

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

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INTERNAL CONTROL MATTERS

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YEAR ENDED JUNE 30, 2018

# THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

501 STATE STREET

POST OFFICE BOX 5949

WEST COLUMBIA, SOUTH CAROLINA 29171

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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, 2018, 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. Additionally, it was noted that the monthly bank reconciliations were not being reviewed for accuracy by the third-party accountant contracted by the Town. 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 that require the third-party accountant to formally review and approve bank reconciliations. We would also recommend initialing and dating reconciliations once they have been reviewed.

**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. We would also recommend initialing bank statements once they have been reviewed.

\* \* \* \* \*

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  
February 11, 2019

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

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GOVERNMENT-WIDE FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

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YEAR ENDED JUNE 30, 2018

WITH  
INDEPENDENT AUDITORS' REPORT

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

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GOVERNMENT-WIDE FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

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YEAR ENDED JUNE 30, 2018

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# THE BRITTINGHAM GROUP, L.L.P.

## CERTIFIED PUBLIC ACCOUNTANTS

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WEST COLUMBIA, SOUTH CAROLINA 29171

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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, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

#### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 February 11, 2019 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  
February 11, 2019



# 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, 2018.

## FINANCIAL HIGHLIGHTS

The combined Governmental Activity assets and deferred outflows exceeded its liabilities and deferred inflows of the Town of Cottageville at the end of the fiscal year by \$818,545 (net position). Of this amount, a excess of \$616,771 (unrestricted net position) existed at the time.

The combined Governmental Activities Revenues and other financial sources totaled \$2,423,022 and combined expenses totaled \$1,022,628. Accordingly, combined revenues exceeded expenses by \$1,400,394.

At the end of fiscal year 2018, the governmental funds restricted, and spendable fund balance was \$94,890, and the unassigned fund balance was \$1,698,779. Accordingly, \$1,603,889 was available for spending at the government's discretion from the unassigned fund balance. The total fund balance was \$1,603,889 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).

Both of the government-wide financial statements distinguish functions of the Town that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or significant portions of their costs through user fees and charges.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Under the GASB 34 model for fiscal year 2018, 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 assets exceeded liabilities by \$818,545 at the close of fiscal year 2018. Net position is reported in three categories:

Net investment in capital assets	\$ 106,884
Restricted net position	94,890
Unrestricted net position	616,771
	<u>\$ 818,545</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.

A smaller portion 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 tables present a summary of the Town's statement of activities as of June 30, 2018 and June 30, 2017:

### Town of Cottageville's Statement of Activities - June 2018

	<u>Governmental Activities</u>
Revenue:	
Charges for services	\$ 541,377
General revenues	353,864
Insurance proceeds	1,527,781
Total revenue	<u>2,423,022</u>
Expenses:	
General government	501,346
Police	437,834
Municipal court	80,484
Interest on long-term debt	2,964
Total expenses	<u>1,022,628</u>
Increase in net position	<u>\$1,400,394</u>

### Town of Cottageville's Statement of Activities - June 2017

	<u>Governmental Activities</u>
Revenue:	
Charges for services	\$ 527,600
General revenues	340,343
Total revenue	<u>867,943</u>
Expenses:	
General government	443,293
Police	389,297
Municipal court	58,667
Interest on long-term debt	6,480
Total expenses	<u>897,737</u>
Increase in net deficit	<u>\$ (29,794)</u>

**Debt Administration.** At the end of fiscal year 2018, the Town of Cottageville had total debt outstanding (Real estate and police vehicle notes, and installment agreement) of \$712,043.

	<b>Governmental Activities</b>
Police vehicles	\$ 31,862
Installment agreement	680,181
	<u>\$ 712,043</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Total revenues continue to be moderated by systematic improvements and the effects of the stabilizing economy. General Fund revenues fluctuate from fiscal year to fiscal year based on police fine collection and collections received by the State and the Municipal Association. The Town experienced an increase in General Fund revenues due to collection of insurance proceeds from the burning of a building, an increase in court fines collected, and an increase in the Local Options Sales Tax revenue.

The Town continues to pay off portions of general long-term debt. As a result, the amount required to be budgeted for debt service payments has diminished.

In general, the Town should, from time to time, analyze all rates, charges, and fees to determine the acceptable level of service and to increase such revenues and/or reduce appropriate expenditures to fully fund the General Fund.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide an overview of the Town's finances. Questions concerning any of the information provided in this report or requests for additional information should be forwarded to:

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

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2018

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,687,764
Receivables	
State	18,308
Other	107,840
Capital assets:	
Non-depreciable	5,000
Depreciable, net	133,746
Total assets	<u>1,952,658</u>
<b>Deferred outflows of resources</b>	
Related to pensions	220,627
Total assets and deferred outflows of resources	<u>2,173,285</u>
<b>Liabilities</b>	
Accounts payable	93,505
Accrued payroll and other expenses	21,628
Accrued compensated absences	5,244
Long-term liabilities:	
Due within one year	39,318
Due in more than one year	672,725
Net pension liability	509,114
Total liabilities	<u>1,341,534</u>
<b>Deferred inflows of resources</b>	
Related to pensions	13,206
Total liabilities and deferred inflows of resources	<u>1,354,740</u>
<b>Net position</b>	
Net investment in capital assets	106,884
Restricted net position - expendable	
Victims assistance	94,890
Unrestricted - unfunded pension obligation	(301,693)
Unrestricted - other	918,464
Total net position	<u><u>\$ 818,545</u></u>

See accompanying notes.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2018

	General	Special Revenue	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 1,687,764	\$ -	\$ 1,687,764
State revenue, receivable	18,308	-	18,308
Due from other funds	-	94,890	94,890
Other receivable	107,840	-	107,840
Total assets	<u>1,813,912</u>	<u>94,890</u>	<u>1,908,802</u>
<b>Liabilities and fund balances</b>			
Liabilities			
Accounts payable	93,505	-	93,505
Accrued payroll and other liabilities	21,628	-	21,628
Due to other funds	94,890	-	94,890
Total liabilities	<u>210,023</u>	<u>-</u>	<u>210,023</u>
Fund balances			
Restricted	-	94,890	94,890
Unassigned	1,603,889	-	1,603,889
Total fund balances	<u>1,603,889</u>	<u>94,890</u>	<u>1,698,779</u>
Total liabilities and fund balances	<u>\$ 1,813,912</u>	<u>\$ 94,890</u>	<u>\$ 1,908,802</u>

See accompanying notes.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2018

	General	Special Revenue	Total Governmental Funds
<b>Revenues</b>			
Licenses and permits	\$ 146,227	\$ -	\$ 146,227
Police fines	512,563	28,814	541,377
State shared revenues	194,932	-	194,932
Other	54,050	40	54,090
Total revenues	907,772	28,854	936,626
<b>Expenditures</b>			
General government	478,562	10,000	488,562
Police department	350,110	-	350,110
Municipal court	70,484	-	70,484
Debt service	47,927	-	47,927
Capital outlay	12,346	-	12,346
Total expenditures	959,429	10,000	969,429
Excess (deficit) of revenues over (under) expenditures	(51,657)	18,854	(32,803)
<b>Other financing sources</b>			
Insurance proceeds	1,527,781	-	1,527,781
Total other financing sources	1,527,781	-	1,527,781
Net change in fund balance	1,476,124	18,854	1,494,978
Fund balance, beginning of year	127,765	76,036	203,801
Fund balance, end of year	\$ 1,603,889	\$ 94,890	\$ 1,698,779

See accompanying notes.

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2018

	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>			
Licenses and permits	\$ 69,000	\$ 146,227	\$ 77,227
Police fines	600,000	512,563	(87,437)
State shared revenues	170,000	194,932	24,932
Other	60,021	54,050	(5,971)
Total revenue	<u>899,021</u>	<u>907,772</u>	<u>8,751</u>
<b>Expenditures</b>			
General government	473,739	478,562	(4,823)
Police department	346,193	350,110	(3,917)
Municipal court	69,696	70,484	(788)
Debt service	6,393	47,927	(41,534)
Capital outlay	3,000	12,346	(9,346)
Total expenditures	<u>899,021</u>	<u>959,429</u>	<u>(60,408)</u>
Excess of revenues over expenditures	<u>-</u>	<u>(51,657)</u>	<u>(51,657)</u>
<b>Other financing sources</b>			
Insurance proceeds	-	1,527,781	1,527,781
Total other financing sources	<u>-</u>	<u>1,527,781</u>	<u>1,527,781</u>
Net change in fund balance	<u>\$ -</u>	1,476,124	<u>\$ 1,476,124</u>
Fund balance, beginning of year		127,765	
Fund balance, end of year		<u>\$ 1,603,889</u>	

See accompanying notes.



# TOWN OF COTTAGEVILLE, SOUTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### 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.

-CONTINUED-

# 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, 2018, the bank balances were \$1,764,619, which was adequately collateralized in accordance with state law through FDIC insurance coverage and securities held by Town's financial institution. As of June 30, 2018, the carrying value of cash deposits for the Town totaled \$1,687,764.

### 4. Receivables

Receivables at June 30, 2018, consist of the following:

Accounts receivable:	
State revenue	\$ 18,308
Other receivables	107,840
Gross receivables	126,148
Less, allowance for uncollectibles	-
Net receivables	<u>\$ 126,148</u>

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**6. Long-Term Debt (continued)**

Debt service requirements to maturity for the note payable is as followed:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 19,318	\$ 1,154	\$ 20,472
2020	12,544	174	12,718
	<u>\$ 31,862</u>	<u>\$ 1,328</u>	<u>\$ 33,190</u>

Installment Payment Agreement

In prior years, during a period of transition, the Town was delinquent in remitting its municipal court fees and assessments to the South Carolina State Treasurer's office. The Town has agreed to an installment payment agreement with the South Carolina State Treasurer's office in order to satisfy amounts past due. The terms are for the Town to pay \$20,000 per fiscal year until the balance is paid. As of June 30, 2018, the Town owed \$680,181.

The installment payment agreement amounts are as follows:

Year Ending June 30,	Principal
2019	\$ 20,000
2020	20,000
2021	20,000
2022	20,000
2023	20,000
2024 - 2028	100,000
2029 - 2033	100,000
2034 - 2038	100,000
2039 - 2043	100,000
2044 - 2048	100,000
2049 - 2052	<u>80,181</u>
	<u>\$ 680,181</u>

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**7. Pension Plan (continued)**

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. Members of SCRS 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 July 1, 2017, employees participating in the SCRS were required to contribute 9.00% of all earnable compensation. The employer contribution rate for SCRS was 13.56%. Included in the total SCRS employer contribution rate is a base retirement contribution of 13.41% and 0.15% contribution rate for the incidental death program. The Town's contributions for the years ended June 30, 2018, 2017 and 2016 are as follows:

Year Ended June 30,	Base	
	Base Rate	Contributions
2018	13.41%	\$ 7,742
2017	11.41%	5,150
2016	10.91%	5,666

As an alternative to membership in the SCRS, newly hired employees of the Fund may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement plan. The Town did not have any employees participating in the ORP during the 2018, 2017 or 2016 fiscal years.

# TOWN OF COTTAGEVILLE, SOUTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

### 7. Pension Plan (continued)

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, 2018, the Town reported \$99,276 and \$409,838 for its proportionate share of the net pension liabilities of SCRS and PORS, respectively. The net pension liability of the SCRS defined benefit pension plan was determined based on the July 1, 2016 actuarial valuations, using membership data as of July 1, 2016, projected forward to June 30, 2017, and financial information of the pension trust funds as of June 30, 2017, 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, 2017, the Commission's SCRS proportion was 0.000441% and its PORS proportion was 0.01496%.

At June 30, 2017 the state reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

Deferred Outflows of Resources	SCRS	PORS
Differences between expected and actual experience	\$ 443	\$ 3,653
Assumption changes	5,812	38,884
Net difference between project and actual investment earnings	2,771	14,599
Differences between employer contributions and proportionate share	7,164	106,608
Contributions made from measurement date to June 30, 2018	7,742	32,951
<b>Total deferred outflows of resources</b>	<b>23,932</b>	<b>196,695</b>
<b>Deferred Inflows of Resources</b>		
Differences between expected and actual experience	55	-
Differences between employer contributions and proportionate share	13,151	-
<b>Total deferred inflows of resources</b>	<b>13,206</b>	<b>-</b>
<b>Net deferred outflows/(inflows)</b>	<b>\$ 10,726</b>	<b>\$ 196,695</b>

# TOWN OF COTTAGEVILLE, SOUTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

### 7. Pension Plan (continued)

For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentages and then adding the actuarial expected inflation which is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
<b>Global Equity</b>	<b>45.0%</b>		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
<b>Real Assets</b>	<b>8.0%</b>		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.60%
<b>Opportunistic</b>	<b>17.0%</b>		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
<b>Diversified Credit</b>	<b>18.0%</b>		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
<b>Conservative Fixed Income</b>	<b>12.0%</b>		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	92.00%	0.02%
Total Expected Real Return	100%		5.32%
Inflation for Actuarial Puposes			2.25%
Total Expected Nominal Return			7.57%

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, 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.



REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF COTTAGEVILLE, SOUTH CAROLINA

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

LAST TEN FISCAL YEARS\*

	2018	2017	2016	2015	2014
<b>South Carolina Retirement System</b>					
Town's proportion of the net pension liability	0.0004%	0.0005%	0.0005%	0.0005%	0.0004%
Town's proportionate share of the net pension liability	\$ 99,276	\$112,994	\$112,994	\$100,896	\$ 67,317
Town's covered payroll	\$ 45,136	\$ 51,934	\$ 50,540	\$ 35,981	\$ 35,981
Town's proportionate share of the net pension liability as a percentage of its covered payroll	219.95%	217.57%	223.57%	280.41%	187.09%
Plan fiduciary net position as a percentage of the total liability	53.34%	56.99%	56.99%	59.92%	56.39%
<b>South Carolina Police Officers Retirement System</b>					
Town's proportion of the net pension liability	0.0150%	0.0121%	0.0121%	0.0078%	0.0072%
Town's proportionate share of the net pension liability	\$409,838	\$305,721	\$305,721	\$169,194	\$136,843
Town's covered payroll	\$207,218	\$158,261	\$ 99,131	\$ 87,196	\$ 87,196
Town's proportionate share of the net pension liability as a percentage of its covered payroll	197.78%	193.18%	308.40%	194.04%	156.94%
Plan fiduciary net position as a percentage of the total liability	60.94%	64.57%	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, information only available for fiscal years subsequent to 2015.

## OTHER FINANCIAL INFORMATION

# TOWN OF COTTAGEVILLE, SOUTH CAROLINA

## SCHEDULE OF COURT FINES, FEES, ASSESSMENTS AND SURCHARGES

JUNE 30, 2018

For the Month of:

	July	August	September	October	November	December	January	February	March	April	May	June	Total
<b>Court Fines</b>													
Court Fines Collected	\$ 21,313	\$ 30,462	\$ 22,099	\$ 17,151	\$ 20,227	\$ 12,222	\$ 15,324	\$ 13,310	\$ 21,470	\$ 23,400	\$ 19,438	\$ 37,776	\$ 254,192
Court Fines Retained	21,313	30,462	22,099	17,151	20,227	12,222	15,324	13,310	21,470	23,400	19,438	37,776	254,192
Court Fines Remitted to State Treasurer	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Court Assessments</b>													
Court Assessments Collected	20,317	29,256	21,148	16,341	19,256	11,684	14,620	12,495	20,387	22,182	18,516	35,891	242,093
Court Assessments Retained by Town	2,267	3,266	2,360	1,824	2,149	1,304	1,632	1,394	2,275	2,476	2,066	4,005	27,018
Court Assessments Remitted to State Treasurer	18,050	25,990	18,788	14,517	17,107	10,380	12,988	11,101	18,112	19,706	16,450	31,886	215,075
<b>Court Surcharges</b>													
Court Surcharges Collected	5,481	7,914	5,625	4,415	5,056	3,214	3,671	2,921	5,401	5,816	4,866	9,215	63,595
Court Surcharges Retained by Town	150	75	77	126	166	50	60	220	212	251	89	320	1,796
Court Surcharges Remitted to State Treasurer	5,331	7,839	5,548	4,289	4,890	3,164	3,611	2,701	5,189	5,565	4,777	8,895	61,799
<b>Victim Services</b>													
Court Assessments Allocated to Victim Services	2,267	3,266	2,360	1,824	2,149	1,304	1,632	1,394	2,275	2,476	2,066	4,005	27,018
Court Surcharges Allocated to Victim Services	150	75	77	126	166	50	60	220	212	251	89	320	1,796
Funds Allocated to Victim Services	2,417	3,341	2,437	1,950	2,315	1,354	1,692	1,614	2,487	2,727	2,155	4,325	28,814
Funds Allocated to Victim Services	2,417	3,341	2,437	1,950	2,315	1,354	1,692	1,614	2,487	2,727	2,155	4,325	28,814
Victim Services interest income	3	3	3	4	3	3	4	3	3	4	4	3	40
Victim Services expenditures	-	-	-	-	-	10,000	-	-	-	-	-	-	10,000
Revenues in excess (deficit) of available funds	\$ 2,420	\$ 3,344	\$ 2,440	\$ 1,954	\$ 2,318	\$ (8,643)	\$ 1,696	\$ 1,617	\$ 2,490	\$ 2,731	\$ 2,159	\$ 4,328	18,854
Victim's Fund carryover balance from FYE 2017													76,036
Victim's Fund ending balance for FYE 2018													<u>\$ 94,890</u>

deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. [2018-001 and 2018-002]

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free from 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*.

### **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.

*The Brittingham Group LLP*

West Columbia, South Carolina

February 11, 2019

TOWN OF COTTAGEVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

**Financial Statement Finding (Continued):**

**Finding 2018-001: Segregation of Duties (Continued)**

**Management's Response:**

Management is aware that there are multiple segregation of duty issues regarding the Town. Management plans to implement policies and procedures, within the budgetary constraints on the Town, to address these issues moving forward.

**Finding 2018-002: Approval of Cash Disbursements**

**Criteria:**

Supporting documentation for cash disbursements are not being reviewed on a regular basis by management.

**Condition:**

Town Mayor approves all invoices through signing checks but is only provided supporting documentation for the check if it is considered unusual in nature to him.

**Cause:**

The Town's Mayor has limited formal accounting training. Additionally, the Town has very small staff, which means the Mayor must be involved in a lot of the of the day to day operations of the Town in addition to this responsibility.

**Effect:**

The Town has a higher potential for fraudulent activities to occur when there is a lack of review regarding cash disbursements.

**Auditors' Recommendation:**

Town management should implement policies and procedures that require management to formally sign off on supporting documentation once received and retain approved support.

**Management's Response:**

Management is aware that there is a lack of review regarding cash disbursements. Management plans to implement procedures that require formal approval of all cash disbursements.

**Status of Prior Year Findings:**

None were reported.