

**TOWN OF SWANSEA, SOUTH CAROLINA**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the Town Council  
Town of Swansea, South Carolina

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and the business type activities, each major fund, and the aggregate remaining fund information of the Town of Swansea, South Carolina, as of and for the year ended June 30, 2019, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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 preparation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Modified
Business-Type Activities	Unmodified
Governmental Fund	Modified
Enterprise Fund	Unmodified
Aggregate Remaining fund Information	Unmodified

### Basis for Qualified Opinion on the Governmental Activities and Governmental Fund

**Capital Assets Not Recorded in Accounting Records** – The audit identified a vehicle targeted for law enforcement activities that was not recorded in the Town's fixed asset records. The vehicle was covered by insurance but did not have a title issued for it from the state of South Carolina until after it was identified during the

audit process. Additionally, the existence of this asset was not communicated to the Town's outsourced accounting service provider. Because this asset was not recorded in the accounting records and there may be other assets not recorded in the accounting records, this represents a scope limitation in the form of an uncertainty. Additionally, all related depreciation charges may not be included as reported. See findings related to the financial statements reference 2019-1.

**Material Liabilities Not Recorded in Accounting Records** - the audit discovered a payment made totaling \$73,184 to another governmental entity. The amount represented a liability that had been accruing since 2002 and was not recorded in the Town's books as a liability. Additionally, the Town did not communicate this liability to the Town's outsourced service provider. Because this amount is considered material, and the auditor does not know if there are other material liabilities related to the Town, it represents a scope limitation in the form of an uncertainty. See findings related to the financial statements reference 2019-2.

### **Qualified Opinion**

In my opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on the Governmental Activities and Governmental Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the business-type activities of the Town of Swansea, South Carolina as of June 30, 2019 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

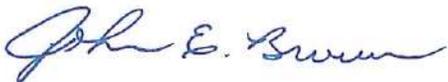
### **Other Matters**

#### *Required Supplementary Information*

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated January 20, 2020 on my consideration of the Town of Swansea, South Carolina's internal control over financial reporting and on my 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 my 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 of Swansea's internal control over financial reporting and compliance.



January 20, 2020

**STATEMENT OF NET POSITION**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
**June 30, 2019**

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash	\$ 52,068	\$ 212,445	\$ 264,513
Receivables	73,278	65,020	138,298
Due to Other Funds	157,620	--	157,620
	282,966	277,465	560,431
Capital assets, net of accumulated depreciation	130,289	2,834,626	2,964,915
Other assets			
Prepaid expenses	4,362	--	4,362
Cash -restricted	--	410,258	410,258
	4,362	--	4,362
<b>TOTAL ASSETS</b>	417,617	3,522,349	3,529,708
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension charges	51,534	28,386	79,920
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	51,534	28,386	79,920
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 469,151	\$ 3,550,735	4,019,886
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable--trade	23,760	37,960	61,720
Due to State treasurer	100,687	--	100,687
Accrued expenses	15,388	12,233	27,621
Current Deposits	--	27,638	27,638
Current maturities of long-term debt	11,228	53,577	64,805
	151,063	131,408	282,471
Long-term debt			
Note Payable	38,243	2,555,863	2,594,106
Net pension liability	136,548	75,214	211,762
	174,791	2,631,077	2,805,868
<b>TOTAL LIABILITIES</b>	325,854	2,762,485	3,088,339
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension charges	274,660	151,289	425,949
Total deferred inflows of resources	274,660	151,289	425,949
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	600,515	2,913,773	3,514,288
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	157,304	225,186	382,490
Restricted for:			
Victims surcharge	836	--	836
Impounds and confiscations	3,078	--	3,078
Debt service--revenue bonds callable in default	--	410,258	410,258
Unrestricted and unassigned	(292,582)	1,518	(291,064)
<b>TOTAL NET POSITION</b>	(131,364)	636,962	505,598
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 469,151	\$ 3,550,735	\$ 4,019,886

See notes to financial statements.

**STATEMENT OF ACTIVITIES**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
Year Ended June 30, 2019

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities						
General government	\$ 959,399	\$ --	\$ --	\$ (959,399)	\$ --	\$ (959,399)
Interest and fiscal charges	--	--	--	--	--	--
Total Governmental activities	959,399	--	--	(959,399)	--	(959,399)
Business-type activities						
Water and sewer	891,945	929,872	--		\$ 37,927	\$ 37,927
Sanitation	6,717	34,734	--		28,017	28,017
Total Business-type activities	898,662	964,606	--		65,944	65,944
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 1,851,344</b>	<b>\$ 929,872</b>	<b>\$ --</b>	<b>\$ (959,399)</b>	<b>\$ (157,620)</b>	<b>(893,455)</b>
General revenues						
Property taxes				186,661	--	186,661
Homestead Exemption				--	--	--
Business licenses				85,931	--	85,931
Franchise fees				120,806	--	120,806
State aid to subdivisions				23,576	--	23,576
Fines and Fees				191,438	--	191,438
Miscellaneous				9,216	529	9,745
Interest and other revenue				45	--	45
Transfers				157,620	(157,620)	--
Total general revenues and transfers				617,673		618,202
<b>CHANGE IN NET POSITION</b>				<b>(341,726)</b>	<b>(91,147)</b>	<b>(275,253)</b>
<b>BEGINNING NET POSITION, (AS RESTATED)</b>				<b>210,362</b>	<b>728,109</b>	<b>938,471</b>
<b>ENDING NET POSITION</b>				<b>\$ (131,364)</b>	<b>\$ 636,962</b>	<b>\$ 663,218</b>

See notes to financial statements.

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
TOWN OF SWANSEA, SOUTH CAROLINA  
June 30, 2019**

		General
Assets		
Cash		\$ 52,068
Receivables		73,278
Prepaid Insurance		<u>4,362</u>
	TOTAL ASSETS	<u>\$ 129,708</u>
Liabilities and fund deficit		
Liabilities		
Accounts payable--trade		\$ 23,760
Deferred Revenue		-
Due to State Treasurer		100,687
Accrued Expenses		<u>17,578</u>
	TOTAL LIABILITIES	142,025
Fund balance (deficit)		
Nonspendable		
Assigned		--
Unassigned deficit		<u>(12,317)</u>
	TOTAL FUND BALANCE (DEFICIT)	<u>(12,317)</u>
	TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u>\$ 129,708</u>

See notes to financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
TOWN OF SWANSEA, SOUTH CAROLINA  
June 30, 2019**

Fund balance--governmental funds		\$ (12,317)
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation</p>		
Capital assets of governmental activities	\$ 801,033	
Less accumulated depreciation on capital assets	670,744	130,289
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>		
		159,810
<p>The Town's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State pension plan are not recorded in the government funds but are recorded in the statement of net position.</p>		
		(359,675)
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds</p>		
Auto loan payable	(49,471)	
Capittal lease obligations	--	(49,471)
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b>\$ (131,364)</b>

See notes to financial statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
TOWN OF SWANSEA, SOUTH CAROLINA  
Year Ended June 30, 2019**

	General
Revenues	
Property taxes	\$ 186,661
Fines and Fees	191,438
Business licenses	85,931
Franchise fees	120,806
Other fees, taxes and permits	9,216
State shared revenues	23,576
Interest and other	<u>45</u>
TOTAL REVENUES	617,673
Expenditures	
Current	
General government	918,617
Debt service	
Principal retirement	--
Interest and fiscal charges	<u>--</u>
TOTAL EXPENDITURES	<u>918,617</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(300,944)
Transfer from Proprietary Fund	<u>157,620</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	(143,324)
Fund balance (deficit) at beginning of year (as restated)	<u>131,007</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u><u>\$ (12,317)</u></u>

See notes to financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
TOWN OF SWANSEA, SOUTH CAROLINA  
Year Ended June 30, 2019**

Net change in fund balance--governmental funds	\$ (143,324)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the lives of the capital assets	
Capital asset purchases capitalized	60,272
Depreciation expense	(19,490)
The issuance of long-term debt (bonds, leases, etc) provides current financial resources to governmental funds, while repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	
	(60,272)
Decrease (increase) in compensated absences recorded in the statement of activities but not in the governmental funds.	
	(17,578)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
	--
	(172,135)
Obligation under capital lease agreement	<u>          --</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>          \$ (341,726)</u></b>

*See notes to financial statements.*

**STATEMENT OF NET POSITION  
 PROPRIETARY FUND  
 WATER AND SEWER SYSTEM  
 TOWN OF SWANSEA, SOUTH CAROLINA  
 June 30, 2019**

Assets	
Current assets	
Cash	\$ 212,445
Receivables--trade--net of allowance for uncollectible accounts	65,020
	--
Due from Other Funds	
Prepaid expenses	--
	<hr/>
Total Current Assets	277,465
Capital assets, net of accumulated depreciation	2,834,626
Cash - restricted	410,258
	<hr/>
<b>TOTAL ASSETS</b>	<b>3,522,349</b>
	<hr/>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred pension charges	28,386
	<hr/>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>28,386</b>
	<hr/>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 3,550,735</b>
	<hr/> <hr/>
Liabilities	
Current liabilities	
Accounts payable	\$ 37,960
Accrued Expenses	9,174
Accrued interest payable	3,059
Customer Deposits	27,638
Due to Richland County	--
Current portion of Notes Payable	53,577
Total Current assets	<hr/> 131,408
Long-term liabilities	
Net pension liability	75,214
Long term portion of Notes Payable	2,555,863
Total long-term liabilities	<hr/> 2,631,077
<b>TOTAL LIABILITIES</b>	<hr/> <b>2,762,485</b>
	<hr/>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred pension charges	151,289
	<hr/>
<b>Total deferred inflows of resources</b>	<b>151,289</b>
	<hr/>
Net position	
Invested in capital assets, net of related debt	225,186
Restricted for debt service of revenue bonds requirements	410,258
Unrestricted (deficit)	1,518
	<hr/>
	636,962
	<hr/>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 3,550,735</b>
	<hr/> <hr/>

See notes to financial statements.

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**WATER AND SEWER SYSTEM**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
**Year Ended June 30, 2019**

Operating revenues		
Water and sewer charges	\$	759,420
Management fees		96,524
Sanitation		34,734
Grant Revenue		<u>73,928</u>
	TOTAL REVENUE	964,606
Operating expenses		
Salaries and Fringe		113,935
Insurance		29,438
Fuel expense		8,508
Utilities and telephone		19,934
Repairs and maintenance		134,439
Membership and dues		3,708
Office Supplies		17,131
Professional services		209,381
System pipe		83,601
Bad debt expense		6,717
Depreciation		115,708
Uniforms		268
Fees		1,751
Interest Expense		<u>103,965</u>
		<u>898,662</u>
	OPERATING INCOME (LOSS)	65,944
Non-operating revenues (expenses)		
Interest Income		<u>529</u>
	INCOME (LOSS) BEFORE TRANSFERS	<u>66,473</u>
Transfer to General Fund		<u>(157,620)</u>
	CHANGE IN NET POSITION	(91,147)
Net Position at beginning of year, as restated		<u>728,109</u>
	NET POSITION AT END OF YEAR	<u><u>\$ 636,962</u></u>

See notes to financial statements.

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 WATER AND SEWER SYSTEM  
 TOWN OF SWANSEA, SOUTH CAROLINA  
 Year Ended June 30, 2019**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 705,759
Other operating receipts	96,524
Receipts from grants	73,928
Payments to suppliers	(493,391)
Payments to employees and benefit providers	<u>(120,904)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>261,916</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
	<u>--</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>--</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	--
Proceeds from Loan for Construction Activity	200,000
Other	34,280
Payments made on Construction in Progress	(111,071)
Principal paid on capital debt	(36,056)
Interest paid on capital debt	<u>(103,965)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(16,812)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Transfer to the General Fund	(157,620)
Interest received	529
	<u>(157,091)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>88,013</b>
Cash and cash equivalents at beginning of year	<u>534,690</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 622,703</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income (loss)	\$ 65,944
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense and amortization	115,708
Change in assets and liabilities	
Increase in Accounts receivable	(31,810)
Decrease in Prepaid expenses	147
Decrease in customer deposits	(21,851)
Decrease in Unlocated liabilities	125,979
Increase in Accounts payable	14,768
Decrease in accrued liabilities and withholdings	(6,969)
Other	<u>--</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 261,916</u></b>

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
**June 30, 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Swansea, South Carolina (the Town) is authorized by its charter issued December 19, 1892 and amended on August 31, 1976 to operate as an incorporated municipality under a mayor-council form of government under the laws of the State of South Carolina. The Town has four Council members along with the Mayor. As authorized by its Code of Ordinances, the Town provides public works (streets and sanitation), water and sewer services, licensing and regulation and general administrative services to its constituents.

The Town follows accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units in the preparation and presentation of its financial statements. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In both the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB pronouncements are followed. FASB and APB are the accepted standard setting bodies for establishing financial and reporting principles for business-type or enterprise reporting principles.

**Financial Reporting Entity**

Using the criteria of GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB No. 39, Determining Whether Certain Organizations are Component Units, the basic financial statements of the Town presents the reporting entity that consists of the primary government and those organizations for which the primary government is financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion could cause the Town's financial statements to be misleading or incomplete. Financial accountability is defined as appointment of a voting majority of the separate organization's board and either a) the ability to impose will by the primary government, or b) the possibility that the separate organization will provide a financial benefit to or impose a financial burden on the primary government. At June 30, 2019, there were no such material component units of the Town.

**Basis of Presentation**

*Government-wide Financial Statements*

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, inter-governmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

*Fund Financial Statements*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a.) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b.) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**Governmental Funds**

*General Fund*

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
June 30, 2019

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--continued**

**Proprietary Fund**

*Enterprise Fund*

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Town of Swansea Water and Sewer System.

**Fiduciary Funds (not included in government-wide statements)**

Fiduciary fund reporting focuses on net assets and changes in net assets, and is used to report assets held in a trustee or agency capacity for others and, therefore, cannot be used to support the government's own programs. The Town currently has no fiduciary funds.

**Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in Item b.) below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

- a.) All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b.) The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c.) Fiduciary funds are not involved in the measurement of results of operations, therefore, measurement focus is not applicable to them.

**Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and trust funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlays) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
June 30, 2019

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--continued**

**Assets, Liabilities and Net Position**

**Cash and Investments**

For purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand savings accounts, and certificates of deposits of the Town. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The Town is authorized by ordinance to invest in obligations to the U.S. Treasury and commercial paper. The Town's permanent fund investments consist of short-term money-market deposits and mutual fund investments with maturity date of one year or less at the time of purchase. These investments are carried at fair value. Permanent funds that are governed by testamentary trust agreements are bound by the terms of those agreements and are not subject to ordinance authorizations and restrictions.

**Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods-and-services-type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

**Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes, sanitation charges, business licenses, and intergovernmental revenues and grants. Business-type activities report water and sewerage charges as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as local option sales tax, property taxes, business licenses, grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis but not deferred in the government-wide financial statements in accordance with the accrual basis. In instances in which differences between the use of the full accrual method and the modified accrual method (i.e. 60 day rule) of revenue recognition is not considered to be material, the Town utilizes the modified-accrual basis for both government-wide and governmental fund financial reporting where both are reasonably expected to result in similar results.

**Capital Assets**

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. Capital assets purchased or acquired with original costs of \$5,000 or more are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

***Government-wide Statements***

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
June 30, 2019

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--continued**

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities (where determinable), with accumulated depreciation reflected in the Statement of Net Position. Estimated depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives of type of assets is as follows:

Buildings	25 - 50 years
Improvements	10 - 50 years
Machinery and equipment	3 - 20 years
Utility system	25 - 50 years
Infrastructure	25 - 50 years

*Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**Restricted Assets**

Restricted assets include cash and investments that are legally restricted as their use. The primary restricted assets are related to municipal court deposits within the general fund and testamentary trust deposits and investments within the permanent fund.

**Long-Term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable, notes payable and obligations under capital lease agreements.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

**Subsequent Events**

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. There are two types of subsequent events.

- a.) Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Recognized subsequent events generally result in the retroactive adjustment of the related amounts recorded in the financial statement.
- b.) Non-recognized subsequent events, consists of events or transactions that provided evidence about conditions that did not exist at the date of the balance sheet but arose subsequent to that date. Non-recognized subsequent events do not generally result in changes in amounts recorded, but are disclosed in notes to the financial statements.

The financial statements are considered available to be issued when they are complete in a format that complies with GAAP and all approvals necessary for issuance have been obtained from management and others charged with governance. Management evaluates all subsequent events from the balance sheet date through the date that the financial statements are available to be issued.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
June 30, 2019

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--continued**

**Equity Classifications**

*Government-wide Statements*

Equity is classified as net position and displayed in three components:

- a.) Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation 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.
- b.) Restricted - Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation, net of related liabilities payable from restricted liabilities.
- c.) Unrestricted - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund Statements*

In the fund financial statements the following classifications describe the relative strength of the spending constraints:

- a.) Non-spendable fund balance - The portion of fund balance that cannot be spent because it is not in a spendable form (such as inventory), or is legally or contractually required to be maintained intact.
- b.) Restricted fund balance - The portion of fund balance constrained on being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- c.) Committed fund balance - The portion of fund balance constrained for specific purposes through a signed resolution by the Town's highest level of decision-making authority, the Town council, prior to the end of the current fiscal year. The constraint may be removed or changed only through an additional resolution of the Town council.
- d.) Assigned fund balance - The portion of fund balance set aside for planned or intended purposes. An intended use of any amount may be expressed by the Town council and recorded in the minutes of an executive meeting. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose for which they are assigned.
- e.) Unassigned fund balance - The residual portion of fund balance that does not meet any of the above criteria.

If both restricted and unrestricted amounts of fund balances are available for use when an expenditure is incurred, it is the Town's policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned and unassigned.

**Revenues, Expenditures and Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds--by character	Current (further classified by function)
	Debt service
	Capital outlay

Proprietary Fund--by operating and nonoperating

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
**June 30, 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--continued**

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources. In instances in which a procurement outlay can be defrayed from both unrestricted and restricted resources, the Town customarily follows a practice of first applying restricted resources toward acquisition followed, secondarily, by restricted resources.

**Budgets**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and proprietary funds. All annual appropriations lapse at the fiscal year end. Project length financial plans are adopted for all capital projects funds whenever such projects are in force.

**Encumbrances**

The Town does not record encumbrances. Normally, encumbrances represent executory contracts including purchase orders that are outstanding commitments of the Town and are reported as a reservation of the respective fund balance of the Governmental Funds and an appropriation of retained earnings of the Proprietary Fund. They do not constitute an expenditure (expense) or liability until such time the goods are received or the service rendered, but are an extension of formal budgetary integration of the Governmental Funds and a commitment of the Proprietary Fund.

**Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported by the governmental fund that will pay it as an expenditure and a fund liability. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement, where applicable.

**Interfund Transfers**

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the Town's financial position and results of operations and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Implementation of New Accounting Pronouncements**

Beginning in fiscal year ended June 30, 2015, the Town implemented the following statements issued by the Governmental Accounting Standards Board (GASB):

- a.) GASB Statement 72, "Fair Value Measurement and Application, in February 2015"—which provides guidance for determining a fair value measurement for financial reporting purposes, and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Note C for more details.

**NOTE B - COMPLIANCE AND ACCOUNTABILITY**

By its nature as a local governmental unit, the Town and its component units are subject to various federal, state and local laws and contractual requirements. The Town's compliance with significant laws and regulations and demonstration of its stewardship over the Town's resources follows:

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
June 30, 2019

**NOTE B - COMPLIANCE AND ACCOUNTABILITY--continued**

**Legal Compliance - Budgets**

During May and June of each fiscal year, the Town Council develops and approves a budget for the Town's upcoming fiscal year. The budget is prepared by fund, function and activity, and includes information on the current year estimates and requested appropriations for the next fiscal year. A proposed budget is formulated and presented to Town Council for review and revision. The revised budget is submitted and exposed for debate during formal budget hearings open to the public. Changes to the budget resulting from these hearings must be within the revenues and reserves estimated as available by original availability estimates, or either the estimated revenues must be changed by an affirmative vote of majority of the Town Council. The budget for each upcoming fiscal year is usually adopted before the end of the prior fiscal year.

Expenditures may not legally exceed budgeted appropriations at the program level. During the year no supplementary appropriations were necessary.

**Deposits and Investments - Laws and Regulations**

In accordance with South Carolina State law the Town is authorized to invest in the following types of investments:

- a.) Direct obligations of the U.S. Government or its agencies or instrumentalities to which the full faith and credit of the U.S. Government is pledged
- b.) General obligations of the State of South Carolina or any of its political units.
- c.) Savings and loan associations to the extent they are secured by the Federal Deposit Insurance Corporation.
- d.) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, with a market value not less than the amount of the certificate of deposit so secured, including interest.

**Property Taxes**

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

In the fund financial statements, property taxes are recorded as revenue in the period in which they are levied and become due and available within the current period or expected to be collected soon enough thereafter (within 60 days of each year end) to be used to pay liabilities of the current period. Additional amounts due to be collected after the 60-day period are considered immaterial in total and no additional accrual in the government-wide financial statements is recorded.

**General Obligation Debt**

The State of South Carolina limits the amount of outstanding general obligation bonded debt of the Town for non-utility or non-street purposes to no more than 8 percent of net assessed property valuation. For the year ended June 30, 2019 the Town had no outstanding general obligation bonded debt.

**Revenue Bonds Payable**

Water and sewer revenue is restricted by revenue bond indentures to the extent necessary to retire outstanding bond obligations. In addition to principal and interest payments, the town is required to fund and maintain certain restricted cash reserves as follows:

- a.) Cushion Fund - an amount estimated to be needed for the cost of operating and maintaining the water and sewer system to the Operation and Maintenance Fund.
- b.) Depreciation Fund - 1/12th of the amount budgeted for the year for replacing or restoring obsolete capital-asset items of the water and sewer system.
- c.) Contingency Fund - 1/12th of the amount budgeted for the year for improvements, betterments, and extensions of the water and sewer system.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
June 30, 2019

**NOTE B - COMPLIANCE AND ACCOUNTABILITY--continued**

**Deficit Prohibition**

South Carolina State Law prohibits the creation of a deficit fund balance in any individual fund of the Town's primary government. The Town does not have a deficit fund balance in any individual fund at year end.

**NOTE C - DEPOSITS AND INVESTMENTS**

At June 30, 2019 the Town's cash deposits were \$674,770 and the bank balance was \$749,711. The bank balances and investments were classified into three categories of custody risk assumed by the Town based upon how its deposits and investments were insured or secured with collateral at June 30, 2019. The categories of credit risk are defined as follows:

Interest rate risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town has no specific policy for interest rate risk. In accordance with its investment policy, the Town manages its exposure to declines in fair values by generally limiting direct investments to securities with maturities of less than two (2) years.

The Town did not have any investments at year end.

Credit risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statute and Town policy limit the Town's investments to obligations of the United States and agencies thereof; general obligations of the State of South Carolina or any of its political units provided such obligations are rated as an "A" or better by Moody's Investors Service, Inc. and Standard and Poor's Corporation or their respective successors; interest bearing accounts in savings and loan associations to the extent that the same are insured by an agency of the Federal government; certificates of deposit where the certificates are collaterally secured by securities of the types described above, held by a third party as escrow agent or custodian, of a fair value not less than the amount of the certificates of deposit so secured, including interest, provided, however, such collateral shall not be required to the extent the same are insured by an agency of the United States Government; or deposit accounts with banking institutions insured and secured in the same manner.

Statutes also allow the State Treasurer to assist local governments in investing funds. The State treasurer also provides oversight for the State Treasurer's Local Government Investment Pool (LGIP), of which, the fair value of the Town's investments are the same as the value of the pooled shares. Permitted investments for the LGIP are (1) obligations of the United States, its agencies and instrumentalities; (2) obligations of corporations, states, and political subdivisions which bear an investment grade rating at a minimum of two rating agencies; (3) certificates of deposit, if the certificates are secured collaterally by securities of the types described in (1) and (2) of this paragraph and held by a third party as escrow agent or custodian and are of a market value not less than the amount of the certificates of deposit so secured, including interest; except that this collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government; (4) obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank; (5) repurchase agreements, if collateralized by securities of the types described in items (1) and (2) of this paragraph and held by a third party as escrow agent or custodian and of a market value not less than the amount of the repurchase agreement so collateralized, including interest; and (6) guaranteed investment contracts issued by a domestic or foreign insurance company or other financial institution, whose long-term unsecured debt rating bears the two highest ratings of at least two nationally recognized rating services.

The statutes provide that all authorized investments shall have maturities consistent with the time or times when the invested monies will be needed in cash. The Town is under no contractual agreements which further restrict investment alternatives.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town currently does not have a policy regarding the concentration of credit risk.

Custodial credit risk --deposits:

In the case of deposits, custodial credit risk is the risk that, in the event of bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
 June 30, 2019

**NOTE C - DEPOSITS AND INVESTMENTS--continued**

Custodial credit risk --investments:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a formal policy for custodial credit risk. The Town did not have any investments at year end.

*Fair Value of Investments*

The Town measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

Category 1 - Insured by FDIC or collateralized with securities held by the Town (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's or its custodial trusts' (for permanent trust funds) name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name; or collateralized with no written or approved collateral agreement.

	Category			Bank Balance
	1	2	3	
Demand deposits	\$ 674,770	\$ --	\$ --	\$ 674,770
Investments	--	--	--	--
	\$ 674,770	\$ --	\$ --	\$ 674,770
 Carrying value on Government-wide Statement of Net Assets:				
Unrestricted cash, including time deposits				\$ 260,599
Restricted cash, including time deposits				410,258
				\$ 670,857

**NOTE D - RECEIVABLES**

Receivables at June 30, 2019 consisted of the following:

	Governmental Activities	Business type Activities	Total
Property taxes	\$ 3,269	\$ --	\$ 3,269
Service customers		71,737	71,737
Intergovernmental--state revenues	--	--	--
Other	70,101	--	70,101
	73,370	71,737	145,107
Less allowance for uncollectibles	--	6,717	6,717
	\$ 73,370	\$ 65,020	\$ 138,390

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
**June 30, 2019**

**NOTE E - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2019 was as following:

	Balance at December 31, 2018	Additions	Disposals	Balance at June 30, 2019
<b>Governmental activities</b>				
Cost or other basis				
Land	\$ 5,000	\$ --	\$ --	\$ 5,000
Buildings and improvements	735,761	--	--	735,761
Furniture and equipment	--	--	--	--
Transportation equipment		60,272	--	60,272
Infrastructure (sidewalks)			--	--
	<u>740,761</u>	<u>60,272</u>	<u>--</u>	<u>801,033</u>
Less accumulated depreciation	(651,254)	(19,490)	--	(670,744)
Governmental activities capital assets, net	<u>\$ 89,507</u>	<u>\$ 40,782</u>	<u>\$ --</u>	<u>\$ 130,289</u>

**Depreciation expense by activity**

General government	--
Public works	--
	<u>\$ --</u>

	Balance at December 31, 2018	Additions	Disposals	Balance at June 30 2019
<b>Business-type activities</b>				
Cost or other basis				
Land	\$ 3,087	\$ --	\$ --	\$ 3,087
Building	20,000	--	--	20,000
Water System	4,443,847	--	--	4,443,847
Equipment	362,134	--	--	362,134
Construction In Progress	--	111,071	--	111,071
	<u>4,829,068</u>	<u>111,071</u>	<u>--</u>	<u>4,940,139</u>
Less accumulated depreciation	(1,989,805)	(115,708)	--	(2,105,513)
Business-type activities capital assets, net	<u>\$ 2,839,263</u>	<u>\$ 226,779</u>	<u>\$ --</u>	<u>\$ 2,834,626</u>

**NOTE F - REVENUE BONDS and OTHER DEBT PAYABLE**

Revenue bonds were issued to acquire or construct proprietary fund assets and the revenue derived from these assets are pledged to repay the related bond principal and interest. All revenue bond transactions are accounted for as business-type activities. Accordingly, all amounts including outstanding principal and accrued interest at June 30, 2019 are immediately due and payable and appropriately classified as current liabilities.

The following bond issues comprise revenue bonds payable as of June 30, 2019:

**Sewer Loan Payable**

The Town is in a long-term debt agreement to pay the United States of America, acting through the United States Department of Agriculture (USDA) or its registered assigns, the principal sum of \$2,628,000 plus interest on this principal amount at the rate of 4.25% per annum, which shall be payable in monthly installments of principal and interest of \$11,406 each on the 7th day of each month commencing February 7, 2011 and ending on December 7, 2050. This debt is collateralized by a revenue bond.

\$ 2,373,724

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
June 30, 2019

**NOTE F - REVENUE BONDS and OTHER DEBT PAYABLE--continued**

**Waterworks and Sewer System Improvement Revenue Bond**

The Town received an \$800,000 grant to provide improvements to its utility system. The grant requires that the Town provide a match of \$200,000. As a result, on April 13, 2019 the Town issued revenue bonds through BB&T, a local banking institution in the amount of \$200,000 to meet the matching requirement of the \$600,000 being provided by the USDA. The effective date is April 13, 2019, with an interest rate of 3.760% and matures on May 1, 2029. The loan is secured by the utility systems of the Town. The loan is to be repaid monthly in installments of \$2,006.13 on the 1st of each month for 120 months. This debt is collateralized by the revenues of the system.

\$ 199,017

**Auto Loan Payable**

The Town took out a loan in the amount of \$60,272 on July 1, 2018 for the purchase of two 2019 Dodge Chargers. The loan is with the Kansas City State Bank and is secured by the vehicles. The loan is for a five year term beginning July 1, 2018 and ending July 1, 2022 with five annual installments totaling \$13,631.99 each with an imputed interest rate of 6.18%.

\$ 49,471

\$ 2,622,212

The following is a summary of debt transactions for the 12 months ended June 30, 2019:

Revenues bonds payable at June 30, 2018	\$ 2,411,085
Add newly issued debt	
Less revenue bonds retired	(35,073)
Revenues bonds payable at June 30, 2019	<u>\$ 2,446,158</u>

The original annual debt-service requirements to amortize outstanding revenue bonds as of June 30, 2019 including interest payments were as follows:

June 30,	Principal	Interest	Total
2020	64,700	110,531	\$ 136,872
2021	67,626	107,646	\$ 136,872
2022	70,687	104,627	\$ 136,872
2023	60,451	101,468	\$ 136,872
2024	62,975	97,971	\$ 136,872
2025 - 2029	354,583	448,139	\$ 684,360
2030 - 2034	304,960	379,400	\$ 684,360
2035 - 2039	377,023	307,337	\$ 684,360
2040 - 2044	466,114	218,246	\$ 684,360
2045 - 2049	576,258	108,102	\$ 684,360
Thereafter	253,534	7,211	\$ 479,052
	<u>\$ 2,658,911</u>	<u>\$ 1,990,678</u>	<u>\$ 4,585,212</u>

**NOTE G - PENSION PLAN(S)**

The Governmental Accounting Standards Board (GASB) issued Statement No. 68 entitled *Accounting and Financial Reporting* for Pension Plans in June 2012. The disclosure requirements applicable to employers participating in the South Carolina Retirement System or the Police Officers Retirement System are prescribed in paragraphs 48 through 82 of GASB 68.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
**June 30, 2019**

**NOTE G - PENSION PLAN(S)--continued**

**State Retirement Plan**

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012 and governed by an 11-member Board, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. The Retirement Funding and Administration Act of 2017, which became effective July 1, 2017, increased the employer and employee contribution rates, established a ceiling on the SCRS and PORS employee contribution rates, lowered the assumed rate of return, required a scheduled reduction of the funding periods, and addressed various governance issues including the assignment of the PEBA Board as custodian of the retirement trust funds and assignment of the RSIC and PEBA as co-trustees of the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publically available on the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

**Plan Descriptions**

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts and political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly or after the 2012 general election.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts and individuals first elected to the General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into a plan administered by one of four third party record keepers.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

**Plan Membership**

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

**SCRS** - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012 is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
**June 30, 2019**

**NOTE G - PENSION PLAN(S)--continued**

**State ORP** - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP). PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party record keepers. For this reason, State ORP programs are not part of the retirement systems' trust funds for financial statement purposes. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP vendor for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

**PORS** - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

**Plan Benefits**

Benefit terms are prescribed in title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of benefit terms for each system is presented below.

**SCRS** - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five or eight year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

**PORS** - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

**NOTES TO FINANCIAL STATEMENTS  
TOWN OF SWANSEA, SOUTH CAROLINA  
June 30, 2019**

**NOTE G - PENSION PLAN(S)--continued**

**Plan Contributions**

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. If the scheduled employee and employer contributions provided in statute, or the rates last adopted by the board, are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rates as necessary.

After June 30, 2027, if the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than eighty-five percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than eighty-five percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than eighty-five percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than eighty-five percent.

The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization period.

Required employee contribution rates\* are as follows:

	<u>Fiscal Year 2019*</u>	<u>Fiscal Year 2018*</u>
<b>SCRS</b>		
Employee Class Two	9.00%	9.00%
Employee Class Three	9.00%	9.00%
<b>State ORP</b>		
Employee	9.00%	9.00%
<b>PORS</b>		
Employee Class Two	9.75%	9.75%
Employee Class Three		

Required employer contribution rates\* are as follows:

	<u>Fiscal Year 2019*</u>	<u>Fiscal Year 2018*</u>
<b>SCRS</b>		
Employer Class Two	14.41%	13.41%
Employer Class Three	14.41%	13.41%
Employer Incidental Death Benefit	0.15%	0.15%
<b>State ORP</b>		
Employer Contribution**	14.41%	13.41%
Employer Incidental Death Benefit	0.15%	0.15%
<b>PORS</b>		
Employer Class Two	16.84%	15.84%
Employer Class Three	16.84%	15.84%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

\*Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

\*\*Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
**June 30, 2019**

**NOTE G - PENSION PLAN(S)--continued**

As noted above, both employees and the Town are required to contribute to the Plans at rates established and as amended by the PEBA. The Town's contributions are actuarially determined but are communicated to and paid by the Town as a percentage of the employees' annual eligible compensation as follows for the past three years:

		SCRS Rates		
		2017	2018	2019
Employer Rate:	Retirement	11.41%	13.41%	14.41%
	Incidental Death Benefit	0.15%	0.15%	0.20%
	Accidental Death Contributions	0.20%	0.20%	0.20%
Employee Rate		8.66%	9.00%	9.00%
		PORS Rates		
		2017	2018	2019
Employer Rate:	Retirement	13.84%	15.84%	16.84%
	Incidental Death Benefit	0.20%	0.20%	0.20%
	Accidental Death Contributions	0.20%	0.20%	0.20%
Employee Rate		8.74%	9.24%	9.75%

The required contributions and percentages of amounts contributed by the Town to the Plan for the past three years were as follows:

Year Ended June 30,	SCRS Contributions		PORS Contributions	
	Required	% Contributed	Required	Contributed
2019	\$ 38,041	100%	\$ 18,012	100%
2018	\$ 33,511	100%	\$ 19,474	100%
2017	\$ 26,661	100%	\$ 15,219	100%

Eligible payrolls of the Town covered under the Plans for the past three years were as follows:

Year Ended June 30,	SCRS :Payroll	PORS Payroll
2019	\$ 263,989	\$ 106,962
2018	\$ 247,131	\$ 119,914
2017	\$ 230,635	\$ 106,875

**Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related To Pensions**

At June 30, 2019, the Town reported liabilities of approximately \$149,138 for its proportionate share of the net pension liabilities for the SCRS Plan and \$62,624 for PORS. The net pension liabilities were measured as of June 30, 2018, and the total pension liabilities for the Plan used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report as of July 1, 2016 that was projected forward to the measurement date.

The Town's proportions of the net pension liabilities were based on a projection of the Town's long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At June 30, 2018, the Town's SCRS proportion was .000666 percent and .002210 for PORS, which was equal to its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the Town recognized pension expense of approximately \$(74,393) for the SCRS and \$(30,892) for PORS. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
 June 30, 2019

**NOTE G - PENSION PLAN(S)--continued**

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>SCRS</b>		
Differences Between Expected and Actual Experience	\$ 15,804	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		299,852
Changes in proportionate share, plus difference in proportionate share of employer Contributions		
Town's Contributions Subsequent to the Measurement Date	38,437	-
<b>Total SCRS</b>	<b>\$ 54,241</b>	<b>\$ 299,852</b>
<b>PORS</b>		
Differences Between Expected and Actual Experience	\$ 7,453	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		126,097
Changes in proportionate share, plus difference in proportionate share of employer Contributions		
Town's Contributions Subsequent to the Measurement Date	18,226	-
<b>Total SCRS</b>	<b>\$ 25,679</b>	<b>\$ 126,097</b>

Approximately \$38,437 and \$18,226 that were reported as deferred outflows of resources, which represent the Town's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the SCRS will be recognized as pension expense as follows:

Year Ended June 30,	SCRS	PORS
2020	\$ 314	\$ (35,656)
2021	(1,610)	(34,571)
2022	(180)	(10,724)
2023	-	-
2024	-	-
Total	<u>\$ (1,476)</u>	<u>\$ (80,951)</u>

**Actuarial Assumptions and Methods**

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2015.

The June 30, 2018, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2018, using generally accepted actuarial principles.

The following provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2018.

	SCRS	PORS
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return (includes inflation at 2.25%)	7.25%	7.25%
Projected Salary Increases	3.0% to 12.5% (varies by	3.5% to 9.5% (varies by service)
Benefit Adjustments	Lesser of 1% or \$500	Lesser of 1% or \$500 annually

**NOTES TO FINANCIAL STATEMENTS  
TOWN OF SWANSEA, SOUTH CAROLINA  
June 30, 2019**

**NOTE G - PENSION PLAN(S)--continued**

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the determination of the June 30, 2018, TPL are as follows.

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

**Net Pension Liability**

The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2018, for SCRS and PORS are presented below:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 48,821,730,087	\$26,414,916,370	\$22,406,813,697	54.1%
PORS	\$ 7,403,972,673	\$ 4,570,430,247	\$ 2,833,542,426	61.7%

The TPL is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

**Long-term Expected Rate of Return**

The long-term expected rate of return on pension plan investments is based upon 30 year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
 June 30, 2019

**NOTE G - PENSION PLAN(S)--continued**

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
<b>Global Equity</b>	<b>47.0%</b>		
Global Public Equity	33.0%	6.99%	2.31%
Private Equity	9.0%	8.73%	0.79%
Equity Options Strategies	5.0%	5.52%	0.28%
<b>Real Assets</b>	<b>10.0%</b>		
Real Estate (Private)	6.0%	3.54%	0.21%
Real Estate (REITs)	2.0%	5.46%	0.11%
Infrastructure	2.0%	5.09%	0.10%
<b>Opportunistic</b>	<b>13.0%</b>		
GTAA/Risk Parity	8.0%	3.75%	0.30%
Hedge Funds (non-PA)	2.0%	3.45%	0.07%
Other Opportunistic Strategies	3.0%	3.75%	0.11%
<b>Diversified Credit</b>	<b>18.0%</b>		
Mixed Credit	6.0%	3.05%	0.18%
Emerging Markets Debt	5.0%	3.94%	0.20%
Private Debt	7.0%	3.89%	0.27%
<b>Conservative Fixed Income</b>	<b>12.0%</b>		
Core Fixed Income	10.0%	0.94%	0.09%
Cash and Short Duration (Net)	2.0%	0.34%	0.01%
<b>Total Expected Return</b>	<b>100.0%</b>		<b>5.03%</b>
Inflation for Actuarial Purposes			2.25%
<b>Total Expected Nominal Return</b>			<b>7.28%</b>

**Discount Rate**

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that the contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the 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 TPL.

**Sensitivity Analysis**

The following table presents the collective NPL of the participating employers calculated using the discount rate of 7.25 percent, as well as what the employers' NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate				
System	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)	
SCRS	\$28,631,746,951	\$22,406,813,897	\$ 17,956,582,707	
PORS	\$ 3,819,969,291	\$ 2,833,542,426	\$ 2,025,575,990	

**Additional Financial and Actuarial Information**

Detailed information regarding the fiduciary net position of the Plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2018 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2018.

**Deferred Compensation Plans**

Several optional deferred compensation plans are available to state employees and employers of its political subdivisions. Certain employees of the Town have elected to participate. The multiple-employer plans, created under Internal Revenue Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate state employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

**NOTES TO FINANCIAL STATEMENTS**  
**TOWN OF SWANSEA, SOUTH CAROLINA**  
 June 30, 2019

**NOTE H - RISK MANAGEMENT AND CONTINGENCIES**

The Town is exposed to various risks of losses related to torts, thefts, damage and destruction of assets, errors and omissions, injuries to employees, and natural disaster. The Town manages risk through employee educational and prevention programs and through the purchase of casualty and liability insurance. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims the Town considers all events that might give rise to possible claims both reported and unreported.

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

**NOTE I - COMMITMENTS**

The Town owes the State Treasurer's Office \$100,687 for fines collected and not remitted. The Town is making payments each month against this balance.

**NOTE J - SUBSEQUENT EVENTS**

The Town has evaluated subsequent events through January 20, 2020 and management has determined there are no events to report.

**NOTE K - PRIOR PERIOD ADJUSTMENTS**

The Town has identified prior period adjustments as follows:

	<u>Government-Wide Type</u>		<u>Fund Type</u>	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Net assets, as previously reported	(626,485)	824,339	(84,036)	824,339
Prior period adjustment to correct unknown errors	836,847	(96,230)	215,043	(96,230)
Net assets, as restated	<u>210,362</u>	<u>728,109</u>	<u>131,007</u>	<u>728,109</u>

**TOWN OF SWANSEA, SOUTH CAROLINA**  
**Schedule of the Town's Proportionate Share of the Net Pension Liability**  
**South Carolina Retirement Systems**  
**Last Six Fiscal Years**

Only six years of information is presented as only six years of data were available.

	2019	2018	2017	2016	2015	2014
<b>SCRS</b>						
Town's proportion of the net pension liability (asset)	0.066600%	0.228600%	0.002721%	0.273200%	0.002420%	0.002420%
Town's proportionate share of the net pension liability (asset)	\$ 149,138	\$ 514,615	\$ 581,202	\$ 518,137	\$ 416,644	\$ 434,062
Town's covered-employee payroll	\$ 263,989	\$ 247,131	\$ 230,635	\$ 252,531	\$ 252,531	\$ 247,705
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	56.49%	208.24%	252.00%	205.18%	164.99%	175.23%
Plan fiduciary net position as a percentage of the total pension liability	54.10%	53.30%	52.90%	56.99%	59.90%	56.39%
<b>PORS</b>						
Town's proportion of the net pension liability (asset)	0.002210%	0.007940%	0.007940%	0.002721%	0.002420%	0.009600%
Town's proportionate share of the net pension liability (asset)	\$ 62,624	\$ 217,412	\$ 240,128	\$ 205,919	\$ 183,804	\$ 199,026
Town's covered-employee payroll	\$ 106,962	\$ 119,914	\$ 106,875	\$ 108,843	\$ 117,535	\$ 115,433
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	58.55%	181.31%	224.68%	189.19%	156.38%	172.42%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	60.90%	60.40%	60.40%	67.50%	67.50%

**TOWN OF SWANSEA, SOUTH CAROLINA**  
**Schedule of Town Contributions**  
**South Carolina Retirement System (SCRS)**  
**Years Ended June 30,**

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 38,041	\$ 33,511	\$ 26,661	\$ 28,144	\$ 27,854	\$ 26,276
Contributions in relation to the contractually required contribution	<u>\$ 38,041</u>	<u>\$ 33,511</u>	<u>\$ 26,661</u>	<u>\$ 28,144</u>	<u>\$ 27,854</u>	<u>\$ 26,276</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Town's covered employee payroll	\$ 263,989	\$ 247,131	\$ 230,635	\$ 252,531	\$ 255,317	\$ 247,705
Contributions as a percentage of covered-employee payroll	14.41%	13.56%	11.56%	11.14%	10.91%	10.61%

**Police Officer's Retirement System (PORS)**  
**Years Ended June 30**

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 18,012	\$ 19,474	\$ 15,219	\$ 14,753	\$ 15,484	\$ 14,690
Contributions in relation to the contractually required contribution	<u>\$ 18,012</u>	<u>\$ 19,474</u>	<u>\$ 15,219</u>	<u>\$ 14,753</u>	<u>\$ 15,484</u>	<u>\$ 14,690</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Town's covered employee payroll	\$ 106,962	\$ 119,914	\$ 106,875	\$ 108,843	\$ 117,535	\$ 115,433
Contributions as a percentage of covered-employee payroll	16.84%	16.24%	14.24%	13.55%	13.17%	12.73%

**SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET (GAAP) AND ACTUAL  
GENERAL FUND**

**TOWN OF SWANSEA, SOUTH CAROLINA  
Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Local sources				
Property taxes	\$ 164,425	\$ 164,425	\$ 186,661	\$ 22,236
Fines and Fees	107,000	107,000	191,438	84,438
Victim services	3,780	3,780	--	(3,780)
Business licenses	45,659	45,659	85,931	40,272
Franchise fees	145,832	145,832	120,806	(25,026)
Other fees, taxes and permits	1,925	1,925	9,216	7,291
	<u>468,621</u>	<u>468,621</u>	<u>594,052</u>	<u>125,431</u>
State sources				
State aid to subdivisions	21,500	21,500	23,576	2,076
Local option sales tax	--	--	--	--
Homestead exemption	15,836	15,836	--	(15,836)
	<u>37,336</u>	<u>37,336</u>	<u>23,576</u>	<u>(13,760)</u>
Other sources				
Interest and other	--	--	45	45
	<u>--</u>	<u>--</u>	<u>45</u>	<u>45</u>
<b>TOTAL REVENUES</b>	<b>505,957</b>	<b>505,957</b>	<b>617,673</b>	<b>111,716</b>
<b>Expenditures</b>				
General government				
Mayor and council	37,073	37,073	23,786	13,287
Administrative and general	35,835	35,835	309,871	(274,036)
Legal	15,800	15,800	20,723	(4,923)
Public safety	324,188	324,188	449,551	(125,363)
Street	93,061	93,061	114,686	(21,625)
	<u>505,957</u>	<u>505,957</u>	<u>918,617</u>	<u>(412,660)</u>
<b>Total departmental expenditures</b>	<b>505,957</b>	<b>505,957</b>	<b>918,617</b>	<b>(412,660)</b>
	<u>505,957</u>	<u>505,957</u>	<u>918,617</u>	<u>(412,660)</u>
<b>TOTAL EXPENDITURES</b>	<b>505,957</b>	<b>505,957</b>	<b>918,617</b>	<b>(412,660)</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>--</b>	<b>--</b>	<b>(300,944)</b>	<b>(300,944)</b>
Proceeds from capital lease	--	--	--	--
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>--</b>	<b>--</b>	<b>(300,944)</b>	<b>(300,944)</b>
Fund balance at beginning of year, as restated	--	--	\$ 131,007	131,007
	<u>--</u>	<u>--</u>	<u>\$ 131,007</u>	<u>131,007</u>
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ (169,937)</b>	<b>\$ (169,937)</b>
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (169,937)</u>	<u>\$ (169,937)</u>

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# John E. Brown

Certified Public Accountant

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West Columbia, SC 29172

(803) 755-3384



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and  
Members of Town Council  
Town of Swansea, South Carolina

I 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 and the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Swansea, South Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Swansea, South Carolina's basic financial statements, and have issued my report thereon dated January 20, 2020.

### Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town of Swansea, South Carolina's, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Swansea, South Carolina'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. I consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. 2019-1 and 2019-2.

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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Swansea, South Carolina's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and 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

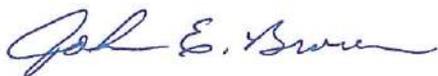
objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Town of Swansea, South Carolina's Response to Findings**

The Town of Swansea, South Carolina's responses to the findings identified in my engagement are described in the accompanying schedule of findings. The Town's responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, I express no opinion on them.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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 engagement to perform an audit 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.



January 20, 2020

## 1. FINDINGS RELATING TO FINANCIAL STATEMENTS

<u>Reference</u>	<u>Description</u>
2019-1	<p><b>Capital Asset Records Not Properly Maintained</b></p> <p><b>Condition:</b> A vehicle purchased by the Town's Police Department was listed on the Town's insurance policy, but, was not listed on the Town's fixed asset listing. Additionally, the Town did not obtain a vehicle title from the State until two years after purchase.</p> <p><b>Criteria:</b> Good internal controls include procedures that accurately title, list and report fixed assets immediately after acquisition.</p> <p><b>Cause:</b> Procedures were not followed or were not in place to notify the accounting department when assets are purchased.</p> <p><b>Effect:</b> The fixed asset listing provided to the auditor did not include all fixed assets. This condition resulted fixed assets being understated and a modified auditor's report.</p> <p><b>Recommendation:</b> Establish procedures to follow when fixed assets are acquired to include identification numbers, description, cost and depreciation methodology to use during the estimated useful life of the asset. Procedures should also be established for disposal of fixed assets and removal from fixed asset listings.</p> <p><b>Response and Corrective Action Plan:</b> The Town will review exiting procedures and establish additional measures to properly account for and list fixed assets from acquisition through disposition.</p> <p><b>Auditor's Response:</b> The auditor concurs.</p>
2019-2	<p><b>The Town Was Not Current on Payments to The Lexington County Victim's Fund.</b></p> <p><b>Condition:</b> The Town made a payment of \$73,183.99 on September 18, 2018 which represented arrearages to the Lexington County Victim's Fund since 2002. Initially the auditor was informed that this payment was for the purchase of police vehicles. However, when the auditor contacted the Lexington County Sheriff's Department, he was informed that the payment was for arrearages to the Victim's Fund.</p> <p><b>Criteria:</b> Procedures should be in place to reconcile liability balances on a monthly basis.</p> <p><b>Cause:</b> Unknown</p>

**Effect:** The beginning liability balances were understated by \$73,183.99 and Town resources were burdened with an unbudgeted large payment to address this arrearage.

**Recommendation:** Appropriate Town personnel should review payables monthly, quarterly and at fiscal year-end to ensure that all Town obligations are paid when due.

**Response and Corrective Action Plan:** The Town will have appropriate personnel review obligations of the Town monthly, quarterly and at fiscal year-end to make timely payments and prevent delinquencies.

**Auditor's Response** – The auditor concurs.

2019-3

**The Town makes Disbursements from Checking Accounts Maintained by the Clerk Treasurer, Municipal Court and Police Department.**

**Condition:** The Town maintains numerous checking accounts which are maintained by different personnel. Town checks are written from at least three offices within the Town.

**Criteria:** Good internal controls limit the sources of disbursements by centralizing the process and requiring two (2) signatures to authorize check disbursements.

**Cause:** Unknown

**Effect:** If an employee decides, Town resources can currently be used without authorization and may only be discovered once bank statements are reviewed or during the audit process. Payments are made and not recorded in a centralized ledger creating issues when attempting to prepare year-end financial statements. Additionally reconciliations between the funds and the Government Wide financial statements were difficult to complete because of the decentralized accounting.

**Recommendation:** The Town should limit the number of personnel who distribute/write checks.

**Response and Corrective Action Plan:** Town Council will review the Town's current check writing and authorization procedures to limit the number of personnel who write/distribute checks.

**Auditor's Response** – The auditor concurs.

**Town of Swansea, South Carolina**  
**Summary Schedule of Prior Year Findings**  
**For the Year Ended June 30, 2019**

**2018-1      Accounting and bookkeeping procedures not properly performed.**

**Condition:** The Town's current accounting and bookkeeping procedures do not properly record and categorize financial information to allow the preparation of accurate finance statements.

**Criteria:** A good accounting system and proper bookkeeping procedures should be performed by personnel with adequate background, knowledge and experience.

**Effect:** Because accounting and bookkeeping procedures are not being performed, accurate financial reports are not being generated.

**Recommendation:** The Town should hire an accountant with a background in all facets of governmental accounting.

**Response:** The Town's management agrees and will seek to hire an accountant with governmental accounting experience in the near future.

**Status:** Prior year finding has been corrected.

**2018-2      General Ledger – 2003-2016**

**Condition:** The general ledger used by the Town needs to utilize proper fund accounting between the general fund and proprietary fund. Entries are made between funds, which result in individual funds being out of balance. The software the Town uses does not close out the previous year to fund balance, which is the main reason for the funds being out of balance.

**Criteria:** Fund accounting should ensure that each fund maintain a set of self-balancing accounts. Entries between funds should be recorded by offsetting "due to/from" accounts in order to maintain fund integrity.

**Effect:** Because entries are made across funds resulting in individual funds being out of balance, errors can occur and not be detected in a timely manner.

**Recommendation:** A self-balancing fund accounting system should be maintained by training accounting staff in the proper methodology of fund accounting.

**Response:** The Town's management agrees and will attempt to balance funds and their respective transactions.

**Status:** Prior year finding has been corrected.

**Town of Swansea, South Carolina**  
**Summary Schedule of Prior Year Findings**  
**For the Year Ended June 30, 2019 (cont.)**

**2018-3 Segregation of Duties – Fiscal years 2003 – 2016**

**Condition:** A proper segregation of duties does not exist relative to cash receipts and disbursements.

**Criteria:** The same personnel perform the duties of cashier, posting accounts receivable records, handling of mail cash receipts, and receiving and disputing items and charges.

**Effect:** Because a segregation of duties does not exist, errors and irregularities could occur and not be detected in a timely manner.

**Recommendation:** A segregation of duties should be established and maintained, where each employee is delegated one primary task.

**Response:** The Town's management agrees and will monitor this control weakness. Due to the size of the Town and the efforts to keep costs down, the Town has a small accounting staff and all duties cannot be segregated at all times.

**Status:** Prior year finding has not been corrected and is a repeat finding.

**Statement of Fines, Assessments and Surcharges  
Town of Swansea, South Carolina  
For the Year Ended  
June 30, 2019**

	<b>Total</b>	<b>State Portion</b>
Municipal Assessments	\$ 64,156	\$ 54,765
Municipal Surcharges	24,942	21,301
Municipal Other Assessments	80	
Totals	\$ 89,178	\$ 76,066
 <b>Victim Services</b>		
Assessments and Surcharges		\$ 10,517
Expenditures		--
Increase in Fund Balance		10,517
Assigned Fund Balance June 30, 2018		62,407
Assigned Fund Balance, June 30, 2019		\$ 72,924