TOWN OF WEST PELZER, SOUTH CAROLINA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2017

TOWN OF WEST PELZER, SOUTH CAROLINA

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TOWN OF WEST PELZER, SOUTH CAROLINA

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Independent Auditor's Report

To the Honorable Mayor and Town Council
Town of West Pelzer, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of West Pelzer, South Carolina (the "Town"), as of and for the year ended June 30, 2017, 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of West Pelzer, South Carolina, as of June 30, 2017, 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

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule and pension schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary information and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and schedule of expenditures is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Payne, White & Schmutz, CPA, PA

Payne, White & Schmutz, CPA, PA

December 22, 2017

GOVERNMENT - WIDE FINANCIAL STATEMENTS

TOWN OF WEST PELZER, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2017

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Cash Equivalents	$ 87,884	$ 22,922	$ 110,806
Restricted Cash and Cash Equivalents	71,568	26,834	98,402
Accounts Receivable	27,308	66,821	94,129
Taxes Receivable	2,262	-	2,262
Grant Receivable	-	246,728	246,728
Prepaid Items	4,166	3,177	7,343
CAPITAL ASSETS:			
Non-Depreciable	233,336	3,871,328	4,104,664
Depreciable	490,685	6,045,964	6,536,649
Less Accumulated Depreciation	(264,054)	(1,566,387)	(1,830,441)
TOTAL ASSETS	**653,155**	**8,717,387**	**9,370,542**
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	154,995	36,830	191,825
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**154,995**	**36,830**	**191,825**
LIABILITIES			
Accounts Payable	19,873	268,845	288,718
NON-CURRENT LIABILITIES			
DUE WITHIN ONE YEAR:			
Interest Payable	1,597	-	1,597
Compensated Absences	548	609	1,157
Bond Payable	30,504	25,740	56,244
DUE IN MORE THAN ONE YEAR:			
Compensated Absences	4,928	5,481	10,409
Customer Deposits	-	1,820	1,820
Bond Payable	201,038	1,508,938	1,709,976
Net Pension Liability	371,088	87,633	458,721
TOTAL LIABILITIES	**629,576**	**1,899,066**	**2,528,642**
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	29,519	-	29,519
Deferred Pension Credits	117,230	15,015	132,245
TOTAL DEFERRED INFLOWS OF RESOURCES	**146,749**	**15,015**	**161,764**
NET POSITION			
Net Investment in Capital Assets	226,828	6,816,227	7,043,055
Restricted For:			
Capital Activity	11,389	774	12,163
Debt Service	-	26,744	26,744
Judicial Services	49,737	-	49,737
Prepaid Items	4,166	-	4,166
Public Safety	220	-	220
Recreation and Tourism	12,745	-	12,745
Unrestricted	(273,260)	(3,609)	(276,869)
TOTAL NET POSITION	**$ 31,825**	**$ 6,840,136**	**$ 6,871,961**

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

See independent auditor's report.

TOWN OF WEST PELZER, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	PROGRAM REVENUES				NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION PRIMARY GOVERNMENT		
FUNCTION/PROGRAM ACTIVITIES	**EXPENSES**	**CHARGES FOR SERVICES**	**OPERATING GRANTS AND CONTRIBUTIONS**	**CAPITAL GRANTS AND CONTRIBUTIONS**	**GOVERNMENTAL ACTIVITIES**	**BUSINESS-TYPE ACTIVITIES**	**TOTAL**
PRIMARY GOVERNMENT:							
GOVERNMENTAL ACTIVITIES							
General Administration	$ 199,691	$ -	$ -	$ 70,249	$ (129,442)	$ -	$ (129,442)
Judicial Services	99,294	-	-	-	(99,294)	-	(99,294)
Public Safety	122,572	71,590	-	-	(50,982)	-	(50,982)
Recreation	19,541	-	-	-	(19,541)	-	(19,541)
Interest on Long-Term Debt	7,902	-	-	-	(7,902)	-	(7,902)
TOTAL GOVERNMENTAL ACTIVITIES	449,000	71,590	-	70,249	(307,161)	-	(307,161)
BUSINESS-TYPE ACTIVITIES							
Utility Activity	719,646	538,300	15,312	1,862,523	-	1,696,489	1,696,489
TOTAL BUSINESS-TYPE ACTIVITIES	719,646	538,300	15,312	1,862,523	-	1,696,489	1,696,489
TOTAL PRIMARY GOVERNMENT	$ 1,168,646	$ 609,890	$ 15,312	$ 1,932,772	(307,161)	1,696,489	1,389,328
GENERAL REVENUES:							
Property Taxes, Levied for General Purposes					144,897	-	144,897
Hospitality Tax					35,597	-	35,597
Franchise Fees					54,023	-	54,023
Business Licenses and Permits					80,639	-	80,639
Intergovernmental Revenues					36,900	-	36,900
Miscellaneous					5,630	-	5,630
Transfers					42,955	(42,955)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS AND TRANSFERS					400,641	(42,955)	357,686
CHANGE IN NET POSITION					93,480	1,653,534	1,747,014
NET POSITION - BEGINNING (AS ORIGINALLY REPORTED)					(30,464)	5,186,602	5,156,138
Prior Period Adjustment					(31,191)	-	(31,191)
NET POSITION - BEGINNING (AS ADJUSTED)					(61,655)	5,186,602	5,124,947
NET POSITION - ENDING					**$ 31,825**	**$ 6,840,136**	**$ 6,871,961**

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

See independent auditor's report.

FUND FINANCIAL STATEMENTS

TOWN OF WEST PELZER, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	GENERAL FUND	HOSPITALITY TAX FUND	TOTAL
ASSETS			
Cash and Cash Equivalents	$ 87,884	$ -	$ 87,884
Restricted Cash and Cash Equivalents	61,346	10,222	71,568
Accounts Receivable	24,785	2,523	27,308
Property Taxes Receivable	2,262	-	2,262
Prepaid Items	4,166	-	4,166
TOTAL ASSETS	$ 180,443	$ 12,745	$ 193,188
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accounts Payable	19,874	-	19,874
TOTAL LIABILITIES	19,874	-	19,874
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	29,519	-	29,519
TOTAL DEFERRED INFLOWS OF RESOURCES	29,519	-	29,519
FUND BALANCES:			
Nonspendable:			
Prepaid Items	4,166	-	4,166
Restricted for:			
Capital Expenditures	11,389	-	11,389
Victims Assistance	49,737	-	49,737
Public Safety	220	-	220
Recreation and Tourism	-	12,745	12,745
Unassigned:	65,538	-	65,538
TOTAL FUND BALANCE	131,050	12,745	143,795
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 180,443	$ 12,745	$ 193,188

The accompanying notes are an integral part of the financial statements.
See independent auditor's report.

TOWN OF WEST PELZER, SOUTH CAROLINA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2017

Fund balances - total governmental funds		$ 143,795
Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets was $724,021 and the accumulated depreciation was $264,054.		459,967
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 retirement plans are not recorded in the governmental funds but are recorded in the Statement of Net Position.		(333,323)
Accrued interest on long-term obligations in governmental accounting is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(1,597)
Long-term liabilities, debt and lease purchase obligations, are not due or payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities consisted of the following:		
Bonds payable	(231,542)	
Compensated absences	(5,475)	(237,017)
Net position of governmental activities		$ 31,825

The accompanying notes are an integral part of the financial statements.
See independent auditor's report.

TOWN OF WEST PELZER, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2017

	GENERAL FUND	HOSPITALITY TAX FUND	TOTAL
REVENUES			
Property Taxes	$ 144,897	$ -	$ 144,897
Licenses, Permits and Fees	80,639	35,629	116,268
Franchise Fees	54,023	-	54,023
Intergovernmental Revenues	107,149	-	107,149
Fines and Forfeitures	71,590	-	71,590
Miscellaneous and Other	5,567	-	5,567
TOTAL REVENUES	463,865	35,629	499,494
EXPENDITURES			
CURRENT OPERATING:			
General Administration	158,370	-	158,370
Judicial Services	98,538	-	98,538
Public Safety	121,687	-	121,687
Recreation and Tourism	-	19,541	19,541
Capital Expenditures	249,289	-	249,289
DEBT SERVICE:			
Principal	7,501	17,855	25,356
Interest	3,670	4,517	8,187
TOTAL EXPENDITURES	639,055	41,913	680,968
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(175,190)	(6,284)	(181,474)
OTHER FINANCING SOURCES AND (USES)			
Bond Proceeds	139,000	-	139,000
Transfers	42,955	-	42,955
TOTAL OTHER FINANCING SOURCES AND (USES)	181,955	-	181,955
NET CHANGE IN FUND BALANCES	6,765	(6,284)	481
FUND BALANCES - BEGINNING (AS PREVIOUSLY REPORTED)	155,476	19,029	174,505
Prior Period Adjustments	(31,191)	-	(31,191)
FUND BALANCES - BEGINNING (AS ADJUSTED)	124,285	19,029	143,314
FUND BALANCES - ENDING	$ 131,050	$ 12,745	$ 143,795

The accompanying notes are an integral part of the financial statements.
See independent auditor's report.

TOWN OF WEST PELZER, SOUTH CAROLINA

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds	$ 481
Amounts reported for the governmental activities in the Statement of Activities are different because of the following:	
Repayment of bond principal (including refunding principal payments) is recognized in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position. This amount is the total reduction in outstanding principal in the current year.	25,356
The issuance of long-term obligations provides current financial resources to government funds, but issuing debt or entering into lease purchase obligations also increases long-term liabilities in the Statement of Net Position.	(139,000)
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	316
The governmental funds report capital asset additions as expenditures. However, in the Statement of Activities, capital outlay expenditures that qualify as capital assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense of $16,486 was exceeded by capital asset additions of $249,289, in the current period.	232,803
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 the governmental funds.	(458)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	(26,018)
Change in net position of governmental activities	$ 93,480

The accompanying notes are an integral part of the financial statements.
See independent auditor's report.

TOWN OF WEST PELZER, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUND

JUNE 30, 2017

ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents	$ 22,922
Restricted Cash and Cash Equivalents	26,834
Accounts Receivable	66,821
Grant Receivable	246,728
Prepaid Items	3,177
TOTAL CURRENT ASSETS	366,482
NON-CURRENT ASSETS:	
CAPITAL ASSETS:	
Construction in Progress	3,871,328
Buildings	4,905,273
Equipment and Vehicles	278,586
Water Lines and Facilities	862,105
Less Accumulated Depreciation	(1,566,387)
TOTAL NON-CURRENT ASSETS	8,350,905
TOTAL ASSETS	**8,717,387**
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Pension Charges	36,830
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**36,830**
LIABILITIES	
CURRENT LIABILITIES:	
Accounts Payable	268,845
Compensated Absences	609
Bonds Payable	25,740
TOTAL CURRENT LIABILITIES	295,194
NON-CURRENT LIABILITIES:	
Compensated Absences	5,481
Customer Deposits	1,820
Bonds Payable	1,508,938
Net Pension Liability	87,633
TOTAL NON-CURRENT LIABILITIES	1,603,872
TOTAL LIABILITIES	**1,899,066**
DEFERRED INFLOWS OF RESOURCES	
Deferred Pension Credits	15,015
TOTAL DEFERRED INFLOWS OF RESOURCES	**15,015**
NET POSITION	
Net Investment in Capital Assets	6,816,227
Restricted for:	
Capital Activity	774
Debt Service	26,744
Unrestricted	(3,609)
TOTAL NET POSITION	**$ 6,840,136**

The accompanying notes are an integral part of the financial statements.
See independent auditor's report.

TOWN OF WEST PELZER, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2017

OPERATING REVENUES	
Utility Billings	$ 535,057
Miscellaneous	3,243
TOTAL OPERATING REVENUES	538,300
OPERATING EXPENSES	
Salaries, Wages and Employee Benefits	117,865
Contractual Services, Materials, Supplies and Other Expenses	429,813
Depreciation Expense and Amortization	132,580
TOTAL OPERATING EXPENSES	680,258
OPERATING INCOME (LOSS)	(141,958)
NON-OPERATING REVENUES (EXPENSES)	
Grant Income	1,862,523
Interest Expense	(39,388)
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,823,135
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,681,177
Capital Contribution	15,312
Transfers	(42,955)
CHANGE IN NET POSITION	1,653,534
NET POSITION - BEGINNING	5,186,602
NET POSITION - ENDING	**$ 6,840,136**

The accompanying notes are an integral part of the financial statements.
See independent auditor's report.

TOWN OF WEST PELZER, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2017

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	
CASH FLOWS FROM OPERATIONS:	
Receipts from Customers	$ 526,214
Payments to Employees and Related Benefits	(118,999)
Payments to Suppliers	(402,852)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	4,363
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Advances and Transfers (to) from Other Funds	(42,955)
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	(42,955)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds of Capital Contributions	15,312
Proceeds of Grant Income	1,862,523
Acquisition of Capital Assets	(1,862,883)
Interest Paid on Long-Term Debt	(39,388)
Principal Paid on Long-Term Debt	(7,357)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(31,793)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(70,385)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	120,141
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 49,756
CLASSIFIED AS:	
Current Assets	$ 22,922
Restricted Assets	26,834
TOTALS	$ 49,756
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
OPERATING INCOME (LOSS)	$ (141,958)
ADJUSTMENTS NOT AFFECTING CASH:	
Depreciation and Amortization	132,580
CHANGE IN ASSETS AND LIABILITIES:	
Accounts Receivable	234,642
Grants Receivable	(246,728)
Prepaid Items	(699)
Accounts Payable	15,768
Interfund Payable	11,532
Compensated Absences	1,913
Customer Deposits	360
Net Pension Liability	(28,383)
CHANGE IN DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:	
Deferred Pension Charges	10,528
Deferred Pension Credits	14,808
TOTAL ADJUSTMENTS	146,321
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 4,363

The accompanying notes are an integral part of the financial statements.
See independent auditor's report.

NOTES TO FINANCIAL STATEMENTS

The Town of West Pelzer, South Carolina ("the Town") was incorporated in 1913. It is governed by a mayor and four council members who serve staggered four-year terms. By South Carolina law, the Town operates under the Mayor/Council form of government.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. The Reporting Entity

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

As required by GAAP, the financial statements must present the Town's financial information with any of its component units. The primary criterion for determining inclusion or exclusion of a legally separate entity ("component unit") is financial accountability, which is presumed to exist if the Town both appoints a voting majority of the entity's governing body, and either 1) the Town is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on, the Town. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the Town and there is a potential that the entity could either provide specific financial benefits to, or to impose specific financial burdens on, the Town.

In order to be considered fiscally independent, an entity must have the authority to do all of the following: (a) determine its budget without the Town having the authority to approve or modify that budget; (b) levy taxes or set rates or charges without approval by the Town; and (c) issue bonded debt without approval by the Town. An entity has a financial benefit or burden relationship with the Town if, for example, any one of the following conditions exists: (a) the Town is legally entitled to or can otherwise access the entity's resources, (b) the Town is legally obligated or has otherwise assumed the obligation to finance the deficits or provide financial support to the entity, or (c) the Town is obligated in some manner for the debt of the entity. Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the Town's financial statements to be misleading. Blended component units, although legally separate entities, are in substance, part of the government's operations and data from these units are combined with data of the primary government in the fund financial statements. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the Town.

Major Operations

The Town's major governmental operations include: administrative and general, police, judicial services, and recreation (hospitality). In addition, the Town provides water and sewer operations through its utility fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Town (the "Primary Government"). For the most part, the effect of interfund activity (except for interfund services provided and used between functions) has been removed from these financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the Proprietary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, includes property taxes, grants, and donations. 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 eligibility requirements imposed by the provider have been met. The government-wide financial statements are prepared using a different measurement focus from the manner in which the governmental fund financial statements are prepared (see further detail below). Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the governmental fund financial statements.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as 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 liabilities of the current period. Property taxes, hospitality taxes, accommodation taxes, fire protection fees and charges for services, fines and forfeitures, business licenses, franchise fees, intergovernmental revenues, external service reimbursements and interest associated with the current fiscal period are all considered to be measurable and susceptible to accrual and so have been recognized as revenues of the current fiscal period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period with the exception of certain reimbursement expenditure grants for which a twelve month availability period is generally used.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, lease purchase expenditures, capital lease expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due and payable. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. Proceeds of long-term debt, lease purchase obligations, and acquisitions under capital leases are reported as other financing sources. Fund financial statements report detailed information about the Town. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. When both restricted and unrestricted resources are available for use, it is the Town's practice to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued):

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The following major funds and fund types are used by the Town.

Governmental Fund Types are those through which most governmental functions of the Town are financed. The Town's expendable financial resources and related assets and liabilities (except for those accounted for in the Proprietary Fund) are accounted for through governmental funds. The governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. The Town's only governmental funds and its major funds are as follows:

> The ***General Fund, a major fund and a budgeted fund,*** is the general operating fund of the Town and accounts for all governmental revenues and expenditures of the Town. All general tax revenues and other receipts that (a) are not allocated by law or contractual agreement to other funds or (b) that have not been restricted, committed, or assigned to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.
>
> The ***Hospitality Tax Fund, a major fund,*** accounts for all hospitality tax revenues and expenditures of the Town.

Proprietary Fund Types are accounted for based on the economic resources measurement focus and use of the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds are made up of two classes: enterprise funds and internal service funds. The Town does not have any internal service funds and has one enterprise fund.

A proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are primarily charges for services and fees. Operating expenses for the enterprise fund includes the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting these general definitions are reported as non-operating revenues and expenses. The Town's only proprietary fund is as follows:

> ***Enterprise Fund*** is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town has the following enterprise fund:
>
> The ***Utility Fund, a major fund and a budgeted fund,*** is used to account for the Town's water and sewer operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Cash, Cash Equivalents, and Investments

The Town considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and money market mutual funds to be cash equivalents. Securities with an initial maturity of more than three months (from when initially purchased) and other non-money market mutual funds are reported as investments.

The Town's operating cash and investment policy is designed to operate within existing statutes (which are identical for all non-fiduciary funds, fund types, and component units within the State of South Carolina). The statutes of the State of South Carolina authorize the Town to invest in the following:

(a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.

(b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(c) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.

(e) 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, of a market 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 federal government.

(f) Repurchase agreements when collateralized by securities as set forth in this section.

(g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The Town's cash and investment objectives are preservation of capital, liquidity, and yield. The Town reports its cash and investments at fair value which is normally determined by quoted market prices. The Town currently or in the past year has primarily used the following investments in its operating activities:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Receivables and Payables

During the course of its operations, the Town has numerous transactions occurring between funds. These transactions include expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers in (out). To the extent that certain transactions between funds had not been paid or received as of year-end, balances of interfund amounts or payables have been recorded.

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts (if material). Trade receivables are comprised of amounts due from entities and individuals for a variety of types of fees, charges and services, including franchise fees, hospitality fees, sanitation, water, sewer, and other fees and charges.

E. Inventories and Prepaid Items

Inventories of materials and supplies are stated at average cost, which approximates market. The costs of inventories and prepaid items are accounted for using the consumption method (expensed when consumed).

F. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Town's capitalization levels are $5,000 on tangible personal property and $25,000 on infrastructure assets. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following useful lives:

	Years
Buildings and Improvements	30-40
Equipment and Vehicles	5-10
Water Lines and Facilities	7-30

G. Compensated Absences

The Town accrues accumulated unpaid vacation when earned by the employee. The current portion is the amount estimated to be used in the following year. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

H. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. The portion applicable to the proprietary fund is also recorded in the proprietary fund financial statements. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method (as it approximates the effective interest method) if material. Debt is reported net of applicable bond premiums and discounts.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized immediately. The face amount of debt, lease purchases, or capital leases issued is reported as other financing sources. Premiums received on issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Accrued Liabilities and Long-Term Obligations (continued):

In general, payables and accrued liabilities that will be paid from the governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current financial resources. However, claims and judgments, debt, lease purchases, capital leases, compensated absences, and other related long-term liabilities that will eventually be paid from the governmental funds are not reported as a liability in the fund financial statements until due and payable.

I. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

J. Fund Balance

In accordance with GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" ("GASB #54"), the Town classifies its governmental fund balances as follows:

Nonspendable – includes amounts that inherently cannot be spent either because it is not in spendable form (i.e. prepaids, inventories, etc.) or because of legal or contractual requirements (i.e. principal on an endowment, etc.).

Restricted – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action made by the highest level of decision making authority (Town Council) before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned – includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed and for which such assignments are made before the report issuance date. Town Council formally granted the Town Administrator the right to make assignments of fund balance for the Town.

Unassigned – includes amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

J. Fund Balance (continued):

The Town generally uses restricted amounts to be spent first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, the Town generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

K. Net Position

Net position represents the difference between assets and deferred outflows (if any) and liabilities and deferred inflows (if any) in the statement of net position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one type of deferred outflow of resources, Deferred Pension Charges. This item is deferred and recognized as an outflow of resources (expense). These *deferred pension charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of deferred inflow of resources, Deferred Pension Credits. This item is deferred and recognized as an inflow of resources (revenue) in the period for which it was intended to finance. These *deferred pension credits* are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

M. Property Tax

Property taxes receivable represent current real and personal property as well as delinquent real and personal property taxes, less an allowance for amounts estimated to be uncollectible (if material). All property taxes receivable at year end, except those collected within 60 days, are recorded as deferred tax revenue and thus not recognized as revenue until collected in the governmental funds.

Property taxes are assessed and collected by Anderson County ("County"). The County generally levies its real property taxes in October based upon assessed valuations on January 1st of each year. Assessed values are established by the County Assessor, the County Auditor, and the South Carolina Department of Revenue and Taxation at various rates of 4 to 10.5 percent of the estimated market value. Real property and all personal property taxes other than vehicle property taxes attach as an enforceable lien on property as of January 16th. Taxes are levied and billed in October on all property other than vehicles and are payable without penalty until January 15th of the following year. Penalties are assessed on unpaid taxes on the following dates:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

M. Property Tax (continued):

January	3%
February 2nd	an additional 7%
March 17th	an additional 5%

After proper notification, the law requires "exclusive possession" of property necessary to satisfy the delinquent taxes. Properties with unpaid taxes are sold at a public auction during the month of October.

Vehicle property taxes attach a lien and are levied throughout the year depending on when the vehicles' license tags expire. The lien and collection date for motor vehicle taxes is the last day of the month in which the motor vehicle license expires.

N. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the governmental funds during the year to control expenditures. Encumbrances do not constitute expenditures or liabilities. For budget purposes encumbrances and unused expenditure appropriations lapse at year end.

O. Accounting 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 and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Pensions

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The Town recognizes a net pension liability for its participation in the Plans, which represents the Town's proportionate share of the total pension liability over the fiduciary net position of the Plans, measured as of the Town's preceding fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Q. Fair Value

The fair value measurement and disclosure framework provides for a three-tier fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Town can access at the measurement date.

Level 2 – Inputs to the valuation methodology, other than quoted prices included in Level 1 that are observable for an asset or liability either directly or indirectly and include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology that are unobservable for an asset or liability and include:

- Fair value is often based on developed models in which there are few, if any, observable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable values or reflective of future fair values. The Town believes that the valuation methods used are appropriate and consistent with GAAP. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no significant changes from the prior year in the methodologies used to measure fair value.

R. Comparative Data

Comparative data (i.e. presentation of prior year totals by fund type) has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

S. Adoption of Accounting Principle

The Town implemented GASB Statement No. 77 "*Tax Abatement Disclosures*" ("GASB #77") for the year ended June 30, 2017. The primary objective of GASB #77 was to provide tax abatement information to financial statement users so that they could more readily evaluate a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individual and entities that is beneficial to the government or its citizens. Although many governments offer tax abatements, the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future, is lacking. GASB #77 requires disclosures of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The adoption of GASB #77 had no impact on the Town's financial statements.

NOTE 2 – DEPOSITS:

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits might not be recovered. The Town does not have a formal deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. At June 30, 2017, the carrying amount of the Town's deposits was $209,208 and the bank balance was $274,523 were exposed to custodial credit risk.

Interest Rate Risk: The Town does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government 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 an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have an investment policy for credit risk but follows the investment policy statutes of the State of South Carolina.

Concentration of Credit Risk for Investments: The Town places no limit on the amount the Town may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures.

Certain deposits and investments of the Town are legally restricted for specified purposes. The major types of restrictions at June 30, 2017 were (a) those imposed by the revenue source (i.e. hospitality fees, grants, etc.).

NOTE 3 – CAPITAL ASSETS:

Capital asset activity for the Town's governmental activities for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	$ -	$ 20,089	$ -	$ 20,089
Construction in Progress	-	213,247	-	213,247
Total Capital Assets not being Depreciated	-	233,336	-	233,336
Capital Assets being Depreciated:				
Buildings and Improvements	300,967	-	-	300,967
Furniture and Equipment	42,406	15,954	-	58,360
Vehicles	131,358	-	-	131,358
Total Capital Assets being Depreciated	474,731	15,954	-	490,685
Less Accumulated Depreciation for:				
Buildings and Improvements	(73,805)	(14,359)	-	(88,164)
Furniture and Equipment	(42,408)	(2,127)	-	(44,535)
Vehicles	(131,355)	-	-	(131,355)
Total Accumulated Depreciation	(247,568)	(16,486)	-	(264,054)
Total Capital Assets being Depreciated, Net	227,163	(532)	-	226,631
Governmental Activities Capital Assets, Net	$ 227,163	$ 232,804	$ -	$ 459,967

Depreciation expense was charged to governmental functions as follows:

Function/Program	Depreciation Expense
General Administration	$ 14,359
Public Safety	2,127
Total Depreciation Expense	$ 16,486

NOTE 3 – CAPITAL ASSETS (CONTINUED):

Capital asset activity for the Town's business-type activities for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in Progress	2,008,445	1,862,883	-	3,871,328
Total Capital Assets not being Depreciated	2,008,445	1,862,883	-	3,871,328
Capital Assets being Depreciated:				
Infrastructure	4,905,273	-	-	4,905,273
Equipment and Vehicles	278,586	-	-	278,586
Water Lines and Facilities	862,105	-	-	862,105
Total Capital Assets being Depreciated	6,045,964	-	-	6,045,964
Less Accumulated Depreciation for:				
Infrastructure	(1,060,699)	(116,313)	-	(1,177,012)
Equipment and Vehicles	(278,586)	-	-	(278,586)
Water Lines and Facilities	(94,522)	(16,267)	-	(110,789)
Total Accumulated Depreciation	(1,433,807)	(132,580)	-	(1,566,387)
Total Capital Assets being Depreciated, Net	4,612,157	(132,580)	-	4,479,577
Business-Type Activities Capital Assets, Net	$6,620,602	$1,730,303	$ -	$ 8,350,905

Capital asset depreciation expense for business-type activities were charged to functions/programs as follows:

Function/Program	Depreciation Expense
Water	$ 80,083
Sewer	52,497
Total Depreciation Expense	$ 132,580

NOTE 4 – LONG-TERM OBLIGATIONS:

Revenue bonds and other long-term liabilities directly related to and intended to be paid from proprietary funds of the primary government are included in the accounts of such funds. All other long-term indebtedness of the primary government is accounted for in the governmental column of the government-wide Statement of Net Position.

Summarized below are the Town's individual bond issues which are outstanding at June 30, 2017:

	Purpose of Issue	Date of Issue	Amount Issued	Amount Outstanding	Interest Rate	Maximum Annual Debt Service
Governmental Activities:						
Hospitality Tax Bond, Series 2012	Construction of Chapman Park	January 1, 2012	$ 183,000	$ 100,072	3.830%	$ 22,372
General Obligation Bond, Series 2016	Remodel of Municipal Complex	October 5, 2016	139,000	131,470	3.750%	16,757
Total Governmental Activities			$ 322,000	$ 231,542		
Business-Type Activities:						
Water Revenue Bond, Series 2009	To Improve Water/Sewer Infrastructure	July 16, 2009	441,100	406,333	4.375%	23,595
Waterworks and Sewer System Improvement Revenue Bond, Series 2016A	To Improve Water/Sewer Infrastructure	May 4, 2016	663,000	662,029	1.750%	23,059
Waterworks and Sewer System Improvement Revenue Bond, Series 2016B	To Improve Water/Sewer Infrastructure	May 4, 2016	467,000	466,316	1.750%	16,242
Total Business-Type Activities			$ 1,571,100	$ 1,534,678		

Presented below is a summary of changes in long-term obligations for the Town's governmental activities for the year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Revenue Bond Payable	$ 117,928	$ -	$ (17,855)	$ 100,073	$ 18,539
General Obligation Bond Payable	-	139,000	(7,531)	131,469	11,965
Other Liabilities:					
Compensated Absences	5,017	458	-	5,475	548
Governmental Activities Long-term Liabilities	$ 122,945	$ 139,458	$ (25,386)	$ 237,017	$ 31,052

Presented below is a summary of changes in long-term obligations for the Town's business-type activities for the year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Business-Type Activities:					
Note and Bonds Payable	$ 1,542,035	$ -	$ (7,357)	$ 1,534,678	$ 25,740
Other Liabilities:					
Compensated Absences	4,177	1,913	-	6,090	418
Customer Deposits	1,460	360	-	1,820	-
Business-Type Activities Long-term Liabilities	$ 1,547,672	$ 2,273	$ (7,357)	$ 1,542,588	$ 26,158

NOTE 4 – LONG-TERM OBLIGATIONS (CONTINUED):

Presented below is a summary of debt service requirements to maturity by year for the Town's governmental and business-type activities as of June 30, 2017:

	Governmental Activities			Business-Type Activities			Total Primary
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Government
2018	$ 30,504	$ 8,625	$ 39,129	$ 25,740	$ 37,156	$ 62,896	$ 102,025
2019	31,677	7,452	39,129	26,356	36,540	62,896	102,025
2020	32,885	6,245	39,130	26,992	35,904	62,896	102,026
2021	34,160	4,969	39,129	27,645	35,251	62,896	102,025
2022	35,472	3,656	39,128	28,318	34,578	62,896	102,024
2023-2027	66,844	5,769	72,613	152,420	162,060	314,480	387,093
2028-2032	-	-	-	172,602	141,878	314,480	314,480
2033-2037	-	-	-	196,158	118,322	314,480	314,480
2038-2042	-	-	-	223,764	90,716	314,480	314,480
2043-2047	-	-	-	256,255	58,225	314,480	314,480
2048-2052	-	-	-	213,368	25,517	238,885	238,885
2053-2057	-	-	-	185,060	8,207	193,267	193,267
Total	$ 231,542	$ 36,716	$ 268,258	$ 1,534,678	$ 784,354	$ 2,319,032	$ 2,587,290

NOTE 5 – RISK MANAGEMENT:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Commercial insurance is carried for all these risks. Settled claims resulting from these risks have not exceeded the insurance coverage limits in any of the past three fiscal years.

NOTE 6 – PENSION PLAN:

Plan Description

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. 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.

NOTE 6 – PENSION PLAN (CONTINUED):

Plan Description

The Town participates in the South Carolina Retirement System (SCRS) and the South Carolina Police Officers Retirement System (PORS). The South Carolina Retirement System (SCRS) is a cost–sharing multiple-employer defined benefit pension plan, which 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.

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 allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under SCRS and PORS 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.

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. A brief summary of benefit terms for SCRS and PORS 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.

NOTE 6 – PENSION PLAN (CONTINUED):

Plan Benefits (continued):
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.

Plan Contributions
Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

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 two years:

- Required employee contribution rates for the following fiscal years are as follows:

	Fiscal Year 2017	Fiscal Year 2016
SCRS		
Employee Class Two	8.66%	8.16%
Employee Class Three	8.66%	8.16%
PORS		
Employee Class Two	9.24%	8.74%
Employee Class Three	9.24%	8.74%

NOTE 6 – PENSION PLAN (CONTINUED):

Plan Contributions (continued):

- Required employer contributions for the following fiscal years are as follows:

	Fiscal Year 2017	Fiscal Year 2016
SCRS		
Employer Class Two	11.41%	10.91%
Employer Class Three	11.41%	10.91%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	13.84%	13.34%
Employer Class Three	13.84%	13.34%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

Contributions to the pension plan from the Town were as follows:

June 30, 2017	June 30, 2016	June 30, 2015
$ 29,697	$ 26,891	$ 30,250

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future.

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

The June 30, 2016 total pension liability, net pension liability, and sensitivity information were determined by the PEBA's consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2015 actuarial valuations as adopted by the PEBA Board and SFAA which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2016, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

NOTE 6 – PENSION PLAN (CONTINUED):

Actuarial Assumptions and Methods (continued):

The following table provides a summary of the actuarial cost method and assumptions used in the July 1, 2015, valuations for SCRS and PORS:

	SCRS	PORS
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	3.5% to 12.5%	4.0% to 10.0%
Includes inflation at	2.75%	2.75%
Benefit adjustments	lesser of 1% or $500	lesser of 1% or $500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Long-term expected rate of return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015 actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2015. 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 revised target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

NOTE 6 – PENSION PLAN (CONTINUED):

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

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2016 (to be used for June 30, 2017 reports), for SCRS and PORS are as follows:

Plan	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	$45,356,214,752	$23,996,362,354	$21,359,852,398	52.9%
PORS	$6,412,510,458	$3,876,035,732	$2,536,474,726	60.4%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB No. 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.

NOTE 6 – PENSION PLAN (CONTINUED):

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (continued):

At June 30, 2017, the Town reported a liability of $371,088 for the governmental activities and $87,633 for the business-type activities on the government wide financial statements for its proportionate share of the net pension liability. The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2015. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company. At June 30, 2016, the Town's proportion for SCRS was 0.001185%. The Town's proportion for PORS was 0.00811% at June 30, 2016.

For the year ended June 30, 2017, the Town recognized pension expense of approximately $52,000.

At June 30, 2017, the Town's governmental activities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SCRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,624	$ 275
Changes of assumptions	-	-
Net difference between projected and actual investment earnings	21,295	-
Change in allocated proportion	53,096	43,094
Contributions after the measurement date	19,197	-
Total	$ 96,212	$ 43,369

PORS	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 3,051	$ -
Changes of assumptions	-	-
Net difference between projected and actual investment earnings	23,314	-
Change in allocated proportion	59,082	88,876
Contributions after the measurement date	10,166	-
Total	$ 95,613	$ 88,876

NOTE 6 – PENSION PLAN (CONTINUED):

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (continued):

The amount of $19,197 and $10,166 reported as deferred outflows of resources related to pensions resulting from Town governmental activities contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	SCRS Amount	PORS Amount	Amount
2018	$ 16,576	$ 2,817	$ 19,393
2019	15,204	2,663	17,867
2020	(1,318)	1,898	580
2021	3,184	(10,807)	(7,623)
2022	-	-	-
Thereafter	-	-	-
Total	$ 33,646	$ (3,429)	$ 30,217

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	**1.00% Decrease (6.50%)**	**Current Discount Rate (7.50%)**	**1.00% Increase (8.50%)**
SCRS	$315,753	$253,114	$200,970
PORS	269,465	205,607	148,218

South Carolina Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the SCRS plan administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

NOTE 6 – PENSION PLAN (CONTINUED):

Plan Developments

House Bill 3726 was signed by the Governor of the State on April 25, 2017 and is effective immediately. This new law increases the employer SCRS and PORS contribution rates to 13.56% and 16.24%, respectively, beginning July 1, 2017. Employer rates will continue to increase annually by 1% through July 1, 2022, which would result in the SCRS and PORS employer rate totaling 18.56% and 21.24%, respectively, for fiscal year 2023 and thereafter. The legislation (a) would also increase and cap the employee SCRS and PORS contribution rates to 9.00% and 9.75%, respectively, after June 30, 2027, (b) provide for a decrease in employer and employee contribution rates in equal amounts if the ratio between the actuarial value of assets and the actuarial value of liabilities is equal to or greater than 85%, (c) lower the assumed annual rate of return on pension investments from 7.50% to 7.25%, and (d) for some years reduce the funding period of unfunded liabilities from 30 years to 20 years.

NOTE 7 – POST-EMPLOYMENT EMPLOYEE BENEFITS:

In 2004, GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"* ("Statement"). This Statement establishes standards for the measurement, recognition and display of Other Postemployment Benefits ("OPEB") expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The Town implemented Statement No. 45 in fiscal year 2010. This implementation had no impact as the Town currently does not provide any OPEB benefits (i.e. retiree health benefits, etc.) to its retirees.

NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following:

Fund	Transfers In	Transfers Out
Major Governmental Fund:		
General Fund	$ 42,955	$ -
Major Enterprise Fund:		
Utility Fund	-	42,955
Totals	$ 42,955	$ 42,955

NOTE 9 – CONTINGENT LIABILITIES AND COMMITMENTS:

Litigation

The Town is periodically the subject of litigation by a variety of plaintiffs. The Town's management believes that such amounts claimed by these plaintiffs, net of the applicable insurance coverage, are immaterial.

Grants

The Town receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the Town at June 30, 2017.

NOTE 10 – PRIOR PERIOD ADJUSTMENT:

During 2017, the Town identified an adjustment necessary to deferred revenue for business licenses related to prior period. The adjustment resulted in a decrease to net position and fund balance of $31,191 in the prior period.

NOTE 11 – SUBSEQUENT EVENTS:

Subsequent events have been evaluated through December 22, 2017, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF WEST PELZER, SOUTH CAROLINA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property Taxes	$ 140,213	$ 140,213	$ 144,897	$ 4,684
Licenses, Permits and Fees	68,000	68,000	80,639	12,639
Franchise Fees	59,026	59,026	54,023	(5,003)
Intergovernmental Revenues	39,762	39,762	107,149	67,387
Miscellaneous and Other	10,500	10,500	5,567	(4,933)
Fines and Forfeitures	60,019	60,019	71,590	11,571
TOTAL REVENUES	377,520	377,520	463,865	86,345
EXPENDITURES				
CURRENT OPERATING:				
General Administration	126,865	126,865	158,370	(31,505)
Judicial Services	104,765	104,765	98,538	6,227
Public Safety	149,232	149,232	121,687	27,545
Capital Expenditures	173,171	173,171	249,289	(76,118)
DEBT SERVICE:				
Principal	-	-	7,501	(7,501)
Interest	-	-	3,670	(3,670)
TOTAL EXPENDITURES	554,033	554,033	639,055	(85,022)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(176,513)	(176,513)	(175,190)	1,323
OTHER FINANCING SOURCES AND (USES)				
Bond Proceeds	150,171	150,171	139,000	(11,171)
Transfers	19,444	19,444	42,955	23,511
TOTAL OTHER FINANCING SOURCES AND (USES)	169,615	169,615	181,955	12,340
NET CHANGE IN FUND BALANCES	(6,898)	(6,898)	6,765	13,663
FUND BALANCES - BEGINNING	124,285	124,285	124,285	-
FUND BALANCES - ENDING	$ 117,387	$ 117,387	$ 131,050	$ 13,663

See independent auditor's report.

TOWN OF WEST PELZER, SOUTH CAROLINA

BUDGETARY COMPARISON SCHEDULE - HOSPITALITY TAX FUND

YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Licenses, Permits and Fees	36,195	36,195	35,629	(566)
TOTAL REVENUES	36,195	36,195	35,629	(566)
EXPENDITURES				
CURRENT OPERATING:				
Recreation and Tourism	20,823	20,823	19,541	1,282
Capital Expenditures	-	-	-	-
DEBT SERVICE:				
Principal	17,855	17,855	17,855	-
Interest	4,517	4,517	4,517	-
TOTAL EXPENDITURES	43,195	43,195	41,913	1,282
NET CHANGE IN FUND BALANCES	(7,000)	(7,000)	(6,284)	716
FUND BALANCES - BEGINNING	19,029	19,029	19,029	-
FUND BALANCES - ENDING	$ 12,029	$ 12,029	$ 12,745	$ 716

See independent auditor's report.

NOTE 1 – BASIS OF ACCOUNTING

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

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting (under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservation of fund balances in the fund equity section of the balance sheet and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The Town has elected not to use encumbrance accounting due to its small size.

Annual appropriated budgets are adopted for the General and Proprietary funds. Prior to June 1 of each year, all departments of the government submit requests for appropriation to the Town so a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. The council holds two public hearings on the annual budget which must be prepared and adopted by no later than the last day of June.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established on the budget as a whole.

Fund	Budgeted Expenditures	Actual Expenditures	Difference
General Fund	$ 554,033	$ 639,055	$ (85,022)

Traditionally, the Town has amended the original budget during the year.

TOWN OF WEST PELZER

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF TOWN CONTRIBUTIONS TO THE COST SHARING PENSION PLAN

JUNE 30, 2017

The Town's proportionate share of the net pension liability is as follows:

	SCRS		
	June 30, 2017	**June 30, 2016**	**June 30, 2015**
Town's proportion of the net pension liability (asset)	0.001185%	0.001492%	0.000930%
Town's proportion share of the net pension liability (asset)	$ 253,114	$ 282,965	$ 160,115
Town's covered payroll	$ 133,127	$ 116,328	$ 138,207
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	190.13%	243.25%	115.85%
Plan fiduciary net position as a percentage of the total pension liability	52.91%	57.00%	59.90%

	PORS		
	June 30, 2017	**June 30, 2016**	**June 30, 2015**
Town's proportion of the net pension liability (asset)	0.00811%	0.01346%	0.00860%
Town's proportion share of the net pension liability (asset)	$ 205,607	$ 293,382	$ 164,602
Town's covered payroll	$ 104,819	$ 106,444	$ 114,133
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	196.15%	275.62%	144.22%
Plan fiduciary net position as a percentage of the total pension liability	60.44%	64.60%	67.50%

The Town's contributions to the cost sharing pension plan was as follows:

	SCRS		
	June 30, 2017	**June 30, 2016**	**June 30, 2015**
Contractually required contribution	$ 15,190	$ 12,691	$ 12,269
Contributions in relation to the contractually required contribution	(15,190)	(12,691)	(12,269)
Contribution deficiency (excess)	$ -	$ -	$ -
Town's covered payroll	$ 131,401	$ 114,747	$ 112,560
Contributions as a percentage of covered payroll	11.56%	11.06%	10.90%

	PORS		
	June 30, 2017	**June 30, 2016**	**June 30, 2015**
Contractually required contribution	$ 14,507	$ 14,200	$ 17,981
Contributions in relation to the contractually required contribution	(14,507)	(14,200)	(17,981)
Contribution deficiency (excess)	$ -	$ -	$ -
Town's covered payroll	$ 101,875	$ 103,348	$ 134,087
Contributions as a percentage of covered payroll	14.24%	13.74%	13.41%

SUPPLEMENTAL INFORMATION

TOWN OF WEST PELZER, SOUTH CAROLINA

SCHEDULE OF MUNICIPAL COURT FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED JUNE 30, 2017

Court Fines and Assessments		
Court Fines and Assessments Collected	$	48,666
Court Fines and Assessments Retained by the Town		(25,320)
Total Court Fines and Assessments Remitted to the State Treasurer	**$**	**23,346**
Court Surcharges		
Court Surcharges Collected	$	19,572
Total Court Surcharges Remitted to State Treasurer	**$**	**19,572**
Victims Fund		
Funds Available for Carryforward, Beginning of Year	$	49,709
Court Assessments Allocated to Victim Assistance Fund - Current Year		3,327
Victim Assistance Fund Expenditures (Primarily Salaries and Benefits)		(3,299)
Funds Available for Carryforward, End of Year	**$**	**49,737**

COMPLIANCE SECTION

TOWN OF WEST PELZER, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Contract Number	Federal Expenditures
US Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities*	10.760	46-004-0570423899	$ 1,862,523
Total Federal Assistance Expended			$ 1,862,523

* Indicates Major Program

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION:

The above schedule of expenditures of federal awards includes the federal grant activity of the Town of West Pelzer and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - SUBRECIPIENTS:

Of the federal expenditures presented in the schedule, the Town of West Pelzer provided no federal awards to subrecipients.

NOTE 3 - INDIRECT COST RATE:

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - LOAN PROGRAMS:

The federal expenditures related to the Water and Waste Disposal Systems for Rural Communities for the year ended June 30, 2017 noted above do not include the US Department of Agriculture loan of $1,130,000, of which $1,130,000 was received in the prior year and $1,128,345 is outstanding as of June 30, 2017.

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OF CERTIFIED PUBLIC ACCOUNTANTS

PAYNE, WHITE & SCHMUTZ
CERTIFIED PUBLIC ACCOUNTANTS, PA

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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*

Independent Auditor's Report

To the Honorable Mayor and Town Council
Town of West Pelzer, South Carolina

We have audited, 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, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of West Pelzer, South Carolina (the "Town") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weakness (2017 A.1).

Compliance and Other Matters

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

The Town's Response to Findings

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town'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.

Payne, White & Schmutz, CPA, PA

Payne, White & Schmutz, CPA, PA

December 22, 2017

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

To the Honorable Mayor and Town Council
Town of West Pelzer, South Carolina

Report on Compliance for Each Major Federal Program

We have audited the Town of West Pelzer, South Carolina's (the "Town") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2017. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Payne, White & Schmutz, CPA, PA

Payne, White & Schmutz, CPA, PA

December 22, 2017

There were no federal award related findings in the prior year.

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements.

2. No significant deficiency relating to the audit of the financial statements was disclosed during the audit.

3. A material weakness relating to the audit of the financial statements was disclosed during the audit.

4. No instance of noncompliance relating to the financial statements was disclosed during the audit.

5. The report on compliance for major programs expressed an unmodified opinion.

6. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the "report on compliance for each major federal program and report on internal control over compliance in accordance with the Uniform Guidance".

7. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) in this schedule.

8. The following programs were tested as major programs:
    a. USDA Water and Waste Disposal Systems for Rural Communities, CFDA #10.760.

9. Dollar threshold used to distinguish between type A and type B programs: $750,000.

10. The Town of West Pelzer did not qualify to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2017 B.1 - Preparation of financial statements in accordance with generally accepted accounting principles.

Material Weakness

Condition and criteria: Internal controls over financial reporting should be in place to provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles.

Effect: Management does not prepare financial statements in accordance with prescribed requirements. A material misstatement to the Town's financial statements could occur and not be prevented or detected and corrected by the Town's internal controls over financial reporting.

Cause: Currently, management responsible for the accounting and reporting function does not prepare the Town's financial statements in accordance with generally accepted accounting principles.

Auditor's recommendation: Consideration should be given to requiring management to prepare financial statements in accordance with generally accepted accounting principles.

Auditee's response: The Town's management considers the risk tolerable when compared to the cost of implementing a mitigating control.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

CORRECTIVE ACTION PLAN ADDRESSING FINDINGS - FINANCIAL STATEMENT AUDIT

2017 B.1 - Preparation of financial statements in accordance with generally accepted accounting principles.

Name of Person Responsible for Corrective Action: Paula Payton, Town Clerk

Corrective Action Planned: The Town has a limited training in the preparation and presentation of financial statements in accordance with generally accepted accounting principles. However, we will attempt to prepare the financial statements in accordance with generally accepted accounting principles when possible.

Anticipated Completion Date: June 30, 2018