



Financial Statements with Independent Auditor's Report
for the year ended December 31, 2016

TOWN OF CHAPIN
ELECTED OFFICIALS

<u>NAME</u>	<u>YEAR ELECTED</u>	<u>TERM EXPIRATION</u>
MAYOR		
JAMES R. WILSON JR 219 Woodthrush Rd. Chapin, SC. 29036 cell: 803-331-3731 Phone: 803- 932-7276, fax 803-345-0427 803-575-8040 E-mail swilson@skipwilsonfinancial.com (mayorskipwilson@chapin-sc.com)	2013	12/31/2017
COUNCIL		
Mike Clonts 111 A Glenwood Road Chapin, SC 29036 Phone: 803-932-7604 E-mail mclonts@chapin-sc.com	2015	12/31/2019
ROBERT P. FRICK (Robbie) P. O. Box 11 Chapin, SC. 29036 Phone: 803-345-2156 E-mail rfrick@chapin-sc.com	2001	12/31/2017
KAY HOLLIS 105 Glenwood Drive Chapin, SC 29036 Phone 803-345-2877 E-mail khollis@chapin-sc.com	2003	12/31/2019
GREGG WHITE 318 Clark Street P.O. Box 713 White Rock SC 29177 Chapin, SC 29036 Phone: 345-8913 E-mail gwhite@chapin-sc.com	2013	12/31/2017

GENERAL INFORMATION:

POPULATION: APPROX 1,554 (2015)

LAND AREA: 1.8 sq. miles

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

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

PHONE: 803-345-2444

FAX 803-345-0427

WEB SITE chapin-sc.com

e-mail chapin-sc@chapin-sc.com

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 year ended December 31, 2016 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Town of Chapin, as of December 31, 2016, 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.

www.browncpallc.com

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Chapin’s basic financial statements. The schedule of Fines and Assessments and schedule of Victim’s Assistance Collections and Disbursements are 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 May 12, 2017, 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

May 12, 2017

TOWN OF CHAPIN, SOUTH CAROLINA
Management's Discussion and Analysis
Year ended December 31, 2016

As management of the Town of Chapin, South Carolina (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2016. The intent of this discussion and analysis is to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Town's financial activities (c) identify changes in the Town's financial position, (d) identify significant deviations from the approved general fund budget, and highlight significant issues in the individual funds. We encourage readers to consider the information presented here in conjunction with the Town's financial statements, which follow this section.

Financial Highlights

- The Town's reporting period is January 1 to December 31
- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent calendar year by \$21,405,019 (net position). Of this amount, \$15,288,272 represents the investment in capital assets. The remaining \$6,116,747 (unrestricted) may be used to meet the Town's ongoing obligations to citizen's and creditors.
- The Town's total net position increased by \$888,215.
- At the close of the current calendar year, the Town's governmental funds reported an ending fund balance of \$902,356, an increase of \$38,969.
- The Town has \$431,507 in general obligation bonds outstanding at December 31, 2016, a net decrease of \$77,769 from the balance at December 31, 2015. This decrease was due to the scheduled principal payment during 2016 as well as a refinance.

Overview of the Financial Statements

This discussion and analysis provides an introduction to the Town of Chapin's basic financial statements, which include the following parts: (1) *government-wide financial statements*, (2) *fund financial statements*, and (3) *notes to the financial statements*. This annual report also contains certain *required supplementary information* and *other supplementary information* to aid in understanding the operations of the Town.

Government-wide Financial Statements

The government-wide statements present a long-term view of the Town's finances *as a whole*, using *accrual-basis accounting*—the same accounting basis that most businesses use.

There are two government-wide financial statements:

Statement of net position: This statement presents information on *all* of the Town's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in the Town's net position may serve as a useful indicator of whether its financial position is improving or deteriorating. However, the statement of net position does not tell the whole story. To assess the Town's overall financial health, other factors need to be considered such as the Town's economy and the condition of its *capital assets* such as its buildings and infrastructure (water and sewer lines).

Statement of activities: This statement presents information showing how the Town's overall net position changed during the year. The Town reports a change in its net position as soon as an underlying event occurs that causes a change. The statement of activities accounts for all current-year revenues and expenses, regardless of when the Town received or paid cash. Although governments compile the statement of activities using accounting methods similar to businesses, the format of this statement is quite different from the format of a business's profit and loss statement. The statement of activities helps to show how much it costs for the Town to provide various services. It also indicates the extent to which each government function covers its own costs through user fees, charges, or grants. The *net revenues (expenses)* column on the far right of this statement shows how much a particular function relies on taxes and other general revenues as opposed to program revenues to support its programs.

TOWN OF CHAPIN, SOUTH CAROLINA
Management's Discussion and Analysis
Year ended December 31, 2016

For financial reporting purposes the government-wide statements present three different kinds of *activities*:

Governmental activities: Most of the Town's basic services are included here, such as general government, and administration of justice. Taxes (primarily business licenses and real and personal property taxes) and grants provide resources to support most of these services.

Business-type activities: These activities usually recover all, or a significant portion, of the costs of their services or goods by charging fees to customers. The Water and Sewer Fund is the only business-type activity of the Town.

Component units: Although component units are legally separate from the Town, the Town's elected officials are financially accountable for them. For the year ended December 31, 2016 the Town did not have any component units.

Fund Financial Statements

The fund financial statements provide detailed information about the Town's most significant funds—not the Town as a whole. Funds are accounting designations that the Town uses to track specific funding sources and spending for particular purposes. The Town of Chapin, like other governments, uses fund accounting to ensure and demonstrate compliance with financial related legal requirements.

The Town reports two types of *funds*:

Governmental funds: The Town reports most of its basic services in governmental funds. Governmental funds account for activities that the Town reports as *governmental activities* in its government-wide Statements. These funds focus on *short-term* inflows and outflows of expendable resources. The balances remaining at the end of the year help determine whether a fund has more or less financial resources available to spend in the near future. Because the governmental fund statements lack the additional long-term focus of the government-wide statements, a reconciliation that explains the relationship (or differences) between the two kinds of statements is provided. By comparing the two kinds of statements and examining the reconciliation, a better understanding of the long-term impact of the Town's near-term funding decisions is available.

Proprietary funds: Proprietary funds charge customers for the services they provide—whether they are provided to outside customers (*enterprise funds*) or other Town departments and other governments (*internal service funds*). Proprietary funds use the *accrual basis of accounting* like businesses use. The Town reports all of its enterprise funds as *business-type activities* in the government-wide Statements. However, because the internal service fund operations primarily benefit other Town departments or other governments, these proprietary funds are included as *governmental activities* in the government-wide financial Statements.

Notes to the Financial Statements

Immediately following the financial statements are *notes* that provide additional and pertinent information to the financial statement amounts.

Required Supplementary Information

This section addresses budgetary matters and provides certain *required* reporting information that supplements the basic financial statements. Included in this section is a schedule of the Town's proportionate share of the net pension liability of the South Carolina Retirement System, and a schedule of contributions to the South Carolina Retirement System.

Supplementary Information

Supplementary information presented but not required by accounting principles generally accepted in the United States of America includes the schedule of fines and assessments and schedule of victim's assistance collections and disbursements. These schedules are presented to provide information requested by the South Carolina State Treasurer's Office.

TOWN OF CHAPIN, SOUTH CAROLINA
Management's Discussion and Analysis
Year ended December 31, 2016

Government-wide Financial Analysis

As noted earlier, net position serves as a useful indicator of a public government's financial position. The following table reflects the condensed governmental-wide statement of net position.

TOWN OF CHAPIN, SOUTH CAROLINA NET POSITION						
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ (1,264,221)	\$ (1,316,110)	\$ 7,068,723	\$ 5,890,600	\$ 5,804,502	\$ 4,574,490
Capital Assets	6,013,301	6,021,858	11,581,515	11,546,285	17,594,816	17,568,143
Total Assets	4,749,080	4,705,748	18,650,238	17,436,885	23,399,318	22,142,633
Deferred outflows of resources	479,479	378,857	494,372	264,115	973,851	642,972
Long-term Liabilities Outstanding	1,553,673	1,473,196	975,795	600,779	2,529,468	2,073,975
Other Liabilities	226,359	69,503	143,891	123,710	370,250	193,213
Total Liabilities	1,780,032	1,542,699	1,119,686	724,489	2,899,718	2,267,188
Deferred inflow of resources	67,464	641	968	972	68,432	1,613
Net Position						
Net Investment in Capital Assets	4,390,105	5,512,582	10,898,167	11,546,285	15,288,272	17,058,867
Restricted				2,714,727		2,714,727
Unrestricted	(1,009,042)	(1,971,317)	7,125,789	2,714,527	6,116,747	743,210
Total Net Position	\$ 3,381,063	\$ 3,541,265	\$ 18,023,956	\$ 16,975,539	\$ 21,405,019	\$ 20,516,804

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's combined net position at December 31, 2016 was \$21,405,019, an increase of \$888,215 or 4.1%, from our last calendar year end or twelve months ago.

The largest portion of the Town's net position of \$15,288,272 (71%) reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens of the town and surrounding community, consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are unlikely to be sold or leased to repay these liabilities.

The balance of the unrestricted net position, \$6,116,747 (29%) may be used to meet the Town's ongoing obligations to citizens and creditors.

TOWN OF CHAPIN, SOUTH CAROLINA
Management's Discussion and Analysis
Year ended December 31, 2016

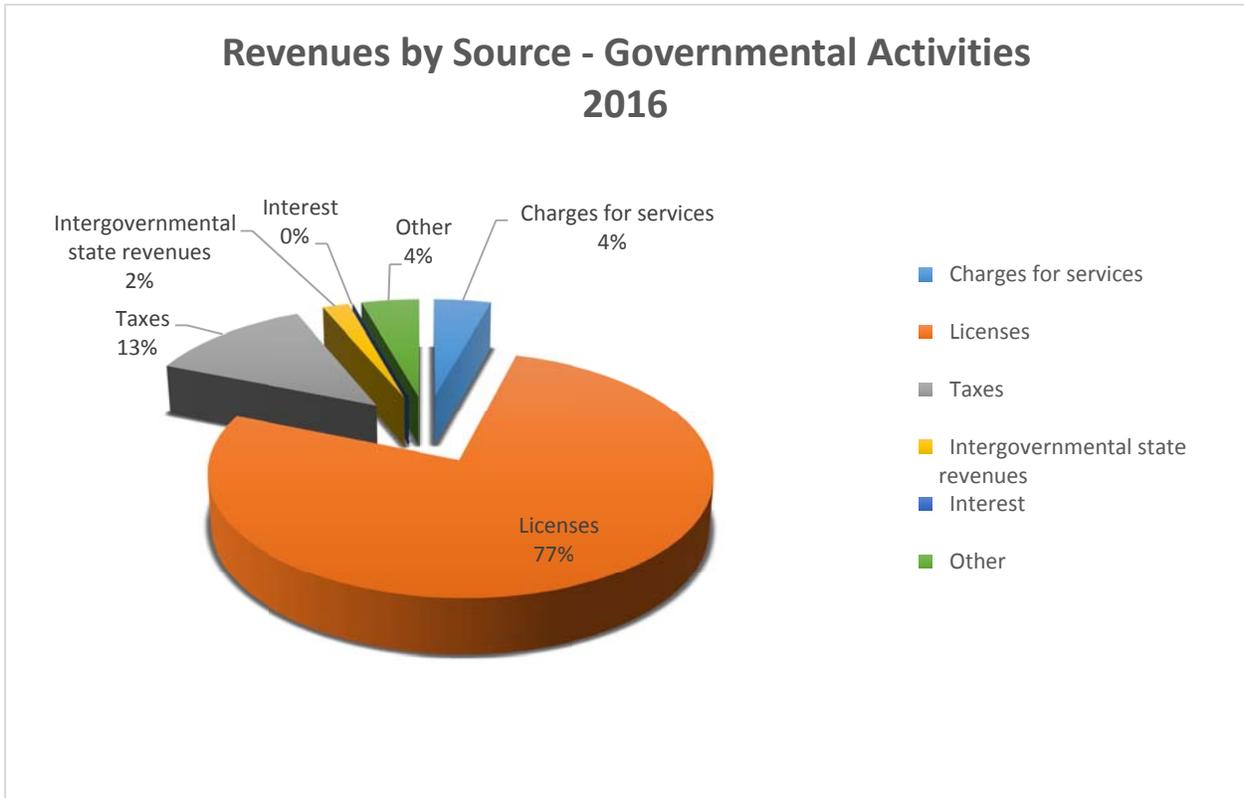
Changes in the Town's net position during the years ended December 31, 2016 and December 31, 2015 are shown below:

TOWN OF CHAPIN, SOUTH CAROLINA CHANGES IN NET POSITION						
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Revenues						
Charges for services	\$ 68,824	\$ 70,287	\$ 3,554,848	\$ 2,525,514	\$ 3,623,672	\$ 2,595,801
Operating grants and contributions			606,046	407,145	606,046	407,145
General Revenue						
Licenses	1,243,383	1,130,135			1,243,383	1,130,135
Taxes	201,829	146,505			201,829	146,505
Intergovernmental state revenues	31,808	28,879			31,808	28,879
Interest	323	231	4,570	4,069	4,893	4,300
Other	70,041	109,580			70,041	109,580
Total Revenues	<u>1,616,208</u>	<u>1,485,617</u>	<u>4,165,464</u>	<u>2,936,728</u>	<u>5,781,672</u>	<u>4,422,345</u>
Expenses						
General administration	916,372	662,340			916,372	662,340
Mayor and council	59,344	40,476			59,344	40,476
Public safety	590,472	545,060			590,472	545,060
Public works	59,153				59,153	
Municipal court	151,069	145,316			151,069	145,316
Water and sewer			3,117,047	3,052,162	3,117,047	3,052,162
	<u>1,776,410</u>	<u>1,393,192</u>	<u>3,117,047</u>	<u>3,052,162</u>	<u>4,893,457</u>	<u>4,445,354</u>
Change in Net Position	(160,202)	92,425	1,048,417	(115,434)	888,215	(23,009)
Net Position - Beginning	<u>3,541,265</u>	<u>3,448,840</u>	<u>16,975,539</u>	<u>17,090,973</u>	<u>20,516,804</u>	<u>20,539,813</u>
Net Position - Ending	<u>\$ 3,381,063</u>	<u>\$ 3,541,265</u>	<u>\$ 18,023,956</u>	<u>\$ 16,975,539</u>	<u>\$ 21,405,019</u>	<u>\$ 20,516,804</u>

Governmental activities. Governmental activities decreased the Town's net position by a net of \$160,202. Key elements of this decrease are as follows:

- Although revenue from Licenses increased 10%, salary and related expenses increased by 25% due to salary increases and two additional staff positions for Chief of Police and Town Clerk.
- There was a 56% increase in the retirement costs required to be captured according to the adoption of GASB 68.

TOWN OF CHAPIN, SOUTH CAROLINA
Management's Discussion and Analysis
Year ended December 31, 2016



Business-type activities. Business-type activities increased the Town's net position by \$1,048,417. The water and sewer activities account for the increase. Key elements of this increase are as follows:

- Charges for services are up due to an increase of water and sewer billings as well as new sewer tap fees. Water and sewer billings increased 4% due to an increase in the customer base and sewer tap fees saw a 184% increase over the prior year due to new construction.
- In March 2016 an 8% sewer fee rate increase was implemented to assist with the upcoming Capital Project to improve the Waste Water Treatment Plant. The total amount collected over the existing rates is \$203,654.
- Overall expenses stayed relatively constant with a 2% increase or \$64,885.

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.

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

At the end of the current calendar year, the Town's governmental funds reported an ending fund balance of \$902,356, an increase of \$38,969. This increase in the General Fund is a result of favorable revenue variances.

TOWN OF CHAPIN, SOUTH CAROLINA
Management's Discussion and Analysis
Year ended December 31, 2016

General Fund Budgetary Highlights

For the calendar year 2016, Town Council adopted a balanced budget for the General Fund. The Town Council has the authority to amend the budget as required. There were no budget amendments in any fund for 2016.

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets as of December 31, 2016 amounts to \$17,594,816 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, vehicles and infrastructure.

TOWN OF CHAPIN, SOUTH CAROLINA CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and improvements	\$ 1,041,689	\$ 891,689	\$ 573,825	\$ 573,825	\$ 1,615,514	\$ 1,465,514
Construction in progress			109,523	62,151	109,523	62,151
Building and improvements	3,969,689	4,067,752	42,437		4,012,126	4,067,752
Machinery and equipment	37,487	41,998	283,539	163,297	321,026	205,295
Vehicles	31,775	53,960	108,244	123,804	140,019	177,764
Depreciable land improvements	932,661	966,459	10,463,947	10,623,208	11,396,608	11,589,667
Total	<u>\$ 6,013,301</u>	<u>\$ 6,021,858</u>	<u>\$ 11,581,516</u>	<u>\$ 11,546,285</u>	<u>\$ 17,594,816</u>	<u>\$ 17,568,143</u>

Major capital asset events during the current year include the following:

- The General Fund purchased 401 Lexington Avenue for \$180,000 of which the land was valued at \$150,000.
- The Lexington Avenue streetscape was completed and the Town portion was \$14,775.
- The Utilities department purchased one vehicle in the amount of \$16,434 for the new Utility Locator who was hired in 2016.
- Machinery and equipment included major repairs for various pump stations or wells in the amount of \$123,227.21 as well as Water CAD software and a sewer line camera which totaled \$19,605.92
- A Pole Building and fence were purchased for the Utility equipment and repair parts in the amount of \$42,974 and were placed in service during 2016.
- During 2016 the Town of Chapin was deeded developer constructed sewer lines in the amount of \$606,046.

Long-term Obligations. At the end of 2016, the Town had total-long term obligations outstanding of \$2,529,468 which includes \$2,058,860 in net pension liabilities due to the adoption of GASB 68. The Town's long-term debt decreased by \$77,769 which was due to the principal payments on the general obligation bonds. In April 2016 the General Obligation Bond was refinanced from an interest rate of 3.49% to 1.97 % for which the total savings will be \$18,000 over 5 years and after legal fees the net savings will be approximately \$13,000 over 5 years. The Town entered into a Promissory Note Agreement for payment of property (401 Lexington Avenue) in the amount of \$150,000.

State statues limit the amount of general obligation debt a government entity may issue, without a referendum, to 8 percent of its total assessed valuation. The current debt limitation for the Town is \$931,448 of which \$431,507 is outstanding.

TOWN OF CHAPIN, SOUTH CAROLINA
Management's Discussion and Analysis
Year ended December 31, 2016

TOWN OF CHAPIN, SOUTH CAROLINA OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 431,507	\$ 509,276	\$ -	\$ -	\$ 431,507	\$ 509,276
Promissory Note	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000	\$ -
Total Outstanding Debt	\$ 581,507	\$ 509,276	\$ -	\$ -	\$ 581,507	\$ 509,276

Economic Factors and Next Year's Budget

- For the calendar year 2017, the Town Council has approved an annual budget in the amount of \$1,692,550 for the General Fund, an increase of \$112,700 (7.1%) over the prior year.
- The Town's millage rate of 11.505 remained the same as prior year.

Requests for Information

This financial report is designed to provide a general overview of the Town of Chapin's for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance and Administrative Support, Town of Chapin, 157 NW Columbia Avenue, Chapin, South Carolina, 29036.

Town of Chapin
Statement of Net Position
December 31, 2016

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
Assets			
Current assets:			
Cash and equivalents	\$ 759,416	\$ 744,274	\$ 1,503,690
Cash and equivalents, restricted			
Escrow funds	-	38,380	38,380
Council restricted	-	3,771,009	3,771,009
Statutory restriction	68,488	-	68,488
Accounts receivable, net	121,212	259,803	381,015
Prepaid expenses	41,920	-	41,920
Total current assets	<u>991,036</u>	<u>4,813,466</u>	<u>5,804,502</u>
Noncurrent assets:			
Internal balances	(2,255,257)	2,255,257	-
Capital assets nondepreciable	1,041,689	683,348	1,725,037
Capital assets depreciable, net	4,971,612	10,898,167	15,869,779
Total noncurrent assets	<u>3,758,044</u>	<u>13,836,772</u>	<u>17,594,816</u>
Total Assets	<u>4,749,080</u>	<u>18,650,238</u>	<u>23,399,318</u>
Deferred Outflows of Resources			
Deferred Pension Charges	<u>479,479</u>	<u>494,372</u>	<u>973,851</u>
Liabilities			
Current liabilities:			
Accounts payable	19,830	64,239	84,069
Accrued expenses	20,860	-	20,860
Accrued wages and related expenditures	47,990	21,553	69,543
Accrued compensated absences and related benefits	26,780	19,719	46,499
Long-term liabilities due within one year	110,899	-	110,899
Customer deposits	-	38,380	38,380
	<u>226,359</u>	<u>143,891</u>	<u>370,250</u>
Amounts due beyond one year:			
Long-term liabilities due in more than one year	470,608	-	470,608
Net Pension Liability	1,083,065	975,795	2,058,860
Total Noncurrent Liabilities	<u>1,553,673</u>	<u>975,795</u>	<u>2,529,468</u>
Total liabilities	<u>1,780,032</u>	<u>1,119,686</u>	<u>2,899,718</u>
Deferred Inflows of Resources			
Deferred Pension Credits	<u>67,464</u>	<u>968</u>	<u>68,432</u>
Net Position			
Net investment in capital assets	4,390,105	10,898,167	15,288,272
Unrestricted (deficit)	(1,009,042)	7,125,789	6,116,747
Total net position	<u>\$ 3,381,063</u>	<u>\$ 18,023,956</u>	<u>\$ 21,405,019</u>

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

Town of Chapin
Statement of Activities
for the year ended
December 31, 2016

Function / Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Primary Governmental		Totals
				Governmental Activities	Business-type Activities	
Primary Government:						
Governmental activities:						
General administration	\$ 916,372	\$ -	\$ -	\$ (916,372)	\$ -	\$ (916,372)
Council and mayor	59,344	-	-	(59,344)	-	(59,344)
Public safety	590,472	68,824	-	(521,648)	-	(521,648)
Public works	59,153	-	-	(59,153)	-	(59,153)
Municipal court	151,069	-	-	(151,069)	-	(151,069)
	<u>1,776,410</u>	<u>68,824</u>	<u>-</u>	<u>(1,707,586)</u>	<u>-</u>	<u>(1,707,586)</u>
Business-type activities:						
Water and Sewer	<u>3,117,047</u>	<u>3,554,848</u>	<u>606,046</u>	<u>-</u>	<u>1,043,847</u>	<u>1,043,847</u>
Total Primary Government	<u>\$ 4,893,457</u>	<u>\$ 3,623,672</u>	<u>\$ 606,046</u>	<u>(1,707,586)</u>	<u>1,043,847</u>	<u>(663,739)</u>
General revenues						
Licenses				1,243,383	-	1,243,383
Taxes				201,829	-	201,829
Intergovernmental state revenues				31,808	-	31,808
Interest				323	4,570	4,893
Other				70,041	-	70,041
				<u>1,547,384</u>	<u>4,570</u>	<u>1,551,954</u>
				Change in net position	1,048,417	888,215
				Net Position, beginning of year	16,975,539	20,516,804
				Net Position, end of year	<u>\$ 18,023,956</u>	<u>\$ 21,405,019</u>

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

Town of Chapin
Balance Sheet Governmental Fund
December 31, 2016

	<u>Total Governmental General Fund</u>
Assets:	
Cash and cash equivalents	\$ 827,903
Receivables	121,212
Prepaid expenses	41,920
Total assets	\$ 991,035
Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	\$ 19,829
Accrued expenses	20,860
Accrued wages and related expenditures	47,990
Total liabilities	88,679
Fund balance	
Unassigned	902,356
Total fund balance	902,356
Total liabilities and fund balance	\$ 991,035

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, 2016

Total fund balance governmental fund	\$	902,356
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund		6,013,301
Deferred outflow of resources are not recognized in the governmental fund:		
Deferred pension charges		479,479
Some liabilities are not due and payable in the current period and therefore are not reported in the fund. Those liabilities consist of:		
Accrued compensated absences		(26,780)
Debt		(581,507)
Net pension liability		(1,083,065)
Internal balances		(2,255,257)
Deferred inflow of resources are not recognized in the governmental fund:		
Deferred pension credits		(67,464)
		902,356
Net position of governmental activities	\$	3,381,063

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, 2016

Revenues:

Licenses	\$	1,243,383
Taxes		201,829
Fines		68,824
Intergovernmental state revenues		31,808
Interest		323
Other		70,041
Total revenues		1,616,208

Expenditures:

Current:

General administration		587,890
Mayor and Council		59,344
Public safety		
Police department wages and benefits		490,302
Police department operating expenses		87,405
Public works		59,153
Municipal court		151,069
Debt service:		
Principal		77,770
Interest		19,531
Capital outlay		44,775
Total expenditures		1,577,239

Net change in fund balance		38,969
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Fund balance, beginning, restated		863,387
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Fund balance, ending	\$	902,356
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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, 2016

Reconciliation to the Statement of Activities:

Net change in fund balance governmental fund	\$	38,969
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		44,775
Noncash change in pension obligation		(104,383)
Depreciation of capital assets is reported as an expense in the statement of activities		(203,333)
Bond issuance costs are reported as an expense in the statement of activities		(14,000)
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		77,770
		77,770
Net change in net position governmental activities	\$	(160,202)

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, 2016

	Original and Final <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
Revenues:			
Licenses	\$ 1,309,100	\$ 1,243,383	\$ (65,717)
Taxes	141,250	201,829	60,579
Fines	71,000	68,824	(2,176)
Intergovernmental state revenues	27,000	31,808	4,808
Interest	200	323	123
Other	31,300	70,041	38,741
Total Revenues	1,579,850	1,616,208	36,358
Expenditures:			
Current			
General administration	547,635	587,890	(40,255)
Mayor and Council	51,356	59,344	(7,988)
Public safety			
Police department wage and benefit	497,855	490,302	7,553
Police department operating expenses	97,480	87,405	10,075
Municipal court	156,580	151,069	5,511
Public works	63,400	59,153	4,247
Debt service:			
Principal	77,770	77,770	-
Interest	17,774	19,531	(1,757)
Capital outlay	70,000	44,775	25,225
Total Expenditures	1,579,850	1,577,239	2,611
	\$ -	\$ 38,969	\$ 38,969

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

TOWN OF CHAPIN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2016

Business-type Activities - Enterprise Funds - Water and Sewer

Assets

Current assets:

Cash and equivalents	\$	744,274
Accounts receivable, net		259,803
Prepaid expenses		-
Cash and equivalents, restricted		
Escrow funds		38,380
Council restricted		3,771,009
Total current assets		4,813,466

Noncurrent assets:

Internal balances		2,255,257
Capital assets nondepreciable		683,348
Capital assets depreciable, net		10,898,167
Total noncurrent assets		13,836,772

Total assets

18,650,238

Deferred outflows of resources

Deferred pension charges		494,372
		494,372

Liabilities

Current liabilities:

Accounts payable		64,239
Accrued payroll and related liabilities		21,553
Accrued absences		19,719
Payable from restricted assets:		
Customer deposits		38,380
Total current liabilities		143,891

Noncurrent liabilities:

Net pension liability		975,795
Total noncurrent liabilities		975,795

Total liabilities

1,119,686

Deferred inflows of resources

Deferred pension charges		968
		968

Net Position

Net investment in capital assets		10,898,167
Unrestricted		7,125,789
Total net position	\$	18,023,956

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, 2016
Business-type Activities - Enterprise Funds - Water and Sewer

Operating revenue:	
Charges for services	\$ 3,554,848
Total operating revenue	3,554,848
Operating and maintenance expenses:	
Salaries	553,837
Benefits	352,063
Contractual services	152,690
Materials and supplies	750,751
Utilities	192,022
Repairs and maintenance	288,334
Other expenses	6,921
Depreciation	820,429
Total operating expenses	3,117,047
Operating income (loss)	437,801
Nonoperating revenue (expenses)	
Interest income	4,570
Total nonoperating revenue	4,570
Increase(decrease) in net position, before capital contributions	442,371
Capital contributions:	
Developer contributions of systems	606,046
Change in net position	1,048,417
Net position, beginning of year	16,975,539
Net position, end of year	\$ 18,023,956

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, 2016

Cash flows provided by operating activities:	
Cash receipts from customers	\$ 3,513,795
Cash payments for employee wages and benefits for services provided	(696,570)
Payments to suppliers	(1,418,638)
Net cash provided by operating activities	<u>1,398,587</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(249,613)
Net cash used by capital and related financing activities	<u>(249,613)</u>
Cash flows from noncapital financing activities:	
Interest received	4,570
Increase (decrease) in refundable deposits	(2,112)
Net cash provided by noncapital financing activities	<u>2,458</u>
Net change in cash	1,151,432
Cash and cash equivalents - beginning of year	<u>3,402,231</u>
Cash and cash equivalents - end of year	<u><u>\$ 4,553,663</u></u>
Classified as:	
Cash and equivalents	\$ 744,274
Cash and equivalents, restricted	
Escrow funds	38,380
Council restricted	3,771,009
	<u><u>\$ 4,553,663</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 437,801
Adjustments:	
Depreciation	820,429
Changes in assets and liabilities:	
Decrease (increase) in: Accounts receivable	(41,053)
Internal balances	14,362
Increase (decrease) in: Accounts payable	(42,284)
Accrued payroll and related liabilities	4,367
Accrued absences	2,955
Pension deferred inflows/outflows and liability	202,010
Net cash provided by operating activities	<u><u>\$ 1,398,587</u></u>
Noncash activities:	
Developer contributions of systems	\$ 606,046

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), zoning administration, 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 Position and the Statement of Activities, 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.

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 resources 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.

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 re 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 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 as follows:

<u>Governmental Activities</u>	
Depreciable Land Improvements	10 – 30 years
Buildings and Improvements	10 – 50 years
Machinery and Equipment	7 – 15 years
Vehicles	5 years

<u>Business-type Activities</u>	
Depreciable Land Improvements	30 years
Machinery and Equipment	5 – 15 years
Vehicles	5 years

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 position. Bonds payable are reported net of any applicable bond premium or discount.

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 expensed in the period incurred.

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. Chapin 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. Chapin 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:

Net investment in capital assets: 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.

Restatement: The opening fund balance for the Governmental Fund was increased by \$10,309 due to the prior year having incorrectly included compensated absences as a liability of the fund.

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.

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, 2016 a total of \$5,479,707 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.

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>2016</u>
Cash and cash equivalents	\$ 1,504,197
Cash, restricted escrow funds	38,380
Cash, restricted council	3,771,009
Cash, statutory restriction	67,980
Total reporting entity	<u>\$ 5,381,566</u>
Note disclosure	
Cash on hand	\$ 200
Deposits with banks	5,381,366
Total reporting entity	<u>\$ 5,381,566</u>

Note 3 – Accounts Receivables

	Governmental Activities	Business Type Activities	Total December 31, 2016
Property taxes	\$ 121,212	\$ —	\$ 121,212
Service customers	—	269,803	269,803
	<u>121,212</u>	<u>269,803</u>	<u>391,015</u>
Less, allowance for uncollectible	(—)	(10,000)	(10,000)
Net accounts receivable	<u>\$ 121,212</u>	<u>\$ 259,803</u>	<u>\$ 391,015</u>

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 plate 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.

Town of Chapin
Notes to Financial Statements
December 31, 2016

Note 4 – Capital Assets

Governmental Activities	Balance, 31-Dec-15	Increases	Decreases	Balance 31-Dec-16
Capital assets not being depreciated				
Land and improvements	\$ 891,689	\$ 150,000	\$ -	\$ 1,041,689
Total capital assets not being depreciated	<u>891,689</u>	<u>150,000</u>	<u>-</u>	<u>1,041,689</u>
Other capital assets:				
Building and improvements	4,472,546	30,000	-	4,502,546
Machinery and equipment	50,844	-	-	50,844
Vehicles	180,998	-	-	180,998
Depreciable land improvements	1,330,788	14,775	-	1,345,563
Total other capital assets	<u>6,035,176</u>	<u>44,775</u>	<u>-</u>	<u>6,079,951</u>
Less, accumulated depreciation for:				
Building and improvements	(404,794)	(128,063)	-	(532,857)
Machinery and equipment	(8,846)	(4,511)	-	(13,357)
Vehicles	(127,038)	(22,185)	-	(149,223)
Depreciable land improvements	(364,329)	(48,573)	-	(412,902)
Total accumulated depreciation	<u>(905,007)</u>	<u>(203,332)</u>	<u>-</u>	<u>(1,108,339)</u>
Other capital assets, net	<u>5,130,169</u>	<u>(158,557)</u>	<u>-</u>	<u>4,971,612</u>
Capital assets, net	<u>\$ 6,021,858</u>	<u>\$ (8,557)</u>	<u>\$ -</u>	<u>\$ 6,013,301</u>

For governmental activities depreciation expense for the year ended December 31, 2016 was allocated as follows:

Administration	\$ 181,147
Police	22,185
	<u>\$ 203,332</u>

Town of Chapin
Notes to Financial Statements
December 31, 2016

Business-type Activities	Balance, 31-Dec-15	Increases	Decreases	Balance 31-Dec-16
Capital assets not being depreciated				
Land and improvements	\$ 573,825	\$ -	\$ -	\$ 573,825
Construction in process	62,151	47,372	-	109,523
Total capital assets not being depreciated	<u>635,976</u>	<u>47,372</u>	<u>-</u>	<u>683,348</u>
Other capital assets:				
Building and improvements	-	42,974	-	42,974
Machinery, equipment and other	193,418	142,833	-	336,251
Vehicles	171,012	16,434	-	187,446
Depreciable land improvements	22,353,157	606,046	-	22,959,203
Total other capital assets	<u>22,717,587</u>	<u>808,287</u>	<u>-</u>	<u>23,525,874</u>
Less, accumulated depreciation for:				
Building and improvements	-	(537)	-	(537)
Machinery, equipment and other	(30,121)	(22,590)	-	(52,711)
Vehicles	(47,208)	(31,995)	-	(79,203)
Depreciable land improvements	(11,729,949)	(765,307)	-	(12,495,256)
Total accumulated depreciation	<u>(11,807,278)</u>	<u>(820,429)</u>	<u>-</u>	<u>(12,627,707)</u>
Other capital assets, net	<u>10,910,309</u>	<u>(12,142)</u>	<u>-</u>	<u>10,898,167</u>
Capital assets, net	<u>\$ 11,546,285</u>	<u>\$ 35,230</u>	<u>\$ -</u>	<u>\$ 11,581,515</u>

At December 31, 2016 the Town was in the process of constructing a new wastewater treatment facility. Anticipated total construction costs for the new sewer plant are expected to be \$12 million. The Town anticipates paying for this new sewer plant by using cash reserves, an increase in the rates charged to customers, and obtaining a loan to finance the construction.

The Town is currently in the process of designing approximately three miles of a new sewer force main to the treatment plant. The design and engineering analysis should be completed during the year ending December 31, 2017. Construction of this force main is expected during the year ending December 31, 2018. It is anticipated that the total cost of this project will be approximately \$900,000.

Note 5 – Leasing Obligations

Future minimum payment obligations under operating leases are as follows:

2016	\$ 5,779
2017	5,779
2018	3,853
2019	-
2020	-
	<u>\$ 15,411</u>

Note 6 – 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.

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).
SCRS Required Contribution Rates Effective July 1st

Town of Chapin
Notes to Financial Statements
December 31, 2016

Year Ended	Employee	Employer	Employer Contributions	Employer Incidental Death
2016	8.66%	10.91%	\$ 83,347	0.15%
2015	8.16%	10.75%	\$ 62,613	0.15%
2014	8.00%	10.45%	\$ 26,458	0.15%

PORS Required Contribution Rates Effective July 1st

Year Ended	Employee	Employer	Employer Contributions	Employer Incidental & Accidental Death
2016	9.24%	13.84%	\$ 47,379	0.20%
2015	8.74%	13.34%	\$ 35,386	0.20%
2014	8.41%	13.01%	\$ 33,403	0.20%

Effective July 1, 2017 employer contributions will increase 1% per year until 2022.

At December 31, 2016 the Town's governmental activities reported \$502,948 and \$580,117 for its proportionate share of the net pension liabilities of SCRS and PORS, the Business-Type Activities reported \$975,795 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, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to June 30, 2016, and financial information of the pension trust funds as of June 30, 2016, 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. The relative share is as follows:

	SCRS	PORS
June 30, 2016	0.006923%	0.02287%
June 30, 2015	0.004757%	0.02690%

Town of Chapin
Notes to Financial Statements
December 31, 2016

At December 31, 2016, 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	\$ 15,329	\$ 8,608
Assumption Changes	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	124,410	65,780
Change in Allocated Proportion	565,557	125,128
Contributions after the Measurement Date	43,866	25,173
Total	\$ 749,162	\$ 224,689
Deferred Inflows of Resources	SCRS	PORS
Differences Between Expected and Actual Experience	\$ 1,606	\$ -
Assumption Changes	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	-
Change in Allocated Proportion	-	66,826
Total	\$ 1,606	\$ 66,826

The contributions subsequent to the measurement date to the SCRS, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the Town's proportional share of the net balance of remaining deferred outflows (inflows) of resources at December 31, 2016. Average remaining service lives of all employees provided with pension through the plan at June 30, 2016 was 4.116 years for SCRS and 4.665 years for PORS and at June 30, 2015 was 4.164 years for SCRS and 4.796 years for PORS.

	SCRS	PORS
Difference between expected and actual experience		
Initial balance (Inflow)/Outflow	3,607	8,608
Amortization Period Ending December 31,		
2017	(721)	(1,722)
2018	(721)	(1,722)
2019	(721)	(1,722)
2020	(721)	(1,722)
2021	(723)	(1,720)
	(3,607)	(8,608)

Town of Chapin
Notes to Financial Statements
December 31, 2016

	SCRS	PORS
Difference between projected and actual investment earnings		
Initial balance (Inflow)/Outflow	124,410	65,780
Amortization Period Ending December 31,		
2017	(24,882)	(13,156)
2018	(24,882)	(13,156)
2019	(24,882)	(13,156)
2020	(24,882)	(13,156)
2021	(24,882)	(13,156)
	<u>(124,410)</u>	<u>(65,780)</u>

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. An experience report on the System was most recently issued as of July 1, 2015. As a result of the experience study, the actuary recommended adjustments to the actuarial assumptions, which included salary increase, payroll growth, mortality, retirement, terminations, refunds, disability, inflation, and asset valuation method. The experience study also recommended reducing the long-term investment rate of return assumption, which is a prescribed assumption that is set in state statute by the General Assembly, from 7.50 to 7.25 percent. With the exception of the rate of return, all recommended assumption and method changes were adopted by both the PEBA Board and SFAA, as co-fiduciaries. The General Assembly did not change the assumed annual rate of return during the 2016 legislative session so that assumption currently remains at 7.50 percent. The newly adopted assumptions and methods will be first used to perform the July 1, 2016, actuarial valuation, the results of which will be used in determining the total pension liability as of the June 30, 2017, measurement date.

The following table provides a summary of the actuarial assumptions used in the July 1, 2015 valuations.

	SCRS	PORS
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return (including inflation at 2.75%)	7.50%	7.50%
Salary Increases (including inflation at 2.75%)	3.5% to 12.5%	4.0% to 10.0%
Benefit Adjustments	Lesser of 1% or \$500	Lesser of 1% or \$500

Town of Chapin
Notes to Financial Statements
December 31, 2016

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%

Long-term Expected Rate of Return

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 2015. The long-term expected rates of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
Global Equity	43.0%		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	8.0%		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	20.0%		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	17.0%		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	<u>100.0%</u>		<u>5.10%</u>
Inflation for Actuarial Purposes			<u>2.75%</u>
Total Expected Nominal Return			<u><u>7.85%</u></u>

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following table presents the sensitivity of the Town’s proportionate share of the net pension liability of the Plan as of June 30, 2016 to changes in the discount rate, calculated using the discount rate of 7.50 percent, as well as what it would be using a discount rate that is 1% lower (6.50 percent) or 1% higher (8.50 percent) than the current rate:

Plan	1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
SCRS	\$ 1,864,272	\$ 1,478,743	\$ 1,155,620
PORS	790,255	580,117	392,265
Total	<u>\$ 2,654,527</u>	<u>\$ 2,058,860</u>	<u>\$ 1,547,885</u>

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 7 – Contingencies and Project Commitments

As further discussed in footnote 5, 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 8 – 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
- 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 9 – Long Term Liabilities

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

Governmental Activities

	<u>December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>	<u>Due within 1 year</u>
Accrued compensated absences and related benefits	\$ 19,037	\$ 19,898	\$ (12,155)	\$ 26,780	\$ 26,780
Debt Payable	\$ 509,276	\$ 150,000	\$ (77,769)	\$ 581,507	\$ 110,899

Debt is being repaid in annual payments thru September 2021 with interest rates ranging from 1.97% to 5.00%. The Town may repay the debt early without penalty.

Business-Type Activities

	<u>December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>	<u>Due within 1 year</u>
Accrued compensated absences and related benefits	\$ 16,764	\$ 20,839	\$ (17,884)	\$ 19,719	\$ 19,719

Debt service requirements for the Town are as follows:

Year Ending June 30,	Governmental Activities	
	Debt Repayment	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 110,899	\$ 15,009
2018	112,915	13,652
2019	116,003	9,906
2020	119,195	6,713
2021	122,495	3,413
2022-2026		
	<u>\$ 581,507</u>	<u>\$ 48,693</u>

Note 10 – Concentration of Revenue

For the Governmental Activities of the Town approximately 22% 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 – Internal Balances / Deficit Fund Balance

The Governmental Activities of the Town has an overall deficit net position as a result of cash transfers in 2013 from the enterprise fund to pay for construction costs related to building the Town Hall. Management and Town Council are evaluating various options for the repayment to the enterprise fund and to eliminate the deficit fund balance in the near term. The Town has traditionally experienced operating cash receipts in excess of disbursements, and anticipates reducing expenses to restore the deficit net position to a positive balance.

Note 14 – Subsequent Events Review

Management has reviewed the activity of the Town subsequent to year-end through May 12, 2017, 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, 2016

	<u>2016</u>
South Carolina Retirement System	
Town of Chapin's Proportion of the Net Pension Liability	0.006923%
Town of Chapin's Proportionate Share of the Net Pension Liability	\$ 1,478,743
Town of Chapin's Covered-Employee Payroll	\$ 746,327
Town of Chapin's Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	198.136%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	52.9%
Police Officer Retirement System	
Town of Chapin's Proportion of the Net Pension Liability	<u>0.026900%</u>
Town of Chapin's Proportionate Share of the Net Pension Liability	\$ 580,117
Town of Chapin's Covered-Employee Payroll	\$ 348,344
Town of Chapin's Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	166.536%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.4%

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, 2016

	2016	2015	2014	2013	2012	2011	2010
South Carolina Retirement System							
Contractually Required Contribution	\$ 83,347	\$ 62,613	\$ 26,458	\$ 22,676	\$ 20,251	\$ 18,530	\$ 16,391
Contribution in Relation to the Contractually Required Contribution	83,347	62,613	26,458	22,676	20,251	18,530	16,391
Contribution Deficiency (Excess)	<u>\$ -</u>						
Covered Employee Payroll	746,327	577,855	249,898	216,997	204,115	198,980	177,396
Contribution as a Percentage of Covered-Employee Payroll	11.170%	10.840%	10.590%	10.450%	9.920%	9.310%	9.240%
Required Contribution Rate at Year-End	11.410%	10.910%	10.750%	10.450%	10.450%	9.385%	9.240%
Police Officer Retirement System							
Contractually Required Contribution	\$ 47,379	\$ 35,386	\$ 33,403	\$ 30,668	\$ 25,417	\$ 20,522	\$ 23,784
Contribution in Relation to the Contractually Required Contribution	47,379	35,386	33,403	30,668	25,417	20,522	23,784
Contribution Deficiency (Excess)	<u>\$ -</u>						
Covered Employee Payroll	348,344	268,814	262,441	251,847	218,125	183,145	218,314
Contribution as a Percentage of Covered-Employee Payroll	13.600%	13.160%	12.730%	12.180%	11.650%	11.210%	10.890%
Required Contribution Rate at Year-End	13.840%	13.340%	13.010%	12.440%	11.900%	11.363%	11.130%

The information for fiscal years 2009 through 2007 is not available.

See Independent Auditor's Report

Town of Chapin
Supplementary Schedule of Fines and Assessments
for the year ended
December 31, 2016

Collections:		\$ 75,744
Disbursements:	State Treasurer	41,564
	Surcharges and Victims Assistance	3,971
	Revenue Town	25,722
	Disbursed by Court Clerk	6,888
		<u>\$ 78,145</u>

See Independent Accountant's Report

Town of Chapin
 Supplementary Schedule of Victim's Assistance
 Collections and Disbursements for the year ended
 December 31, 2016

Balance per bank account	December 31, 2015	\$ 63,996
Deposit in transit		421
Balance in the account		64,417
Collections:	Fines and assessments	3,971
	Interest	99
		4,070
Disbursements:	Victim's assistance	-
Balance per bank account	December 31, 2016	67,980
Deposit in transit		508
Balance in the account		\$ 68,487

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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated May 12, 2017.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings that we consider to be significant deficiencies. See findings 2016-01 and 2016-02.

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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

May 12, 2017

Town of Chapin

Schedule of Findings 2016

2016-01 Incompatible Functions

This is a Significant Deficiency

Condition – The financial transactions of the general fund and proprietary fund of the Town are primarily recorded by two individuals, one accountant for the general fund and one accountant for the proprietary fund. These individuals are responsible for numerous incompatible functions such as opening the mail, making bank deposits, posting 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 an internal control structure which could result in financial irregularities due to the Town being a small municipality with limited staffing.

Questioned Costs – None

Recommendation – The Town should consider enhancing the segregation of duties of Town personnel to reduce or eliminate potential incompatible functions. The Town should consider the additional incremental costs of additional oversight and segregation of duties to the perceived benefits received.

Managements Response – See management’s response attached.

2016-2 Update of Employee Policy Manual

This is a Significant Deficiency

Condition – During the planning for the audit for the year ended December 31, 2016 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 the Town of Chapin make significant revisions to the employee manual to bring it into compliance with current regulatory requirements and employment law best practices.

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

Town of Chapin

Schedule of Findings 2016

Recommendation – We recommend that The Town of Chapin revise the Employee Policy Manual to better align with current labor law and employer policy best practices.

Status of Prior Year Findings:

Finding	Status
2015-1 Incompatible Functions– (initially reported January 24, 2014)	See current year comment #2016-01
2015-2 Update of Employee Policy Manual – (initially reported December 15, 2014)	See current year comment #2016-02

Attachment A



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

June 2, 2017

Brown CPA, LLC
PO Box 3288
Irmo, SC 29063

RE: Management response to the 2016 Schedule of Findings

Dear Matt Brown;

We are in receipt of the 2016 audit report for the Town of Chapin. After reviewing the Schedule of Findings reported in the audit, it is our opinion that the continued efforts of town personnel in 2017 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 create 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