

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

GOVERNMENT-WIDE FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2016

WITH
INDEPENDENT AUDITORS' REPORT

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

GOVERNMENT-WIDE FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

Mayor Timothy A. Grimsley
Town of Cottageville, South Carolina
23 Salley Ackerman Drive
Cottageville, South Carolina 29435

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Cottageville, South Carolina (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 *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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

The Brittingham Group LLP

West Columbia, South Carolina
August 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mayor and Town Clerk of the Town of Cottageville submit to the readers of the Town's financial statements the overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

The combined Governmental Activity liabilities and deferred inflows of the Town of Cottageville exceeded its combined assets and deferred outflows at the end of the fiscal year by (\$552,055) (net position). Of this amount, a deficit of (\$759,300) (unrestricted net position) existed at the time.

The combined Governmental Activities Revenues and other financial sources totaled \$932,433 and combined expenses totaled \$817,356. Accordingly, combined revenues exceeded expenses by \$115,077.

At the end of fiscal year 2016, the governmental funds restricted and spendable fund balance was \$108,484, and the unassigned fund balance was \$243,511. Accordingly, \$243,511 was available for spending at the government's discretion from the unassigned fund balance. The total fund balance was \$243,762 for the General Fund, the Town's principal operating fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as primer on the Town's basic financial statements. The Town's basic financial statements have three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with an overview of the Town's finances, in a manner similar to businesses in the private sector business.

The statement of net position presents information on all of the Town's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in the net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information detailing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years. (e.g. uncollected taxes and earned but unused compensated absences). A compensated absence is a work absence in which the employee will be paid. (e.g. sick leave, vacation leave and holiday leave).

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Under the GASB 34 model for fiscal year 2016, the government-wide statements are reported using and economic resource measurement focus and the accrual basis of accounting, as opposed to the cash basis of accounting. The accrual basis of accounting recognizes revenue before cash is received and recognizes expenses before cash is paid. The cash basis of accounting recognizes revenue as cash when it is received and recognizes expenses when cash is paid.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's liabilities exceeded assets by (\$480,859) at the close of fiscal year 2016. Net position is reported in three categories:

Net investment in capital assets	\$ 98,761
Restricted net position	108,484
Unrestricted net position	(759,300)
	<u>\$ (552,055)</u>

A significant portion of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital investments to provide services to citizen customers; consequently, these assets are not available for future expenditures. 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 cannot be used to liquidate these liabilities.

The majority of the Town's net position reflects restricted assets (e.g. resources that can only be used according to externally imposed restrictions). Although the Town's ownership of its restricted assets is reported, it should be noted these the resources may not be used to provide for the needs for any purposes other than those specifically described in the legally binding purpose of the externally imposed restrictions.

The following table presents a summary of the Town's net position as of June 30, 2016 and June 30, 2015:

**Town of Cottageville's Condensed Statement of Net Position
June 2016**

	Governmental Activities
Current and other assets	\$ 397,639
Capital assets	182,578
Deferred outflows of resources	141,852
Total assets and deferred outflows of resources	<u>722,069</u>
Long-term liabilities outstanding	754,524
Other liabilities	519,050
Deferred inflows of resources	550
Total liabilities and deferred inflows of resources	<u>1,274,124</u>
Net position:	
Net investment in capital assets	98,761
Restricted	108,484
Unrestricted	(759,300)
Total net position	<u><u>\$ (552,055)</u></u>

**Town of Cottageville's Condensed Statement of Net Position
June 2015**

	Governmental Activities
Current and other assets	\$ 256,288
Capital assets	199,405
Deferred outflows of resources	23,889
Total assets and deferred outflows of resources	<u>479,582</u>
Long-term liabilities outstanding	315,930
Other liabilities	698,779
Deferred inflows of resources	21,509
Total liabilities and deferred inflows of resources	<u>1,036,218</u>
Net position:	
Net investment in capital assets	87,634
Unrestricted	(644,270)
Total net position	<u><u>\$ (556,636)</u></u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental activities. Governmental activities net position increased \$115,077 during the current fiscal year. Governmental activities revenues and expenses shows an increase when compared to fiscal year 2015. The increase in revenue is primarily due to the increase in state shared revenues and police fines.

Governmental funds. The focus on the Town's governmental funds is to provide information on inflow, outflow and balances of spendable resources. Such information is useful in assessing the Town's financing requirements.

At the end of fiscal year 2016, the Town's governmental funds reported a combined ending fund balance of \$351,995. The Town's general fund reported an ending fund balance of \$243,762. The General Fund represents 69% of the total fund balance of all governmental funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

Selected variances between fiscal years 2016 and 2015 General Fund actual revenues were as follows:

• \$ 7,433	license and permits decrease	10.47%	decrease
• \$ 114,435	state shared revenue increase	74.17%	increase
• \$ 44,752	police fines increase	8.94%	increase
• \$ 10,411	other income increase	13.93%	increase

TOTAL SELECTED ACTUAL REVENUE INCREASE \$162,165 (20.26%)

Police fines and state shared revenues are the principle reasons for the Governmental activity increase. The 74.17% increase in state shared revenues is best characterized by increase reporting and collection by staff and municipal association collection assistance. The 10.47% decrease in license and permit revenue is due to the Town not retaining as many local businesses as in the prior year.

Town of Cottageville's Capital Assets Net of Accumulated Depreciation - 2016

	<u>Governmental Activities</u>
Land	\$ 5,000
Buildings and improvements	52,714
Equipment	20,224
Vehicles	96,692
Other	7,948
Total	<u>\$ 182,578</u>

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 311,610
Receivables	
State	24,531
Other	61,498
Capital assets:	
Land	5,000
Other capital assets, net	177,578
Total assets	<u>580,217</u>
Deferred outflows of resources	
Pension expenses and contributions	141,852
Total assets and deferred outflows of resources	<u>722,069</u>
Liabilities	
Accounts payable	39,194
Accrued payroll and other expenses	6,450
Accrued compensated absences	5,218
Long-term liabilities:	
Due within one year	49,473
Due in more than one year	754,524
Net pension liability	418,715
Total liabilities	<u>1,273,574</u>
Deferred outflows of resources	
Related to pensions	550
Total liabilities and deferred inflows of resources	<u>1,274,124</u>
Net position	
Net investment in capital assets	98,761
Restricted net position - expendable	
Victims assistance	108,233
Seized Money	251
Unrestricted - unfunded pension obligation	(277,413)
Unrestricted - other	(481,887)
Total net position	<u><u>\$ (552,055)</u></u>

See accompanying notes.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2016

	General	Special Revenue	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 311,610	\$ -	\$ 311,610
State revenue, receivable	24,531	-	24,531
Due from other funds	-	108,233	108,233
Other receivable	61,498	-	61,498
Total assets	<u>397,639</u>	<u>108,233</u>	<u>505,872</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	39,194	-	39,194
Accrued payroll and other liabilities	6,450	-	6,450
Due to other funds	108,233	-	108,233
Total liabilities	<u>153,877</u>	<u>-</u>	<u>153,877</u>
Fund balances			
Restricted	251	108,233	108,484
Unassigned	243,511	-	243,511
Total fund balances	<u>243,762</u>	<u>108,233</u>	<u>351,995</u>
Total liabilities and fund balances	<u>\$ 397,639</u>	<u>\$ 108,233</u>	<u>\$ 505,872</u>

See accompanying notes.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2016

	General	Special Revenue	Total Governmental Funds
Revenues			
Licenses and permits	\$ 63,570	\$ -	\$ 63,570
Police fines	515,032	30,114	545,146
State shared revenues	268,720	-	268,720
Other	85,111	57	85,168
Total revenues	<u>932,433</u>	<u>30,171</u>	<u>962,604</u>
Expenditures			
General government	83,273	484	83,757
Police department	237,400	-	237,400
Municipal court	395,514	-	395,514
Debt service	57,131	-	57,131
Capital outlay	21,130	-	21,130
Total expenditures	<u>794,448</u>	<u>484</u>	<u>794,932</u>
Excess of revenues over expenditures	<u>137,985</u>	<u>29,687</u>	<u>167,672</u>
Net change in fund balance	137,985	29,687	167,672
Fund balance, beginning of year - as restated	<u>105,777</u>	<u>78,546</u>	<u>184,323</u>
Fund balance, end of year	<u>\$ 243,762</u>	<u>\$ 108,233</u>	<u>\$ 351,995</u>

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN
GENERAL FUND BALANCE - BUDGET TO ACTUAL

YEAR ENDED JUNE 30, 2016

	Final Budget	Actual	Variance with Final Budget
Revenues			
Licenses and permits	\$ 69,000	\$ 63,570	\$ (5,430)
Police fines	494,902	515,032	50,244
State shared revenues	99,000	268,720	169,720
Other	64,521	85,111	20,647
Total revenue	<u>727,423</u>	<u>932,433</u>	<u>235,181</u>
Expenditures			
General government	118,714	83,273	34,958
Police department	284,145	237,400	46,745
Municipal court	266,883	395,514	(128,631)
Debt service	34,348	57,131	(22,783)
Capital outlay	23,333	21,130	2,203
Total expenditures	<u>727,423</u>	<u>794,448</u>	<u>(67,508)</u>
Excess of revenues over expenditures	-	137,985	167,673
Net change in fund balance	<u>\$ -</u>	137,985	<u>\$ 167,673</u>
Fund balance, beginning of year - as restated		<u>105,777</u>	
Fund balance, end of year		<u>\$ 243,762</u>	

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. Summary of Significant Accounting Policies

The Town of Cottageville, South Carolina (the "Town") was incorporated under the laws of the State of South Carolina for the incorporation of municipal governments and as amended by Act 283 of the 1975 Code (Home Rule Town Act). The Town operates under a Council-form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health, culture-recreation, public improvements, planning and zoning and general administrative services.

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

Basis of Presentation

Government-wide Financial Statements

The statement of net position and the statement of activities report information about all activities of the primary government. Taxes and other non-exchange transactions primarily finance the governmental activities. All of the Town's governmental funds are reported in the government-wide financial statements as governmental activities (See the *Fund Financial Statements* subsection which follows for more information about fund types.)

Statement of Activities

The statement of activities presents a comparison between direct expenses and program revenues and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include fees, fines, and charges paid by the recipients of goods, services, or privileges offered by the programs. The Town classifies as *general revenues* all revenues that are not program revenues, including all taxes and business license fees.

Fund Financial Statements

The fund financial statements provide information about the Town's funds, including its governmental funds. The Town has no other funds than governmental funds.

Fund Accounting

Fund Accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the entity and in accordance with directives issued by the governing board.

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TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

Transfers of financial resources among funds are recognized in all affected funds in the period in which the related interfund receivables and payables arise.

The Town has elected to treat all funds as major and present them in separate columns.

Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end.

Cash and Cash Equivalents and Investments

Cash includes amounts held in demand deposits. For purpose of the statement of cash flows, the Town considers all savings and short-term investments purchased with maturities of three months or less to be cash equivalents. State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements. Investments, if any, are reported at fair value.

Accounts Receivable

The accounts receivable of the General Fund consists of amounts collected by the South Carolina State Treasurer's Office for Local Option Sales Taxes and the Municipal Association of South Carolina for various programs that the Town participates.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on their respective financial statements.

Capital Assets and Depreciation

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are stated at cost or, if donated, at estimated fair market value at the time of donation. In some instances, capital asset historical costs were not available; therefore, the costs of these assets at the dates of acquisitions have been estimated. Expenditures materially extending the life of capital assets are capitalized. Capital assets are depreciated over their useful life, using the straight-line depreciation method. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Donated capital assets are valued at their estimated fair value on the date donated.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

Deferred Outflows/Inflows of Resources (continued)

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.

Net Position/Fund Balances

Net position is classified and presented in three components in the government-wide financial statements:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

The Town reports a portion of its net position or fund balance in its government-wide and fund financial statements as restricted net position - spendable. Net position or fund balance for governmental funds is reported as restricted when constraints placed on resource use are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulation of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the Town to assess, levy, charge, or otherwise mandate payments of resources (from resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable requirement is one that an outside party (such as citizens, public interest groups, or the judiciary) can compel the government to honor.

Unrestricted net position - All other net position that do not meet the definition of "restricted," or "invested in capital assets."

Fund balance is reported as assigned if the fund balance is constrained by the government's intent to use the funds for a specific purpose. The Town reports amounts as assigned if constrained through appropriations actions of the legislature. The removal of constraints for assigned funds occurs through the budgetary process.

Fund balance is reported as nonspendable if it is in the form of that cannot be used to satisfy current obligations.

Fund balance is reported as restricted fund balance if the fund balance is restricted for use by an outside party. The Town has restricted fund balance in the form of amounts held that can only be used for victims' assistance programs and seized money programs.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Deposits and Investments

Credit Risk – The town has an investment policy that limits investment types to those approved by the South Carolina Code of Laws to obligations of the United States and agencies thereof, general obligations of the State of South Carolina or any of its political subdivisions, certificates of deposit where the certificates are collaterally insured by securities described above held by a third part as escrow agent or custodian of a market value not less than the amount of certificates of deposits so secured including interest, or repurchase agreements when collateralized by securities set forth above.

Interest Rate Risk – In accordance with its investment policy, the Town manages its exposure to declines in fair value by limiting the weighted average maturity of its investments to short-term investments in South Carolina Local Investment Pool, when applicable.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal investment policy to address custodial credit risk. The town has a deposit policy for custodial credit risk. As of June 30, 2016, the bank balances were \$311,338. Of this amount, \$250,000 was covered by FDIC insurance coverage and the balance of \$61,338 was adequately collateralized in accordance with state law.

4. Receivables

Receivables at June 30, 2016, consist of the following:

Accounts receivable:	
State revenue	\$ 24,531
Other receivables	61,498
Gross receivables	<u>86,029</u>
Less, allowance for uncollectibles	<u>-</u>
Net receivables	<u><u>\$ 86,029</u></u>

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Long-Term Debt

Notes Payable

The Town has the following notes payable outstanding as of June 30, 2016:

Note payable to Enterprise Bank used to finance the purchase of real estate payable in monthly installments of \$1,065 (principal and interest) at an annual rate of 6.0%. The note matures in 2018.	\$ 18,230
Note payable to Enterprise Bank used to finance the purchase of 4 Chevrolet Tahoes payable in monthly installments of \$1,706 (principal and interest) at an annual rate of 6.0%. The note matures in 2020.	<u>65,586</u>
	<u>\$ 83,816</u>

Debt service requirements to maturity for these notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 29,473	\$ 3,785	\$ 33,258
2018	24,543	2,296	26,839
2019	19,318	1,154	20,472
2020	10,482	174	10,656
	<u>\$ 83,816</u>	<u>\$ 7,409</u>	<u>\$ 91,225</u>

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Pension Plan

The majority of the 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 Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State 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, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental 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, 2013 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 benefits 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 of 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).

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Pension Plan (continued)

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 of termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2016, employees participating in the PORS were required to contribute 9.24% of all earnable compensation. The employer contribution rate for PORS was 14.24%. Included in the total PORS employer contribution rate is a base retirement contribution of 13.84% and .20% for the incidental death program. The Town's actual contributions to the PORS for the years ended June 30, 2016, 2015 and 2014 were approximately \$21,112, \$12,897, and \$11,039, respectively, and equaled the base retirement required contribution rate, excluding surcharge of 14.24% for 2016, 13.34% for 2015, and 12.66% for 2014.

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

At June 30, 2016, the Town reported \$418,715 as its proportionate share of the net pension liabilities of SCRS and PORS. The net pension liability defined of the SCRS and PORS defined benefit pension plan were determined based on the July 1, 2016 actuarial valuations, using membership data as of July 1, 2016, 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. At June 30, 2016, the Fund's SCRS proportion was 0.0005% and PORS proportion was .0121%, which was the same as its portion of the net pension liability measured as of June 30, 2016. For the year ended June 30, 2016 the Town recognized pension expenses of \$5,666 for SCRS and \$21,112 for PORS.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Pension Plan (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year Ending</u>	
<u>June 30,</u>	<u>Net</u>
2017	\$ (80,375)
2018	(21,819)
2019	(20,129)
2020	(18,979)
	<u>\$ (141,302)</u>

The total pension liabilities in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	<u>SCRS</u>	<u>PORS</u>
Actuarial Cost Method	Entry Age	Entry Age
Actuarial Assumptions:		
Investment Rate or Return	7.50%	7.50%
Proejcted Salary Increases	Levels Off at 3.5% to 12.5%	Levels Off at 3.5% to 12.5%
Inflation Rate	2.75%	2.75%
Benefit Adjustments	Lesser of 1% or \$500	Lesser of 1% or \$500

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2015, and the next experience study is scheduled to be conducted after the June 30, 2020 annual valuation is complete.

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.

<u>Former Job Class</u>	<u>Males</u>	<u>Females</u>
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%

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Pension Plans (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all SCRS participating employers will be made at contractually required rates, actuarially determined.

Based on those assumptions, the plans' 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.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

10. Restatement

The Town reviewed audited balances as of June 30, 2015 and concluded that the entity-wide financial statements contained some material misstatements. These errors required the Town to restate its beginning net position. The balances were affected are as follows:

	<u>Net Position</u>
Audited net position as of June 30, 2015	\$ (556,636)
Errors noted	<u>(110,496)</u>
Restated net position as of June 30, 2015	<u>\$ (667,132)</u>

The Town reviewed audited balances as of June 30, 2015 and concluded that the fund financial statements contained some material misstatements. These errors required the Town to restate its beginning fund balance in the General Fund and the Special Revenue Fund. The balances were affected are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Audited fund balance as of June 30, 2015	\$ (526,252)	\$ -
Errors noted	<u>632,029</u>	<u>78,546</u>
Restated fund balance as of June 30, 2015	<u>\$ 105,777</u>	<u>\$ 78,546</u>

11. Subsequent Events

Subsequent events were evaluated through August 17, 2017, which is the date the financial statements were available for issue. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

SCHEDULE OF PROPORTIONATE SHARE OF THE SOUTH CAROLINA RETIREMENT SYSTEMS NET PENSION
LIABILITIES

LAST TEN FISCAL YEARS*

	2016	2015	2014
South Carolina Retirement System			
Town's proportion of the net pension liability	0.0005%	0.0005%	0.0004%
Town's proportionate share of the net pension liability	\$ 112,994	\$ 100,896	\$ 67,317
Town's covered payroll	\$ 49,658	\$ 49,798	\$ 35,981
Town's proportionate share of the net pension liability as a percentage of its covered payroll	227.54%	202.61%	187.09%
Plan fiduciary net position as a percentage of the total liability	56.99%	59.92%	56.39%
South Carolina Police Officers Retirement System			
Town's proportion of the net pension liability	0.0121%	0.0078%	0.0072%
Town's proportionate share of the net pension liability	\$ 305,721	\$ 169,194	\$ 136,843
Town's covered payroll	\$ 152,543	\$ 98,151	\$ 87,196
Town's proportionate share of the net pension liability as a percentage of its covered payroll	200.42%	172.38%	156.94%
Plan fiduciary net position as a percentage of the total liability	64.57%	67.55%	62.98%

* - The amounts presented for each fiscal year were determined as of July 1 of two years prior, using membership data as of the day, projected forward to June 30 of the previous year. Additionally, the Town implemented GASB 68 during fiscal year 2015. As such, only the last three years of information is available.

OTHER FINANCIAL INFORMATION

TOWN OF COTTAGEVILLE, SOUTH CAROLINA
SCHEDULE OF COURT FINES, FEES, ASSESSMENTS AND SURCHARGES

JUNE 30, 2016

For the Month of:

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Court Fines													
Court Fines Collected	\$ 24,788	\$ 28,581	\$ 18,589	\$ 16,536	\$ 13,147	\$ 14,818	\$ 1,024	\$ 21,287	\$ 17,810	\$ 21,416	\$ 15,788	\$ 11,155	\$ 204,939
Court Fines Retained	24,788	28,581	18,589	16,536	13,147	14,818	1,024	21,287	17,810	21,416	15,788	11,155	204,939
Court Fines Remitted to State Treasurer	-	-	-	-	-	-	-	-	-	-	-	-	-
Court Assessments													
Court Assessments Collected	26,756	30,725	20,083	17,776	14,228	16,014	10,775	23,076	19,145	23,022	16,972	11,992	230,564
Court Assessments Retained by Town	2,986	3,429	2,242	1,984	1,589	1,790	1,203	2,578	2,137	2,569	1,894	1,338	25,739
Court Assessments Remitted to State Treasurer	23,770	27,296	17,841	15,792	12,639	14,224	9,572	20,498	17,008	20,453	15,078	10,654	204,825
Court Surcharges													
Court Surcharges Collected	10,454	12,326	7,470	7,088	6,172	7,141	4,964	9,103	8,444	9,768	7,289	5,332	95,551
Court Surcharges Retained by Town	960	450	313	287	128	106	186	515	554	456	226	194	4,375
Court Surcharges Remitted to State Treasurer	9,494	11,876	7,157	6,801	6,044	7,035	4,778	8,588	7,890	9,312	7,063	5,138	91,176
Victim Services													
Court Assessments Allocated to Victim Services	2,986	3,429	2,242	1,984	1,589	1,790	1,203	2,578	2,137	2,569	1,894	1,338	25,739
Court Surcharges Allocated to Victim Services	960	450	313	287	128	106	186	515	554	456	226	194	4,375
Funds Allocated to Victim Services	3,946	3,879	2,555	2,271	1,717	1,896	1,389	3,093	2,691	3,025	2,120	1,532	30,114
Funds Allocated to Victim Services													
Victim Services interest income	3,946	3,879	2,555	2,271	1,717	1,896	1,389	3,093	2,691	3,025	2,120	1,532	30,114
Victim Services Expenditures	6	3	4	4	4	4	4	4	4	4	4	12	57
	-	-	-	-	-	-	-	-	142	342	-	-	484
Revenues in Excess (Deficit) of Available Funds	\$ 3,952	\$ 3,882	\$ 2,559	\$ 2,275	\$ 1,721	\$ 1,900	\$ 1,393	\$ 3,097	\$ 2,553	\$ 2,687	\$ 2,124	\$ 1,544	29,687
Victim's Fund carryover balance from FYE 2015													78,546
Victim's Fund ending balance for FYE 2016													\$ 108,233

THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' 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*

Mayor Timothy A. Grimsley
Town of Cottageville, South Carolina
23 Salley Ackerman Drive
Cottageville, South Carolina 29435

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 activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Cottageville, South Carolina (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated August 17, 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 the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

INTERNAL CONTROL MATTERS

YEAR ENDED JUNE 30, 2016

THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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Mayor Timothy A. Grimsley
Town of Cottageville, South Carolina
23 Salley Ackerman Drive
Cottageville, South Carolina 29435

In planning and performing our audit of the Financial Statements of the Town of Cottageville, South Carolina, (the "Town") as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects its ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of its financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by its internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Occasionally, we may wish to communicate certain other matters not defined as material weaknesses or significant deficiencies. The following items are for your consideration:

Segregation of Duties

One problem that has and will always be an issue for most small towns such as the Town of Cottageville is segregation of duties. Elimination of incompatible functions is an on-going struggle and is complicated by factors such as staff turn-over, budget constraints and overall staff shortages. In reviewing the issue, management and the Board needs to understand that a lack of segregation of duties is a significant business risk.

We recommend that small towns be constantly aware of the segregation of duties issue and to keep it in mind when making staffing and assignment of duties decisions. Additionally, we recommend that management and the Board conduct periodic reviews of the processes in place and look for innovative ways to improve segregation of duties.

Receipt Processing

During the documentation of internal controls, it was noted that the same employee received payments from customers, posts these payments to the system, creates the deposit for these payments and makes the deposit for these payments. When the same employee is performing these processes, there is higher potential for fraudulent activities to occur.

We recommend that management implement policies and procedures to ensure that the same employee is not performing these functions.

Approval of Cash Disbursements

During the documentation of internal controls, it was noted that although the Mayor approves all invoices through signing checks, he is not provided support for the checks he is signing unless the invoice is considered unusual in nature to him.

We recommend that policies and procedures are implemented to ensure the Mayor is provided support for all checks he is signing at the time he is signing them. We also recommend that the Mayor sign off on invoices to document the approval of the invoice.

Bank Reconciliations

During the documentation of internal controls, it was noted that the Town Clerk was performing bank reconciliations while receiving payments from customers, posting these payments, creating the deposit for these payments, and making the deposit for the payments. When the same employee is performing these processes, there is higher potential for fraudulent activities to occur.

We recommend that management implement policies and procedures to ensure that the same employee is not performing these functions.

Bank Reconciliations (continued)

During the documentation of internal controls, it was noted that an employee does not review monthly bank statements before giving them to the Town Clerk to perform the bank reconciliation. When a bank statement is not reviewed by an employee separate from the bank reconciliation process, there is a higher potential for fraudulent activities to occur.

We recommend that management implement policies and procedures to ensure that an employee, separate from the bank reconciliation process, reviews and signs off on monthly bank statements before any employee can perform the bank reconciliation.

* * * * *

This report is intended solely for the information and use of the Mayor, Town Council, management and others within the Town.

We would be pleased to discuss the above matter or to respond to any questions, at your convenience.

The Brittingham Group LLP

West Columbia, South Carolina
August 17, 2017