

TOWN OF SEABROOK ISLAND
SOUTH CAROLINA

BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
 BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION
 AND INDEPENDENT AUDITORS' REPORT

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Governing Body

Ronald J. Ciancio	-	Mayor
John W. Gregg	-	Mayor Pro Tem
Skip Crane	-	Council Member
John Turner	-	Council Member
John Wells	-	Council Member

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Town Council
Town of Seabrook Island, South Carolina
Seabrook Island, South Carolina

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the Town of Seabrook Island, South Carolina as of and for the year ended December 31, 2015, 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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units and each major fund of the Town of Seabrook Island, South Carolina, as of December 31, 2015, and the respective changes in financial position for the year then 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 and budgetary comparison information on pages 3–6 and 29–30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The schedule of fines, assessments and surcharges – special revenue fund – victims' rights fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of fines, assessments and surcharges – special revenue fund – victims' rights fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of fines, assessments and surcharges – special revenue fund – victims' rights fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Glaser and Company, LLC

June 3, 2016
Mount Pleasant, South Carolina

MANAGEMENT'S DISCUSSION AND ANALYSIS

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

As management of the Town of Seabrook Island, South Carolina, we offer readers of the Town of Seabrook Island (the "Town") financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented in the following pages.

FINANCIAL HIGHLIGHTS

- The Town's net assets as of December 31, 2015 increased as a result of this year's operations. The net assets of our governmental activities for the year ended December 31, 2015 increased \$459,845, or approximately 10.6%, from December 31, 2014.
- During the year ended December 31, 2015, the Town had expenses that totaled \$901,667, and revenues were in excess of these expenses by \$459,845 increasing net assets noted above.
- Revenues from the Town's governmental activities increased \$176,240, or approximately 14.9% for the year ended December 31, 2015. Related expenses for this same period increased \$25,784, or approximately 2.9%. The increase in revenues is attributable to numerous accounts, including business licenses and state taxes. The increase in expenses is mostly related to an increase in tourism advertising and marketing of the Town.
- The general fund balance at December 31, 2015 totaled \$4,808,507.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Seabrook Island's basic financial statements which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Seabrook Island's finances, in a manner similar to private-sector business. They include a statement of net assets and a statement of activities. The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reports as *net assets*. Changes in net assets over time may be helpful in indicating an improving or deteriorating financial position.

The *statement of activities* presents information showing how the Town's *net assets* changed during the most recent fiscal year. The statement presents all underlying events, which give rise to change, regardless of the timing of related cash flows. Some included items, such as uncollected accounts receivable, due from other governments and accounts payable, will produce changes in cash in future periods.

Both of the *government-wide financial statements* attempt to distinguish functions of the Town that are principally supported by taxes and inter-governmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the Town include the broad functions of general government including zoning; licenses and permits; judicial; and tourism and recreation. The primary government does not consider itself having any activities that would be considered business-type activities.

The *government-wide financial statements* also include the Seabrook Island Utility Commission as a discretely presented component unit.

The government-wide financial statements can be found on pages 7 through 9 of the basic financial statements.

Fund financial statements – 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 other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the Town of Seabrook Island government are considered governmental funds.

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS – Continued

Governmental Funds – *Governmental funds* essentially account for the same functions as those reported as *governmental activities* under the government-wide statement of net assets and statement of activities. However, unlike the government-wide financial statements, governmental funds focus on events that produce *near-term inflows and outflows of spendable resources*, as well as the *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements and available resources.

Because the focus of the governmental funds is narrower than that of the government-wide financial statement, it is useful to compare information presented for the *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town has two governmental funds: general fund and special revenue fund. Each fund is presented in a separate column in the *governmental funds balance sheet* and in the *governmental funds statement of revenues, expenditures, and changes in fund balances*.

The basic fund financial statements can be found on pages 10 through 13 of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In this case, the Town's assets exceeded liabilities by \$4,808,507 at December 31, 2015.

Of this net asset amount, \$876,144 (18%) reflects the Town's investment in capital assets. The Town is holding \$198,303 (4%) as restricted for tourism and related projects. The remaining balance of \$3,722,376 (77%) of unrestricted net assets may be used to meet the Town's ongoing and future obligations to citizens.

	<u>2015</u>	<u>2014</u>
Assets		
Current	\$ 3,807,919	\$ 3,321,656
Other assets	152,394	137,101
Capital assets	<u>876,144</u>	<u>914,458</u>
Total assets	<u>\$ 4,836,457</u>	<u>\$ 4,373,215</u>
Liabilities	<u>\$ 27,950</u>	<u>\$ 24,553</u>
Net Assets		
Invested in capital assets, net of related debt	876,144	914,458
Restricted for municipal court and tourism programs	198,303	162,596
Restricted for prepaid expenses	11,684	12,902
Unrestricted	<u>3,722,376</u>	<u>3,258,706</u>
Total Net Asset	<u>4,808,507</u>	<u>4,348,662</u>
Total Liabilities and Net Assets	<u>\$ 4,836,457</u>	<u>\$ 4,373,215</u>

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

The Town's current assets are primarily comprised of cash balances of \$3,370,442 (89%), operating receivables of \$280,284 (7%) and advances due from the Town's Component Unit of \$150,000 (4%).

The Town has current liabilities for at the fiscal year-end in the governmental activities totaling \$27,950. Current liabilities consist of accounts payable and other accrued expenses. The Town had no long-term liabilities at December 31, 2015. The following is a summary of the change in net assets including government type activities.

Governmental activities – Governmental activities increased the Town's net assets by \$459,845.

Changes in Net Assets

	For years ended December 31,	
	2015	2014
Revenue:		
General Revenues:		
Business licenses	\$ 613,136	\$ 494,821
Franchise fee	214,761	204,953
Permits	43,810	40,076
Local option sales tax	224,212	212,226
Interest	9,502	4,595
Accommodations tax	202,384	172,818
Alcohol	6,700	5,250
Municipal court	5,732	13,628
Other state tax	36,429	36,755
Miscellaneous	4,846	150
Total Revenue	<u>1,361,512</u>	<u>1,185,272</u>
Governmental Activities:		
General government	754,146	694,522
Judicial	8,614	12,055
Tourism and recreation	138,907	169,306
Total Expenses	<u>901,667</u>	<u>875,883</u>
Increase in Net Assets	459,845	309,389
Net Assets, beginning of year	<u>4,348,662</u>	<u>4,039,273</u>
Net Assets, end of year	<u>\$ 4,808,507</u>	<u>\$ 4,348,662</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS - CONTINUED

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

As of December 31, 2015, the Town of Seabrook Island's governmental funds reported combined ending fund balances of \$3,932,363, an increase of \$498,159. Of this balance, 95% constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the primary operating fund of the Town. At the end of 2015, the unreserved fund balance of the general fund was \$3,722,376, while the total fund balance was \$3,932,363. As a measure of a general fund's liquidity, it may be useful to compare both unreserved and total fund balance to total fund expenditures. Unreserved fund balance represents 520% of total general fund expenditures, while total fund balance represents 455% of total governmental fund expenditures.

The special revenue fund had a total fund balance of \$202,794. Of this amount, all of the fund balance is restricted to be used to promote tourism within the Town, as well as to support municipal court activities and alcohol education. The funds in the special revenue accounts have very specific guidelines as to use under state law.

GENERAL FUND BUDGETARY HIGHLIGHTS

The total general and special revenue fund budgeted appropriations stayed the same as originally passed for fiscal year 2015. The governmental funds had net actual results that were positive \$339,491 to budget. The main components of this positive variance \$268,243 growth in revenues to budget and expenses coming in at \$71,248 under budget.

CAPITAL ASSETS

The Town of Seabrook Island invested in capital assets during the fiscal year in the amount of \$876,144. Capital assets activity is summarized below for the year ended December 31, 2015.

	<u>Balance 1/1/2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2015</u>
Capital assets depreciated:				
Infrastructure	\$ 364,464	\$ -	\$ -	\$ 364,464
Land improvements	728,756	-	-	728,756
Equipment	158,048	-	-	158,048
Subtotal	1,251,268	-	-	1,251,268
Accumulated depreciation	(336,810)	(38,314)	-	(375,124)
 Total	 \$ 914,458	 \$ (38,314)	 \$ -	 \$ 876,144

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy on Seabrook Island continues to remain stable, while forecasts of short-term growth remain conservative. Revenues showed modest growth in 2015, and revenues are anticipated to be stable for the near future. Town expenditures will remain conservative to projected expenditures for future periods.

BASIC FINANCIAL STATEMENTS

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
STATEMENT OF NET ASSETS
DECEMBER 31, 2015**

	Primary Governmental Governmental Activities	Discretely Presented Component Unit
	<u>ASSETS</u>	
Current Assets		
Cash and cash equivalents, unrestricted	\$ 3,370,442	\$ 2,810,950
Accounts receivable, net	185,560	304,687
Other receivables	-	283
Unbilled revenue	-	37,320
Due from county	26,140	-
Due from state	68,584	-
Due from component unit	150,000	-
Prepaid expenses	7,193	7,850
Total current assets	3,807,919	3,161,090
Other Assets		
Cash and cash equivalents, restricted	152,394	335,657
Investments, restricted	-	505,089
Capital assets, net	876,144	13,670,295
Unamortized debt issue costs, net	-	42,437
Total other assets	1,028,538	14,553,478
Total Assets	\$ 4,836,457	\$ 17,714,568

See accompanying notes to the financial statements

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
STATEMENT OF NET ASSETS - CONTINUED
DECEMBER 31, 2015

	Primary Governmental Governmental Activities	Discretely Presented Component Unit
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities - Payable from Current Assets		
Accounts payable	\$ 20,788	\$ 227,650
Accrued expenses	7,162	11,679
Due to Town of Seabrook Island	-	150,000
Total current liabilities	27,950	389,329
Current Liabilities - Payable from Restricted Assets		
Accrued interest	-	37,166
Current maturities of long-term debt	-	673,512
Customer deposits	-	56,450
Total current liabilities - payable from restricted assets	-	767,128
Total current liabilities	27,950	1,156,457
Long Term Liabilities		
Revenue bonds payable, less current maturities	-	4,750,000
State loans, less current maturities	-	1,943,335
Total long-term liabilities	-	6,693,335
	27,950	7,849,792
Total Liabilities		
Net Assets		
Invested in capital assets, net of related debt	876,144	6,303,448
Restricted for:		
Accommodations tax - state	79,084	-
Accommodations tax - county	84,413	-
Municipal court	19,226	-
Alcohol education grant	15,580	-
Debt service	-	840,746
Capital improvements and operations and maintenance	-	-
Prepaid assets	11,684	-
Unrestricted	3,722,376	2,720,582
Total net assets	4,808,507	9,864,776
Total Liabilities and Net Assets	\$ 4,836,457	\$ 17,714,568

See accompanying notes to the financial statements

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR DECEMBER 31, 2015**

Function/Programs:	Program Revenues				Net (Expense) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Discretely Presented Component Units
Primary government:						
Governmental activities:						
General government	\$ 754,146	\$ -	\$ -	\$ -	\$ (754,146)	\$ -
Tourism, advertising, and promotion	138,907	-	-	-	(138,907)	-
Municipal court	8,614	-	-	-	(8,614)	-
Total primary government	901,667	-	-	-	(901,667)	-
Component unit:						
Seabrook Island Utility Commission	\$ 3,285,280	\$ 2,944,456	\$ -	\$ 465,321	-	124,497
General revenues:						
Franchise fees					214,761	-
Local option sales tax					224,212	-
Accommodations tax - state					156,755	-
Accommodations tax - county					45,629	-
Alcohol tax					6,700	-
Other state tax					36,429	-
Business licenses					613,136	-
Permits					43,810	-
Court fines, assessments and surcharges					5,732	-
Interest					9,502	9,292
Miscellaneous					4,846	60,067
Total general revenues					1,361,512	69,359
Increase in Net Assets					459,845	193,856
Net Assets, beginning of year					4,348,662	9,670,920
Net Assets, end of year					\$ 4,808,507	\$ 9,864,776

See accompanying notes to the financial statements

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<u>Governmental Funds</u>		<u>Total Governmental Funds</u>
	<u>General</u>	<u>Special Revenue</u>	
Assets			
Cash and cash equivalents, unrestricted	\$ 3,370,442	\$ -	\$ 3,370,442
Accounts receivable	185,560	-	185,560
Due from county	-	26,140	26,140
Due from state	43,536	25,048	68,584
Prepaid expenses	7,193	-	7,193
Advances due from Component Unit	150,000	-	150,000
Cash and cash equivalents, restricted	-	152,394	152,394
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 3,756,731</u>	<u>\$ 203,582</u>	<u>\$ 3,960,313</u>
Liabilities			
Accounts payable	\$ 20,788	\$ -	\$ 20,788
Accrued expenses	6,374	788	7,162
Total Current Liabilities	<u>27,162</u>	<u>788</u>	<u>27,950</u>
Fund balances			
Reserved for:			
Accommodations tax, state	-	79,084	79,084
Accommodations tax, county	-	84,413	84,413
Municipal court	-	19,226	19,226
Alcohol grant	-	15,580	15,580
Prepaid assets	7,193	4,491	11,684
Unreserved:			
Unrestricted	<u>3,722,376</u>	<u>-</u>	<u>3,722,376</u>
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>3,729,569</u>	<u>202,794</u>	<u>3,932,363</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 3,756,731</u>	<u>\$ 203,582</u>	<u>\$ 3,960,313</u>

See accompanying notes to the financial statements

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2015**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 3,932,363

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

Capital assets used for governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of assets is \$1,251,268 and the accumulated depreciation is \$375,124 at December 31, 2015. 876,144

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 4,808,507

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Franchise fees	\$ 214,761	\$ -	\$ 214,761
Local option sales tax	224,212	-	224,212
Accommodations tax - state	31,588	125,167	156,755
Accommodations tax - county	-	45,629	45,629
Alcohol tax	-	6,700	6,700
Other state tax	36,429	-	36,429
Business licenses	613,136	-	613,136
Permits	43,810	-	43,810
Court fines, assessments and surcharges	-	5,732	5,732
Interest	9,502	-	9,502
Other revenue	355	4,491	4,846
	<u>1,173,793</u>	<u>187,719</u>	<u>1,361,512</u>
Expenditures			
General government	633,026	-	633,026
Municipal court	-	8,614	8,614
Tourism, advertising and promotion	82,806	138,907	221,713
	<u>715,832</u>	<u>147,521</u>	<u>863,353</u>
Excess of revenues over expenditures	457,961	40,198	498,159
Fund balances, beginning of year	<u>3,271,608</u>	<u>162,596</u>	<u>3,434,204</u>
Fund balances, end of year	<u><u>\$ 3,729,569</u></u>	<u><u>\$ 202,794</u></u>	<u><u>\$ 3,932,363</u></u>

See accompanying notes to the financial statements

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES -GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 498,159

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The impact of this difference is total capital assets recognized in the current year, less related depreciation for the year of \$38,314.

(38,314)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 459,845

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Seabrook Island, South Carolina (the “Primary Government”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more specific policies of the Primary Government are described below.

Financial Reporting Entity

The Town of Seabrook Island, South Carolina, originally chartered May 19, 1987, elected the mayor-council form of government under Section 5-1-70 of the 1976 Code of Laws of the State of South Carolina on May 26, 1987. The Town Council is composed of a mayor and three council members.

Component Unit

In conformity with accounting principles generally accepted in the United States of America, the financial statements of Seabrook Island Utility Commission (the “Commission” or the “Component Unit”) have been included in the financial reporting entity as a discretely presented component unit. The Town of Seabrook Island, South Carolina considers the Commission to be a component unit because the Commission’s revenue bonds are issued in the name of the Town of Seabrook Island, South Carolina, creating financial accountability. The Commission is reported in a separate column to emphasize that it is legally separate from the Primary Government. The Component Unit and the Primary Government collectively are referred to as the Town of Seabrook Island, South Carolina (collectively the “Town”).

Seabrook Island Utility Commission – In November 1995, the permanent members of the governing board of the Utility Commission were officially elected by town vote to replace the temporary Commission members who were appointed by town council earlier that year. The terms of the members are to extend for two to six years varying by member. The Commission began operating the water and sewer system for the primary government on April 30, 1996. The Commission changed its name from the Seabrook Island Water and Sewer Commission to the Seabrook Island Utility Commission in March 2000 by passage of a town ordinance. Separate audited financial statements are prepared for the Commission and are available at the Seabrook Island Town Hall.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Primary Government and its component unit. All significant interfund activity has been removed from these statements. Governmental activities are generally supported by taxes and other revenues generated by governmental activities. The Primary Government is presented separately from its component unit for which the Primary Government is financial accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function of the Town. The Primary Government does not have program revenues. The Commission has program revenues that include charges to customers or applicants, who purchase, use or directly benefit from services or privileges provided by a given function. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements

The accounts of the Primary Government are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. The funds and account groups used by the Primary Government are as follows:

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements - continued

Governmental funds are those through which general governmental functions of the Primary Government are financed. The acquisition, use and balances of the Primary Government's expendable financial resources and the related liabilities are accounted for through governmental funds.

General Fund – The general fund is the general operating fund of the Primary Government. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund – The special revenue fund is used to account for the proceeds of specific revenue resources that are legally restricted to expenditures for specified purposes. The fund includes state accommodations tax restricted for promotion and tourism of the Primary Government, county accommodations tax and state alcohol tax restricted for support of tourism and tourist services or capital projects, and municipal court fines, assessments and surcharges restricted for victims' advocate services and other court expenditures. The unrestricted portion of accommodations tax received from the state is included in the general fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the related cash flows. The various licenses, fees and charges the Town collects are recognized in the period for which they were levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable. For this purpose, the Primary Government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Licenses and permits, fines, and miscellaneous revenues are recorded as revenues when received in cash. State tax assessments and investment earnings are recorded when earned (when they are measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Budgets and Budgetary Accounting

The Primary Government follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to October 1, the Mayor submits to the town council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenses and the means of financing them.
2. Prior to January 1, the town council shall legally enact the budget through passage of an ordinance.
3. The Mayor is responsible for the administration of the budget. Any budgeted operating expense for which insufficient funds remain shall be approved by town council. The budget may be modified during the year only by a majority vote of town council. The budget was not amended during 2015, but the town council did vote to approve expenses in excess of the original budget.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget for the general and special revenue funds is adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America.
6. Capital expenditures are included as part of the formal budget, and voted on by the town council.

Cash and Cash Equivalents

All unrestricted highly liquid investments purchased with an initial maturity of three months or less are considered to be cash equivalents.

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

State of South Carolina statutes authorize the entity to invest in the following:

1. Obligations of the United States of America and agencies thereof;
2. General obligations of the State of South Carolina or any of its political units;
3. Savings and loan associations deposits to the extent insured by the Federal Deposit Insurance Corporation;
4. No load open and closed-end portfolios of certain investment companies with issues of the United States of America government;
5. Certificates of deposit and repurchase agreements collateralized by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, or a market value not less than the amount of the certificate of deposit so secured, including interest.

Restricted Assets

Certain assets are classified as restricted assets on the statement of net assets because their use is limited by debt agreements or earmarked for specific purposes. The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Capital Assets

Capital assets are recorded at cost less accumulated depreciation. The Town has a policy to capitalize all capital assets in excess of \$2,500. The Commission has a policy to capitalize all assets in excess of \$500. Assets acquired through contributions from developers or other entities are capitalized at their estimated fair value, if available, or at engineers' estimated fair value or cost to construct at the date of the contribution. Depreciation of capital assets is computed using the straight-line method based on the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	25 to 40
Land improvements	15 to 40
Buildings	15 to 40
Waterworks and Sewer System	5 to 40
Office furniture and fixtures	5 to 10

Operating Revenues and Expenses and Rate Structure

Revenues from the water and sewer services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital costs, and certain debt services. Operating revenues and expense are those that result from providing services and delivering goods and services to customers.

Tap-In Fees

The Commission collects a non-recurring fee for new water and sewer connections. This fee applies only to new service on platted lots. A portion of tap-in fees covers the cost of connecting new service, and this amount is recognized as operating revenue when received. The Commission also receives an impact fee and this fee is recognized as capital contribution revenue when received. The purpose of impact fees is to offset the costs of operating the existing water system in place that must support these new connections.

Developer Capital Contributions

Developer capital contributions are recognized in the statement of activities as capital contributions revenue and capital assets when deeded to the Commission. Contributions consist of developer contributed water and sewer infrastructures provided by developers for projects that result in the creation of platted lots.

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable

The Commission's customer accounts receivable consist mostly of charges for water and sewer services for the month of December 2015. Accounts are charged to bad debt expense, as they are deemed uncollectible based upon a periodic review of the accounts. Management believes that any difference between this method and methods prescribed by accounting principles generally accepted in the United States of America is immaterial.

Accounts receivable of the Primary Government consists of franchise fees and other miscellaneous receivables.

Unbilled Revenue

Unbilled revenue represents the amount of water revenue pertaining to 2015 that has not been billed at year-end due to the billing cycle.

Unamortized Debt Issue Costs

The Commission's costs of issuing debt are amortized using the straight-line method over the term of the related debt.

Bond Premiums and Discounts

Bond premiums and discounts are deferred and amortized over the term of the bonds using the effective interest method. Net bond premiums totaled \$0 at December 31, 2015. Net bond premiums are presented as an increase of the face amount of revenue bonds payable, and amortized expense is presented in interest expense.

Fund Balance

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that may not be appropriated for future expenditures. The unreserved fund balance represents the amount available for budgeting future operations.

Use of 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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

At December 31, 2015, the Commission had \$2,991,926 and the Primary Government had \$3,375,602 deposited with the South Carolina Local Government Investment Pool (the "Pool") pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any county treasurer or any governing body political subdivision of the State, may be deposited. The Pool is a 2a-7 like pool which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will operate in a manner consistent with the SEC's rule 2a-7 of the Investment Company Act of 1940. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00.

Cash and Cash Equivalents – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Primary Government's or Commission's deposits may not be returned to it. The Town does not have a policy on custodial credit risk.

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

2. CASH EQUIVALENTS AND INVESTMENTS

Designated Cash

The Town council has established designated funds to ensure that the Primary Government's commitments would be met should an event occur that drastically curtails the revenue sources and to insure the available resources to replace or repair its capital assets as needed.

The Commission has established a designated emergency fund. At December 31, 2015, the designated cash balance for this purpose was \$450,000 and is included in unrestricted cash and cash equivalents.

Investments

At December 31, 2015, the Commission had \$505,089 of investments restricted for servicing the debt of the Commission. The investments are held by a trustee and are carried at cost, which approximates fair value.

Investments – Custodial Credit Risk

Custodial credit risk for an investment is the exposure that a counterparty fails, absent collateral, and the Primary Government or Commission is unable to recover its investment value. The Primary Government and Commission have no policy restricting the amounts or percentages of investments that may be invested in authorized investments. The Primary Government's and Commission's investments were not exposed to custodial credit risks as of December 31, 2015.

A reconciliation of cash and investments is as follows:

	Primary Government	Component Unit
Carrying amount of deposits	\$ 147,234	\$ 154,681
Carrying amount of Investment Pool	3,375,602	2,991,926
Carrying amount of Investments	-	505,089
Total	\$ 3,522,836	\$ 3,651,696
Cash and cash equivalents - restricted	\$ 152,394	\$ 335,657
Cash and cash equivalents - unrestricted	3,370,442	2,810,950
Investments - restricted	-	505,089
Total	\$ 3,522,836	\$ 3,651,696

3. RESTRICTED CASH AND INVESTMENT ACCOUNTS

A portion of cash, cash equivalents and investments has been restricted pursuant to the Commission's bond and loan agreements.

Debt Service Fund and Debt Service Reserve Funds

The investment accounts have been restricted pursuant to the debt agreements for the purpose of paying the interest on and the retirement of debt, and to maintain the security of the loans. The amount restricted at December 31, 2015 was \$505,089.

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

3. RESTRICTED CASH AND INVESTMENT ACCOUNTS - CONTINUED

Operations and Maintenance Fund

Pursuant to the bond and loan agreements, at December 31, 2015, the Commission has restricted \$190,657 as an estimate of expenses to operate and maintain the water and sewer system for the ensuing month.

Capital Improvements Fund

Pursuant to the bond and loan agreements, at December 31, 2015, the Commission has restricted \$145,000 as an estimate of future capital improvements during 2015.

Restricted Cash

In accordance with South Carolina legislative policy, any accommodations tax revenue received each fiscal year ending June 30 exceeding \$25,000 is subject to a special allocation. Five percent of the balance of this excess is allocated to the general fund of the Primary Government. Thirty percent of the balance must be allocated to a special revenue fund and used for advertising and promotion of tourism to develop and increase tourist attendance through publicity. The remaining sixty-five percent plus earned interest must be allocated to a special revenue fund and used for tourism-related expenditures. Restricted cash also consists of accommodations tax revenue received from Charleston County, alcohol tax revenue received from the State, and municipal court revenues. As of December 31, 2015 the total restricted cash was \$152,394.

4. RECEIVABLES

Accounts and other receivables at December 31, 2015 consist of the following:

	Primary Government	Component Unit
Franchise fees	\$ 173,380	\$ -
Customer accounts receivable	-	304,687
Other	12,180	283
	\$ 185,560	\$ 304,970

5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2015 is as follows:

Primary Government:

	Balance 1/1/2015	Additions	Retirements	Balance 12/31/2015
Capital assets depreciated:				
Infrastructure	\$ 364,464	\$ -	\$ -	\$ 364,464
Land improvements	728,756	-	-	728,756
Equipment	158,048	-	-	158,048
Subtotal	1,251,268	-	-	1,251,268
Accumulated depreciation	(336,810)	(38,314)	-	(375,124)
Total	\$ 914,458	\$ (38,314)	\$ -	\$ 876,144

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

5. CAPITAL ASSETS - CONTINUED

Component Unit:

	Balance 1/1/2015	Additions	Retirements	Balance 12/31/2015
Capital assets not depreciated:				
Land	\$ 76,258	\$ -	\$ -	\$ 76,258
Capital assets depreciated:				
Land improvements	57,002	-	-	57,002
Buildings	325,780	-	-	325,780
Waterworks and sewer system	23,611,275	494,661	-	24,105,936
Office furniture and fixtures	28,232	-	-	28,232
Subtotal	24,098,547	494,661	-	24,593,208
Accumulated depreciation	(10,135,421)	(787,492)	-	(10,922,913)
 Total	 \$ 13,963,126	 \$ (292,831)	 \$ -	 \$ 13,670,295

Depreciation expense for the Primary Government and charged to the general governmental activities was \$38,314 for the year ended December 31, 2015. Depreciation expense for the component unit was \$787,492 for the year ended December 31, 2015.

6. LONG-TERM DEBT

The Primary Government does not carry any amounts considered to be long-term debt at or during the year ended December 31, 2015. A summary of changes in long-term debt for the Component Unit for the year ended December 31, 2015 is as follows:

	Balance 1/1/2015	Additions	Reductions	Balance 12/31/2015
Revenue Bonds - Series 2005	\$ 4,290,000	\$ -	\$ (4,290,000)	\$ -
Less deferred amounts:				
Net premiums	30,967	-	(30,967)	-
Net revenue bonds	4,320,967	-	(4,320,967)	-
Portion due within one year				-
 South Carolina Infrastructure Facilities loan	 1,401,373	 -	 (1,401,373)	 -
Portion due within one year				-
 South Carolina Water Quality Revolving fund authority loan				
Portion due within one year	628,787	-	(49,691)	579,096
				50,817

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

6. LONG-TERM DEBT - CONTINUED

	<u>Balance 1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2015</u>
South Carolina Water Quality Revolving fund authority loan	1,558,833	-	(71,082)	1,487,751
Portion due within one year				<u>72,695</u>
Revenue Bonds - Series 2015	-	5,300,000	-	5,300,000
Portion due within one year				<u>550,000</u>
Net debt	<u>\$ 7,909,960</u>	<u>\$ 5,300,000</u>	<u>\$ (5,843,113)</u>	<u>\$ 7,366,847</u>

Water and Sewer System Refunding Revenue Bonds, Series 2005 (Paid and Surrendered in 2015)

The \$6,305,000 Water and Sewer System Refunding Revenue Bonds, Series 2005 ("Series 2005 Bonds") were issued to provide funds (1) to advance refund the Town's outstanding Water and Sewer System Revenue Bonds, Series 1997 ("Series 1997 Bonds"); (2) to satisfy the reserve fund requirement for the Series 2005 Bonds through the purchase of a surety bond; and (3) to pay certain costs of issuance relating to the Series 2005 Bonds. A portion of the proceeds were placed in a refunding trust fund established under a refunding trust agreement and applied, together with the investment earnings thereon, to pay all the principal and interest payable on the outstanding amount of \$5,805,000 on the Series 1997 bonds through and including July 1, 2007.

The bonds were issued in May 2005, and interest was payable semiannually on July 1 and January 1 at coupon rates that range from 3.25% to 5.00%. Principal of the Series 2005 Bonds is payable, subject to redemption, on January 1 each year through 2027.

The Series 2005 Bonds maturing on or before January 1, 2015, are not subject to redemption prior to their stated maturities. The Series 2005 Bonds maturing after January 1, 2015 are subject to redemption on and after July 1, 2015, at the option of the Town upon the written direction of the Commission, in whole or in part at any time, at the redemption price equal to 100% of the principal amount of the Series 2005 Bonds to be redeemed plus accrued interest to the date fixed for redemption. The bonds were redeemed in 2015.

With limited obligations for the Town of Seabrook Island, the Series 2005 Bonds are solely payable from the net revenues of the Commission and are solely secured by a pledge of and lien upon such net revenues. Net revenue is defined as the revenue of the System after deducting expenses of operating and maintaining the System.

In the bond ordinance, the Town covenants and agrees that it will cause the Commission to operate the System in an efficient and economical manner and will cause the Commission to establish, levy, maintain, revise, and collect such fees, rates, and other charges for the use of the services and facilities furnished as may be necessary or proper, which fees, rates and other charges, together with the other revenues and other available moneys, shall for each fiscal year be at least sufficient, after making due and reasonable allowances for contingencies and for a margin of error in estimates, to provide an amount not less than (1) the amount required to be deposited into the operation and maintenance fund for the then current fiscal year; (2) 110% of the amounts required to be deposited in the debt service fund; (3) the amount required to be deposited in the debt service reserve fund; (4) the amount required to be deposited in the capital improvements fund; (5) the amount required to provide for payment of any junior bonds; and (6) the amount necessary to comply in all respects with the terms of the bond ordinance or any other contract or agreement with the holder of the Series 2005 Bonds.

The Commission has various financial and non-financial covenants it is required to comply with associated with the Series 2005 Bonds. As of December 31, 2015, the Commission was in compliance with all financial covenants.

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

6. LONG-TERM DEBT – CONTINUED

South Carolina Infrastructure Facilities Loan (Paid and Surrendered in 2015)

On September 21, 2000, the Commission obtained financing from the South Carolina Infrastructure Facilities Authority (the “Authority”) in the amount of \$2,000,000. The loan was amended on May 4, 2001. Pursuant to the amendment, the amount available under the loan was increased to \$2,028,791 to include, in the principal balance, interest which had been accrued on the loan but not paid. At December 31, 2015, \$0 remained outstanding and payable as the loan was refinanced with the 2015 Revenue Bonds. Pursuant to the terms of the loan agreement interest only will accrue on the payment initiation date, May 1, 2001, with the repayment of principal and interest to begin on the first day of the third month following the payment initiation date or August 1, 2001. Interest accrued at a rate of 4% per annum, with principal and interest due in 119 quarterly installments of \$29,107 each, and one final payment of principal and interest in the amount of \$29,106 due May 1, 2031.

The note was secured by a lien upon the net revenues of the System, as defined in the general bond ordinance, and a statutory lien granted to the Authority upon the System. As additional security and if the project sponsor fails to collect and remit in full all amounts due to the Authority on the date such amounts are due, the Authority shall withhold all or a portion of such funds of the State and all funds administered by the State, its agencies, boards and instrumentalities allotted or appropriated to the project sponsor to satisfy all amounts due with respect to the note.

The South Carolina Infrastructure Facilities Loan, which is in the name of the Town of Seabrook Island, was issued to fund construction of (1) approximately 17,800 feet of 16-inch waterline, 2,000 linear feet of 20-inch waterline, and all necessary appurtenances to serve the Seabrook Island water distribution system; and (2) two half million gallon pre-stressed concrete reservoirs, two 2,000 GPM booster pump stations, and all necessary appurtenances to serve Seabrook Island.

South Carolina Water Quality Revolving Fund Authority Loan - 20” Water Line

On November 10, 2005, the Commission signed a loan agreement with the South Carolina Water Quality Revolving Fund Authority (“Water Authority”) in the name of the Town of Seabrook for an available amount of \$1,120,808. The proceeds from the loan are to fund the installation of approximately 7,650 linear feet of 20-inch water main and all necessary appurtenances. At December 31, 2015, \$579,096 remained outstanding and payable. Pursuant to the terms of the loan agreement, amounts disbursed shall bear interest from the date of the Water Authority’s check for each disbursement and accrued interest only shall be due on the payment initiation date, February 1, 2006, with the repayments of principal and interest to begin on the first day of the third month following the payment initiation date or August 1, 2006. Interest accrues at a rate of 3.00% per annum, with principal and interest due in 79 quarterly installments of \$18,699 each and one final installment of \$18,699 in 2026. The note is secured by a lien upon the net revenues of the System, as defined in the general bond ordinance, and a statutory lien granted to the Authority upon the System.

On August 16, 2006, the loan was amended. Since \$121,127 of the original loan authorization remained undisbursed after the final draw, the permanent loan amount became \$1,000,717. As a result, the payment amount was recalculated retroactive to the payment initiation date thereby reducing the quarterly installments to \$16,680 over the same 20 year term ending February 1, 2026. On January 1, 2012, the loan was amended for an interest reduction to 2.25% per annum, thereby reducing the quarterly installments to \$15,855 over the same term.

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

6. LONG-TERM DEBT - CONTINUED

South Carolina Water Quality Revolving Fund Authority Loan – Waste Water Treatment Plan Upgrade

On January 30, 2012, the Town of Seabrook Island, South Carolina, signed a Loan Agreement with the South Carolina Water Quality Revolving Fund Authority for the benefit of the Seabrook Island Utility Commission as its component unit. At December 31, 2015, \$1,487,751 remained outstanding and payable. The loan amount is for \$1,700,000 (subsequently amended to \$1,696,302) and the proceeds are used for a waste water treatment plant upgrade. The loan calls for 80 quarterly installments of principal and interest of \$26,447 (subsequently reduced to \$26,390) and bears interest of 2.25%. The loan matures on February 1, 2033. The note is secured by the net revenues of the Commission and a statutory lien upon the system pursuant to Section 6-21-330 of the Code of Laws of South Carolina, 1976, as amended.

Water and Sewer System Refunding Revenue Bonds, Series 2015

The \$5,300,000 Water and Sewer System Refunding Revenue Bonds, Series 2015 (“Series 2015 Bonds”) were issued to provide funds (1) to advance refund the Town’s outstanding Water and Sewer System Refunding Revenue Bonds, Series 2005, with a principal balance of \$4,035,000 outstanding at issuance; (2) to satisfy the 2000 South Carolina Infrastructure Facilities Loan with an outstanding principal balance of \$1,371,035 at issuance; and (3) to pay certain costs of issuance relating to the Series 2015 Bonds. A portion of the proceeds were placed in a refunding trust fund established under a refunding trust agreement and applied, together with the investment earnings thereon, to pay all the principal and interest payable on the outstanding amount of \$5,300,000 on the Series 2015 bonds. No debt service reserve fund was established or initially funded with respect to the Series 2015 Bonds.

The bonds were issued in July 2015, and interest is payable quarterly on January 1, April 1, July 1 and October 1 at coupon rate of 2.22%. Principal of the Series 2015 Bonds is payable, subject to redemption, on January 1 and July 1 each year through 2025 at \$275,000 per redemption.

The Series 2015 Bonds are subject to redemption at the option of the Town upon the written direction of the Commission, in whole or in part at any time, at the redemption price equal to 100% of the principal amount of the Series 2015 Bonds to be redeemed plus accrued interest to the date fixed for redemption.

With limited obligations for the Town of Seabrook Island, the Series 2015 Bonds are solely payable from the net revenues of the Commission and are solely secured by a pledge of and lien upon such net revenues. Net revenue is defined as the revenue of the System after deducting expenses of operating and maintaining the System.

In the bond ordinance, the Town covenants and agrees that it will cause the Commission to operate the System in an efficient and economical manner and will cause the Commission to establish, levy, maintain, revise, and collect such fees, rates, and other charges for the use of the services and facilities furnished as may be necessary or proper, which fees, rates and other charges, together with the other revenues and other available moneys, shall for each fiscal year be at least sufficient, after making due and reasonable allowances for contingencies and for a margin of error in estimates, to provide an amount not less than (1) the amount required to be deposited into the operation and maintenance fund for the then current fiscal year; (2) 110% of the amounts required to be deposited in the debt service fund; (3) the amount required to be deposited in the debt service reserve fund; (4) the amount required to be deposited in the capital improvements fund; (5) the amount required to provide for payment of any junior bonds; and (6) the amount necessary to comply in all respects with the terms of the bond ordinance or any other contract or agreement with the holder of the Series 2015 Bonds.

The Commission has various financial and non-financial covenants it is required to comply with associated with the Series 2015 Bonds. As of December 31, 2015, the Commission was in compliance with all financial covenants.

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

6. LONG-TERM DEBT - CONTINUED

At December 31, 2015, maturities on the Commission's long-term debt excluding revenue bonds discounts and premiums and deferred losses were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending December 31:			
2016	\$ 673,512	\$ 157,022	\$ 830,534
2017	676,319	142,010	818,329
2018	679,180	126,934	806,114
2019	682,112	111,791	793,903
2020	685,081	96,585	781,666
2021-2025	3,272,956	253,482	3,526,438
2026-2030	491,786	51,883	543,669
2031-2032	205,901	5,226	211,127
Total	<u>\$ 7,366,847</u>	<u>\$ 944,933</u>	<u>\$ 8,311,780</u>

The Commission recognized \$217,738 of interest expense during the year ended December 31, 2015.

7. CONCENTRATION OF CREDIT RISK

The Town derives more than half of its revenue from business licenses, franchise fees, and permit fees. Much of this revenue is dependent on the level of business activity in the Town.

The Commission provides water and sewer services predominantly to residents and businesses located in the Town of Seabrook Island, South Carolina. It also offers sewer service to two developments outside the Town that were under contract when the System was acquired. Accounts receivable of the Commission consists mostly of these charges. Additionally, all of the water sold is purchased from St. Johns Water Company, Inc. of Johns Island, South Carolina.

8. LEASE INCOME

The Commission collects income for leasing space for antennas under the following lease agreements:

- a) The Commission entered into an agreement with BellSouth Cellular Corp. (now AT&T) in August 1996. BellSouth has the option to extend for four additional five-year periods with a three percent increase for each year of the five-year period. On September 1, 2011, BellSouth opted to exercise its third renewal option and extend the agreement for an additional five-year period beginning September 1, 2011 at \$25,094 per year, increasing 15% each year (effective September 1, 2016).
- b) The Commission entered into a new agreement with Charleston-North Charleston MSA Limited Partnership d/b/a Alltel (now Verizon) in April 2001. The lease term was for an initial term of five years to be automatically renewed for four additional terms of five years each. Rent for each renewal term will be the annual rent in effect for the final year of the initial term or prior renewal term increased by 15%. In May 2006, Alltel opted to renew the lease for an additional five year term. The monthly rent is \$2,578. In May 2011, the agreement was renewed for an additional five year period at a monthly rent of \$2,965.

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

8. LEASE INCOME - CONTINUED

- c) The Commission has an agreement with AGW Leasing Company, Inc. (now Sprint) dated March 1999. The lease term is for five years with an automatic renewal for four additional 5-year terms. The monthly rental amount is \$1,325 with an increase of 15% for each renewal term. In December 2014, AGW Leasing Company exercised the third of these renewal terms at \$2,015 per month.
- d) The Commission has an agreement with Triton PCS Property Company, LLC (now T-Mobile) dated January 2000. The lease term is for five years with an automatic renewal for four additional 5-year terms. The monthly rental amount is \$1,325 with an increase of 15% for each renewal term. In January 2015, T-Mobile exercised the third of these renewal terms at \$2,015 per month.
- e) The Commission has an agreement with Conterra Ultra Broadband, LLC dated December 15, 2010. The lease term is for five years and was commenced February 2011, with an automatic renewal for four additional 5-year terms. The annual rent is \$6,000, payable annually in advance of the year. The rent will increase 3% annually over the term of the agreement (Conterra has notified the Commission it will be terminating its agreement on September 30, 2017).

The following is a schedule of the future minimum rental income to be received at December 31:

2016	\$	123,535
2017		53,734
2019		48,360
2019		46,345
Thereafter		----- -
	\$	<u>271,974</u>

Rental income recognized under these leases for the year ended December 31, 2015 was \$115,750.

9. COMMITMENTS

Building Inspection Services

In November 1987, the Primary Government entered into an agreement with the Charleston County Department of Building Services to perform all inspection services for zoning permits, site plans, collection of fees and related work. On a monthly basis, the county will distribute 10% of all permit fees collected to the Primary Government. This agreement may be terminated by either party upon giving written notice at least 30 days prior to the effective date of such termination.

Franchise Agreements

In February 1988, the Primary Government entered into a franchise agreement with Berkeley Electric Cooperative, Inc. to provide electricity to different classes of customers within the corporate limits of the town and adjacent areas. The initial term of the agreement is 25 years, and requires the company to pay 3% of total electric revenue exclusive of street lighting, municipal and industrial loads to the town. Payments are made annually.

In February 1999, the Primary Government entered into a franchise agreement with U.S. Cable of Texas, L.P. Coastal, to maintain, operate and expand a cable television system within the town. This contract was subsequently transferred to Comcast Cable during 2003. The initial term of the agreement is for 10 years, with a right of renewal for an additional 5 years. This agreement has expired and is now governed under the State of South Carolina's Competitive Cable Services Act. Comcast Cable was issued a state-issued certificate of franchise authority and payments are to be made quarterly in an amount equal to 3% of gross receipts from the cable television operations in the Town.

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

9. COMMITMENTS - CONTINUED

Other Agreements

In April 2014, the Primary Government entered into a lease agreement with Ontario Investments, Inc. for a copier machine. The initial term of the lease is 5 years with annual payments of \$2,440.

Management Agreement

On January 8, 2008, the Commission signed a new 5 year contract effective May 1, 2008 with Hawthorne Services, Inc., a Louis Berger company, (Hawthorne) to manage the daily operations of the System. It has a 5-year renewal option which was exercised during 2013. The contract is subject to termination at the sole discretion of the Commission if the services of Hawthorne are inferior in quality as measured by interruptions in service, customer complaints, and cost overruns without satisfactory explanation and if Hawthorne and the Commission do not resolve Hawthorne's failure to perform the defined services in whole or in part within 30 days. In the event of termination, the Commission shall pay only for the services rendered to the date of such termination.

The management fee paid to Hawthorne was \$215,272 for the year ended December 31, 2015. This fee may be adjusted annually for escalating direct costs for the accounting and billing function upon approval of the Commission.

Water Purchase Agreement

On July 15, 2009, the Commission signed a 60 year contract with St. Johns Water Company, Inc. (SJWC) for purchase of potable water for the Commission. Water supplied must meet the applicable purity standards of the South Carolina Department of Health and Environmental Control. SJWC agrees to provide the Commission access to 2,470,000 gallons of water per day. In the event of emergency or control amendment, the flow rate may be raised to meet the needs of the Commission. Monthly volumetric charges for water services are based upon the rate charged to SJWC by the Charleston Water System (CWS). The Commission is charged a percentage of the operating and maintenance costs of SJWC based upon the percentage of gallons purchased from SJWC to the total gallons purchased by SJWC from the CWS.

10. RETIREMENT PLAN

Effective January 1, 1997, the Primary Government joined the South Carolina Retirement System (SCRS). All employees of the Primary Government are eligible to participate. The South Carolina Retirement System is a cost-sharing multiple employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board. The South Carolina Retirement System offers retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. The Plan's provisions are established under Title 9 of the SC Code of Laws. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and is publicly available by writing the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960.

Fund Policy

Both employees and employers are required to contribute to the plan under authority of Title 9 of the SC Code of Laws. In accordance with state statutes, the Primary Government's employees are required to contribute 7.5% (January through June 2015) and 8.0% (July through December 2015) of their compensation to the plan. The Primary Government is required to contribute amounts based on the results of actuarial valuations of the SCRS. In to the above rates, participating employers of the South Carolina Retirement System contribute 0.15% of monthly payroll to provide a group life insurance benefit for their participants. The Primary Government's annual rate was 10.45% (January through June 2015) and 10.75% (July through December 2015) of each employee's annual compensation. Contribution requirements are as follows:

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

10. RETIREMENT PLAN - CONTINUED

Year ended December 31,	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
2015	\$ 22,947	\$ 18,128	\$ 41,075
2014	\$ 24,836	\$ 18,158	\$ 42,994
2013	\$ 23,486	\$ 17,895	\$ 41,381
2012	\$ 22,035	\$ 14,801	\$ 36,836
2011	\$ 22,251	\$ 12,532	\$ 34,783

One hundred percent of the required contributions have been made for the current and each of the previous years.

11. FACILITY CHARGE ADJUSTMENT

In the event that the established water and sewer charges and fees yield cash revenue in excess of the obligations specified by the bond ordinance, the Commission, at its sole discretion, may from time to time return surplus cash to eligible residential and commercial customers through a facility charge adjustment. Surplus cash is defined as operating cash and current accounts receivable in excess of forecasted operating maintenance, debt service and capital expenditures for the current month, after providing for payment of the prior month payable to the management company and the monthly debt service payment.

In addition, the following conditions must be met.

- a. The current year-to-date operating cash surplus must exceed 10% of the total debt service interest and principal payments for the fiscal year.
- b. There must be at least \$350,000 in cash reserves for emergency operating expenses.
- c. There must be at least \$100,000 in cash available for capital expenditures.

Eligible customers are customers of record for billing purposes on the date that the Commission declares a facility charge adjustment. During the year ended December 31, 2015, the Commission did not approve a facility charge adjustment.

12. CONTINGENCIES

From time to time, the Town is involved in various claims and lawsuits, both for and against the Town, arising in the normal course of business. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material effect on the financial condition or results of operations of the Town.

13. 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 and natural disasters. To insure against these risks, the Town is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments in South Carolina. The Town pays annual premiums to the State Insurance Reserve Fund for its general insurance. The State Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims.

The Town incurred no significant uninsured claims during the year ended December 31, 2015. There was no liability or expense recorded for other actual claims, and management does not believe any provision for unasserted claims is necessary. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

14. TRANSACTIONS WITH COMPONENT UNIT

The Commission is a component unit of the Town (see Note 1). The Commission and the Town entered into several transactions during the year ended December 31, 2015.

The Commission provides water to the Town. During the year, the Commission recorded \$9,416 in revenue related to the sale of water to the Town. At December 31, 2015, the Commission had accounts receivable from the Town in the amount of \$498. This amount is included in customer accounts receivable on the statement of net assets.

15. SUBSEQUENT EVENTS

In accordance with ASC 855, Management evaluated subsequent events through June 3, 2016, the date these financial statements were issued. With the exception of the matter discussed below, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund		
	Original and Final Budget	Actual Results	Variance Positive (Negative)
REVENUES:			
Franchise fees	\$ 175,000	\$ 214,761	\$ 39,761
Local option sales tax	165,000	224,212	59,212
Accommodations tax - state	29,000	31,588	2,588
Other state tax	35,000	36,429	1,429
Business licenses	460,000	613,136	153,136
Permits	37,700	43,810	6,110
Interest	3,550	9,502	5,952
Other revenue	300	355	55
	<u>905,550</u>	<u>1,173,793</u>	<u>268,243</u>
EXPENDITURES:			
Payroll and payroll taxes	320,800	303,658	17,142
Accounting and legal	42,500	47,433	(4,933)
Utilities	29,500	29,677	(177)
Office supplies, postage and printing	55,380	60,198	(4,818)
Insurance	19,000	17,222	1,778
Beach patrol	35,000	34,314	686
Other expenses	38,900	37,613	1,287
Roadway maintenance	75,000	71,927	3,073
Emergency preparedness	25,000	30,984	(5,984)
Capital outlay - general	15,000	-	15,000
Advertising and promotion	131,000	82,806	48,194
	<u>787,080</u>	<u>715,832</u>	<u>71,248</u>
Total expenditures			
Net change in fund balances	<u>\$ 118,470</u>	457,961	<u>\$ 339,491</u>
Fund balances, beginning of year		<u>3,271,608</u>	
Fund balances, end of year		<u>\$ 3,729,569</u>	

See Independent Auditors' Report

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Significant budget variances

The Town's revenues exceeded budget in all sources and expenditures exceeded appropriated funds for a few expenditure categories in the year ended December 31, 2015.

1. Actual general fund revenues exceeded budget revenues for the year ended December 31, 2015 by \$268,243 or 29.6%. This increase was across all revenue categories, but led by growth in franchise fee and business licenses.
2. Actual general fund expenditures were under budget by \$71,248 or 9.1%. This variance to budget is mostly attributed to the budgeted capital outlay that was not spent, payroll and benefits being under plan and advertising and promotion being under plan in 2015.

SUPPLEMENTARY INFORMATION

**TOWN OF SEABROOK ISLAND, SOUTH CAROLINA
SCHEDULE OF FINES, ASSESSMENTS AN SURCHARGES
SPECIAL REVENUE FUND – VICTIMS’ RIGHTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Court Fines	
Court fines collected	2,975
Court fines retained by Town	2,975
Court fines remitted to State Treasurer	<u>\$ -</u>
Court Assessments	
Court assessments remitted to State Treasurer	<u>\$ 1,313</u>
Court assessments remitted to State Treasurer	<u>\$ 1,313</u>
Education SC Surcharges	
Education SC surcharges collected	<u>\$ 125</u>
Education SC surcharges remitted to State Treasurer	<u>\$ 125</u>
Court Surcharges	
Court surcharges collected	<u>\$ 625</u>
Court surcharges remitted to State Treasurer	<u>\$ 625</u>
Victims' Services	
Court assessments allocated to Victims' Services	\$ 249
Court surcharges allocated to Victims' Services	625
Victims' Services funds forwarded to Charleston County	<u>874</u>
Total collected by Town *	<u>\$ 5,912</u>
Total remitted to State Treasurer/Charleston County *	<u>\$ 2,937</u>

*The difference from page 5 of the audited financial statements is due to \$925 that was retained by the Town for payment for their 2014 audited court report. There were also immaterial and minor differences due to errors that have been corrected in 2015 remitted court reports.

*Also, the difference from page 5 of the audited financial statements is due to \$4,275 that is comprised of monthly payments to the judge.