



Financial Statements with Independent Auditor's Report  
for the year ended December 31, 2013

TOWN OF CHAPIN  
ELECTED OFFICIALS 2014  
TOWN COUNCIL MEETS 1<sup>ST</sup> TUESDAY 7:00PM TOWN HALL

<u>NAME</u>	<u>YEAR ELECTED</u>	<u>TERM EXPIRATION</u>
<b>MAYOR</b>		
JAMES R. WILSON JR 219 Woodthrush Rd. Chapin, SC. 29036 cell: 331-3731 Phone: 803- 932-7276 , fax 345-0427 803-575-8040 E-mail <a href="mailto:swilson@skipwilsonfinancial.com">swilson@skipwilsonfinancial.com</a> ( <a href="mailto:mayorskipwilson@chapinsec.com">mayorskipwilson@chapinsec.com</a> )	2014	12/31/2017
<b>COUNCIL</b>		
VIVIAN ATKINS (BiBi) P.O. Box 21 Chapin, SC 29036 Phone: 803-345-5011 E-mail <a href="mailto:bibiattkins@att.net">bibiattkins@att.net</a>	1999	12/31/2015
ROBERT P. FRICK (Robbie) P. O. Box 11 Chapin, SC. 29036 Phone: 803-345-2156 E-mail <a href="mailto:laban1@bellsouth.net">laban1@bellsouth.net</a>	2014	12/31/2017
KAY HOLLINS 105 Glenwood Drive Chapin, SC 29036 Phone 803-345-2877 E-mail <a href="mailto:kayhollis@earthlink.net">kayhollis@earthlink.net</a>	2004	12/31/2015
GREGG WHITE 318 Clark Street P.O. Box 713 White Rock SC 29177 Chapin, SC 29036 Phone: 345-8913 E-mail <a href="mailto:greggwhite@bellsouth.net">greggwhite@bellsouth.net</a>	2014	12/31/2017

GENERAL INFORMATION:

POPULATION: APPROX 1445

LAND AREA: 1.2 sq. miles

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

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

PHONE: 803-345-2444 FAX 803-345-0427 WEB SITE [chapinsec.com](http://chapinsec.com) e-mail [chapinsec@chapinsec.com](mailto:chapinsec@chapinsec.com)

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

Town Attorney David Knight [lmlaw1@bellsouth.net](mailto:lmlaw1@bellsouth.net) 345-6540

Clerk of Court MaryAnn Davis 575-8044

Member districts/elected at large - 4years staggered terms Next Election November 2015

Police Chief: Troy Crump 345-6443 [chief@chapinsec.com](mailto:chief@chapinsec.com)

Town Clerk: Adrienne Thompson 575-8038

Judge: Gary Rinehart. X 203

Utilities: Mary Winn 575-8042 Theresa Hiott 575-8043

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# BROWN CPA, LLC

## Independent Auditor's Report

To the Town of Chapin  
Chapin, South Carolina

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Chapin, South Carolina (the "Town") as of and for the years ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the Town's financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Summary of Opinions**

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified

[www.browncpallc.com](http://www.browncpallc.com)

MEMBER:  
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
SOUTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC  
ACCOUNTANTS

### **Basis for Qualified Opinion on the Governmental Activities**

For the financial statements of the Governmental Activities of the Town of Chapin as of and for the year ended December 31, 2013, we were unable to obtain satisfactory documentary evidence related to a) pending and threatened litigation as we were not allowed to discuss these matters with the town attorneys and b) we were unable to locate invoices and payment support for a significant number of disbursements.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matters discussed in the “Basis for Qualified Opinion on the Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities as of December 31, 2013, and the respective changes in its financial position and, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, and each major fund as of December 31, 2013, and the respective changes in its financial position and, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2015, on our consideration of the Town’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

BROWN CPA, L.L.C.

Irmo, South Carolina  
January 30, 2015

Town of Chapin  
Statement of Net Position  
December 31, 2013

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
<b>Assets</b>			
Current assets:			
Cash and equivalents	\$ 456,886	\$ 66,922	\$ 523,808
Cash and equivalents, restricted			
Escrow funds	-	33,033	33,033
Council restricted	-	2,968,889	2,968,889
Accounts receivable, net	121,285	202,147	323,432
Prepaid expenses	-	-	-
Due (to) from other funds	(1,898,984)	1,898,984	-
Total current assets	<u>(1,320,813)</u>	<u>5,169,975</u>	<u>3,849,162</u>
Noncurrent assets:			
Bond issuance costs, net of amortization	12,000	-	12,000
Capital assets, net of accumulated depreciation	5,655,407	15,039,385	20,694,792
Total noncurrent assets	<u>5,667,407</u>	<u>15,039,385</u>	<u>20,706,792</u>
Total assets	<u>4,346,594</u>	<u>20,209,360</u>	<u>24,555,954</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	194,480	239,726	434,206
Accrued wages and related expenditures	12,584	3,292	15,876
Long term liabilities:			
Amounts due within one year:			
Accrued compensated absences and related benefits	14,928	5,306	20,234
General obligation bonds	72,613	-	72,613
Amounts due beyond one year:			
General obligation bonds	584,424	-	584,424
Customer deposits	-	33,033	33,033
Total liabilities	<u>879,029</u>	<u>281,357</u>	<u>1,160,386</u>
<b>Net position</b>			
Invested in capital assets, net of related debt	4,998,370	15,039,385	20,037,755
Restricted by council	-	2,968,889	2,968,889
Unrestricted	(1,530,805)	1,919,729	388,924
Total net position	<u>\$ 3,467,565</u>	<u>\$ 19,928,003</u>	<u>\$ 23,395,568</u>

See accompanying notes to the financial statements

Town of Chapin  
Statement of Activities  
for the year ended  
December 31, 2013

Function / Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government:					
Governmental activities:					
General administration	\$ 324,052	\$ -	\$ -	\$ (324,052)	\$ -
Council	39,803	-	-	(39,803)	-
Public safety					
Police	512,527	78,577	-	(433,950)	-
Fire	2,000	-	-	(2,000)	-
Municipal court	124,891	-	-	(124,891)	-
Public works	34,241	-	-	(34,241)	-
Street	42,376	-	-	(42,376)	-
	<u>1,079,890</u>	<u>78,577</u>	<u>-</u>	<u>(1,001,313)</u>	<u>-</u>
Business-type activities:					
Water and Sewer	<u>2,329,520</u>	<u>2,219,575</u>	<u>-</u>	<u>-</u>	<u>(109,945)</u>
Total Primary Government	<u>\$ 3,409,410</u>	<u>\$ 2,298,152</u>	<u>\$ -</u>	<u>(1,001,313)</u>	<u>(109,945)</u>
General revenues (expenses):					
				996,960	-
				116,884	-
				34,486	-
				1,261	-
				11,999	-
				<u>1,161,590</u>	<u>-</u>
				Change in net position	160,277 (109,945)
				Net position - beginning	<u>3,307,288</u> <u>20,037,948</u>
				Net position - ending	<u>\$ 3,467,565</u> <u>\$ 19,928,003</u>

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

Town of Chapin  
Balance Sheet Governmental Fund  
December 31, 2013

	<u>Total Governmental</u>
	<i>General</i>
	<i>Fund</i>
	<u>                    </u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 456,886
Receivables	121,285
Interfund - water and sewer fund	(1,898,984)
Total assets	\$ (1,320,813)
 <b>Liabilities and Fund Balances:</b>	
Liabilities:	
Accounts payable	\$ 194,480
Accrued wages and related expenditures	12,584
Compensated absences	14,928
Total liabilities	221,992
Fund balances:	
Fund balance	(1,542,805)
Total fund balances	(1,542,805)
Total liabilities and fund balances	\$ (1,320,813)

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

Town of Chapin  
Reconciliation of Governmental Fund Balance to Net Position of Governmental Activities  
December 31, 2013

Fund balance - governmental funds	\$ (1,542,805)
Amounts reported for governmental activities in the statement of net assets are different because:	
Assets are capitalized and amortized or depreciated in the statement of net assets and charged go expenditures in the governmental fund:	
Bond issuance costs, net of amortization	12,000
Capital assest net of accumulated depreciation	5,655,407
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in governmental funds.	(657,037)
	<hr/>
Net position - governmental activities	<u><u>\$ 3,467,565</u></u>

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

Town of Chapin  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Governmental Fund for the year ended  
December 31, 2013

**Revenues:**

Licenses	\$	996,960
Taxes		116,884
Fines		78,577
Intergovernmental state revenues		34,486
Interest		1,261
Other		11,999
Total revenues		1,240,167

**Expenditures:**

General administration		302,115
Council		39,803
Public safety		
Police department wages and benefits		272,042
Police department operating expenses		198,614
Fire department		2,000
Municipal court		124,891
Public works		34,241
Street		42,376
Capital outlay		3,538,228
Debt service:		
Principal		70,174
Interest		25,380
Total expenditures		4,649,864

Net change in fund balance		(3,409,697)
Fund Balance, beginning, restated		1,866,892
Fund Balance, ending	\$	(1,542,805)

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

Town of Chapin  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in  
 Governmental Fund Balance to the Statement of Activities for the year ended  
 December 31, 2013

**Reconciliation to the Statement of Activities:**

Net change in fund balance governmental fund \$ (3,409,697)

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

Costs of capital assets are reported as expenditures in the governmental fund and are reported as capital asset additions in the statement of net position 3,538,228

Depreciation of capital assets is reported as an expense in the statement of activities (79,304)

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

Repayments of long-term debt are reported as expenditures in the governmental funds and are reported as a reduction of liabilities in the statement of net position 70,174

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 42,386

Net change in net position Governmental Activities \$ 160,277

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

Town of Chapin  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget to Actual - General Fund  
for the year ended  
December 31, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> Favorable (Unfavorable)
<b>Revenues:</b>			
Licenses	\$ 840,000	\$ 996,960	\$ 156,960
Taxes	134,700	116,884	(17,816)
Fines	80,000	78,577	(1,423)
Intergovernmental state revenues	28,000	34,486	6,486
Interest	2,000	1,261	(739)
Other	38,000	11,999	(26,001)
Total Revenues	<u>1,122,700</u>	<u>1,240,167</u>	<u>117,467</u>
<b>Expenditures:</b>			
General administration	307,338	302,115	5,223
Council	65,649	39,803	25,846
Public safety			
Police department wage and benefit	335,330	272,042	63,288
Police department operating expenses	175,750	198,614	(22,864)
Fire department	2,000	2,000	-
Municipal court	160,047	124,891	35,156
Public works	33,000	34,241	(1,241)
Street	-	42,376	(42,376)
Capital outlay, new town hall	-	3,538,228	(3,538,228)
Debt service:			
Principal	-	70,174	(70,174)
Interest	-	25,380	(25,380)
Total Expenditures	<u>1,079,114</u>	<u>4,649,864</u>	<u>(3,570,750)</u>
	<u>\$ 43,586</u>	<u>\$ (3,409,697)</u>	<u>\$ (3,453,283)</u>

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

TOWN OF CHAPIN  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS

December 31, 2013

*Business-type Activities - Enterprise Funds - Water and Sewer*

**Assets**

**Current assets:**

Cash and equivalents	\$	66,922
Accounts receivable, net		202,147
Due from (to) other funds		1,898,984
Cash and equivalents, restricted		
Escrow funds		33,033
Council restricted		2,968,889
<b>Total current assets</b>		<b>5,169,975</b>

**Noncurrent assets:**

Capital assets, net		15,039,385
<b>Total noncurrent assets</b>		<b>15,039,385</b>

<b>Total assets</b>		<b>20,209,360</b>
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**Liabilities**

Current liabilities:

Accounts payable		239,726
Accrued payroll and related liabilities		3,292
Accrued absences		5,306
Payable from restricted assets:		
Customer deposits		33,033
<b>Total current liabilities</b>		<b>281,357</b>

Total liabilities		281,357
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**Net position**

Restricted - council restricted		2,968,889
Invested in capital assets		15,039,385
Unrestricted		1,919,729
<b>Total net position</b>	\$	<b>19,928,003</b>

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

Town of Chapin  
Statement of Revenue, Expenses, and Changes in Net Position  
Proprietary Fund for the year ended  
December 31, 2013  
*Business-type Activities - Enterprise Funds - Water and Sewer*

<b>Operating revenue:</b>	
Charges for services	\$ 2,219,575
Total operating revenue	2,219,575
 <b>Operating and maintenance expenses:</b>	
Salaries	104,097
Benefits	41,265
Contractual services	399,578
Materials and supplies	678,233
Utilities	175,178
Repairs and maintenance	364,313
Other expenses	13,401
Depreciation and amortization	553,455
Total operating expenses	2,329,520
Operating income (loss)	(109,945)
<b>Increase (decrease) in net position</b>	(109,945)
<b>Net position - beginning of year</b>	20,037,948
<b>Net position - end of year</b>	\$ 19,928,003

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

Town of Chapin  
Statement of Cash Flows  
Proprietary Fund for the year ended  
December 31, 2013

<b>Cash flows provided by operating activities:</b>	
Cash receipts from customers	\$ 2,220,308
Cash payments for employee wages and benefits for services provided	(136,764)
Payments to suppliers	(3,511,678)
Net cash provided by operating activities	<u>(1,428,134)</u>
 <b>Cash flows from capital and related financing activities:</b>	
Purchase of capital assets	<u>(230,622)</u>
Net cash used by capital and related financing activities	<u>(230,622)</u>
 <b>Cash flows from noncapital financing activities:</b>	
Increase (decrease) in refundable deposits	<u>(9,047)</u>
Net cash provided by noncapital financing activities	<u>(9,047)</u>
Net change in cash	(1,667,803)
<b>Cash and cash equivalents - beginning of year</b>	<u>4,736,647</u>
<b>Cash and cash equivalents - end of year</b>	<u><u>\$ 3,068,844</u></u>
 <b>Classified as:</b>	
Cash and equivalents	\$ 66,922
Cash and equivalents, restricted	
Escrow funds	33,033
Council restricted	2,968,889
	<u><u>\$ 3,068,844</u></u>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ (109,945)
Depreciation	553,455
Net changes in assets and liabilities:	
Accounts receivable	733
Prepaid expenses	5,080
Due to (from) general fund	(2,091,929)
Accounts payable	205,874
Accrued payroll and related liabilities	3,292
Accrued absences	5,306
	<u><u>\$ (1,428,134)</u></u>

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

## **Note 1 – Summary of Significant Accounting Policies**

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

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

### A. Reporting Entity

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

### B. Government-wide and Fund Financial Statements

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

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

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds which have no measurement focus. The government-wide, proprietary fund and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all the eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. Expenditures are recognized when a fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt which are recognized when due.

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

The Town reports the following major funds:

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

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

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

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

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

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

*D. Budgetary Data Control*

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

*E. Deposits and Investments*

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

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

*F. Receivables and Payables*

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

*G. Capital Assets*

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

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

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

#### H. Compensated Absences

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

#### I. Long-Term Debt

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

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

#### J. Net Position

The Town's net position is classified as follows:

##### *Correction of Error*

The opening fund balance for the general fund has been increased by \$568,069 as the prior year report included amounts due on the general obligation bond on the balance sheet of the General Fund.

*Invested in capital assets, net of related debt:* This amount represents the Town's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To

the extent debt has been included but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

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

#### K. Use of Estimates

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

#### **New Accounting Pronouncement**

The Town implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB #65”) in 2014. GASB #65 establishes accounting and financial reporting standards that require reclassification, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB #65 supplements and extends the reach of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was adopted by Shoreline in 2013. Shoreline’s implementation of GASB #65 had no material effect on the presentation of its financial statements for the year ended December 31, 2013.

For the fiscal year beginning after December 31, 2013 the Town will be required to adopt GASB Statement No. 67 *Financials Reporting for Pension Plans* and GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. Once GASB Statements No. 67 and No. 68 are implemented the Town will be required to recognize the Town’s proportionate share of the net pension liability as currently recorded by the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefits Authority (PEBA). It is anticipated that the adoption of these Statements will have a significant impact on the net position of the Town.

## **Note 2 – Deposits and Investments**

### Deposits

The Town's policies regarding the risk of financial instruments are included in Note 1. The Town is exposed to certain custodial credit risks from the use of local financial institutions for its depository accounts. At December 31, 2013 a total of \$3,525,530 was on deposit with local institutions in the name of the Town and were fully insured or collateralized by securities held in the Town's name. The Town did not recognize any losses due to default by counterparties relating to depository relationships.

### *Custodial Credit Risk*

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

### *Credit Risk*

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

### *Interest Rate Risk*

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

### *Liquidity Risk*

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

Town of Chapin  
Notes to Financial Statements  
December 31, 2013

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

Statement of net position	<u>December 31,</u> <u>2013</u>
Cash and cash equivalents	\$ 523,808
Cash, restricted escrow funds	33,033
Cash, restricted council	<u>2,968,889</u>
Total reporting entity	<u>\$ 3,525,730</u>
 Note disclosure	
Cash on hand	\$ 200
Deposits with banks	<u>3,525,530</u>
Total reporting entity	<u>\$ 3,525,730</u>

**Note 3 – Accounts Receivables**

	Governmental Activities	Business Type Activities	Total December 31, 2013
Property taxes	\$ 92,785	\$ —	\$ 92,785
Service customers	—	212,147	212,147
Due from State of SC	3,500	—	3,500
Other	<u>25,000</u>	<u>—</u>	<u>25,000</u>
	121,285	212,147	333,432
Less, allowance for uncollectible	<u>(—)</u>	<u>(10,000)</u>	<u>(10,000)</u>
Net accounts receivable	<u>\$ 121,285</u>	<u>\$ 202,147</u>	<u>\$ 323,432</u>

Property Taxes

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

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

Town of Chapin  
Notes to Financial Statements  
December 31, 2013

**Note 4 – Bond Issuance Costs**

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

Amortization expense for the year ended December 31, 2013 was allocated as follows:

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

**Note 5 – Capital Assets**

Governmental Activities	Balance 31-Dec-12	Increases	Decreases	Balance 31-Dec-13
Capital assets not being depreciated				
Land and improvements	\$ 127,409	\$ -	\$ -	\$ 127,409
Construction in progress	689,803	3,406,060	(4,095,863)	-
Total capital assets not being depreciated	<u>817,212</u>	<u>3,406,060</u>	<u>(4,095,863)</u>	<u>127,409</u>
Other capital assets:				
Building and improvements	384,630	4,106,366	-	4,490,996
Machinery, equipment and other	69,156	36,129	(69,156)	36,129
Vehicles	264,505	26,038	(76,397)	214,146
Depreciable land improvements	1,271,290	59,498	-	1,330,788
Total other capital assets	<u>1,989,581</u>	<u>4,228,031</u>	<u>(145,553)</u>	<u>6,072,059</u>
Less, accumulated depreciation for:				
Building and improvements	(139,146)	(8,497)	-	(147,643)
Machinery, equipment and other	(69,156)	-	69,156	-
Vehicles	(176,707)	(28,431)	76,397	(128,741)
Depreciable land improvements	(225,301)	(42,376)	-	(267,677)
Total accumulated depreciation	<u>(610,310)</u>	<u>(79,304)</u>	<u>145,553</u>	<u>(544,061)</u>
Other capital assets, net	<u>1,379,271</u>	<u>4,148,727</u>	<u>-</u>	<u>5,527,998</u>
Capital assets, net	<u>\$ 2,196,483</u>	<u>\$ 7,554,787</u>	<u>\$ (4,095,863)</u>	<u>\$ 5,655,407</u>

Town of Chapin  
Notes to Financial Statements  
December 31, 2013

Depreciation expense for the year ended December 31, 2013 was allocated as follows:

	Business Type Activities
Administration	\$ 8,497
Police	28,431
Streets	42,376
	<u>\$ 79,304</u>

Business-type Activities	Balance 31-Dec-12	Increases	Decreases	Balance 31-Dec-13
Capital assets not being depreciated				
Land and improvements	\$ 954,475	\$ -	\$ -	\$ 954,475
Construction in process	-	198,384	-	198,384
Total capital assets not being depreciated	<u>954,475</u>	<u>198,384</u>	<u>-</u>	<u>1,152,859</u>
Other capital assets:				
Machinery, equipment and other	82,596	18,138	(37,363)	63,371
Vehicles	24,732	-	-	24,732
Depreciable land improvements	21,653,433	14,100	-	21,667,533
Total other capital assets	<u>21,760,761</u>	<u>32,238</u>	<u>(37,363)</u>	<u>21,755,636</u>
Less, accumulated depreciation for:				
Machinery, equipment and other	(40,264)	(6,540)	37,363	(9,441)
Vehicles	(9,892)	(4,947)	-	(14,839)
Depreciable land improvements	(7,302,862)	(541,968)	-	(7,844,830)
Total accumulated depreciation	<u>(7,353,018)</u>	<u>(553,455)</u>	<u>37,363</u>	<u>(7,869,110)</u>
Other capital assets, net	<u>14,407,743</u>	<u>(521,217)</u>	<u>-</u>	<u>13,886,526</u>
Capital assets, net	<u>\$ 15,362,218</u>	<u>\$ (322,833)</u>	<u>\$ -</u>	<u>\$ 15,039,385</u>

At December 31, 2013 the Town was in the process of constructing an addition to the sewer system known as south Chapin Gravity Sewer System phase III section II. Anticipated total construction cost is expected to approximately \$277,000.

**Note 6 – Pension Plan and Other Employee Benefits**

The majority of employees of the Town's employees are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefits Authority (PEBA). Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides life-time monthly retirement annuity

benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits, to eligible employees and retired members.

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

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

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

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

Town of Chapin  
Notes to Financial Statements  
December 31, 2013

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

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Town's actual retirement and incidental death program contributions to the SCRS for the years ended December 31, 2013 and 2012 and 2011, respectively were:

Fiscal Year Ended	Retirement System		Incidental Death	
	Employer Contribution Rate Effective July 1st	Employer Actual Contribution	Employer Contribution Rate Effective July 1st	Employer Actual Contribution
	2013	10.450%	\$ 22,676	0.15%
2012	10.450%	\$ 20,252	0.15%	\$ 306
2011	9.385%	\$ 18,530	0.15%	\$ 298

*Police Officers Retirement System*

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

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of

Town of Chapin  
Notes to Financial Statements  
December 31, 2013

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

Effective July 1, 2013, employees participating in the PORS were required to contribute 7.84% of all earnable compensation. The employer contribution rate for PORS was 17.76%. Included in the total PORS employer contribution rate is a base retirement contribution of 12.44%, 0.20% for the incidental death program, and 0.20% for the accidental death program, and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Town's actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended December 31, 2013 and 2012 and 2011, respectively were:

Fiscal Year Ended	Retirement System		Incidental Death and Accidental Death	
	Employer Contribution Rate Effective July 1st	Employer Actual Contribution	Employer Contribution Rate Effective July 1st	Employer Actual Contributions
	2013	12.440%	\$ 30,668	0.15%
2012	11.900%	\$ 25,417	0.15%	\$ 873
2011	11.363%	\$ 20,522	0.15%	\$ 734

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

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Town's liability under the plans is limited to the

amount of required employer contributions (stated as a percentage of covered payrolls) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Town recognizes no contingent liability for unfunded costs associated with participation in the plans. As discussed above, the Town will have to adopt the provision of GASB #67 and #68 for fiscal years beginning after June 15, 2013. Once GASB #67 and #68 are implemented the Town will be required to recognize it's proportionate share of the net pension liability. The adoption of GASB #67 and #68 are expected to have a significant impact of the net position of the Town. The liability as calculated by SCRS as of June 30, 2013 for the Town is as follows.

SCRS	\$ 356,397
PORS	<u>344,072</u>
	<u><u>\$ 700,469</u></u>

**Note 7 – Contingencies and Project Commitments**

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

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

**Note 8 – Risk Management**

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

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

- Unemployment compensation benefits
- Worker's compensation benefits for job—related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

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

Town of Chapin  
Notes to Financial Statements  
December 31, 2013

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

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

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

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

**Note 9 – Long Term Liabilities**

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

	<u>December</u> <u>31, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>December</u> <u>31, 2013</u>	<u>Due within</u> <u>1 year</u>
Accrued compensate d absences and related benefits	<u>\$ 15,716</u>	<u>\$ 24,145</u>	<u>\$ 19,627</u>	<u>\$ 20,234</u>	<u>\$ 20,234</u>
Bonds Payable	<u>\$ 727,201</u>	<u>\$ —</u>	<u>\$ 70,164</u>	<u>\$ 657,037</u>	<u>\$ 72,613</u>

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

Repayment schedule:

Year Ending June 30,	Governmental Activities General Obligation Bonds	
	Principal	Interest
2014	\$ 72,613	\$ 20,397
2015	75,147	20,397
2016	77,770	17,774
2017	80,484	15,060
2018	83,293	12,251
2019-2023	267,730	18,902
	<u>\$ 657,037</u>	<u>\$ 104,781</u>

**Note 10 – Concentration of Revenue**

For the Governmental Activities of the Town approximately 25.9% of general revenue is received from one taxpayer for a business license.

**Note 11 – Pending and Threatened Litigation**

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

**Note 12: Risk Management**

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

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

**Note 13 – General Fund Deficit Fund Balance**

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

Town of Chapin  
Notes to Financial Statements  
December 31, 2013

excess of disbursements, and anticipates reducing expenses to restore the deficit fund balance to a positive fund balance.

**Note 14 – Subsequent Events Review**

Management has reviewed the activity of the Town subsequent to year-end through January 30, 2015, the date the statements were available to be issued, for items of significance that would be required by professional standards to be disclosed in these statements. No items of significance were noted.

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# BROWN CPA, LLC

## Independent Auditor's Report on Supplementary Information Summarized Schedule of Financial Information

Town of Chapin  
Chapin, South Carolina

Our report on our audit of the basic financial statements of the Town of Chapin for the year ended December 31, 2013 appears on page 2. That report was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The summarized schedule of fines and assessments and victims assistance on the following pages for the years ended December 31, 2013 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*BROWN CPA, L.L.C.*

Irmo, South Carolina  
January 30, 2015

[www.browncpallc.com](http://www.browncpallc.com)

MEMBER:  
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
SOUTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Town of Chapin  
 Supplementary Schedule of Fines and Assessments  
 for the year ended  
 December 31, 2013

Collections: \$ 78,577

Disbursements:	State Treasurer	44,154
	Audit Fee	900
	Surcharges and Victims Assistance	3,821
	Revenue Town	26,978
	Disbursed by Treasurer	2
	Disbursed by Court Clerk	4,330
		\$ 80,185

*See Independent Accountant's Report on Supplementary Information.*

Town of Chapin  
 Supplementary Schedule of Victim's Assistance  
 Collections and Disbursements for the year ended  
 December 31, 2013

Balance per bank account	December 31, 2013	\$ 52,267
Collections:	Fines and assessments	4,151
	Interest	105
		<u>4,256</u>
Disbursements:	Victim's assistance	<u>-</u>
Balance per bank account	December 31, 2013	<u><u>\$ 56,523</u></u>

*See Independent Accountant's Report on Supplementary Information*

# BROWN CPA, LLC

## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Town of Chapin  
Chapin, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental and business type activities of the Town of Chapin (the "Town"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 30, 2015.

### **Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses. 2013-1, 2013-2, 2013-3, 2013-7.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies. 2013-4, 2013-5, 2013-6, 2013-8.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town of Chapin's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN CPA, L.L.C.

Irmo, South Carolina

January 30, 2015

Schedule of Findings 2013

2013-1 Financial Reporting – Financial Statement Level – (initially reported January 24, 2014)

*This is a material weakness*

Condition – During the audit for the year ended December 31, 2013 it was noted that numerous correcting journal entries were necessary to adjust the trail balance to the financial statements presented herein. In order to make the financial reports generated by the accounting system as meaningful as possible, the Town should reconcile the general ledger accounts for cash, accounts receivable, property and equipment, and accounts payable to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

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

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

Questioned Costs – None

Recommendation – We recommend that The Town of Chapin develop and implement written procedures and initiate monthly financial reporting wherein all necessary journal entries are posted to the accounts so that monthly financial statements are comparative to amounts reported at year-end. We suggest that the town hire professional help on a part time basis to review the monthly financial reports and ensure that all 1) the financial reporting system is properly setup (see comment 2013-2 below) and 2) all necessary reconciliations and correcting entries have been posted. Specifically, we recommend that the town hire a CPA proficient in governmental financial reporting on a contract basis to assist in the monthly financial reporting. We, as the Town's auditor, cannot provide this function for the town as it would impair our independence.

Managements Response – See management's response attached.

2013-2 Financial Reporting – Detail Level – (initially reported January 24, 2014)

*This is a material weakness*

Condition – During the audit for the year ended December 31, 2013 it was noted that The Town currently uses QuickBooks to account for general operations of the Town and for the Water and Sewer activities. Two separate sets of QuickBooks are maintained. Based upon or review of the Town usage of QuickBooks we noted that:

- 1) The QuickBooks file has not been setup in structure to account for the operating activities of the town.

Schedule of Findings 2013

- 2) Management is not using all the functionality of QuickBooks such as the accounts receivable system, vendor payable system, and bank reconciliation functions.

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

Effect – The financial reporting system of the Town is unduly complex and fragmented.

Questioned Costs – None

Recommendation – See comment 2013-6. We recommend that The Town of Chapin develop and implement written procedures to use QuickBooks as their book of record and to use to the extent possible all of the computer functionality that the program offers. Specifically, we recommend that:

- 1) The Town should use the Class tracking function in QuickBooks and setup all departments as a separate class. This would allow for a better tracking of expenses by department.
- 2) Management should enter all invoices into the accounts payable function of QuickBooks and make payment from the payables system. Further, management should setup all businesses that pay a license within QuickBooks and then record the business license activity by customer. This would allow for better tracking of activity by licensee by year.

Managements Response – See management’s response attached.

2013-3 Maintaining Supporting Documentation / Improve Upon the Record Retention Policy – (initially reported January 24, 2014)

*This is a material weakness*

Condition – During the audit for the year ended December 31, 2013 it was noted that:

- 1) For the General Fund of the Town management was unable to locate support for a significant quantity of the disbursements made during the year ended December 31, 2013 and shortly thereafter.
- 2) The General Fund of the Town has several bank accounts it was noted that the monthly statements are not consistently maintained and or filed in a fashion allowing for easy retrieval; further the accounts are not timely reconciled.
- 3) The Town has what appears to be a significant quantity of dated material that is likely of no further use to the town. Such items include but are not limited to recordings of Town Council meetings from the early 1990s.

Criteria – Good business practice.

Schedule of Findings 2013

Effect – As a consequence of not having adequate supporting documentation for disbursements made we have issued a qualified opinion on expenses incurred and accounts payable at year-end.

Questioned Costs – None

Recommendation – We recommend that The Town of Chapin:

- 1) Follow IRS guidelines on record retention requirements and dispose of such items that are of no further value.
- 2) Develop and implement written procedures whereby a review of the financial statements is performed by senior management on a monthly basis. The review should include all supporting schedules to arrive at the amounts reported in the financial statements. Management should then maintain those detail schedules in archive so that the Town has the ability to research or review in future periods.
- 3) Monthly bank statements be reconciled timely and filed in month order by bank statement account allowing for easy retrieval and review.

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

Managements Response – See management’s response attached.

2013-4 Improve Check Signing Policy – (initially reported January 24, 2014)

*This is a significant deficiency*

Condition – During the audit for the year ended December 31, 2013 it was noted that the Town uses a stamp to sign checks. When the mayor is unavailable, the accountant can use the stamp to sign checks.

Criteria – Good business practices and sound internal control.

Effect – The current systems results in a vulnerability to misappropriated cash.

Questioned Costs – None

Recommendation – Checks should not be signed by the accountant who originates and processes disbursements for payment. The bank signature card should be revised to include the individuals deemed appropriate to sign. A policy to have all checks over a certain amount signed by two parties should also be implemented. Such controls over cash disbursements minimize the possibility of undetected errors or misappropriation of cash. We believe that controls over cash will improve significantly by implementing this recommendation. We understand that when the current administration took office in January 2014 that new policies were put in place and the use of a stamp to sign checks was discontinued.

Managements Response – See management’s response attached.

Schedule of Findings 2013

2013-5 Timely Performance of Financial Statement Audit – (initially reported January 24, 2014)

*This is a significant deficiency*

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

Criteria – Good business practices and sound internal control.

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

Questioned Costs – None

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

Managements Response – See management’s response attached.

2013-6 QuickBooks Data File – (initially reported January 24, 2014)

*This is a significant deficiency*

Condition – See comments 2013-1 and 2013-2.

Criteria – Good business practices and sound internal control.

Effect – The current financial reporting system is inadequate.

Questioned Costs – None

Recommendation – It is our understanding that the Town has revised the structure of the QuickBooks reporting framework during fiscal year 2014.

Managements Response – See management’s response attached.

2013-7 Incompatible Functions– (initially reported January 24, 2014)

*This is a material weakness*

Condition – The activities of the general town activities and water and sewer activities of the Town are primarily bookkept by two separate clerks. One clerk for the general town activities and one clerk for water and sewer activities without any cross review of each other’s work. Theses clerks are responsible for numerous incompatible functions such as making journal entries, check writing and bank account reconciliation, among other things.

Criteria – Segregation of duties results in improved internal control.

Schedule of Findings 2013

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

Questioned Costs – None

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

Managements Response – See management’s response attached.

2013-8 Update of Employee Policy Manual – (initially reported December 15, 2014)

*This is a Significant Deficiency*

Condition – During the planning for the audit for the year ended December 31, 2013 it was noted that:

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

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

Criteria – Various regulatory requirements and employment best practices.

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

Questioned Costs – None

Recommendation – We recommend that The Town of Chapin:

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

## Attachment A



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

January 30, 2015

The Chapin Town Council is in receipt of the 2013 Chapin Town Audit from Mr. Matt Brown, CPA. Given Mr. Brown's assessment of the financial operations at the end of the audit for the Town of Chapin, the Chapin Town Council will read and assess all aspects of the suggestions and recommendations provided by Mr. Matt Brown.

Sincerely,

Mayor Skip Wilson