



Financial Statements with Independent Auditor's Report
for the year ended December 31, 2014

TOWN OF CHAPIN
ELECTED OFFICIALS 2014

<u>NAME</u>	<u>YEAR ELECTED</u>	<u>TERM EXPIRATION</u>
MAYOR		
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COUNCIL		
VIVIAN ATKINS (BiBi) P.O. Box 21 Chapin, SC 29036 Phone: 803-345-5011 E-mail bibiatkins@att.net	1999	12/31/2015
ROBERT P. FRICK (Robbie) P. O. Box 11 Chapin, SC. 29036 Phone: 803-345-2156 E-mail laban1@bellsouth.net	2014	12/31/2017
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GREGG WHITE 318 Clark Street P.O. Box 713 White Rock SC 29177 Chapin, SC 29036 Phone: 345-8913 E-mail greggwhite@bellsouth.net	2014	12/31/2017

GENERAL INFORMATION:

POPULATION: APPROX 1445

LAND AREA: 1.2 sq. miles

TOWN HALL - 157NW COLUMBIA AVENUE CHAPIN SC 29036 (P.O. Box 183)

HOURS: 9:00- 5:00 M-F

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Government: Mayor/Council form Strong Mayor- four year term.

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BROWN CPA, LLC

Independent Auditor's Report

To the Town of Chapin
Chapin, South Carolina

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Chapin, South Carolina (the "Town") as of and for the years ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the Town's 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

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 and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We did not audit the amounts reported herein for deferred pension charges, deferred pension credits, and net pension liability and the associated information presented in the footnotes and required supplementary Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions to South Carolina Retirement System. Those amounts were audited by other auditors whose reports thereon dated June 1, 2015 expressed an unqualified opinion. Our opinion, insofar as it relates to those amounts, is based solely on that report.

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

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

www.browncpallc.com

MEMBER:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
SC ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Town of Chapin, as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 Town of Chapin adopted the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Change in Accounting Estimate

As discussed in Note 5 to the financial statements, in 2014 Town of Chapin changed its estimated useful life of depreciable land improvements for business-type activities from 40 to 30 years. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability, and schedule of contributions to the retirement system, as listed in the table of contents, 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.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shoreline's basic financial statements. The schedule of Fines and Assessments and Victim's Assistance Collections and Disbursements is presented for the purpose of additional information and is not a required part of the basic financial statements. The schedules are the responsibility of management and were derived from and relate 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 schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015, on our consideration of the Town's internal control over financial reporting and on our 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 our 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* and is important for assessing the results of our audit.

BROWN CPA, L.L.C.

Irmo, South Carolina
December 11, 2015

Town of Chapin
Statement of Net Position
December 31, 2014

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
Assets			
Current assets:			
Cash and equivalents	\$ 420,233	\$ 647,488	\$ 1,067,721
Cash and equivalents, restricted			
Escrow funds	-	35,358	35,358
Council restricted	-	2,710,658	2,710,658
Statutory restriction	60,116	-	60,116
Accounts receivable, net	108,415	213,615	322,030
Prepaid expenses	29,486	3,245	32,731
Due (to) from other funds	(2,202,343)	2,202,343	-
Total current assets	<u>(1,584,093)</u>	<u>5,812,707</u>	<u>4,228,614</u>
Noncurrent assets:			
Bond issuance costs, net of amortization	10,500	-	10,500
Capital assets, net of accumulated depreciation	6,205,025	11,596,721	17,801,746
Total noncurrent assets	<u>6,215,525</u>	<u>11,596,721</u>	<u>17,812,246</u>
Total Assets	<u>4,631,432</u>	<u>17,409,428</u>	<u>22,040,860</u>
Deferred Outflows of Resources			
Deferred Pension Charges	<u>37,854</u>	<u>9,882</u>	<u>47,736</u>
Liabilities			
Current liabilities:			
Accounts payable	33,351	114,225	147,576
Accrued wages and related expenditures	28,726	7,004	35,730
	<u>62,077</u>	<u>121,229</u>	<u>183,306</u>
Noncurrent liabilities:			
Amounts due within one year:			
Accrued compensated absences and related benefits	14,928	5,306	20,234
General obligation bonds	75,147	-	75,147
Amounts due beyond one year:			
General obligation bonds	509,277	-	509,277
Customer deposits	-	35,358	35,358
Net Pension Liability	506,350	153,503	659,853
Total Noncurrent Liabilities	<u>1,105,702</u>	<u>194,167</u>	<u>1,299,869</u>
Total liabilities	<u>1,167,779</u>	<u>315,396</u>	<u>1,483,175</u>
Deferred Inflows of Resources			
Deferred Pension Credits	<u>52,667</u>	<u>12,941</u>	<u>65,608</u>
Net Position			
Invested in capital assets, net of related debt	5,620,601	11,596,721	17,217,322
Restricted by council	-	2,710,658	2,710,658
Unrestricted	(2,171,761)	2,783,594	611,833
Total net position	<u>\$ 3,448,840</u>	<u>\$ 17,090,973</u>	<u>\$ 20,539,813</u>

See accompanying notes to the financial statements

Town of Chapin
Statement of Activities
for the year ended
December 31, 2014

Function / Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government:					
Governmental activities:					
General administration	\$ 529,823	\$ -	\$ -	\$ (529,823)	\$ -
Council and mayor	40,416	-	-	(40,416)	-
Public safety					
Police	467,123	71,843	-	(395,280)	-
Fire	220	-	-	(220)	-
Municipal court	147,129	-	-	(147,129)	-
Public works	70,302	-	-	(70,302)	-
Street	64,026	-	-	(64,026)	-
	<u>1,319,039</u>	<u>71,843</u>	<u>-</u>	<u>(1,247,196)</u>	<u>-</u>
Business-type activities:					
Water and Sewer	<u>5,072,404</u>	<u>2,391,936</u>	<u>-</u>	<u>-</u>	<u>(2,680,468)</u>
Total Primary Government	<u>\$ 6,391,443</u>	<u>\$ 2,463,779</u>	<u>\$ -</u>	<u>(1,247,196)</u>	<u>(2,680,468)</u>
General revenues (expenses):					
				1,066,479	-
				147,789	-
				28,786	-
				385	-
				121,565	-
				<u>1,365,004</u>	<u>-</u>
Change in net position				117,808	(2,680,468)
Net Position - Beginning of Year, as previously reported				3,467,565	19,928,003
Cumulative Change in Accounting Principle GASB #68 and #71				(521,163)	(156,562)
Prior Period Adjustment Restatement of Capital Assets Land				<u>384,630</u>	<u>-</u>
Net Position - End of Year, as restated				<u>3,331,032</u>	<u>19,771,441</u>
Net Position - End of Year				<u>\$ 3,448,840</u>	<u>\$ 17,090,973</u>

The accompanying notes are an integral part of these financial statements

Town of Chapin
Balance Sheet Governmental Fund
December 31, 2014

	<u>Total Governmental</u>
	<i>General</i>
	<i>Fund</i>
	<u> </u>
Assets:	
Cash and cash equivalents	\$ 480,349
Receivables	108,415
Prepaid expenses	29,486
Interfund - water and sewer fund	(2,202,343)
	<u> </u>
Total assets	<u>\$ (1,584,093)</u>
 Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	\$ 33,351
Accrued wages and related expenditures	28,726
Compensated absences	14,928
Total liabilities	<u>77,005</u>
 Fund balances:	
Fund balance	<u>(1,661,098)</u>
Total fund balances	<u>(1,661,098)</u>
	<u>\$ (1,584,093)</u>

The accompanying notes are an integral part of these financial statements.

Town of Chapin
 Reconciliation of Governmental Fund Balance to Net Position of Governmental Activities
 December 31, 2014

Fund balance - governmental funds	\$ (1,661,098)
Amounts reported for governmental activities in the statement of net assets are different because:	
Assets are capitalized and amortized or depreciated in the statement of net position and charged go expenditures in the governmental fund:	
Bond issuance costs, net of amortization	10,500
Capital assest net of accumulated depreciation	6,205,025
Deferred outflow of resources are not recognized in the governmetal fund:	
Deferred pension charges	37,854
Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds.	
General obligation bond	(584,424)
Net pension liability	(506,350)
Deferred inflow of resources are not recognized in the governmetal fund:	
Deferred pension credits	(52,667)
Net position - governmental activities	\$ 3,448,840

The accompanying notes are an integral part of these financial statements.

Town of Chapin
Statement of Revenues, Expenditures and Changes
In Fund Balance - Governmental Fund for the year ended
December 31, 2014

Revenues:

Licenses	\$	1,066,479
Taxes		147,789
Fines		71,843
Intergovernmental state revenues		28,786
Interest		385
Other		121,565
Total revenues		1,436,847

Expenditures:

General administration		360,285
Mayor and Council		40,416
Public safety		
Police department wages and benefits		345,301
Police department operating expenses		79,917
Fire department		220
Municipal court		147,129
Public works		70,302
Street		21,650
Capital outlay		14,716
Debt service:		
Principal		72,623
Interest		22,931
Total expenditures		1,175,490

Net change in fund balance		261,357
Fund balance, beginning, as previously reported		(1,542,805)
Prior period adjustment, restatement related to capital assets land		(379,650)
Fund balance, beginning, as restated		(1,922,455)
Fund Balance, ending	\$	(1,661,098)

The accompanying notes are an integral part of these financial statements.

Town of Chapin
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Governmental Fund Balance to the Statement of Activities for the year ended
 December 31, 2014

Reconciliation to the Statement of Activities:

Net change in fund balance governmental fund \$ 261,357

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

Costs of capital asset acquisitions are reported as expenditures in the governmental fund and are reported as capital asset additions in the statement of net position 14,716

Loss on disposal of capital assets are reported as an expense in the statement of activities and no expense is recorded in the governmental fund (18,462)

Depreciation of capital assets is reported as an expense in the statement of activities (210,927)

Amortization of bond issuance costs is reported as an expense in the statement of activities (1,500)

Repayments of long-term debt are reported as expenditures in the governmental funds and are reported as a reduction of liabilities in the statement of net position 72,624

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds

Net change in net position Governmental Activities \$ 117,808

The accompanying notes are an integral part of these financial statements.

Town of Chapin
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual - General Fund
for the year ended
December 31, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> Favorable (Unfavorable)
Revenues:			
Licenses	\$ 850,000	\$ 1,066,479	\$ 216,479
Taxes	136,000	147,789	11,789
Fines	208,000	71,843	(136,157)
Intergovernmental state revenues	37,000	28,786	(8,214)
Interest	2,000	385	(1,615)
Other	137,500	121,565	(15,935)
Total Revenues	<u>1,370,500</u>	<u>1,436,847</u>	<u>66,347</u>
Expenditures:			
General administration	265,767	360,285	(94,518)
Mayor and Council	63,170	40,416	22,754
Public safety			
Police department wage and benefit	356,064	345,301	10,763
Police department operating expenses	173,750	79,917	93,833
Fire department	2,000	220	1,780
Municipal court	149,749	147,129	2,620
Public works	40,000	70,302	(30,302)
Street	-	21,650	(21,650)
Capital outlay	320,000	14,716	305,284
Debt service:			-
Principal	-	72,623	(72,623)
Interest	-	22,931	(22,931)
Total Expenditures	<u>1,370,500</u>	<u>1,175,490</u>	<u>195,010</u>
	<u>\$ -</u>	<u>\$ 261,357</u>	<u>\$ 261,357</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF CHAPIN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2014

Business-type Activities - Enterprise Funds - Water and Sewer

Assets

Current assets:

Cash and equivalents	\$	647,488
Accounts receivable, net		213,615
Prepaid expenses		3,245
Due from other funds		2,202,343
Cash and equivalents, restricted		
Escrow funds		35,358
Council restricted		2,710,658
Total current assets		5,812,707

Noncurrent assets:

Capital assets, net		11,596,721
Total noncurrent assets		11,596,721

Total assets		17,409,428
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Deferred outflows of resources

Deferred pension charges		9,882
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Liabilities

Current liabilities:

Accounts payable		114,226
Accrued payroll and related liabilities		7,003
Accrued absences		5,306
Payable from restricted assets:		
Customer deposits		35,358
Total current liabilities		161,893

Noncurrent liabilities:

Water and Sewer		153,503
Total noncurrent liabilities		153,503

Total liabilities		315,396
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Deferred inflows of resources

Deferred pension charges		12,941
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Net Position

Restricted - council restricted		2,710,658
Invested in capital assets		11,596,721
Unrestricted		2,783,594
Total net position	\$	17,090,973

The accompanying notes are an integral part of these financial statements.

Town of Chapin
Statement of Revenue, Expenses, and Changes in Net Position
Proprietary Fund for the year ended
December 31, 2014
Business-type Activities - Enterprise Funds - Water and Sewer

Operating revenue:	
Charges for services	\$ 2,391,936
Total operating revenue	2,391,936
Operating and maintenance expenses:	
Salaries	123,503
Benefits	43,249
Contractual services	433,275
Materials and supplies	643,531
Utilities	163,011
Repairs and maintenance	479,509
Other expenses	13,710
Depreciation and amortization	3,172,616
Total operating expenses	5,072,404
Operating income (loss)	(2,680,468)
Decrease in net position	(2,680,468)
Net Position - Beginning of Year, as previously reported	19,928,003
Cumulative Change in Accounting Principle	(156,562)
Net Position - End of Year, as restated	19,771,441
Net position - end of year	\$ 17,090,973

The accompanying notes are an integral part of these financial statements.

Town of Chapin
Statement of Cash Flows
Proprietary Fund for the year ended
December 31, 2014

Cash flows provided by operating activities:	
Cash receipts from customers	\$ 2,380,468
Cash payments for employee wages and benefits for services provided	(163,040)
Payments to suppliers	(2,165,140)
Net cash provided by operating activities	52,288
 Cash flows from capital and related financing activities:	
Purchase of capital assets	270,048
Net cash used by capital and related financing activities	270,048
 Cash flows from noncapital financing activities:	
Increase (decrease) in refundable deposits	2,324
Net cash provided by noncapital financing activities	2,324
Net change in cash	324,660
Cash and cash equivalents - beginning of year	3,068,844
Cash and cash equivalents - end of year	\$ 3,393,504
 Classified as:	
Cash and equivalents	\$ 647,488
Cash and equivalents, restricted	
Escrow funds	35,358
Council restricted	2,710,658
	\$ 3,393,504
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (2,680,468)
Depreciation	3,172,616
Net changes in assets and liabilities:	
Accounts receivable	(11,468)
Prepaid expenses	(3,245)
Due to (from) general fund	(303,359)
Accounts payable	(125,499)
Accrued payroll and related liabilities	3,711
Accrued absences	-
	\$ 52,288

The accompanying notes are an integral part of these financial statements.

Note 1 – Summary of Significant Accounting Policies

The Town of Chapin, South Carolina (the “Town”) was founded by Martin Chapin in 1889 and originally incorporated in 1950 under the laws of the State of South Carolina. The Town adopted the Council form of government pursuant to the Home Rule Statute, Act No. 283 of 1995. The Town operates under the Mayor Council form of government with the Mayor and four council members comprising the governing body. As authorized by its Code of Ordinances, the Town provides public safety (police), municipal court, public works (streets), health and sanitation, licensing and regulation and general administrative services to its constituents.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governments. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States. The following is a summary of the more significant accounting policies:

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

Government-wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Changes in Net Assets, which are the government-wide statements, report information on all of the nonfiduciary activities of the Town. Most of the interfund activity has been removed from these statements. The Town’s governmental activities, which are supported primarily by business licenses, taxes and intergovernmental revenues, are reported separately from its business-type activities, which rely on charges for services for support.

The Statement of Activities demonstrates the degree to which the direct expenses of specific functions are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges for services and grants or contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not properly included among program revenues, including all taxes, are reported as general revenues,

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide statements. The Town currently has no fiduciary funds. Major individual governmental funds are included as separate columns in the fund financial statements. The proprietary funds distinguish operating revenues and expenses from nonoperating items. The operating items generally result

from providing services in connection with the fund's principal ongoing operations. All revenues and expenses not meeting the operating criteria are reported as nonoperating items.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds which have no measurement focus. The government-wide, proprietary fund and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. 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 the eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when 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 the liabilities of the current period. Expenditures are recognized when a fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt which are recognized when due.

In the governmental funds statements, property taxes, investment earnings and charges for services of the current fiscal period are susceptible to accrual and thus counted as revenue for the current fiscal period if received within 60 days of year-end. With the exception of sales tax distributions, revenues collected beyond 60 days after year end are not susceptible to accrual because generally they are either not available or not measurable until received in cash.

The Town reports the following major funds:

General Fund – The general fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are business licenses, property taxes, franchise fees, and to a lesser extent State grants. The primary expenditures of the Town are for public safety and general governmental services.

Enterprise Fund – This fund is used to account for activities for which a fee is charged to external users for goods or services. The Town's water and sewer activities are reported in an Enterprise Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

All funds of the Town are accounted for during the year on the modified accrual basis of accounting. The governmental funds are also reported using the modified accrual basis of accounting. The proprietary funds are reported using the full accrual basis of accounting.

The Town recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized, on the modified accrual basis, when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. Various intergovernmental revenues, property taxes and most donations are examples of nonexchange transactions.

Under the terms of grant agreements, the Town funds certain programs by specific grants, resources and/or general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply grant resources to such programs and then general revenues.

Budgetary Data Control

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and proprietary funds. All annual appropriations lapse at the fiscal year end unless carried forward which must be approved by Town ordinance. Project length financial plans are adopted for all capital project funds whenever such projects are in force.

Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State Law. For purposes of the statement of cash flows, the Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Town is authorized by ordinance to invest in obligations of the United States and its agencies and commercial paper.

The unexpended bond proceeds of the Town's general obligation bond is classified as restricted assets within the governmental funds because their use is completely restricted to the purpose for which the bonds were originally issued.

Receivables and Payables

Outstanding balances between funds are reported as "due from (to) other funds." In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible amounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Capital Assets

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The Town defines capital assets as assets with an individual cost of more than \$5,000, and an estimated useful life of more than two

years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Town capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$50,000. Routine repairs and maintenance except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally ten to fifty years for buildings and improvements, thirty years for land improvements, and five to ten years for machinery, equipment and vehicles.

Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as a component of current and long-term liabilities in the statement of net position and as a component of salary and benefit expenses in the statement of revenue, expense, and changes in net position.

Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types report the face amount of debt issued as another financing source. Bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued and any related premiums are reported as other financing sources. Discounts on issuance are reported as other financing uses. Issuance costs are reported as a reduction of proceeds.

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Town of Chapin currently has one type of deferred outflows of resources. Shoreline reports *deferred pension charges* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System. These *deferred pension charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Shoreline currently has one type of deferred inflows of resources. Town of Chapin reports *deferred pension credits* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System. These *deferred pension credits* are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

Net Position

The Town's net position is classified as follows:

Invested in capital assets, net of related debt: This amount represents the Town's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been included but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net position – expendable: Restricted expendable net position includes resources in which the Town is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or to be used towards permitted daily operations and or future capital asset acquisition.

Restricted net position – nonexpendable: Nonexpendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net position: Unrestricted net position represent resources that do not meet the definition of "Restricted" or "invested in capital assets, net of related debt". The Town's policy for applying expenses that can use both restricted and unrestricted resources is to first apply the expense to restricted resources and then to unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Prior Period Adjustment - Correction of Error

The opening net position of the governmental activities has been increased by \$384,630 to reflect the Town's ownership of certain real property, previously unrecorded, and, the fund balance of

the Governmental Fund has been reduced by \$379,650 to reflect the Governmental Fund ownership of certain real property previously recorded by the Proprietary Fund.

New Accounting Pronouncement – Change in Accounting Principle

For the fiscal year ended December 31, 2014 the Town implemented *GASB Statement No. 68 Accounting and Financial Reporting for Pensions* and *GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 (“GASB #71” and collectively “Statements”)*. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pension. In addition, state and local governments who participate in a cost-sharing multiple employer plan are now required to recognize a liability for their proportionate share of the net pension liability of that plan. It is GASB’s intention that these Statements will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the financial obligations to current and former employees for past services rendered. In particular, these Statements require Town of Chapin to recognize a net pension liability, deferred outflows of resources, and deferred inflows of resources for its participation in the South Carolina Retirement System, (“Plan”), a cost-sharing multiple-employer defined benefit pension plan, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

The adoption of these Statements has resulted in the restatement of Town of Chapin’s net position as of July 1, 2014 to reflect the reporting of net pension liabilities and deferred outflows and inflows of resources for its qualified Plan in accordance with the provisions of these Statements. Net position as of January 1, 2014 was decreased by \$659,853 reflecting the cumulative change in accounting principle related to the adoption of these Statements, including net pension liability of \$677,725 partially offset by deferred outflows of resources of \$47,736 and deferred inflows of \$65,608.

Note 2 – Deposits and Investments

Deposits

The Town’s policies regarding the risk of financial instruments are included in Note 1. The Town is exposed to certain custodial credit risks from the use of local financial institutions for its depository accounts. At December 31, 2014 a total of \$3,873,653 was on deposit with local institutions in the name of the Town and were fully insured or collateralized by securities or an irrevocable line of credit pledged in the Town’s name. The Town did not recognize any losses due to default by counterparties relating to depository relationships.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the investor will not be able to recover the value of the investments or collateral securities that are in the possession of the outside party. All of the investment pool assets are uninsured and unregistered, held by the counter party’s trust department or agent in the investor’s name.

Town of Chapin
Notes to Financial Statements
December 31, 2014

Credit Risk

Credit risk is managed through the diversification of securities and types of securities within the investment pools. Credit ratings are not available for investments in debt securities.

Interest Rate Risk

Interest rate risk is managed through the diversification of securities and types of securities within the investment pools.

Liquidity Risk

Liquidity risk is managed through the diversification of types of securities, issuers, and issues within the investment pools.

The following schedule reconciles cash and investments as reported in the Statement of Net Position to the footnote disclosures provided for deposits and investments:

Statement of net position	<u>December 31,</u> <u>2014</u>
Cash and cash equivalents	\$ 1,067,721,
Cash, restricted escrow funds	35,358
Cash, restricted council	2,710,658
Cash, statutory restriction	<u>60,116</u>
Total reporting entity	<u><u>\$ 3,873,853</u></u>
 Note disclosure	
Cash on hand	\$ 200
Deposits with banks	<u>3,873,653</u>
Total reporting entity	<u><u>\$ 3,873,853</u></u>

Note 3 – Accounts Receivables

	Governmental Activities	Business Type Activities	Total December 31, 2014
Property taxes	\$ 97,885	\$ —	\$ 97,885
Service customers	—	223,615	223,615
Other	10,530	—	10,530
	<u>108,415</u>	<u>223,615</u>	<u>332,030</u>
Less, allowance for uncollectible	(—)	(10,000)	(10,000)
Net accounts receivable	<u><u>\$ 108,415</u></u>	<u><u>\$ 213,615</u></u>	<u><u>\$ 322,030</u></u>

Town of Chapin
Notes to Financial Statements
December 31, 2014

Property Taxes

Real and all personal property taxes, other than automobile property taxes, attach as an enforceable lien on January 1st of each year. Real property taxes are levied in September of each year and are payable before January 15th of the subsequent year. Automobile property taxes attach a lien and are levied throughout the year depending on when the vehicle's license tax expires. These taxes are assessed and collected by Lexington County, South Carolina under a joint billing and collection agreement. Other personal property taxes are levied in September of each year and are payable by January 15th of the subsequent year.

In the General Fund financial statements, property taxes are recorded as revenue in the period they are levied and become due and available within the current period or expected to be collected soon enough thereafter, within 60 days of each year, to be used to pay liabilities of the current period.

Note 4 – Bond Issuance Costs

During 2011 the Town issued a bond to fund construction of a Town Hall. The Town incurred costs of \$15,000 related to the bond issuance; those costs are being amortized over a 10 year period.

Amortization expense for the year ended December 31, 2014 was allocated as follows:

	Business Type Activities
Administration	\$ 750
Police	750
	<hr/>
	\$ 1,500
	<hr/>

Town of Chapin
Notes to Financial Statements
December 31, 2014

Note 5 – Capital Assets

Governmental Activities	Balance, restated, 31-Dec-13	Increases	Decreases	Balance 31-Dec-14
Capital assets not being depreciated				
Land and improvements	\$ 891,689	\$ -	\$ -	\$ 891,689
Total capital assets not being depreciated	<u>891,689</u>	<u>-</u>	<u>-</u>	<u>891,689</u>
Other capital assets:				
Building and improvements	4,490,996	-	(18,450)	4,472,546
Machinery and equipment	36,129	14,715	-	50,844
Vehicles	214,146	-	(36,791)	177,355
Depreciable land improvements	1,330,788	-	-	1,330,788
Total other capital assets	<u>6,072,059</u>	<u>14,715</u>	<u>(55,241)</u>	<u>6,031,533</u>
Less, accumulated depreciation for:				
Building and improvements	(147,643)	(128,575)	-	(276,218)
Machinery and equipment	-	(4,336)	-	(4,336)
Vehicles	(128,741)	(29,690)	36,791	(121,640)
Depreciable land improvements	(267,677)	(48,326)	-	(316,003)
Total accumulated depreciation	<u>(544,061)</u>	<u>(210,927)</u>	<u>36,791</u>	<u>(718,197)</u>
Other capital assets, net	<u>5,527,998</u>	<u>(196,212)</u>	<u>(18,450)</u>	<u>5,313,336</u>
Capital assets, net	<u>\$ 6,419,687</u>	<u>\$ (196,212)</u>	<u>\$ (18,450)</u>	<u>\$ 6,205,025</u>

For governmental activities depreciation expense for the year ended December 31, 2014 was allocated as follows:

Administration	\$ 138,860
Police	29,690
Streets	42,377
	<u>\$ 210,927</u>

Town of Chapin
Notes to Financial Statements
December 31, 2014

Business-type Activities	Balance, restated, 31-Dec-13	Increases	Decreases	Balance 31-Dec-14
Capital assets not being depreciated				
Land and improvements	\$ 573,825	\$ -	\$ -	\$ 573,825
Construction in process	198,384	102,603	-	300,987
Total capital assets not being depreciated	<u>772,209</u>	<u>102,603</u>	<u>-</u>	<u>874,812</u>
Other capital assets:				
Machinery, equipment and other	63,371	-	-	63,371
Vehicles	24,732	8,000	-	32,732
Depreciable land improvements	21,667,533	-	-	21,667,533
Total other capital assets	<u>21,755,636</u>	<u>8,000</u>	<u>-</u>	<u>21,763,636</u>
Less, accumulated depreciation for:				
Machinery, equipment and other	(9,441)	(7,044)	-	(16,485)
Vehicles	(14,839)	(5,080)	-	(19,919)
Depreciable land improvements	(7,844,830)	(3,160,493)	-	(11,005,323)
Total accumulated depreciation	<u>(7,869,110)</u>	<u>(3,172,617)</u>	<u>-</u>	<u>(11,041,727)</u>
Other capital assets, net	<u>13,886,526</u>	<u>(3,164,617)</u>	<u>-</u>	<u>10,721,909</u>
Capital assets, net	<u>\$ 14,658,735</u>	<u>\$ (3,062,014)</u>	<u>\$ -</u>	<u>\$ 11,596,721</u>

Land valued at \$379,650 previously reported under the business type activities has been reclassified to the opening balance of the governmental activities. Additionally, as discussed in footnote #1 the opening balance of land for governmental activities has been increased by \$384,630 representing the value of previously unrecorded land owned by the Town.

At December 31, 2014 the Town was in the process of constructing an addition to the sewer system known as south Chapin Gravity Sewer System phase III section II. Anticipated total construction cost is expected to approximately \$277,000.

In accordance with its policy, the Town reviews the estimated useful lives of its fixed assets on an ongoing basis. This review indicated that the actual lives of certain depreciable land improvements for business type activities are shorter than the estimated useful lives used for depreciation purposes in the Town's financial statements. As a result, effective January 1, 2014, the Town changed its estimates of the useful lives of its land improvements to better reflect the estimated periods during which these assets will remain in service. The estimated useful lives of land improvements that previously were depreciated over 40 years were reduced to 30 years. The effect of this change is estimate was to increase current year depreciation expense by approximately \$2,618,000.

Note 6 – Leasing Obligations

Future minimum payment obligations under operating leases are as follows:

2015	\$ 5,779
2016	5,779
2017	5,779
2018	3,853
2019	-
	<u>\$ 21,190</u>

Note 7 – Pension Plan and Other Employee Benefits

The majority of employees of the Town are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefits Authority (PEBA). Generally, all full-time or part-time equivalent employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended. The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits, to eligible employees and retired members.

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina’s CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee’s average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a

survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2012, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

Effective July 1, 2014, employees participating in the SCRS were required to contribute 8.00% of all earnable compensation. The employer contribution rate for SCRS was 10.90%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.75% and 0.15% for the incidental death benefit program. The Town's actual retirement and incidental death program contributions to the SCRS for the years ended December 31, 2014 and 2013 and 2012, respectively were:

Town of Chapin
Notes to Financial Statements
December 31, 2014

Fiscal Year Ended	Retirement System		Incidental Death	
	Employer Contribution Rate Effective	Employer Actual Contribution	Employer Contribution Rate Effective	Employer Actual Contribution
	July 1st		July 1st	
2014	10.750%	\$ 26,458	0.15%	\$ 375
2013	10.450%	\$ 22,676	0.15%	\$ 325
2012	10.450%	\$ 20,252	0.15%	\$ 306

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2014, employees participating in the PORS were required to contribute 8.41% of all earnable compensation. The employer contribution rate for PORS was 13.41%. Included in the total PORS employer contribution rate is a base retirement contribution of 13.01%, 0.20% for the incidental death program, and 0.20% for the accidental death program. The Town's actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended December 31, 2014 and 2013 and 2012, respectively were:

Town of Chapin
Notes to Financial Statements
December 31, 2014

Fiscal Year Ended	Retirement System		Incidental Death and Accidental Death	
	Employer Contribution Rate Effective July 1st	Employer Actual Contribution	Employer Contribution Rate Effective July 1st	Employer Actual Contributions
2014	13.010%	\$ 33,403	0.15%	\$ 1,050
2013	12.440%	\$ 30,668	0.15%	\$ 1,007
2012	11.900%	\$ 25,417	0.15%	\$ 873

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

At December 31, 2014 the Town's governmental activities reported \$188,593 and \$317,757 for its proportionate share of the net pension liabilities of SCRS and PORS, the Business-Type Activities reported \$153,503 for its proportionate share of the net pension liabilities of SCRS. The net pension liability defined of the SCRS and the PORS defined benefit pension plans were determined based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to June 30, 2014, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. The Town's portion of the net pension liability was based on the Town's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the Town's SCRS and PORS proportion was 0.001987% and 0.01660%, which was unchanged from its portion of the net pension liability measured as of June 30, 2013.

At December 31, 2014, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources	SCRS	PORS
Differences Between Expected and Actual Experience	\$ 9,694	\$ 8,480
Assumption Changes	—	—
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	—	—
Change in Allocated Proportion	—	—
Contributions after the Measurement Date	12,329	17,233
Total SCRS	\$ 22,023	\$ 25,713

Town of Chapin
Notes to Financial Statements
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Deferred Inflows of Resources	SCRS	PORS
Differences Between Expected and Actual Experience	\$ —	\$ —
Assumption Changes	—	—
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	28,841	36,767
Change in Allocated Proportion	—	—
Contributions after the Measurement Date	—	—
Total SCRS	\$ 28,841	\$ 36,767

The \$22,023 and \$25,713 reported as a deferred outflows of resources related to the Town's contributions subsequent to the measurement date to the SCRS, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the SCRS will be recognized in pension expense as follows:

Year Ended June 30,	SCRS	PORS
2016	\$ 4,212	\$ 6,993
2017	4,212	6,993
2018	4,212	6,993
2019	6,512	7,309
Total	\$ 19,148	\$ 28,288

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 is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

Town of Chapin
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The following table provides a summary of the actuarial cost method and assumptions used in the July 1, 2013, valuations for SCRS.

Actuarial Cost Method	SCRS
Actuarial Assumptions:	Entry Age
Investment Rate of Return	7.50%
Salary Increases	Levels off at 3.5%
Includes Inflation at	2.75%
Benefit Adjustments	Lesser of 1% or \$500

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.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	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 2012. 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 pension 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 table below. For actuarial purposes, the 7.50 percent

Town of Chapin
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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.

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	0.3%	0.01%
Short Duration	3.0%	0.6%	0.02%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	1.1%	0.08%
High Yield	2.0%	3.5%	0.07%
Bank Loans	4.0%	2.8%	0.11%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	0.8%	0.02%
Emerging Markets Debt	6.0%	4.1%	0.25%
Global Public Equity	31.0%	7.8%	2.42%
Global Tactical Asset Allocation	10.0%	5.1%	0.51%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.0%	0.32%
Private Debt	7.0%	10.2%	0.71%
Private Equity	9.0%	10.2%	0.92%
Real Estate (Broad Market)	5.0%	5.9%	0.29%
Commodities	3.0%	5.1%	0.15%
Total Expected Real Return	100.0%		5.88%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.63%

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 the 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 following table presents the sensitivity of the Town’s proportionate share of the net pension liability of the Plan as of June 30, 2014 to changes in the discount rate, calculated using the discount rate of 7.5 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.5 percent) or 1% point higher (8.5 percent) than the current rate:

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
SCRS	\$ 442,693	\$ 342,096	\$ 258,169
PORS	444,057	317,757	213,254
Total	\$ 886,750	\$ 659,853	\$ 471,423

Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plan administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS. The CAFR of the Pension Trust Funds is publicly available on PEBA’s Retirement Benefits’ website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

Note 8 – Contingencies and Project Commitments

The Town is in the process of evaluating the operational usage and capacity limits of the wastewater disposal system. It is anticipated that in the near term it will be necessary to expand the system to satisfy increased usage. Such expansion is likely to have a significant impact on the financial position of the Business Type Activities of the Town.

In the normal course of operations, the Town participates in various federal or state grant / loan programs from year to year. The grant / loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Note 9 – Risk Management

The Town is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The Town purchases the following insurance from the State of South Carolina. The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker’s compensation benefits for job—related illnesses or injuries

Town of Chapin
Notes to Financial Statements
December 31, 2014

Health and dental insurance benefits
Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State’s self-insured plan.

The Town and other entities pay premiums to the State’s Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercrafts
- Torts
- Natural disasters

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF’s rates are determined actuarially.

The Town obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

Note 10 – Long Term Liabilities

Long-term liability activity for the years ended is as follows:

	<u>December</u> <u>31, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>December</u> <u>31, 2014</u>	<u>Due within</u> <u>1 year</u>
Accrued compensate d absences and related benefits	<u>\$ 20,234</u>	<u>\$ 24,145</u>	<u>\$ 24,145</u>	<u>\$ 20,234</u>	<u>\$ 20,234</u>
Bonds Payable	<u>\$ 657,037</u>	<u>\$ —</u>	<u>\$ 72,613</u>	<u>\$ 584,424</u>	<u>\$ 75,147</u>

Debt service requirements for the Town’s general obligation bond used to construct the Town Hall are as follows. The bonds are being repaid over a 10 year period with interest on the bonds is at 3.490%. The Town may repay the bonds early without penalty in 2014.

Repayment schedule:

Year Ending June 30,	Governmental Activities General Obligation Bonds	
	Principal	Interest
2015	\$ 75,147	\$ 20,397
2016	77,770	17,774
2017	80,484	15,060
2018	83,293	12,251
2019	86,200	9,344
2020-2024	181,530	105,102
	<u>\$ 584,424</u>	<u>\$ 179,928</u>

Note 10 – Concentration of Revenue

For the Governmental Activities of the Town approximately 29.1% of general revenue is received from one taxpayer for a business license.

Note 11 – Pending and Threatened Litigation

The Town is from time to time involved in various litigation matters as either plaintiff or defendant. After considering known and potential litigation outstanding management does not expect to have a material adverse effect on the Town’s future financial position, or results of operations.

Note 12: Risk Management

The Town is exposed to various risks of loss and maintains commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The Town pays insurance premiums to commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for the deductibles.

In management’s opinion, claim losses in excess of insurance coverage, if any, is unlikely and if it occurred, would not be significant. Therefore, no loss accrual has been made in these financial statements. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expense and liability should be accrued at year-end.

Note 13 – General Fund Deficit Fund Balance

The General Fund of the Town has an overall deficit fund balance as a result of building the Town Hall during 2013. Management and Town Council are evaluating various options to restore it to a positive balance. The Town has traditionally experienced operating cash receipts in excess of disbursements, and anticipates reducing expenses to restore the deficit fund balance to a positive fund balance.

Note 14 – Subsequent Events Review

Management has reviewed the activity of the Town subsequent to year-end through December 11, 2015, the date the statements were available to be issued, for items of significance that would be required by professional standards to be disclosed in these statements. No items of significance were noted.

Town of Chapin
 Required Supplementary Information
 Schedule of Town of Chapin's Proportionate Share of the
 South Carolina Retirement System Net Pension Liability
 for the year ended
 December 31, 2014

	<u>2014</u>
South Carolina Retirement System	
Town of Chapin's Proportion of the Net Pension Liability	0.001987%
Town of Chapin's Proportionate Share of the Net Pension Liability	\$ 342,096
Town of Chapin's Covered-Employee Payroll	\$ 249,898
Town of Chapin's Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	136.894%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.919%
Police Officer Retirement System	
Town of Chapin's Proportion of the Net Pension Liability	<u>0.016600%</u>
Town of Chapin's Proportionate Share of the Net Pension Liability	\$ 317,757
Town of Chapin's Covered-Employee Payroll	\$ 262,441
Town of Chapin's Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	121.077%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.919%

Notes to Schedule:

The amount presented for each fiscal year were determined as of June 30th of the preceeding year

See Independent Auditor's Report

Town of Chapin
 Required Supplementary Information
 Schedule of Contributions to South Carolina Retirement System
 Last 10 Fiscal Years
 for the year ended
 December 31, 2014

	2014	2013	2012	2011	2010
South Carolina Retirement System					
Contractually Required Contribution	\$ 26,458	\$ 22,676	\$ 20,251	\$ 18,530	\$ 16,391
Contribution in Relation to the Contractually Required Contribution	26,458	22,676	20,251	18,530	16,391
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Employee Payroll	249,898	216,997	204,115	198,980	177,396
Contribution as a Percentage of Covered-Employee Payroll	10.590%	10.450%	9.920%	9.310%	9.240%
Required Contribution Rate at Year-End	10.750%	10.450%	10.450%	9.385%	9.240%
 Police Officer Retirement System					
Contractually Required Contribution	\$ 33,403	\$ 30,668	\$ 25,417	\$ 20,522	\$ 23,784
Contribution in Relation to the Contractually Required Contribution	33,403	30,668	25,417	20,522	23,784
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Employee Payroll	262,441	251,847	218,125	183,145	218,314
Contribution as a Percentage of Covered-Employee Payroll	12.730%	12.180%	11.650%	11.210%	10.890%
Required Contribution Rate at Year-End	13.010%	12.440%	11.900%	11.363%	11.130%

The information for fiscal years 2009 through 2005 is not available.

See Independent Auditor's Report

Town of Chapin
Supplementary Schedule of Fines and Assessments
for the year ended
December 31, 2014

Collections: \$ 77,423

Disbursements:	State Treasurer	38,017
	Audit Fee	900
	Surcharges and Victims Assistance	3,506
	Revenue Town	23,354
	Disbursed by Treasurer	-
	Disbursed by Court Clerk	5,342
		<u>\$ 71,119</u>

See Independent Accountant's Report

Town of Chapin
 Supplementary Schedule of Victim's Assistance
 Collections and Disbursements for the year ended
 December 31, 2014

Balance per bank account	December 31, 2013	\$ 56,523
Collections:	Fines and assessments	3,506
	Interest	87
		3,593
Disbursements:	Victim's assistance	-
Balance per bank account	December 31, 2014	\$ 60,116

See Independent Accountant's Report

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*

Town of Chapin
Chapin, South Carolina

We have audited, in accordance with the 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 and business type activities of the Town of Chapin (the "Town"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 11, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses. 2014-1 and 2014-4.

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. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies. 2014-2, 2014-3, 2014-5, and 2014-6.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Chapin's Response to Findings

Town of Chapin's response to the findings identified in our audit is described in the accompanying Attachment A. Town of Chapin's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.

BROWN CPA, L.L.C.

Irmo, South Carolina

December 11, 2015

Town of Chapin

Schedule of Findings 2014

2014-1 Financial Reporting – Financial Statement Level – (initially reported January 24, 2014)

This is a material weakness

Condition – Although we have noted significant improvement in financial reporting for fiscal year 2014, it was still necessary to post adjusting journal entries to the trial balance to arrive at the amounts reported herein. Adjustments include, amongst other adjustments, a prior period adjustment related to unrecorded land acquired in 2008 by the town that was erroneously omitted from the financial records during fiscal year 2010. The correction of this omission has resulted in a restatement of the January 1, 2014 opening net position of \$384,630.

Criteria – Sound financial reporting requires that financial accounts be reflective of the supporting documentation.

Effect – As a consequence of not posting updating entries throughout the year amounts reported by management are not comparable to the yearend financial statements.

Questioned Costs – None

Recommendation – We recommend that The Town of Chapin improve upon policies and procedures related to financial reporting wherein all necessary journal entries are posted to the accounts so that monthly financial statements are comparative to amounts reported at yearend.

Managements Response – See management’s response attached.

2014-2 Maintaining Supporting Documentation / Improve Upon the Record Retention Policy – (initially reported January 24, 2014)

This is a significant deficiency

Condition – It was noted in the General Fund, Town management was unable to locate documents supporting the following purchases initiated in December 2013 a) \$9,715 for tables and chairs and b) \$5,000 for court room chairs, both of which were added as a capital asset to machinery and equipment in fiscal 2014, (see also comment regarding obtaining authorization for purchases in excess of \$5,000).

Criteria – Good business practice.

Effect – The Town has incomplete records in relation to this transaction.

Questioned Costs – None

Recommendation – We recommend that The Town of Chapin improve record retention policies.

Town of Chapin

Schedule of Findings 2014

We understand that when the current administration took office in January 2014 and that new policies were put in place during fiscal 2014 and 2015.

Managements Response – See management’s response attached.

2014-3 Timely Performance of Financial Statement Audit – (initially reported January 24, 2014)

This is a significant deficiency

Condition – During the audit for the year ended December 31, 2012, 2013 and 2014 we noted that the audit was not timely performed due in part to turnover in key management positions.

Criteria – Good business practices and sound internal control.

Effect – In order for financials statements to be meaningful and useful and in order to identify and correct bad practices, the financial statement audit should be timely performed.

Questioned Costs – None

Recommendation – We recommend that the Town establish policies and procedures requiring that the financial statement audit be completed within 120 days of yearend.

Managements Response – See management’s response attached.

Schedule of Findings 2014

2014-4 Incompatible Functions– (initially reported January 24, 2014)

This is a material weakness

Condition – The activities of the general fund town activities and water and sewer activities of the Town are primarily recorded by two separate accountants. One accountant for the general town activities and one accountant for water and sewer activities. These individuals are responsible for numerous incompatible functions such as making bank deposits, making journal entries to the financial records, check writing, and bank account reconciliation, among other things.

Criteria – Segregation of duties results in improved internal control.

Effect – The Town has a weak internal control structure which could result in financial irregularities.

Questioned Costs – None

Recommendation – The Town should consider improving the segregation of duties of Town personnel to reduce or eliminate incompatible functions. The Town should consider the incremental costs of additional oversight and segregation of duties to the perceived benefits received. Specifically, we recommend a) that someone that does not have access to the financial records, such as a member of the police force, make the daily deposits at the bank for the activities of the Town and Utilities, once the activity for the day has been balanced, and b) check signing should be limited to those individuals that do not have direct access to the QuickBooks data files.

Managements Response – See management’s response attached.

2014-5 Update of Employee Policy Manual – (initially reported December 15, 2014)

This is a Significant Deficiency

Condition – During the planning for the audit for the year ended December 31, 2014 it was noted that:

The Employee Policy Manual has not been updated since 1998. The Town of Chapin has consulted with an employment lawyer and per town management, that lawyer has recommended that:

- a) The Town of Chapin should make significant revisions to the employee manual to bring it into compliance with current regulatory requirements and employment law best practices.
- b) Remove the ordinance that the Town currently has that governs the Employee Policy Manual form and content thereby allowing for more timely revisions.

Town of Chapin

Schedule of Findings 2014

Criteria – Various regulatory requirements and employment best practices.

Effect – By not updating the Employee Policy Manual the Town exposes itself to potential employee misconduct that could otherwise be expressly prohibited by policy.

Questioned Costs – None

Recommendation – We recommend that The Town of Chapin:

- a) Timely require employees sign required forms and receipt of Employee Policy Manual on the first day of employment.
- b) Follow the advice received from the employment lawyer that they have consulted with and update the Employee Policy Manual and remove the ordinance governing that manual.

2014-6 Obtain Authorization for Acquisition of Goods and Services in Excess of Threshold

This is a significant deficiency

Condition – During the audit for the year ended December 31, 2014 it was noted that the Town acquired in fiscal 2013 goods and services in excess of Town ordinance 8.504 requiring that acquisitions in excess of \$5,000 be subject to competitive bidding. See comment #2014-1 Item #1 above.

Criteria – Town Code.

Effect – The Town may have acquired goods and services in excess of market rates.

Questioned Costs – None

Recommendation – Either revise or follow Town Code.

Managements Response – See management's response attached.

Status of Prior Year Findings:

Finding	Status
2013-1 Financial Reporting – Financial Statement Level – (initially reported January 24, 2014)	See current year comment #2014-1
2013-2 Financial Reporting – Detail Level – (initially reported January 24, 2014)	Corrective Action Taken
2013-3 Maintaining Supporting Documentation / Improve Upon the Record Retention Policy – (initially reported January 24, 2014): <ol style="list-style-type: none"> 1) Maintaining Supporting Documentation 2) General Fund of the Town has several bank accounts s and monthly statements are not consistently maintained and or filed in a fashion allowing for easy retrieval; further the accounts are not timely reconciled. 3) The Town has what appears to be a significant quantity of dated material that is likely of no further use to the Town. 	See Comment 2014-2 <ol style="list-style-type: none"> 1) It was noted that corrective action took place in early 2014. 2) It was noted that corrective action took place in early 2014. 3) The Town continues to review numerous items to determine future value.
2013-4 Improve Check Signing Policy – (initially reported January 24, 2014)	Corrective Action Taken
2013-5 Timely Performance of Financial Statement Audit – (initially reported January 24, 2014)	See current year comment #2014-3
2013-6 QuickBooks Data File – (initially reported January 24, 2014)	Corrective Action Taken
2013-7 Incompatible Functions– (initially reported January 24, 2014)	See current year comment #2014-4
2013-8 Update of Employee Policy Manual – (initially reported December 15, 2014)	See current year comment #2014-5

Attachment A



157 NW Columbia Avenue • P.O. Box 183 • Chapin, SC 29036

December 11, 2015

Brown CPA, LLC
PO Box 3288
Irmo, SC 29063

RE: Management response to the 2014 Schedule of Findings

Dear Matt Brown;

We are in receipt of the 2014 audit report for the Town of Chapin. After reviewing the Schedule of Findings reported in the audit it is our opinion that the changes in personnel in late 2014 and early 2015 will correct some of the findings reported.

The financial activities of the Town are processed by a small accounting department resulting in limited segregation of duties and thus internal control conflicts. We recognize this structural deficiency and will continue to try and identify opportunities to strengthen the internal control structure giving consideration to any additional costs associated with improving the internal controls verses the perceived benefits.

Sincerely,

Mayor Skip Wilson