal, sand removal and other emergency protective services and projects. It is anticipated the costs may exceed \$500,000.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2016

As a result of Hurricane Matthew, many front beach homeowners' septic systems were destroyed or impacted. The Town will be researching available funding options to address this issue that has environmental impacts on the beachfront. The Town has been informed that the SC Water Association may have infrastructure grant funding for which the Town might qualify.

Real estate sales are strong, but property values continue to be deflated.

The millage rate was increased this year from 20.23 mills to 20.71 mills for fiscal year 2016.

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Town's finances, comply with finance-related laws and regulations, and demonstrate the Town's commitment to public accountability. If you have questions about this report or would like to request additional information, contact Town Hall at 2414 Murray Street, Edisto Beach, South Carolina 29438.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**STATEMENT OF NET POSITION**  
June 30, 2016

Page 1 of 2

| <u>ASSETS</u>                                | <u>GOVERNMENTAL<br/>ACTIVITIES</u> | <u>BUSINESS-TYPE<br/>ACTIVITIES</u> | <u>TOTAL</u>      |
|--|------------------------------------|-------------------------------------|-------------------|
| <b><u>CURRENT ASSETS</u></b>                 |                                    |                                     |                   |
| Cash and cash equivalents                    | \$ 7,735,787                       | \$ 3,265,656                        | \$ 11,001,443     |
| Receivables                                  |                                    |                                     |                   |
| Taxes  | 29,659                             |                                     | 29,659            |
| Accounts                                     | 170,695                            | 437,614                             | 608,309           |
| Other  | 82,097                             |                                     | 82,097            |
| Inventory                                    | -                                  | 17,570                              | 17,570            |
|  | <u>8,018,238</u>                   | <u>3,720,840</u>                    | <u>11,739,078</u> |
| Total Current Assets                         | \$                                 | \$                                  | \$                |
| <b><u>RESTRICTED ASSETS</u></b>              |                                    |                                     |                   |
| Investments                                  | \$ -                               | \$ 120,430                          | \$ 120,430        |
|  | <u>-</u>                           | <u>120,430</u>                      | <u>120,430</u>    |
| Total Restricted Assets                      | \$                                 | \$                                  | \$                |
| <b><u>NONCURRENT ASSETS</u></b>              |                                    |                                     |                   |
| Capital assets                               |                                    |                                     |                   |
| Land and other non-depreciable<br>assets     | \$ 7,020,943                       | \$ 599,265                          | \$ 7,620,208      |
| Capital assets, net of depreciation          | 2,651,091                          | 2,146,571                           | 4,797,662         |
|  | <u>9,672,034</u>                   | <u>2,745,836</u>                    | <u>12,417,870</u> |
| Total Noncurrent Assets                      | \$                                 | \$                                  | \$                |
| Total Assets                                 | \$ 17,690,272                      | \$ 6,587,106                        | \$ 24,277,378     |
| <b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b> |                                    |                                     |                   |
| Deferred amounts from refunding<br>of debt   | \$ -                               | \$ 82,513                           | \$ 82,513         |
| Deferred outflows related to pensions        | 178,283                            | 55,768                              | 234,051           |
|  | <u>178,283</u>                     | <u>138,281</u>                      | <u>316,564</u>    |
| Total Deferred Outflows of Resources         | \$                                 | \$                                  | \$                |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**STATEMENT OF NET POSITION**  
June 30, 2016

Page 2 of 2

| <u>LIABILITIES</u>   | <u>GOVERNMENTAL<br/>ACTIVITIES</u> | <u>BUSINESS-TYPE<br/>ACTIVITIES</u> | <u>TOTAL</u>         |
|--|------------------------------------|-------------------------------------|----------------------|
| <b><u>CURRENT LIABILITIES</u></b>                                      |                                    |                                     |                      |
| Accounts payable   | \$ 9,740                           | \$ 450                              | \$ 10,190            |
| Interest payable   | 27,000                             |                                     | 27,000               |
| Unearned revenue   | 232,648                            | 463,892                             | 696,540              |
| Compensated absences   | 31,046                             |                                     | 31,046               |
| Bonds, notes and loans payable   | <u>65,000</u>                      | <u>-</u>                            | <u>65,000</u>        |
| Total Current Liabilities  | <u>\$ 365,434</u>                  | <u>\$ 464,342</u>                   | <u>\$ 829,776</u>    |
| <b><u>CURRENT LIABILITIES (PAYABLE FROM<br/>RESTRICTED ASSETS)</u></b> |                                    |                                     |                      |
| Bonds, notes and loans payable   | <u>\$ -</u>                        | <u>\$ 40,000</u>                    | <u>\$ 40,000</u>     |
| Total Current Liabilities<br>(Payable From Restricted Assets)          | <u>\$ -</u>                        | <u>\$ 40,000</u>                    | <u>\$ 40,000</u>     |
| <b><u>NONCURRENT LIABILITIES</u></b>                                   |                                    |                                     |                      |
| Compensated absences   | \$ 9,402                           | \$ -                                | \$ 9,402             |
| Bonds, notes and loans payable   | 2,150,000                          | 1,480,000                           | 3,630,000            |
| Net pension obligation   | <u>1,820,199</u>                   | <u>698,802</u>                      | <u>2,519,001</u>     |
| Total Noncurrent Liabilities   | <u>\$ 3,979,601</u>                | <u>\$ 2,178,802</u>                 | <u>\$ 6,158,403</u>  |
| Total Liabilities  | <u>\$ 4,345,035</u>                | <u>\$ 2,683,144</u>                 | <u>\$ 7,028,179</u>  |
| <b><u>DEFERRED INFLOWS OF RESOURCES</u></b>                            |                                    |                                     |                      |
| Deferred inflows related to pensions                                   | <u>\$ 27,890</u>                   | <u>\$ 23,760</u>                    | <u>\$ 51,650</u>     |
| Total Deferred Inflows of Resources                                    | <u>\$ 27,890</u>                   | <u>\$ 23,760</u>                    | <u>\$ 51,650</u>     |
| <b><u>NET POSITION</u></b>   |                                    |                                     |                      |
| Invested in capital assets, net of<br>related debt                     | \$ 7,457,034                       | \$ 1,225,836                        | \$ 8,682,870         |
| Restricted   | 3,271,978                          | 120,430                             | 3,392,408            |
| Unrestricted   | <u>2,766,618</u>                   | <u>2,672,217</u>                    | <u>5,438,835</u>     |
| Total Net Position   | <u>\$ 13,495,630</u>               | <u>\$ 4,018,483</u>                 | <u>\$ 17,514,113</u> |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**STATEMENT OF ACTIVITIES**  
For The Fiscal Year Ended June 30, 2016

| <u>FUNCTIONS/PROGRAMS</u>             | <u>EXPENSES</u>     | <u>PROGRAM REVENUES</u>     |   |   | <u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u> |                                 |                       |
|---------------------------------------|---------------------|-----------------------------|---|---|--|---------------------------------|-----------------------|
|                                       |                     | <u>CHARGES FOR SERVICES</u> | <u>OPERATING GRANTS AND CONTRIBUTIONS</u> | <u>CAPITAL GRANTS AND CONTRIBUTIONS</u> | <u>GOVERNMENTAL ACTIVITIES</u>                           | <u>BUSINESS-TYPE ACTIVITIES</u> | <u>TOTAL</u>          |
| <u>Governmental Activities</u>        |                     |                             |   |   |  |                                 |                       |
| General government                    | \$ 1,362,006        | \$ 502,420                  | \$ 27,499                                 | \$ 18,906                               | \$ (813,181)   | \$ -                            | \$ (813,181)          |
| Public safety                         | 1,182,436           | 95,965                      |   | 22,890                                  | (1,063,581)  |                                 | (1,063,581)           |
| Public works                          | 212,323             |                             |   |   | (212,323)  |                                 | (212,323)             |
| Recreation and culture                | 225,777             |                             |   | 12,745                                  | (213,032)  |                                 | (213,032)             |
| Beach preservation                    | 762,190             |                             | 16,112                                    |   | (746,078)  |                                 | (746,078)             |
| Interest                              | 110,194             | -                           | -   | -                                       | (110,194)  | -                               | (110,194)             |
| <b>Total Governmental Activities</b>  | <b>\$ 3,854,926</b> | <b>\$ 598,385</b>           | <b>\$ 43,611</b>                          | <b>\$ 54,541</b>                        | <b>\$ (3,158,389)</b>                                    | <b>\$ -</b>                     | <b>\$ (3,158,389)</b> |
| <u>Business Activities</u>            |                     |                             |   |   |  |                                 |                       |
| Water and sewer                       | \$ 1,116,919        | \$ 1,421,099                | \$ -                                      | \$ -                                    | \$ -   | \$ 304,180                      | \$ 304,180            |
| <b>Total Business-Type Activities</b> | <b>\$ 1,116,919</b> | <b>\$ 1,421,099</b>         | <b>\$ -</b>                               | <b>\$ -</b>                             | <b>\$ -</b>  | <b>\$ 304,180</b>               | <b>\$ 304,180</b>     |
| <b>Total Government</b>               | <b>\$ 4,971,845</b> | <b>\$ 2,019,484</b>         | <b>\$ 43,611</b>                          | <b>\$ 54,541</b>                        | <b>\$ (3,158,389)</b>                                    | <b>\$ 304,180</b>               | <b>\$ (2,854,209)</b> |
| <u>General Revenues</u>               |                     |                             |   |   |  |                                 |                       |
| <u>Taxes</u>                          |                     |                             |   |   |  |                                 |                       |
|                                       |                     |                             |   |   | \$ 1,015,708   | \$ -                            | \$ 1,015,708          |
|                                       |                     |                             |   |   | 163,417  |                                 | 163,417               |
|                                       |                     |                             |   |   | 719,538  |                                 | 719,538               |
|                                       |                     |                             |   |   | 186,230  |                                 | 186,230               |
|                                       |                     |                             |   |   | 727,610  |                                 | 727,610               |
|                                       |                     |                             |   |   | 368,238  |                                 | 368,238               |
|                                       |                     |                             |   |   | 31,327   | 13,701                          | 45,028                |
|                                       |                     |                             |   |   | 76,587   |                                 | 76,587                |
|                                       |                     |                             |   |   | 104,519  |                                 | 104,519               |
|                                       |                     |                             |   |   | <b>\$ 3,393,174</b>                                      | <b>\$ 13,701</b>                | <b>\$ 3,406,875</b>   |
|                                       |                     |                             |   |   | <b>\$ 234,785</b>  | <b>\$ 317,881</b>               | <b>\$ 552,666</b>     |
|                                       |                     |                             |   |   | <b>13,260,845</b>  | <b>3,700,602</b>                | <b>16,961,447</b>     |
|                                       |                     |                             |   |   | <b>\$ 13,495,630</b>                                     | <b>\$ 4,018,483</b>             | <b>\$ 17,514,113</b>  |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2016

|   | GENERAL<br>FUND     | LOCAL<br>ACCOMMODATIONS<br>TAX<br>SPECIAL<br>REVENUE<br>FUND | HOSPITALITY<br>TAX<br>SPECIAL<br>REVENUE<br>FUND | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL               |
|---|---------------------|--|--|--------------------------------|---------------------|
| <b><u>ASSETS</u></b>  |                     |  |  |                                |                     |
| Cash and cash equivalents   | \$ 4,399,105        | \$ 2,287,782   | \$ 472,836                                       | \$ 576,064                     | \$ 7,735,787        |
| Receivables   |                     |  |  |                                |                     |
| Taxes   | 29,659              |  |  |                                | 29,659              |
| Accounts  | 170,695             |  |  |                                | 170,695             |
| Other   | 61,097              |  | 21,000   |                                | 82,097              |
|   | <u>4,660,556</u>    | <u>2,287,782</u>   | <u>493,836</u>                                   | <u>576,064</u>                 | <u>8,018,238</u>    |
| Total Assets  | <u>\$ 4,660,556</u> | <u>\$ 2,287,782</u>  | <u>\$ 493,836</u>                                | <u>\$ 576,064</u>              | <u>\$ 8,018,238</u> |
| <b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u></b> |                     |  |  |                                |                     |
| <b><u>Liabilities</u></b>   |                     |  |  |                                |                     |
| Accounts payable  | \$ 2,740            | \$ -   | \$ 7,000   | \$ -                           | \$ 9,740            |
| Unearned revenue  | 232,648             | -  | -  | -                              | 232,648             |
|   | <u>235,388</u>      | <u>-</u>   | <u>7,000</u>                                     | <u>-</u>                       | <u>242,388</u>      |
| Total Liabilities   | <u>\$ 235,388</u>   | <u>\$ -</u>  | <u>\$ 7,000</u>                                  | <u>\$ -</u>                    | <u>\$ 242,388</u>   |
| <b><u>Deferred Inflows of Resources</u></b>                                 |                     |  |  |                                |                     |
| Unavailable revenue - property taxes  | \$ 29,659           | \$ -   | \$ -   | \$ -                           | \$ 29,659           |
|   | <u>29,659</u>       | <u>-</u>   | <u>-</u>   | <u>-</u>                       | <u>29,659</u>       |
| <b><u>Fund Balances</u></b>   |                     |  |  |                                |                     |
| Restricted  | \$ -                | \$ 2,287,782   | \$ 486,836                                       | \$ 497,360                     | \$ 3,271,978        |
| Committed   | 720,279             |  |  | 6,271                          | 726,550             |
| Assigned  |                     |  |  | 72,433                         | 72,433              |
| Unassigned  | 3,675,230           | -  | -  | -                              | 3,675,230           |
|   | <u>4,395,509</u>    | <u>2,287,782</u>   | <u>486,836</u>                                   | <u>576,064</u>                 | <u>7,746,191</u>    |
| Total Fund Balances   | <u>\$ 4,395,509</u> | <u>\$ 2,287,782</u>  | <u>\$ 486,836</u>                                | <u>\$ 576,064</u>              | <u>\$ 7,746,191</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances         | <u>\$ 4,660,556</u> | <u>\$ 2,287,782</u>  | <u>\$ 493,836</u>                                | <u>\$ 576,064</u>              | <u>\$ 8,018,238</u> |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
June 30, 2016

|   |    |                    |
|---|----|--------------------|
| TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  | \$ | 7,746,191          |
| Amounts reported for Governmental Activities in the Statement of Net Position are different because:  |    |                    |
| Capital assets used in governmental activities are not current financial resources and are therefore not reported in the Governmental Funds Balance Sheet.  |    | 9,672,034          |
| Revenues for delinquent property taxes are deferred inflows of resources in the governmental funds because they will not be received within sixty days of the Government's year end.  |    | 29,659             |
| Certain deferred outflows of resources represent a consumption of net position in a future period and, therefore, are not reported in the funds.<br>Pension contributions   |    | 178,283            |
| Certain deferred inflows of resources represent amounts that are not available to pay for the current periods expenditures and, therefore, are reported as a deferred inflow of resources.<br>Pension investment experience |    | (27,890)           |
| Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.  |    |                    |
| Accrued compensated absences  | \$ | (40,448)           |
| Accrued interest  |    | (27,000)           |
| Bonds payable   |    | (2,215,000)        |
| Net pension obligation  |    | <u>(1,820,199)</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES   | \$ | <u>13,495,630</u>  |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For The Fiscal Year Ended June 30, 2016

|                            | GENERAL<br>FUND | LOCAL<br>ACCOMMODATIONS<br>TAX<br>SPECIAL<br>REVENUE<br>FUND | HOSPITALITY<br>TAX<br>SPECIAL<br>REVENUE<br>FUND | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL        |
|----------------------------|-----------------|--|--|--------------------------------|--------------|
| <b><u>REVENUES</u></b>     |                 |  |  |                                |              |
| General property taxes     | \$ 1,014,761    | \$ -   | \$ -   | \$ -                           | \$ 1,014,761 |
| Local option sales taxes   | 163,417         |  |  |                                | 163,417      |
| Accommodations taxes       | 45,022          | 414,231  |  | 260,285                        | 719,538      |
| Hospitality taxes          |                 |  | 186,230  |                                | 186,230      |
| Licenses and permits       | 727,610         |  |  |                                | 727,610      |
| Charges for services       | 538,988         |  |  |                                | 538,988      |
| Fines and forfeitures      | 59,397          |  |  |                                | 59,397       |
| Intergovernmental revenues | 323,613         |  |  | 44,625                         | 368,238      |
| Grants                     | 82,040          | 16,112   |  |                                | 98,152       |
| Interest revenues          | 17,330          | 10,808   | 2,113  | 1,076                          | 31,327       |
| Rental revenues            | 76,587          |  |  |                                | 76,587       |
| Miscellaneous revenues     | 51,598          | -  | 2,900  | 50,021                         | 104,519      |
| Total Revenues             | \$ 3,100,363    | \$ 441,151   | \$ 191,243                                       | \$ 356,007                     | \$ 4,088,764 |
| <b><u>EXPENDITURES</u></b> |                 |  |  |                                |              |
| <b>Current</b>             |                 |  |  |                                |              |
| General government         | \$ 1,282,280    | \$ -   | \$ -   | \$ -                           | \$ 1,282,280 |
| Public safety              | 921,385         |  |  | 78,004                         | 999,389      |
| Public works               | 197,610         |  |  |                                | 197,610      |
| Recreation and culture     |                 |  | 43,436   | 111,552                        | 154,988      |
| Beach preservation         |                 | 130,022  |  |                                | 130,022      |
| <b>Debt service</b>        |                 |  |  |                                |              |
| Principal                  | 65,000          |  |  |                                | 65,000       |
| Interest                   | 110,925         |  |  |                                | 110,925      |
| Capital outlay             | 149,849         | -  | 28,276   | 9,808                          | 187,933      |
| Total Expenditures         | \$ 2,727,049    | \$ 130,022   | \$ 71,712  | \$ 199,364                     | \$ 3,128,147 |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For The Fiscal Year Ended June 30, 2016

Page 2 of 2

|   | <u>GENERAL<br/>FUND</u> | <u>LOCAL<br/>ACCOMMODATIONS<br/>TAX<br/>SPECIAL<br/>REVENUE<br/>FUND</u> | <u>HOSPITALITY<br/>TAX<br/>SPECIAL<br/>REVENUE<br/>FUND</u> | <u>OTHER<br/>GOVERNMENTAL<br/>FUNDS</u> | <u>TOTAL</u>        |
|---|-------------------------|--|---|---|---------------------|
| <b><u>EXCESS (DEFICIENCY) OF<br/>REVENUES OVER EXPENDITURES</u></b> | \$ 373,314              | \$ 311,129   | \$ 119,531  | \$ 156,643                              | \$ 960,617          |
| <b><u>OTHER FINANCING SOURCES (USES)</u></b>                        |                         |  |   |   |                     |
| Transfers in  | 218,115                 |  |   |   | 218,115             |
| Transfers out   | -                       | (50,000)   | (118,115)   | (50,000)                                | (218,115)           |
| Total Other Financing Sources (Uses)                                | \$ 218,115              | \$ (50,000)  | \$ (118,115)  | \$ (50,000)                             | \$ -                |
| <b><u>NET CHANGE IN FUND BALANCES</u></b>                           | \$ 591,429              | \$ 261,129   | \$ 1,416  | \$ 106,643                              | \$ 960,617          |
| <b><u>FUND BALANCES - BEGINNING</u></b>                             | <u>3,804,080</u>        | <u>2,026,653</u>   | <u>485,420</u>  | <u>469,421</u>                          | <u>6,785,574</u>    |
| <b><u>FUND BALANCES - ENDING</u></b>                                | <u>\$ 4,395,509</u>     | <u>\$ 2,287,782</u>  | <u>\$ 486,836</u>   | <u>\$ 576,064</u>                       | <u>\$ 7,746,191</u> |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**  
For The Fiscal Year Ended June 30, 2016

|   |                          |
|---|--------------------------|
| <b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL</b>   | <b>\$ 960,617</b>        |
| <br>Amounts reported for Governmental Activities in<br>the Statement of Activities are different because:   |                          |
| Capital outlay, reported as expenditures in<br>governmental funds, is shown as capital assets in<br>the Statement of Net Position.                                      | 187,933                  |
| Depreciation expense on governmental capital assets<br>included in the governmental activities in the<br>Statement of Activities.                                       | (924,147)                |
| Repayment of debt decreases long-term liabilities<br>in the Statement of Activities.  | 65,000                   |
| Revenues in the Statement of Activities that do not provide<br>current financial resources are not reported as revenues<br>in the funds.                                | 947                      |
| Increase in accrued compensated absences is not reported<br>as expenditures in governmental funds but as increase<br>in liabilities in the Statement of Net Position.   | (4,842)                  |
| Decrease in accrued interest payable is reported<br>as expenditures in governmental funds but as decrease<br>in liabilities in the Statement of Net Position.           | 731                      |
| Change in pension deferred outflows (inflows) of resources<br>(net) and net pension liability is included in the<br>governmental activities in the Statement of Assets. | <u>(51,454)</u>          |
| <b>CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES</b>   | <b><u>\$ 234,785</u></b> |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
June 30, 2016

Page 1 of 2

|   | <b>BUSINESS-TYPE ACTIVITIES</b> |              |
|---|---------------------------------|--------------|
|   | <b>ENTERPRISE FUNDS</b>         |              |
| <u>ASSETS</u>                           | <b>WATER<br/>AND SEWER</b>      | <b>TOTAL</b> |
| <b>CURRENT ASSETS</b>                   |                                 |              |
| Cash and cash equivalents               | \$ 3,265,656                    | \$ 3,265,656 |
| Accounts receivable                     | 437,614                         | 437,614      |
| Inventory                               | 17,570                          | 17,570       |
| Total Current Assets                    | \$ 3,720,840                    | \$ 3,720,840 |
| <b>RESTRICTED ASSETS</b>                |                                 |              |
| Investments                             | \$ 120,430                      | \$ 120,430   |
| Total Restricted Assets                 | \$ 120,430                      | \$ 120,430   |
| <b>NONCURRENT ASSETS</b>                |                                 |              |
| Capital assets                          |                                 |              |
| Capital assets not depreciated          | \$ 599,265                      | \$ 599,265   |
| Capital assets depreciated, net         | 2,146,571                       | 2,146,571    |
| Total Noncurrent Assets                 | \$ 2,745,836                    | \$ 2,745,836 |
| Total Assets                            | \$ 6,587,106                    | \$ 6,587,106 |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>   |                                 |              |
| Deferred amounts from refunding of debt | \$ 82,513                       | \$ 82,513    |
| Deferred amounts related to pension     | 55,768                          | 55,768       |
| Total Deferred Outflows                 | \$ 138,281                      | \$ 138,281   |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
June 30, 2016

Page 2 of 2

| <u>LIABILITIES</u>  | <u>BUSINESS-TYPE ACTIVITIES</u> |                     |
|---|---------------------------------|---------------------|
|   | <u>ENTERPRISE FUNDS</u>         |                     |
|   | <u>WATER<br/>AND SEWER</u>      | <u>TOTAL</u>        |
| <b>CURRENT LIABILITIES</b>                                      |                                 |                     |
| Accounts payable  | \$ 450                          | \$ 450              |
| Unearned revenue  | <u>463,892</u>                  | <u>463,892</u>      |
| Total Current Liabilities                                       | <u>\$ 464,342</u>               | <u>\$ 464,342</u>   |
| <b>CURRENT LIABILITIES (PAYABLE FROM<br/>RESTRICTED ASSETS)</b> |                                 |                     |
| Bonds payable   | <u>\$ 40,000</u>                | <u>\$ 40,000</u>    |
| Total Current Liabilities<br>(Payable From Restricted Assets)   | <u>\$ 40,000</u>                | <u>\$ 40,000</u>    |
| <b>NONCURRENT LIABILITIES</b>                                   |                                 |                     |
| Bonds and loans payable   | \$ 1,480,000                    | \$ 1,480,000        |
| Net pension obligation  | <u>698,802</u>                  | <u>698,802</u>      |
| Total Noncurrent Liabilities                                    | <u>\$ 2,178,802</u>             | <u>\$ 2,178,802</u> |
| Total Liabilities   | <u>\$ 2,683,144</u>             | <u>\$ 2,683,144</u> |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                            |                                 |                     |
| Deferred amounts related to pension                             | <u>\$ 23,760</u>                | <u>\$ 23,760</u>    |
| Total Deferred Outflows   | <u>\$ 23,760</u>                | <u>\$ 23,760</u>    |
| <b><u>NET POSITION</u></b>                                      |                                 |                     |
| Invested in capital assets, net of related debt                 | \$ 1,225,836                    | \$ 1,225,836        |
| Restricted for debt service                                     | 120,430                         | 120,430             |
| Unrestricted  | <u>2,672,217</u>                | <u>2,672,217</u>    |
| Total Net Position  | <u>\$ 4,018,483</u>             | <u>\$ 4,018,483</u> |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
**Edisto Beach, South Carolina**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**For The Fiscal Year Ended June 30, 2016**

|  | <b><u>BUSINESS-TYPE ACTIVITIES</u></b> |                            |
|--|--|----------------------------|
|  | <b><u>ENTERPRISE FUNDS</u></b>         |                            |
|  | <b><u>WATER</u></b>                    | <b><u>TOTAL</u></b>        |
|  | <b><u>AND SEWER</u></b>                |                            |
| <b><u>OPERATING REVENUES</u></b>               |  |                            |
| Charges for services                           | \$ 1,421,099                           | \$ 1,421,099               |
| Total Operating Revenues                       | <u>\$ 1,421,099</u>                    | <u>\$ 1,421,099</u>        |
| <b><u>OPERATING EXPENSES</u></b>               |  |                            |
| Personal services                              | \$ 452,311                             | \$ 452,311                 |
| Operating expenses                             | 406,089                                | 406,089                    |
| Depreciation                                   | <u>199,253</u>                         | <u>199,253</u>             |
| Total Operating Expenses                       | <u>\$ 1,057,653</u>                    | <u>\$ 1,057,653</u>        |
| Operating Income                               | <u>\$ 363,446</u>                      | <u>\$ 363,446</u>          |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b> |  |                            |
| Interest income                                | \$ 13,701                              | \$ 13,701                  |
| Interest expense                               | <u>(59,266)</u>                        | <u>(59,266)</u>            |
| Total Nonoperating Revenues (Expenses)         | <u>\$ (45,565)</u>                     | <u>\$ (45,565)</u>         |
| <b><u>CHANGE IN NET POSITION</u></b>           | <u>\$ 317,881</u>                      | <u>\$ 317,881</u>          |
| <b><u>TOTAL NET POSITION - BEGINNING</u></b>   | <u>3,700,602</u>                       | <u>3,700,602</u>           |
| <b><u>TOTAL NET POSITION - ENDING</u></b>      | <u><u>\$ 4,018,483</u></u>             | <u><u>\$ 4,018,483</u></u> |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
For The Fiscal Year Ended June 30, 2016

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|  | <b>BUSINESS-TYPE ACTIVITIES</b> |              |
|--|---------------------------------|--------------|
|  | <b>ENTERPRISE FUNDS</b>         |              |
|  | <b>WATER<br/>AND SEWER</b>      | <b>TOTAL</b> |
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                         |                                 |              |
| Cash received from customers   | \$ 1,422,430                    | \$ 1,422,430 |
| Cash paid to suppliers for goods and services                              | (408,588)                       | (408,588)    |
| Cash paid to employees   | (476,113)                       | (476,113)    |
| Net Cash Provided By Operating Activities                                  | \$ 537,729                      | \$ 537,729   |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</u></b> |                                 |              |
| Interest paid on long-term debt  | \$ (52,919)                     | \$ (52,919)  |
| Principal paid on long-term debt   | (35,000)                        | (35,000)     |
| Acquisition and construction of fixed assets                               | (333,709)                       | (333,709)    |
| Net Cash Flows From Capital And<br>Related Financing Activities            | \$ (421,628)                    | \$ (421,628) |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                         |                                 |              |
| Interest income  | \$ 13,701                       | \$ 13,701    |
| Net Cash Flows From Investing Activities                                   | \$ 13,701                       | \$ 13,701    |
| <b><u>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</u></b>              | \$ 129,802                      | \$ 129,802   |
| <b><u>CASH AND EQUIVALENTS AT BEGINNING OF YEAR</u></b>                    | 3,256,284                       | 3,256,284    |
| <b><u>CASH AND EQUIVALENTS AT END OF YEAR</u></b>                          | \$ 3,386,086                    | \$ 3,386,086 |
| <b><u>CLASSIFIED AS:</u></b>   |                                 |              |
| Current assets   | \$ 3,265,656                    | \$ 3,265,656 |
| Restricted assets  | 120,430                         | 120,430      |
|  | \$ 3,386,086                    | \$ 3,386,086 |

The notes to the financial statements are an integral part of this statement.

**THE TOWN OF EDISTO BEACH**  
**Edisto Beach, South Carolina**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**For The Fiscal Year Ended June 30, 2016**

Page 2 of 2

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

|  | <b><u>BUSINESS-TYPE ACTIVITIES</u></b> |                   |
|--|--|-------------------|
|  | <b>ENTERPRISE FUNDS</b>                |                   |
|  | <b>WATER<br/>AND SEWER</b>             | <b>TOTAL</b>      |
| <b><u>OPERATING INCOME</u></b>   | <b>\$ 363,446</b>                      | <b>\$ 363,446</b> |
| Adjustments to reconcile operating<br>income (loss) to net cash provided<br>by operating activities: |  |                   |
| Depreciation   | 199,253                                | 199,253           |
| <b><u>(INCREASE) DECREASE IN ASSETS</u></b>  |  |                   |
| Accounts receivable  | (13,740)                               | (13,740)          |
| Inventory  | (2,575)                                | (2,575)           |
| <b><u>INCREASE (DECREASE) IN LIABILITIES</u></b>   |  |                   |
| Accounts payable   | 76                                     | 76                |
| Unearned revenue   | 15,071                                 | 15,071            |
| Pension deferrals  | (23,802)                               | (23,802)          |
| <b>Net Cash Provided (Used) By Operating Activities</b>  | <b>\$ 537,729</b>                      | <b>\$ 537,729</b> |

The notes to the financial statements are an integral part of this statement.

THE TOWN OF EDISTO BEACH  
Edisto Beach, South Carolina

NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

The Town of Edisto Beach is located on a barrier island in southeastern South Carolina, approximately 45 miles southwest of the City of Charleston in Colleton County. Bounded by Charleston County to the north, St. Helena Sound to the southwest, and the Atlantic Ocean to the east, Edisto Beach is the barrier island part of Edisto Island which is located landward in Charleston County. Edisto Beach is a coastal barrier island in Colleton County and is located at Latitude 32.487613N, Longitude 80.324402N in the Eastern Standard Time Zone. The Town covers a length of approximately 4.4 miles long and 1.5 miles in width with an estimated full-time population of 648. The Town is a political subdivision and municipal corporation of the State. The Town of Edisto Beach was incorporated December 18, 1970, under the laws of the State of South Carolina and operates under the Council form of government. The Mayor and four council members establish policy for the Town. Administrative functions are directed by the Town Administrator. The Town's major operations include public safety, water and sewage services, recreational and cultural programs, public works and general administrative services within the municipality as well as surrounding unincorporated areas of Colleton County.

1. Summary of Significant Accounting Policies

A. The Reporting Entity

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

As required by GAAP, the basic financial statements present the Town's financial information including any 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. 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 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.

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the Town's basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government's operations and data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize they are legally separate from the Town. Based on the criteria above, the Town does not have any blended or discretely presented component units.

The Town of Edisto Beach has been determined to be a primary government due to the fact that it is a general-purpose local governmental entity.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

1. **Summary of Significant Accounting Policies (Continued)**

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

The government-wide basic financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Town. The effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees or charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment and 3) grants and contributions that are restricted to meeting capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

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

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

THE TOWN OF EDISTO BEACH  
Edisto Beach, South Carolina

NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

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

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

The Town reports deferred inflows of resources and unearned revenues on its financial statements. For governmental fund financial statements, deferred inflows of resources arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when resources are received before the Town has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, deferred inflows of resources and unearned revenue are removed from the balance sheet or statement of net position and revenue is recognized.

Fund basic financial statements report detailed information about the Town. The focus of governmental and enterprise fund basic financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations. The preparation of financial statements in conformity with generally accepted accounting principles, as applicable to governmental units, requires management to make use of estimates that affect the reported amounts in the financial statements. Actual results could differ from estimates.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates fund according to their intended purpose and is used as an aid to management in demonstrating compliance with finance-related legal and contractual requirements.

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

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

1. **Summary of Significant Accounting Policies (Continued)**

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

Proprietary Fund Types are accounted for based on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded at the time liabilities are incurred.

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

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

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. The same element of the individual governmental fund or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
3. In addition, any other governmental or enterprise fund that the Town believes is particularly important to financial statement users may be reported as a major fund.

The Town reports the following major governmental funds:

The General Fund is the general operating fund of the Town and accounts for all revenues and expenditures of the Town, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in the General Fund. General operating expenditures and capital improvement costs not paid through other funds are paid from the General Fund. This is a budgeted fund, and any unreserved fund balance is generally considered a resource available for use.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

1. **Summary of Significant Accounting Policies (Continued)**

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

The Local Accommodations Tax Fund, a special revenue fund, is used to account for the accumulation of resources from the 2% fee imposed on the rental of any accommodations within the Town. These funds are to be spent only to support tourism and tourist-related services. This is an unbudgeted fund.

The Hospitality Tax Fund, a special revenue fund, is used to account for the accumulation of resources from a 2% fee imposed on food and beverage sales within the Town. These funds are to be spent only to support tourism and tourist-related services. This is an unbudgeted fund.

The Town reports the following major enterprise fund:

The Water and Sewer Enterprise Fund is used to account for water and sewer services provided to the residents of the Town.

C. **Assets, Liabilities and Equity**

1. **Cash and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less.

Investments are stated at fair value. Changes in the fair value of investments are included as a component of investment income. The Town uses quoted market prices to determine the fair value of investments. The fair value of the Town's position in the South Carolina Local Government Investment Pool (SCLGIP) is the same as the value of the pool shares. The SCLGIP is not registered with the Securities and Exchange Commission as an investment company. The State Treasurer is responsible for oversight of the SCLGIP.

2. **Inventory**

Inventories and prepaid items in the governmental funds are reported under the consumption method (if material) as they are recorded as an expenditure as they are used (consumed). Inventory is valued at cost, using the first-in, first-out method.

3. **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Additions to capital assets are recorded at cost at the time of purchase. Gifts or contributions are recorded at fair market value at the time received. General infrastructure assets acquired prior to July 1, 2003 are not reported in the basic financial statements.

The Town maintains a \$5,000 threshold for additions to equipment. Buildings are capitalized when the value is \$15,000 or greater. System infrastructure assets represent major expenditures for such items as water and sewer treatment plants and lines. Additions and improvements for water and sewer infrastructure are capitalized when the cost amounts to \$5,000.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

1. **Summary of Significant Accounting Policies (Continued)**

C. **Assets, Liabilities and Equity (Continued)**

3. **Capital Assets (Continued)**

Depreciation has been provided using the straight-line method. The estimated useful lives of the various classes of depreciable fixed assets are as follows:

|                                       | <u>Life - Years</u> |
|---------------------------------------|---------------------|
| Buildings                             | 40-50               |
| Machinery and equipment               | 5-10                |
| Water and sewer system infrastructure | 40                  |
| Improvements                          | 20                  |
| Town infrastructure - sidewalks       | 50                  |
| - beach nourishment                   | 10                  |
| Vehicles                              | 5                   |

4. **Compensated Absences**

The Town's general leave policy allows the accumulation of unused vacation leave. Full-time permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Town. Generally, after six months of service, employees are entitled to all accrued vacation leave, subject to the specified maximums, upon termination. Employees are not entitled to unused accrued sick leave at termination.

Accumulated annual leave is accrued when incurred in the government-wide financial statements. A liability is recorded in the governmental fund financial statements only when the payment is due to currently terminating employees.

5. **Long-Term Obligations**

All long-term obligations to be repaid from governmental and business type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

For the government-wide statements and proprietary fund statements, bond premiums and discounts are amortized over the life of the issue using the effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year end for premiums/discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for gains/losses is shown as an increase or decrease in the deferred outflows of resources section of the statement of net position. Debt issuance costs are expensed when incurred.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

1. **Summary of Significant Accounting Policies (Continued)**

C. **Assets, Liabilities and Equity (Continued)**

5. **Long-Term Obligations (Continued)**

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments are only reported in governmental funds if it has matures. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred.

6. **Fund Balance**

*Government-Wide Statements* – Equity is classified as Net Position and displayed in three components:

**Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted Net Position** – Consists of Net Position with constraints place on their 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.

**Unrestricted Net Position** – All other Net Positions that do not meet the definitions of “restricted” or “net investment in capital assets”.

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

*Governmental Funds Statements* – In order to comply with the Governmental Accounting Standard Board’s (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, the components of the fund balance section of the balance sheet of the governmental funds include the following line items:

**Nonspendable fund balance**

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale.

**Restricted fund balance**

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation.

THE TOWN OF EDISTO BEACH  
Edisto Beach, South Carolina

NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Equity (Continued)

6. Fund Balance (Continued)

Committed fund balance

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Town recognizes committed fund balances that have been approved for specific purposes by Town Council before the fiscal year end.

Assigned fund balance

The assigned fund balance classification includes amounts that are constrained by the Town's intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Town's highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Town's highest level of authority. Assigned fund balance amounts in the Town's financial statements represent amounts approved by Town Council to be transferred and spent after year end. In the special revenue fund, assigned fund balances represent amounts to be spent for specific purposes.

Unassigned fund balance

The unassigned fund balance classification includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned for specific purposes within the general fund.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Proprietary fund equity is classified the same as in the government-wide statements.

Based on the Town's policies regarding fund balance classifications as noted above, the Town considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by Town Council or donors has been made. After these fund balances have been depleted, unassigned fund balance will be considered to have been spent.

The Town's Council has formally adopted a fund balance policy that states the goal of the Town is to achieve and maintain an unassigned general fund balance equal to two (2) month's expenditures.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

1. **Summary of Significant Accounting Policies (Continued)**

C. **Assets, Liabilities and Equity (Continued)**

7. **Accounting Estimates**

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

8. **Comparative Data**

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

2. **Stewardship, Compliance and Accountability**

A. **Budgets and Budgetary Data**

The Town uses the following procedures in establishing the budgetary data reflected in the required supplementary information budgetary comparison schedule:

During the spring, the Town's Administration (Town Administrator, Department Heads and Financial/Budget Analyst) develops a preliminary budget model for operational and capital expenditures, and develops revenue projections as a proposed means of financing the proposed expenditures.

Prior to the Council's first reading of the budget ordinance, a work session is held to review the draft budget and receive public input.

Upon receipt of the budget estimates, the Council holds a first reading of the budget ordinance. Information about the budget ordinance is then published in a local newspaper. The ordinance sets the limit the fund level, for which expenditures may not exceed appropriations. After two readings of the budget, the Town Council legally adopts the budget through the passage of the ordinance.

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

For each assigned function, a department is obligated to stay within budget for that area. Typically budget adjustments are made semi-annually. All unused expenditure appropriations lapse at year end. Town Council must approve any revisions (if any) that alter the total expenditures of the General Fund.

The Town prepares the budget on a basis of accounting other than GAAP. Major differences between the budgetary basis and GAAP are (a) the proceeds related to new lease purchase obligations entered into during the year are not budgeted, (b) revenues from grants, contributions and other unusual sources are not budgeted, and (c) capital expenditures that are made using bond proceeds are not budgeted. Expenditures related to non-budgeted revenues are not budgeted. Lease payments are budgeted as part of the operating budgets of the applicable departments.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

3. **Detailed Notes On All Funds and Activities**

A. **Deposits and Investments**

1. **Deposits**

At year end, the carrying amount of the Town's deposits with financial institutions was \$3,427,976 and the corresponding bank balance was \$3,445,640.

**Custodial Credit Risk** – For deposits, this is the risk that, in the event of a bank failure, the Town's deposits might not be recovered. The Town does not have a policy for custodial credit risk, but follows the investment policy statutes of the State of South Carolina. At June 30, 2016, the Town was exposed to custodial risk as follows:

Uninsured and collateral held by pledging bank's bond department in Town's name \$2,850,000. Uninsured and uncollateralized \$595,640.

2. **Investments**

State statutes authorize the Town to invest in obligations of the United States and agencies thereof, general obligations of the State of South Carolina or any of its political units, savings and loan associations to the extent that the same are insured by an agency of the federal government, certificates of deposit where the certificates are collaterally secured by securities of the type described above, or deposit accounts with banking institutions. The statutes provide that all authorized investments shall have maturities consistent with the time or times when the invested monies will be needed in cash. Statutes also allow the State Treasurer to assist local governments in investing funds. The Town is under no contractual agreements that restrict investment alternatives.

At June 30, 2016, the Town's unrestricted investments consisted of deposits with the South Carolina Local Government Investment Pool (SCLGIP) in the amount of \$7,573,467. It is the policy of the State Treasurer that the weighted average maturity of the LGIP portfolio not exceed 60 days. For purposes of financial statement presentation, funds deposited with the SCLGIP and certificates of deposit are classified as cash and cash equivalents.

At June 30, 2016, the Town also has investments restricted for payment of its revenue bond obligations. The investments comprise direct obligations of the U. S. government held by the paying agent in the Town's name in the amount of \$120,430.

**Custodial Credit Risk** – For investments, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Deposits with the SCLGIP represent participation units of a portfolio of securities. These securities are delivered to a third party financial institution for safekeeping in the name of the South Carolina State Treasurer.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

3. **Detailed Notes On All Funds and Activities (Continued)**

A. **Deposits and Investments (Continued)**

2. **Investments (Continued)**

**Credit Risk** – The Town's investment in the SCLGIP was unrated. Funds are deposited into the State Treasurer's investment pool and the South Carolina State Treasurer is authorized to invest the monies of the pool in the following types of investments: 1) Obligations of the United States, its agencies and instrumentalities; 2) Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank; 3) Obligations of a corporation, state, or political subdivision denominated in United States dollars, if the obligations bear an investment grade rating of at least two nationally recognized rating services; 4) Certificates of deposit, if the certificates are secured collaterally by securities of the types described in items (1) and (3) of this section and held by a third party as escrow agent or custodian and are of a market value not less than the amount of the certificates of deposit so secured, including interest; except that this collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government; 5) Repurchase agreements, if collateralized by securities of the types described in items (1) and (3) of this section and held by a third party as escrow agent or custodian and of a market value not less than the amount of the repurchase agreement so collateralized, including interest; and 6) Guaranteed investment contracts issued by a domestic or foreign insurance company or other financial institution, whose long-term unsecured debt rating bears the two highest ratings of a least two nationally recognized rating services.

**Concentration of Credit Risk** – The Town's investment policy places limits on the amount it may invest in any one issuer. Investments issued or explicitly guaranteed by the U. S. government, money market accounts and investments in external investment pools are excluded from this disclosure requirement.

**Interest Rate Risk** – The Town's investment policy is to mitigate interest rate risk and ensure the preservation of capital in the overall portfolio. Currently, the Town only invests in the external investment pool of the State Treasurer that limits is weighted average maturity to 60 days or less.

B. **Receivables, Uncollectible Accounts, and Unearned Revenue**

1. **Enterprise Receivables, Uncollectible Accounts, and Unearned Revenue**

All accounts receivable of the Enterprise Funds represent amounts due from customers for water and sewer services.

No provision has been made for uncollectible accounts as such amount is deemed immaterial.

Unearned revenues reported in the Enterprise Funds represent five months water and sewer service billed in advance.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

3. **Detailed Notes On All Funds and Activities (Continued)**
- B. **Receivables, Uncollectible Accounts, and Unearned Revenue (Continued)**
2. **Governmental Receivables, Uncollectible Accounts and Unearned Revenue**  
Receivables due from customers for garbage service are reported in the Governmental Fund and governmental activities.

No provision has been made for uncollectible accounts as such amount is deemed immaterial.

Unearned revenues reported in the Governmental Fund represent five months garbage service billed in advance.

3. **Property Taxes Receivable, Unearned Revenue and Property Tax Calendar**  
Property taxes attach as an enforceable lien on real property as of January 1. Tax bills are processed for the Town by Colleton County and are mailed as soon after September 15th of each year as possible. Taxes are payable without penalty until January 15th. Penalties ranging from 3 to 5% become effective on January 16th, and unpaid taxes are turned over to the County Delinquent Tax Collector for execution on March 17th.

Motor vehicle taxes are also processed for the Town by Colleton County and are assessed and billed on a monthly basis based on information furnished to the County by the South Carolina Department of Transportation. Taxes are due when an individual's annual license tag renewal is due and must be paid to the County before obtaining renewal of registration.

In the governmental fund financial statements, property tax revenues are recognized to the extent that they result in current receivables. At fiscal year end, the receivables represent delinquent taxes. If delinquent taxes are not paid within 60 days of year end, they are recorded as deferred inflows of resources.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the Town regardless of when cash is received. Over time, substantially all property taxes are collected.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

3. **Detailed Notes On All Funds and Activities (Continued)**

C. **Capital Assets**

Capital assets activity for the fiscal year follows:

|  | <u>July 1</u>        | <u>Additions</u>    | <u>Deductions</u>  | <u>June 30</u>       |
|--|----------------------|---------------------|--------------------|----------------------|
| <b><u>Governmental Activities</u></b>                    |                      |                     |                    |                      |
| <b>Capital assets not depreciated:</b>                   |                      |                     |                    |                      |
| Land   | \$ 6,970,944         | \$ -                | \$ -               | \$ 6,970,944         |
| Land improvements  | 49,999               | -                   | -                  | 49,999               |
| <b>Total Assets Not Depreciated</b>                      | <b>\$ 7,020,943</b>  | <b>\$ -</b>         | <b>\$ -</b>        | <b>\$ 7,020,943</b>  |
| <b>Capital assets depreciated:</b>                       |                      |                     |                    |                      |
| Buildings  | \$ 703,573           | \$ 38,085           | \$ -               | \$ 741,658           |
| Improvements other than buildings                        | 742,946              | 18,906              |                    | 761,852              |
| Machinery and equipment                                  | 2,367,938            | 130,942             | (29,494)           | 2,469,386            |
| Infrastructure - sidewalks                               | 763,375              |                     |                    | 763,375              |
| - beach nourishment                                      | 6,321,684            | -                   | -                  | 6,321,684            |
| <b>Total Assets Depreciated</b>                          | <b>\$ 10,899,516</b> | <b>\$ 187,933</b>   | <b>\$ (29,494)</b> | <b>\$ 11,057,955</b> |
| <b>Less accumulated depreciation:</b>                    |                      |                     |                    |                      |
| Buildings  | \$ 300,441           | \$ 20,799           | \$ -               | \$ 321,240           |
| Improvements other than buildings                        | 392,524              | 67,302              |                    | 459,826              |
| Machinery and equipment                                  | 1,412,269            | 188,611             | (29,494)           | 1,571,386            |
| Infrastructure   | 5,406,977            | 647,435             | -                  | 6,054,412            |
| <b>Total Accumulated Depreciation</b>                    | <b>\$ 7,512,211</b>  | <b>\$ 924,147</b>   | <b>\$ (29,494)</b> | <b>\$ 8,406,864</b>  |
| <b>Total Depreciable Capital Assets, Net</b>             | <b>\$ 3,387,305</b>  | <b>\$ (736,214)</b> | <b>\$ -</b>        | <b>\$ 2,651,091</b>  |
| <b>Total Governmental Activities Capital Assets, Net</b> | <b>\$ 10,408,248</b> | <b>\$ (736,214)</b> | <b>\$ -</b>        | <b>\$ 9,672,034</b>  |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

3. **Detailed Notes On All Funds and Activities (Continued)**  
C. **Capital Assets (Continued)**

|   | <u>July 1</u>              | <u>Additions</u>           | <u>Deductions</u>  | <u>Reclassifications</u> | <u>June 30</u>             |
|---|----------------------------|----------------------------|--------------------|--------------------------|----------------------------|
| <b><u>Business-type Activities</u></b>                    |                            |                            |                    |                          |                            |
| <b>Capital assets not depreciated:</b>                    |                            |                            |                    |                          |                            |
| Land  | \$ 280,000                 | \$ -                       | \$ -               | \$ -                     | \$ 280,000                 |
| Construction in progress                                  | <u>22,256</u>              | <u>297,009</u>             | <u>-</u>           | <u>-</u>                 | <u>319,265</u>             |
| <b>Total Assets Not Depreciated</b>                       | <b><u>\$ 302,256</u></b>   | <b><u>\$ 297,009</u></b>   | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>       | <b><u>\$ 599,265</u></b>   |
| <b>Capital assets depreciated:</b>                        |                            |                            |                    |                          |                            |
| Buildings   | \$ 90,532                  | \$ -                       | \$ -               | \$ -                     | \$ 90,532                  |
| System infrastructure                                     | 5,034,220                  |                            |                    |                          | 5,034,220                  |
| Machinery and equipment                                   | <u>1,027,479</u>           | <u>36,700</u>              | <u>-</u>           | <u>-</u>                 | <u>1,064,179</u>           |
| <b>Total Assets Depreciated</b>                           | <b><u>\$ 6,152,231</u></b> | <b><u>\$ 36,700</u></b>    | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>       | <b><u>\$ 6,188,931</u></b> |
| <b>Less accumulated depreciation:</b>                     |                            |                            |                    |                          |                            |
| Buildings   | \$ 61,616                  | \$ 4,153                   | \$ -               | \$ -                     | \$ 65,769                  |
| System infrastructure                                     | 2,939,598                  | 125,469                    |                    |                          | 3,065,067                  |
| Machinery and equipment                                   | <u>841,893</u>             | <u>69,631</u>              | <u>-</u>           | <u>-</u>                 | <u>911,524</u>             |
| <b>Total Accumulated Depreciation</b>                     | <b><u>\$ 3,843,107</u></b> | <b><u>\$ 199,253</u></b>   | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>       | <b><u>\$ 4,042,360</u></b> |
| <b>Total Depreciable Capital Assets, Net</b>              | <b><u>\$ 2,309,124</u></b> | <b><u>\$ (162,553)</u></b> | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>       | <b><u>\$ 2,146,571</u></b> |
| <b>Total Business-type Activities Capital Assets, Net</b> | <b><u>\$ 2,611,380</u></b> | <b><u>\$ 134,456</u></b>   | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>       | <b><u>\$ 2,745,836</u></b> |

Depreciation expense was charged to functions on the Statement of Activities as follows:

|  |                          |
|--|--------------------------|
| <b><u>Governmental Activities</u></b>  |                          |
| General government                     | \$ 42,332                |
| Public safety                          | 164,100                  |
| Public works                           | 14,758                   |
| Recreation and culture                 | 70,789                   |
| Beach preservation                     | <u>632,168</u>           |
| <b>Total</b>                           | <b><u>\$ 924,147</u></b> |
| <b><u>Business-type Activities</u></b> |                          |
| Water and sewer                        | <u>\$ 199,253</u>        |
| <b>Total</b>                           | <b><u>\$ 199,253</u></b> |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

3. **Detailed Notes On All Funds and Activities (Continued)**

C. **Capital Assets (Continued)**

Property with a carrying value of \$5,562,766 at June 30, 2016 is required to be held by the Town in perpetuity for the use of the public.

The Town also owns property with a carrying value of \$615,000 that is required to remain a recreational area and never to be sold by the Town. Property with a carrying value of \$230,900 is required to be used for public outdoor recreation and may not be converted to other use without approval of the Secretary of the Interior.

D. **Long-Term Debt**

The following is long-term debt activity for the year ended June 30:

|  | <u>July 1</u> | <u>Additions</u> | <u>Deductions</u> | <u>June 30</u> | <u>Due<br/>Within<br/>One Year</u> |
|--|---------------|------------------|-------------------|----------------|------------------------------------|
| <b><u>Business-Type Activities</u></b> |               |                  |                   |                |                                    |
| Revenue bonds                          | \$ 1,555,000  | \$ -             | \$ 35,000         | \$ 1,520,000   | \$ 40,000                          |
| Total                                  | \$ 1,555,000  | \$ -             | \$ 35,000         | \$ 1,520,000   | \$ 40,000                          |
| <b><u>Governmental Activities</u></b>  |               |                  |                   |                |                                    |
| Compensated absences                   | \$ 35,606     | \$ 4,842         | \$ -              | \$ 40,448      | \$ 31,046                          |
| General obligation bonds               | 2,280,000     | -                | 65,000            | 2,215,000      | 65,000                             |
| Total                                  | \$ 2,315,606  | \$ 4,842         | \$ 65,000         | \$ 2,255,448   | \$ 96,046                          |
| Total Long-Term Debt                   | \$ 3,870,606  | \$ 4,842         | \$ 100,000        | \$ 3,775,448   | \$ 136,046                         |

Long-term debt payable at June 30, 2016 is composed of the following issues:

**Revenue Bonds**

Series 2012 bonds - due in installments beginning in 2012 to and including 2042; interest at 1.25% to 4.00% \$ 1,520,000

Total Revenue Bonds For Business-Type Activities \$ 1,520,000

**General Obligation Bonds**

\$2,700,000 general obligation bonds of 2007 - due in installments beginning in 2008 and including 2037; interest at 4.3% to 5.0%. \$ 2,215,000

Total General Obligation Bonds For Governmental Activities \$ 2,215,000

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

3. **Detailed Notes On All Funds and Activities (Continued)**

D. **Long-Term Debt (Continued)**

The annual requirements to amortize all debt outstanding at June 30, 2016, including interest payments are as follows:

**REVENUE BONDS PAYABLE**

| <u>YEAR</u> | <u>PRINCIPAL</u>    | <u>INTEREST</u>   | <u>TOTAL</u>        |
|-------------|---------------------|-------------------|---------------------|
| 2017        | \$ 40,000           | \$ 52,450         | \$ 92,450           |
| 2018        | 40,000              | 51,780            | 91,780              |
| 2019        | 40,000              | 50,940            | 90,940              |
| 2020        | 40,000              | 50,100            | 90,100              |
| 2021        | 40,000              | 49,260            | 89,260              |
| 2022-2026   | 215,000             | 229,974           | 444,974             |
| 2027-2031   | 260,000             | 191,075           | 451,075             |
| 2032-2036   | 305,000             | 138,044           | 443,044             |
| 2037-2041   | 370,000             | 71,956            | 441,956             |
| 2042-2043   | 170,000             | 6,800             | 176,800             |
|             | <u>\$ 1,520,000</u> | <u>\$ 892,379</u> | <u>\$ 2,412,379</u> |

**GENERAL OBLIGATION BONDS PAYABLE**

| <u>YEAR</u> | <u>PRINCIPAL</u>    | <u>INTEREST</u>     | <u>TOTAL</u>        |
|-------------|---------------------|---------------------|---------------------|
| 2017        | \$ 65,000           | \$ 108,000          | \$ 173,000          |
| 2018        | 70,000              | 105,075             | 175,075             |
| 2019        | 70,000              | 101,925             | 171,925             |
| 2020        | 75,000              | 98,775              | 173,775             |
| 2021        | 80,000              | 95,400              | 175,400             |
| 2022-2026   | 445,000             | 414,500             | 859,500             |
| 2027-2031   | 550,000             | 295,350             | 845,350             |
| 2032-2036   | 700,000             | 148,250             | 848,250             |
| 2037        | 160,000             | 8,000               | 168,000             |
|             | <u>\$ 2,215,000</u> | <u>\$ 1,375,275</u> | <u>\$ 3,590,275</u> |

Specific years for payment of compensated absences are not determinable.

There are a number of limitations and restrictions contained in the revenue bond ordinance. The Town is in compliance with all significant limitations and restrictions.

The Town's legal general obligation debt limit without referendum is 8.0% of the assessed valuation of property upon which it levies property taxes, or approximately \$4,220,834.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

4. **Retirement Plan**

All full time employees of the Town are covered by a retirement plan through the South Carolina Retirement System (SCRS) or the South Carolina Police Officers Retirement System (PORS).

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11 member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the Systems and the trust funds. By law, the Budget and Control Board, which consist of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA is considered a division of the primary government of the state of South Carolina and, therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

**Plan Description**

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

**Membership**

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS – 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. 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.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

4. **Retirement Plan (Continued)**

**Membership (Continued)**

PORS – To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state or to prevent and control property destruction by fire. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. 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.

**Benefits**

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

SCRS – 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.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

4. **Retirement Plan (Continued)**  
**Benefits (Continued)**

PORS – 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 55 or with 25 years of service regardless of age. 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 at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The 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.

**Contributions**

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS 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 employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. 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 plans, 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 contribution rates are as follows:

|                      | <u>Fiscal Year 2016</u> | <u>Fiscal Year 2015</u> |
|----------------------|-------------------------|-------------------------|
| <b>SCRS</b>          |                         |                         |
| Employee Class Two   | 8.16%                   | 8.00%                   |
| Employee Class Three | 8.16%                   | 8.00%                   |
| <b>PORS</b>          |                         |                         |
| Employee Class Two   | 8.74%                   | 8.41%                   |
| Employee Class Three | 8.74%                   | 8.41%                   |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

4. **Retirement Plan (Continued)**  
**Contributions (Continued)**

Required employer contribution rates are as follows:

|                                   | <u>Fiscal Year 2016</u> | <u>Fiscal Year 2015</u> |
|-----------------------------------|-------------------------|-------------------------|
| <b>SCRS</b>                       |                         |                         |
| Employer Class Two                | 10.91%                  | 10.75%                  |
| Employer Class Three              | 10.91%                  | 10.75%                  |
| Employer Incidental Death Benefit | 0.15%                   | 0.15%                   |
| <b>PORS</b>                       |                         |                         |
| Employer Class Two                | 13.34%                  | 13.01%                  |
| Employer Class Three              | 13.34%                  | 13.01%                  |
| Employer Incidental Death Benefit | 0.20%                   | 0.20%                   |
| Employer Accidental Death Benefit | 0.20%                   | 0.20%                   |

**Net Pension Liability**

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2014. The net pension liability of each defined benefit pension plan was, therefore, determined based on the July 1, 2014 actuarial valuations, using membership data as of July 1, 2014, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2015, using generally accepted actuarial procedures.

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. At June 30, 2015, the Town's proportion was .008010% of SCRS and .04588% for PORS.

As of June 30, 2016, the Town reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

|  | <u>SCRS</u>         | <u>PORS</u>       | <u>TOTAL</u>        |
|--|---------------------|-------------------|---------------------|
| Proportionate Share of Net Pension Liability | <u>\$ 1,519,135</u> | <u>\$ 999,866</u> | <u>\$ 2,519,001</u> |

Included in the net pension liability is \$1,820,199 related to governmental activities and \$698,802 related to business-type activities. Typically, the General Fund or the Utility Fund, based on whichever fund an employee is assigned to and to which the employee's pension costs are charged, will be the fund to liquidate the net pension liability.

For the year ended June 30, 2016, the Town recognized pension expense of \$185,968, of which \$170,504 is related to governmental activities and \$15,464 is related to business-type activities. At June 30, 2016, the Town reported deferred outflows and inflows of resources related to pensions from the following sources:

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

4. **Retirement Plan (Continued)**  
**Net Pension Liability (Continued)**

|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ -                                 | \$ 51,650                           |
| Difference between actual and expected experience                                | 75,737                               |                                     |
| Pension contributions to the plan subsequent to the measurement date             | 158,314                              | -                                   |
| Total  | \$ 234,051                           | \$ 51,650                           |

\$158,314 reported as deferred outflows of resources related to pension contributions subsequent to the measurement date will impact the net pension liability in fiscal year 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Years Ending<br>June 30 | Amount   |
|-------------------------|----------|
| 2017                    | \$ 6,638 |
| 2018                    | 6,638    |
| 2019                    | 6,638    |
| 2020                    | 4,173    |

**Actuarial Assumptions and Methods**

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 data through June 30, 2010, and the next experience study performed on data through June 30, 2015, is currently underway.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS and PORS.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

**4. Retirement Plan (Continued)**  
**Actuarial Assumptions and Methods (Continued)**

|                            | <u>SCRS</u>                       | <u>PORS</u>                       |
|----------------------------|-----------------------------------|-----------------------------------|
| Actuarial Cost Method      | Entry Age Normal                  | Entry Age Normal                  |
| Investment Rate of Return  | 7.5%                              | 7.5%                              |
| Projected Salary Increases | 3.5% to 12.5% (varies by service) | 4.0% to 10.0% (varies by service) |
| Benefit Adjustments        | lesser of 1% or \$500 annually    | lesser of 1% or \$500 annually    |

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014 valuations for SCRS and PORS are as follows:

| <u>Former Job Class</u>        | <u>Males</u>   | <u>Females</u>   |
|--------------------------------|--|--|
| General Employees              | RP-2000 Males multiplied by 100%                               | RP-2000 Females multiplied by 90%                                |
| Public Safety and Firefighters | RP-2000 Males (with Blue Collar adjustment) multiplied by 115% | RP-2000 Females (with Blue Collar adjustment) multiplied by 115% |

The long-term expected rate of return on pension plan investments for actuarial purposes 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 judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which 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 EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

**4. Retirement Plan (Continued)**  
**Actuarial Assumptions and Methods (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> |
|---|--------------------------------|--|---|
| <b>Short Term</b>                       | <b>5.0%</b>                    |  |   |
| Cash                                    | 2.0%                           | 1.90%  | 0.04%   |
| Short Duration                          | 3.0%                           | 2.00%  | 0.06%   |
| <b>Domestic Fixed Income</b>            | <b>13.0%</b>                   |  |   |
| Core Fixed Income                       | 7.0%                           | 2.70%  | 0.19%   |
| Mixed Credit                            | 6.0%                           | 3.80%  | 0.23%   |
| <b>Global Fixed Income</b>              | <b>9.0%</b>                    |  |   |
| Global Fixed Income                     | 3.0%                           | 2.80%  | 0.08%   |
| Emerging Markets Debt                   | 6.0%                           | 5.10%  | 0.31%   |
| <b>Global Public Equity</b>             | <b>31.0%</b>                   | <b>7.10%</b>                                   | <b>2.20%</b>  |
| <b>Global Tactical Asset Allocation</b> | <b>10.0%</b>                   | <b>4.90%</b>                                   | <b>0.49%</b>  |
| <b>Alternatives</b>                     | <b>32.0%</b>                   |  |   |
| Hedge Funds (Low Beta)                  | 8.0%                           | 4.30%  | 0.34%   |
| Private Debt                            | 7.0%                           | 9.90%  | 0.69%   |
| Private Equity                          | 9.0%                           | 9.90%  | 0.89%   |
| Real Estate (Broad Market)              | 5.0%                           | 6.00%  | 0.30%   |
| Commodities                             | 3.0%                           | 5.90%  | 0.18%   |
| <br>                                    |                                |  |   |
| Total Expected Real Return              | 100.0%                         |  | 6.00%   |
| <br>                                    |                                |  |   |
| Inflation for Actuarial Purposes        |                                |  | 2.75%   |
| <br>                                    |                                |  |   |
| Total Expected Nominal Return           |                                |  | 8.75%   |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the 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 TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

4. **Retirement Plan (Continued)**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Town, calculated using the discount rate of 7.50 percent, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) of 1 percentage point higher (8.50 percent) than the current rate:

|                                   | 1.00% Decrease<br>(6.50%) | Current<br>Discount Rate<br>(7.50%) | 1.00% Increase<br>(8.50%) |
|-----------------------------------|---------------------------|-------------------------------------|---------------------------|
| Net pension liability of the Town | \$ 3,277,364              | \$ 2,519,001                        | \$ 1,863,337              |

**Pension Plan Fiduciary Net Position**

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at [www.retirement.sc.gov](http://www.retirement.sc.gov), or a copy may be obtained by submitting a request to PEBA, P. O. Box 11960, Columbia SC 29211-1960.

5. **Other Postemployment Benefits (OPEB)**

The Town does not provide postemployment benefits other than pension benefits described in Note 4.

6. **Balances and Transfers/Payments Within the Reporting Entity**

A. **Receivables and Payables**

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, or other miscellaneous receivables or payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds" (that is, the current portion of interfund loans) or "advances to/from other funds" (that is, the noncurrent portion of interfund loans).

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

At June 30, 2016 there was no internal balance between governmental activities and business-type activities.

B. **Transfers and Payments**

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

6. **Balances and Transfers/Payments Within the Reporting Entity (Continued)**

B. **Transfers and Payments (Continued)**

The following schedule reports transfers and payments within the reporting entity:

| <u>Transfers From</u>                         | <u>Transfers To</u> | <u>Amount</u>     |
|---|---------------------|-------------------|
| Local Accommodations Tax Special Revenue Fund | General Fund        | \$ 50,000         |
| Hospitality Tax Special Revenue Fund          | General Fund        | 118,115           |
| Tourism Special Revenue Fund                  | General Fund        | <u>50,000</u>     |
|   |                     | <u>\$ 218,115</u> |

The government-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement. There were no transfers during fiscal year 2016.

7. **Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to protect against these losses, the Town purchases insurance. There were no significant reductions in insurance coverage from the previous year. Settled claims have not exceeded insurance coverage for the past three fiscal years. The Town also acquires insurance for job related injury and illness (workers' compensation) for its employees. Workers' compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. The Town acquires business interruption insurance to cover the loss of revenues. The general fund and the utilities fund each have \$1,000,000 coverage.

8. **Contingencies**

From time to time the Town is party to various legal proceedings which normally occur in governmental operations. Management is not aware of any pending or threatened litigation, or unasserted claims or assessments that could have a material adverse impact on the various funds of the Town.

9. **Federal and State Grants**

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

10. **Construction Commitments**

The Town has active construction and other projects as of June 30, 2016.

At year end, the Town's major commitments with contractors are as follows:

|                              | <u>SPENT TO<br/>DATE</u> | <u>REMAINING<br/>COMMITMENT</u> | <u>ESTIMATED<br/>COMPLETION<br/>DATE</u> |
|------------------------------|--------------------------|---------------------------------|--|
| Water and sewer improvements | \$ 104,750               | \$ 81,600                       | June 2017                                |

11. **Subsequent Events**

Hurricane Matthew caused significant damage to Edisto Beach in October 2016. The damages were significant and the 2017 budget has been amended to address costs associated with debris removal, sand removal and other emergency protective services and projects. It is anticipated that costs may exceed \$500,000.

Beach Nourishment is scheduled to begin in 2017 and all current and some anticipated tourism taxes are needed to fund the cost of the project originally estimated at \$12,000,000-\$14,000,000. Due to Hurricanes Joaquin and Matthew damages, the project costs have increased to \$15,000,000. The Town has applied for Federal Emergency Management Agency grants for both of these events. The Town has also applied for \$7,000,000 in grant funding from the Parks, Recreation and Tourism Department. Colleton County has pledged \$4,000,000 towards this project and Edisto Beach has \$3,000,000.

As a result of Hurricane Matthew, many front beach homeowners' septic systems were destroyed or impacted. The Town will be researching available funding options to address this issue that has environmental impacts on the beachfront. The Town has been informed that the SC Water Association may have infrastructure grant funding that the Town might qualify for.

Subsequent events have been evaluated by management of the Town through November 30, 2016, which represents the date the financial statements were available to be issued.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**  
For The Year Ended June 30, 2016

|   | ORIGINAL<br>BUDGET         | FINAL<br>BUDGET            | ACTUAL                     | VARIANCE WITH<br>FINAL BUDGET<br>POSITIVE<br>(NEGATIVE) |
|---|----------------------------|----------------------------|----------------------------|---|
| <b><u>REVENUES</u></b>                        |                            |                            |                            |   |
| General property taxes                        | \$ 1,021,968               | \$ 1,021,968               | \$ 1,014,761               | \$ (7,207)  |
| Local option sales taxes                      | 150,000                    | 150,000                    | 163,417                    | 13,417  |
| Other taxes                                   | 41,700                     | 41,700                     | 45,022                     | 3,322   |
| Licenses and permits                          | 673,530                    | 673,530                    | 727,610                    | 54,080  |
| Charges for services                          | 486,068                    | 486,068                    | 538,988                    | 52,920  |
| Fines and forfeitures                         | 22,000                     | 22,000                     | 59,397                     | 37,397  |
| Intergovernmental revenues                    | 304,462                    | 304,462                    | 323,613                    | 19,151  |
| Interest revenues                             | 6,000                      | 6,000                      | 17,330                     | 11,330  |
| Rental revenues                               | 56,770                     | 56,770                     | 76,587                     | 19,817  |
| Grants  |                            |                            | 82,040                     | 82,040  |
| Miscellaneous revenues                        | 3,500                      | 3,500                      | 51,598                     | 48,098  |
| <b>Total Revenues</b>                         | <b><u>\$ 2,765,998</u></b> | <b><u>\$ 2,765,998</u></b> | <b><u>\$ 3,100,363</u></b> | <b><u>\$ 334,365</u></b>                                |
| <b><u>EXPENDITURES</u></b>                    |                            |                            |                            |   |
| <b>Current</b>                                |                            |                            |                            |   |
| <b>General government</b>                     |                            |                            |                            |   |
| Town administration                           | \$ 956,974                 | \$ 994,427                 | \$ 981,640                 | \$ 12,787   |
| Municipal court                               | 89,730                     | 89,995                     | 94,650                     | (4,655)   |
| Building inspector                            | 215,210                    | 214,687                    | 205,990                    | 8,697   |
| <b>Public safety</b>                          |                            |                            |                            |   |
| Police department                             | 549,618                    | 547,492                    | 485,744                    | 61,748  |
| Fire department                               | 493,448                    | 486,548                    | 435,641                    | 50,907  |
| <b>Public works</b>                           |                            |                            |                            |   |
| Streets and roads                             | 222,409                    | 220,917                    | 197,610                    | 23,307  |
| Contingency                                   | 90,830                     | 59,653                     |                            | 59,653  |
| <b>Debt service</b>                           |                            |                            |                            |   |
| Principal                                     | 65,000                     | 65,000                     | 65,000                     | -   |
| Interest                                      | 110,925                    | 110,925                    | 110,925                    | -   |
| Capital outlay                                | 124,362                    | 128,862                    | 149,849                    | (20,987)  |
| <b>Total Expenditures</b>                     | <b><u>\$ 2,918,506</u></b> | <b><u>\$ 2,918,506</u></b> | <b><u>\$ 2,727,049</u></b> | <b><u>\$ 191,457</u></b>                                |
| <b><u>EXCESS (DEFICIENCY) OF REVENUES</u></b> |                            |                            |                            |   |
| <b><u>OVER EXPENDITURES</u></b>               | <b><u>\$ (152,508)</u></b> | <b><u>\$ (152,508)</u></b> | <b><u>\$ 373,314</u></b>   | <b><u>\$ 525,822</u></b>                                |
| <b><u>OTHER FINANCIAL SOURCES (USES)</u></b>  |                            |                            |                            |   |
| Transfers in                                  | \$ 210,000                 | \$ 210,000                 | \$ 218,115                 | \$ 8,115  |
| <b>Total Other Financial Sources (Uses)</b>   | <b><u>\$ 210,000</u></b>   | <b><u>\$ 210,000</u></b>   | <b><u>\$ 218,115</u></b>   | <b><u>\$ 8,115</u></b>                                  |
| <b><u>NET CHANGE IN FUND BALANCES</u></b>     | <b><u>\$ 57,492</u></b>    | <b><u>\$ 57,492</u></b>    | <b><u>\$ 591,429</u></b>   | <b><u>\$ 533,937</u></b>                                |
| <b><u>FUND BALANCES - BEGINNING</u></b>       | <b><u>3,804,080</u></b>    | <b><u>3,804,080</u></b>    | <b><u>3,804,080</u></b>    | <b><u>-</u></b>   |
| <b><u>FUND BALANCES - ENDING</u></b>          | <b><u>\$ 3,861,572</u></b> | <b><u>\$ 3,861,572</u></b> | <b><u>\$ 4,395,509</u></b> | <b><u>\$ 533,937</u></b>                                |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION  
LIABILITY OF COST SHARING DEFINED BENEFIT PLAN  
LAST 10 YEARS\***  
June 30, 2016

|   | <u>Fiscal Year 2016</u> |             | <u>Fiscal Year 2015</u> |             |
|---|-------------------------|-------------|-------------------------|-------------|
|   | <u>SCRS</u>             | <u>PORS</u> | <u>SCRS</u>             | <u>PORS</u> |
| Town's proportion of the net pension liability  | 0.008010%               | 0.045880%   | 0.008364%               | 0.045390%   |
| Town's proportionate share of the net pension liability   | \$ 1,519,135            | \$ 999,866  | \$ 1,440,004            | \$ 869,054  |
| Town's covered - employee payroll   | \$ 770,629              | \$ 556,508  | \$ 751,015              | \$ 576,940  |
| Town's proportionate share of the net pension liability as percentage of covered-employee payroll | 197.13%                 | 179.67%     | 191.75%                 | 150.63%     |
| Plan fiduciary net position as a percentage of the total pension liability                        | 57.00%                  | 64.60%      | 59.90%                  | 67.50%      |

\* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**SCHEDULE OF CONTRIBUTIONS TO COST**  
**SHARING DEFINED BENEFIT PLAN**  
**LAST 10 YEARS\***  
June 30, 2016

|   | Fiscal Year 2016   |  | Fiscal Year 2015 |               |
|---|--|--|------------------|---------------|
|   | SCRS   | PORS   | SCRS             | PORS          |
| Contractually required contribution (actuarially determined)          | \$ 85,232  | \$ 75,351  | \$ 81,860        | \$ 76,214     |
| Contributions in relation to the actuarially determined contributions | <u>85,232</u>  | <u>75,351</u>  | <u>81,860</u>    | <u>76,214</u> |
| Contribution Deficiency (Excess)                                      | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>      | <u>\$ -</u>   |
| Town's covered-employee payroll                                       | \$ 770,629   | \$ 556,508   | \$ 751,015       | \$ 576,940    |
| Contributions as a percentage of covered-employee payroll             | 11.06%   | 13.74%   | 10.90%           | 13.41%        |
| Notes to Schedule:  |  |  |                  |               |
| Valuation date:   | 06/30/15   | 06/30/15   | 06/30/14         | 06/30/14      |
| Methods and assumptions used to determine contribution rates:         |  |  |                  |               |
|   | SCRS   | PORS   |                  |               |
| Actuarial Cost Method:  | Entry Age Normal   | Entry Age Normal   |                  |               |
| Asset Valuation Method:   | 5-Year Smoothing   | 5-Year Smoothing   |                  |               |
| Amortization Method:  | Level % of Pay   | Level % of Pay   |                  |               |
| Amortization Period:  | 25 Years, Open   | 30 Years, Open   |                  |               |
| Investment Return:  | 7.50%  | 7.50%  |                  |               |
| Inflation:  | 2.75%  | 2.75%  |                  |               |
| Salary Increases:   | 3.50% plus step-rate increases for members with less than 25 years of service.   | 4.00% plus step-rate increases for members with less than 12 years of service.   |                  |               |
| Mortality:  | RP-2000 Mortality Table (White Collar Adjustment for Educators), projected at Scale AA from Year 2000. Male rates multiplied by 100% for non-educators and 110% for educators. Female rates multiplied by 90% for non-educators and 95% for educators. | RP-2000 Mortality Table with Blue Collar Adjustment, projected at Scale AA from Year 2000. Male and female rates are multiplied by 115%. |                  |               |

\* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
June 30, 2016

|  | SPECIAL REVENUE FUNDS |                        |                                |   | CAPITAL<br>PROJECTS<br>FUNDS | TOTAL<br>NONMAJOR<br>GOVERNMENTAL<br>FUNDS |
|--|-----------------------|------------------------|--------------------------------|---|------------------------------|--|
|  | TOURISM<br>FUND       | ALCOHOL<br>PERMIT FUND | FIRE<br>DEPARTMENT<br>I&I FUND | VOLUNTEER<br>FIRE<br>DEPARTMENT<br>FUND | BAYCREEK<br>PARK             |  |
| <b><u>ASSETS</u></b>                           |                       |                        |                                |   |                              |  |
| Cash and cash equivalents                      | \$ 475,352            | \$ 19,108              | \$ 2,900                       | \$ 72,433                               | \$ 6,271                     | \$ 576,064                                 |
| <b>Total Assets</b>                            | <b>\$ 475,352</b>     | <b>\$ 19,108</b>       | <b>\$ 2,900</b>                | <b>\$ 72,433</b>                        | <b>\$ 6,271</b>              | <b>\$ 576,064</b>                          |
| <b><u>LIABILITIES AND FUND BALANCES</u></b>    |                       |                        |                                |   |                              |  |
| <b><u>Liabilities</u></b>                      |                       |                        |                                |   |                              |  |
| Due to other funds                             | \$ -                  | \$ -                   | \$ -                           | \$ -                                    | \$ -                         | \$ -                                       |
| <b>Total Liabilities</b>                       | <b>\$ -</b>           | <b>\$ -</b>            | <b>\$ -</b>                    | <b>\$ -</b>                             | <b>\$ -</b>                  | <b>\$ -</b>                                |
| <b><u>Fund Balances</u></b>                    |                       |                        |                                |   |                              |  |
| Restricted                                     | \$ 475,352            | \$ 19,108              | \$ 2,900                       | \$ -                                    | \$ -                         | \$ 497,360                                 |
| Committed                                      |                       |                        |                                |   | 6,271                        | 6,271                                      |
| Assigned                                       | -                     | -                      | -                              | 72,433                                  | -                            | 72,433                                     |
| <b>Total Fund Balances</b>                     | <b>\$ 475,352</b>     | <b>\$ 19,108</b>       | <b>\$ 2,900</b>                | <b>\$ 72,433</b>                        | <b>\$ 6,271</b>              | <b>\$ 576,064</b>                          |
| <b>Total Liabilities and Fund<br/>Balances</b> | <b>\$ 475,352</b>     | <b>\$ 19,108</b>       | <b>\$ 2,900</b>                | <b>\$ 72,433</b>                        | <b>\$ 6,271</b>              | <b>\$ 576,064</b>                          |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For The Fiscal Year Ended June 30, 2016

|  | <u>SPECIAL REVENUE FUNDS</u> |                            |                                     |                                       | <u>CAPITAL PROJECTS FUNDS</u> | <u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u> |
|--|------------------------------|----------------------------|-------------------------------------|---------------------------------------|-------------------------------|--|
|  | <u>TOURISM FUND</u>          | <u>ALCOHOL PERMIT FUND</u> | <u>FIRE DEPARTMENT I&amp;I FUND</u> | <u>VOLUNTEER FIRE DEPARTMENT FUND</u> | <u>BAYCREEK PARK</u>          |  |
| <b><u>REVENUES</u></b>                             |                              |                            |                                     |                                       |                               |  |
| Accommodations taxes                               | \$ 260,285                   | \$ -                       | \$ -                                | \$ -                                  | \$ -                          | \$ 260,285                               |
| Intergovernmental revenues                         |                              | 15,650                     | 28,975                              |                                       |                               | 44,625                                   |
| Donations and special events                       |                              |                            |                                     | 50,021                                |                               | 50,021                                   |
| Interest revenues                                  | 969                          | 40                         | 34                                  | 30                                    | 3                             | 1,076                                    |
| <b>Total Revenues</b>                              | <b>\$ 261,254</b>            | <b>\$ 15,690</b>           | <b>\$ 29,009</b>                    | <b>\$ 50,051</b>                      | <b>\$ 3</b>                   | <b>\$ 356,007</b>                        |
| <b><u>EXPENDITURES</u></b>                         |                              |                            |                                     |                                       |                               |  |
| <b>Current</b>                                     |                              |                            |                                     |                                       |                               |  |
| Public safety                                      | \$ -                         | \$ -                       | \$ 37,119                           | \$ 40,885                             | \$ -                          | \$ 78,004                                |
| Recreation and culture                             | 84,377                       | 27,175                     |                                     |                                       |                               | 111,552                                  |
| Capital outlay                                     | -                            | -                          | -                                   | -                                     | 9,808                         | 9,808                                    |
| <b>Total Expenditures</b>                          | <b>\$ 84,377</b>             | <b>\$ 27,175</b>           | <b>\$ 37,119</b>                    | <b>\$ 40,885</b>                      | <b>\$ 9,808</b>               | <b>\$ 199,364</b>                        |
| <b><u>EXCESS OF REVENUES OVER EXPENDITURES</u></b> | <b>\$ 176,877</b>            | <b>\$ (11,485)</b>         | <b>\$ (8,110)</b>                   | <b>\$ 9,166</b>                       | <b>\$ (9,805)</b>             | <b>\$ 156,643</b>                        |
| <b><u>OTHER FINANCING SOURCES (USES)</u></b>       |                              |                            |                                     |                                       |                               |  |
| Transfer out                                       | (50,000)                     | -                          | -                                   | -                                     | -                             | (50,000)                                 |
| <b>Total Other Financing Sources (Uses)</b>        | <b>\$ (50,000)</b>           | <b>\$ -</b>                | <b>\$ -</b>                         | <b>\$ -</b>                           | <b>\$ -</b>                   | <b>\$ (50,000)</b>                       |
| <b><u>NET CHANGE IN FUND BALANCES</u></b>          | <b>\$ 126,877</b>            | <b>\$ (11,485)</b>         | <b>\$ (8,110)</b>                   | <b>\$ 9,166</b>                       | <b>\$ (9,805)</b>             | <b>\$ 106,643</b>                        |
| <b><u>FUND BALANCES - BEGINNING</u></b>            | <b>348,475</b>               | <b>30,593</b>              | <b>11,010</b>                       | <b>63,267</b>                         | <b>16,076</b>                 | <b>469,421</b>                           |
| <b><u>FUND BALANCES - ENDING</u></b>               | <b>\$ 475,352</b>            | <b>\$ 19,108</b>           | <b>\$ 2,900</b>                     | <b>\$ 72,433</b>                      | <b>\$ 6,271</b>               | <b>\$ 576,064</b>                        |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**SCHEDULE OF FINES AND ASSESSMENTS**  
For The Year Ended June 30, 2016

|   |                  |
|---|------------------|
| Fines collected   | \$ <u>19,648</u> |
| Total assessment and surcharges to be collected   | \$ <u>34,912</u> |
| State assessment and surcharges   | \$ 31,504        |
| Local assessment and surcharges   | <u>3,408</u>     |
| Total assessment and surcharges collected   | \$ <u>34,912</u> |
| State assessment and surcharges remitted  | \$ 30,679        |
| Local assessment and surcharges retained by Town for<br>victims assistance                | 3,408            |
| Audit fee withheld from remittance  | <u>825</u>       |
| Total   | \$ <u>34,912</u> |
| Local assessment sent to Colleton County under<br>agreement to provide victims assistance | \$ <u>3,408</u>  |

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**SCHEDULE OF HISTORICAL NET REVENUES AND**  
**DEBT SERVICE COVERAGE – WATER AND SEWER FUND**  
June 30, 2016

|                                 | Year Ended June 30 |              |              |              |              |
|---------------------------------|--------------------|--------------|--------------|--------------|--------------|
|                                 | 2016               | 2015         | 2014         | 2013         | 2012         |
| Charges for Services            | \$ 1,421,099       | \$ 1,437,149 | \$ 1,394,240 | \$ 1,401,371 | \$ 1,368,389 |
| Interest Income                 | 13,701             | 5,756        | 4,224        | 5,859        | 6,564        |
| Miscellaneous Income            |                    |              |              | 13,060       |              |
| Less: Expenses                  | (1,057,653)        | (1,112,031)  | (1,083,391)  | (1,286,512)  | (1,124,351)  |
| Plus: Depreciation              | 199,253            | 204,234      | 235,031      | 232,973      | 236,083      |
| Revenues Net of Expenses        | 377,147            | 330,874      | 315,073      | 133,778      | 250,602      |
| Net Revenues                    | 576,400            | 535,108      | 550,104      | 366,751      | 486,685      |
| Total Debt Service/Parity Bonds | 87,919             | 88,356       | 88,794       | 104,325      | 55,531       |
| Debt Service Coverage Ratio     | 6.56               | 6.06         | 6.20         | 3.52         | 8.76         |



**K. EVE McCOY, CPA, LLC**  
1518 Lady Street  
Columbia, South Carolina 29201  
803-256-9100

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

The Mayor and Town Council  
The Town of Edisto Beach  
Edisto Beach, South Carolina

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Edisto Beach, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Edisto Beach's basic financial statements, and have issued my report thereon dated November 30, 2016.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the Town of Edisto Beach's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Edisto Beach's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Edisto Beach's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 1 that I consider to be a material weakness.

**Compliance and Other Matters**

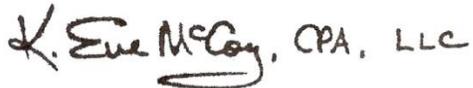
As part of obtaining reasonable assurance about whether the Town of Edisto Beach's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

**Response to Findings**

The Town of Edisto Beach's response to the findings identified in my audit are described in the accompanying schedule of findings and responses. The Town of Edisto Beach's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in black ink that reads "K. Eve McCoy, CPA, LLC". The signature is written in a cursive style with a horizontal line underneath the name.

November 30, 2016

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**SCHEDULE OF FINDINGS AND RESPONSES**  
For The Year Ended June 30, 2016

**SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses unqualified opinions on the basic financial statements.
2. One deficiency was disclosed during the audit of the basic financial statements. This deficiency is reported as a material weakness.
3. No instances of noncompliance were disclosed during the audit of the basic financial statements.
4. The Town did not fall under the requirements of OMB Uniform Guidance, subpart F; therefore, no control deficiencies were disclosed for major federal award programs.
5. The Town did not fall under the requirements of OMB Uniform Guidance, subpart F; therefore, no auditor's report on compliance for major federal award programs was issued.
6. The Town did not fall under the requirements of OMB Uniform Guidance, subpart F; therefore, no audit findings relative to major federal award programs are disclosed in the following schedule.
7. No federal award programs were tested as major programs.
8. The Town did not fall under the requirements of OMB Uniform Guidance, subpart F; therefore, there was no threshold for distinguishing between Types A and B programs.
9. Risk relative to major federal award programs was not required to be assessed.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

**Reportable Conditions:**

1. **Control Deficiency:** Procedures were not in place to properly train and/or supervise new personnel in the utility billing department.

**Criteria:** The Town's software system provides exception reports that indicate if usage or billings fall outside of predetermined parameters (a "high-low" report). This report provides controls to highlight potential errors in usage and billings to customers.

**Cause:** Personnel did not utilize the reports provided.

**Effect:** Customers were billed erroneous amounts.

**Recommendation:** Management needs to provide continued oversight and supervision whenever a change in personnel occurs.

**Management's Response:** The utility billing department has a manual that includes the step by step process to run the exception report and how to address billings that fall outside of predetermined parameters. Steps have been implemented to verify the correct procedures are followed and the exception report is created and any exceptions addressed prior to issuing the bills.

**THE TOWN OF EDISTO BEACH**  
Edisto Beach, South Carolina

**SCHEDULE OF FINDINGS AND RESPONSES**  
For The Year Ended June 30, 2016

**FINDINGS - FEDERAL AWARD PROGRAM AUDIT**

Not applicable.