

TOWN OF WEST PELZER, SOUTH CAROLINA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2018

TOWN OF WEST PELZER, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2018

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government - Wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet - Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	15
Proprietary Fund Financial Statements	
Statement of Net Position - Proprietary Fund	16
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	17
Statement of Cash Flows - Proprietary Fund	18
Notes to Financial Statements	19-41
Required Supplemental Information Other than Management's Discussion and Analysis	
Budgetary Comparison Schedule - General Fund	42
Budgetary Comparison Schedule - Hospitality Tax Fund	43
Schedule of the Town's Proportionate Share of the Net Pension Liability and Schedule of Town Contributions to the Cost Sharing Plan	44-45
Supplemental Information	
Schedule of Municipal Court Fines, Assessments, and Surcharges	46
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	47-48
Schedule of Findings and Reponses	49



PAYNE, WHITE & SCHMUTZ
—CERTIFIED PUBLIC ACCOUNTANTS, PA—

114 West North First Street, Seneca, SC 29678 (864) 882-1937 (864) 882-0849

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

Management's Responsibility for the Financial Statements

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, 2018, 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 management's discussion and analysis, the budgetary comparison schedules, and pension plan 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.

Supplementary 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, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information 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 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 14, 2018 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 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF WEST PELZER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

The management of the Town of West Pelzer ("Town") offers readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018 ("FY 2018" or "2018") compared to the fiscal year ended June 30, 2017 ("FY 2017" or "2017"). The intent of this management's discussion and analysis ("MD&A") is to look at the Town's financial performance as a whole. Readers are encouraged to not only consider the information presented here, but also the information provided in the financial statements, the notes to the financial statements, the required supplementary information, and the supplementary information to enhance their understanding of the Town's overall financial performance.

Financial Highlights

- In the Statement of Net Position, the Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by approximately \$6,973,121. Unrestricted net position has a deficit of approximately \$274,301 at June 30, 2018.
- The Town's total net position increased by approximately \$101,160 compared to the prior year net position, as revenues of approximately \$1,369,100 exceeded expenses of approximately \$1,267,940.
- As of the close of the current year, the Town's governmental funds reported combined ending fund balances of approximately \$116,164, a decrease of approximately \$27,631.
- At the end of the current year, unassigned fund balance for the General Fund was approximately \$93,568, 19% of total General Fund expenditures for 2018.
- The Town's capital assets increased by approximately \$87,538 (1%). The increase in capital assets was primarily due to acquisitions of approximately \$248,670.
- The Town's total debt decreased by approximately \$56,886 (3%) during 2018 due to normally scheduled principal payments.
- The Town's net pension liability increased by approximately \$41,628 (9%) to approximately \$500,349 at June 30, 2018.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of two parts – *Financial Section* (which includes the MD&A, the financial statements, the required supplementary information, and the supplementary information) and the *Compliance Section* (if applicable).

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's financial statements. The Town's financial statements comprise three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statements present two different views of the Town through the use of government-wide and fund financial statements. In addition to the financial statements, this report contains required supplementary information and supplementary information that will enhance the reader's understanding of the financial condition of the Town.

Government-Wide Financial Statements. The financial statements include two statements that present different views of the Town. These are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

TOWN OF WEST PELZER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

The *Statement of Net Position* presents information on all of the Town's assets and deferred outflows of resources ("deferred outflows") and liabilities and deferred inflows of resources ("deferred inflows"), with the differences between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include administrative and general, police, judicial services, and recreation and tourism. The business-type activities are the Town's water and sewer operations. The government-wide financial statements can be found as listed in the table of contents.

Fund Financial Statements. The fund financial statements provide a more detailed look at the Town's most significant activities. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – The Town uses *governmental funds* to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. The focus of these funds is on how assets can readily be converted into cash flow (in and out), and what monies are left at year-end that will be available for spending in the next year. The governmental funds report using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental funds financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's services. The relationship between *governmental activities* (reported in the government-wide financial statements) and *governmental funds* is described in a reconciliation that is a part of the fund financial statements.

The Town maintains four individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenue, expenditures and changes in fund balances for the General Fund. The Hospitality Tax Fund, Victim's Fund, and Recycling Fund are non-major funds and are combined for presentation purposes. The governmental funds financial statements can be found as listed in the table of contents.

Proprietary Funds – The Town maintains one type of proprietary fund. *Enterprise Funds* are used to account for operations that (a) 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 uses an enterprise fund to account for its water, sewer, electric and solid waste operations. The proprietary fund financial statements can be found as listed in the table of contents.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as listed in the table of contents.

Required Supplementary Information – A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with their budgets. Required pension plan schedules have been included which provide relevant information regarding the Town's participation in the State retirement plans. Required supplementary information can be found as listed in the table of contents.

TOWN OF WEST PELZER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Supplementary Information – In addition to the financial statements, notes, and required supplementary information, this report includes certain supplementary information which is presented immediately following the required supplementary information. These schedules can be found as listed in the table of contents.

Figure A-1 Major Features of the Town's Government-Wide and Fund Financial Statements			
	Government-Wide Financial Statements	Fund Financial Statements	
	Government-Wide Financial Statements	Governmental Funds	Proprietary Funds
Scope	Entire Town government.	The activities of the Town that are not proprietary.	Activities the Town operates similar to private businesses, in the Town's case, all activities related to the water and sewer operations.
Required Financial Statements	<ul style="list-style-type: none"> ▪ Statement of Net Position. ▪ Statement of Activities. 	Balance Sheet. Statement of Revenues, Expenditures, and Changes in Fund Balances.	<ul style="list-style-type: none"> ▪ Statement of Net Position. ▪ Statement of Revenues, Expenses and Change in Net Position. ▪ Statement of Cash Flows.
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of Balance Sheet Information	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, and short-term and long-term.	Only assets and deferred outflows (if any) expected to be used and liabilities and deferred inflows that come due during the year or soon, thereafter; no capital assets or long-term obligations included.	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital and short-term and long-term.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

TOWN OF WEST PELZER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the Town's net position for June 30, 2018 and 2017:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 150,691	\$ 193,188	\$ 137,955	\$ 366,482	\$ 288,646	\$ 559,670
Capital Assets	490,463	459,967	8,407,947	8,350,905	8,898,410	8,810,872
Total Assets	<u>641,154</u>	<u>653,155</u>	<u>8,545,902</u>	<u>8,717,387</u>	<u>9,187,056</u>	<u>9,370,542</u>
Deferred Outflows of Resources	140,577	154,995	36,634	36,830	177,211	191,825
Current Liabilities	41,218	52,522	57,029	295,194	98,247	347,716
Long-Term Liabilities	172,478	205,966	1,490,037	1,516,239	1,662,515	1,722,205
Net Pension Liability	412,419	371,088	87,930	87,633	500,349	458,721
Total Liabilities	<u>626,115</u>	<u>629,576</u>	<u>1,634,996</u>	<u>1,899,066</u>	<u>2,261,111</u>	<u>2,528,642</u>
Deferred Inflows of Resources	121,207	146,749	8,828	15,015	130,035	161,764
Net Investment in Capital Assets	288,124	226,828	6,899,651	6,816,227	7,187,775	7,043,055
Restricted	22,596	78,257	37,051	27,518	59,647	105,775
Unrestricted	(276,311)	(273,260)	2,010	(3,609)	(274,301)	(276,869)
Total Net Position	<u>\$ 34,409</u>	<u>\$ 31,825</u>	<u>\$ 6,938,712</u>	<u>\$ 6,840,136</u>	<u>\$ 6,973,121</u>	<u>\$ 6,871,961</u>

The Town's total assets decreased approximately \$183,486 from the prior year. Current and other assets decreased approximately \$271,024 primarily due to a decrease in grant receivable. Capital assets increased approximately \$87,538 from the prior year due to capital asset acquisitions. Total liabilities decreased approximately \$267,531 from the prior year primarily due to a decrease in accounts payable and debt. The changes in deferred outflows and inflows of resources was primarily due to differences between expected and actual liability/investment experience and changes in the percentage of the Town's share of the net pension liability in the State retirement plans.

The Town's net position increased by approximately \$101,160 during the current fiscal year primarily due to general revenues exceeding expenses in 2018. Please see the discussion following the next table regarding this increase.

The Town's assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$6,973,121 as of June 30, 2018. Approximately \$7,187,775 of total net position reflects the Town's net investment in capital assets (i.e., land, buildings, water and sewer utility system, equipment, vehicles, infrastructure, etc.) less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt generally must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately \$59,647 of net position represents resources that are subject to external restrictions on how they may be used. This net position is restricted primarily for tourism related expenditures (hospitality taxes) and debt service.

The remaining portion of the Town's net position is an unrestricted deficit of approximately \$274,301.

TOWN OF WEST PELZER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the Town's net position for June 30, 2018 and 2017:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 77,980	\$ 71,590	\$ 549,603	\$ 538,300	\$ 627,583	\$ 609,890
Operating Grants and Contrit	19,849	-	100,360	15,312	120,209	15,312
Capital Grants and Contributions	10,000	70,249	216,311	1,862,523	226,311	1,932,772
General Revenues:						
Taxes	149,115	144,897	-	-	149,115	144,897
Other	245,882	212,789	-	-	245,882	212,789
Total Revenues	<u>502,826</u>	<u>499,525</u>	<u>866,274</u>	<u>2,416,135</u>	<u>1,369,100</u>	<u>2,915,660</u>
Expenses:						
Administrative and General	213,494	199,691	-	-	213,494	199,691
Judicial Services	67,309	99,294	-	-	67,309	99,294
Public Safety	183,259	122,572	-	-	183,259	122,572
Recreation and Tourism	14,693	19,541	-	-	14,693	19,541
Interest on Long-Term Debt	8,329	7,902	-	-	8,329	7,902
Utility	-	-	780,856	719,646	780,856	719,646
Total Expenses	<u>487,084</u>	<u>449,000</u>	<u>780,856</u>	<u>719,646</u>	<u>1,267,940</u>	<u>1,168,646</u>
Change in Net Position Before Trar	15,742	50,525	85,418	1,696,489	101,160	1,747,014
Transfers	(13,158)	42,955	13,158	(42,955)	-	-
Change in Net Position	2,584	93,480	98,576	1,653,534	101,160	1,747,014
Net Position - Beginning of Year	31,825	(61,655)	6,840,136	5,186,602	6,871,961	5,124,947
Net Position - End of Year	<u>\$ 34,409</u>	<u>\$ 31,825</u>	<u>\$ 6,938,712</u>	<u>\$ 6,840,136</u>	<u>\$ 6,973,121</u>	<u>\$ 6,871,961</u>

Governmental Activities: Governmental activities had an increase in net position of approximately \$2,584. Governmental activities revenues increased by approximately \$3,301 (1%) from the prior year.

Expenses related to total governmental activities increased by approximately \$38,084, or 9%, from the prior year.

Business-Type Activities: Net position related to business-type activities (i.e., water and sewer operations) increased by approximately \$98,576. This increase was primarily due to revenues of approximately \$866,274 exceeding expenses of approximately \$780,856 and transfers in of approximately \$13,158. Revenues decreased by approximately \$1,549,861 primarily due to the lack of grant funds when compared to the prior year. Expenses increased by approximately \$61,210 (9%).

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

TOWN OF WEST PELZER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

At the end of the current fiscal year, the Town's governmental funds reported ending fund balance of approximately \$116,164, a decrease of approximately \$27,631, or 19% lower than the prior year fund balance.

Approximately \$274,301 of the total fund balance of the governmental funds constitutes a deficit in unassigned fund balance, which, if positive, is available for spending at the Town's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending: (1) for capital expenditures (\$2,213), (2) for debt service (\$36,277), (3) for public safety (\$4,231), and (4) Tourism and Other (\$11,081). Total unassigned fund balance of the governmental funds represents approximately 18% of total governmental funds expenditures.

Highlights for the General Fund were as follows:

- Total General Fund revenues decreased by approximately \$46,842 from the prior year, primarily due to lower intergovernmental revenues and grant funds.
- Total General Fund expenditures decreased by approximately \$158,821 from the prior year.

Proprietary Fund. The Town's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Net position of the Utility Fund at the end of 2018 was approximately \$6,938,712. Please see "Business-Type Activities" discussion in the previous section for details.

General Fund Budgetary Highlights: If budget amendments are made, they generally fall into one of three categories: amendments made to adjust the estimates used to prepare the original budget ordinance once exact information is available; amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and increases in appropriations that become necessary to maintain services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's capital assets as of June 30, 2018 amounted to approximately \$8,898,410. The Town's capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, vehicles, infrastructure, and the water and sewer utility system. The Town's capital assets (net of depreciation) as of June 30, 2018 and 2017 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 32,089	\$ 20,089	\$ -	\$ -	\$ 32,089	\$ 20,089
Construction in Progress	-	213,247	-	3,871,328	-	4,084,575
Buildings and Improvements	447,737	212,803	-	-	447,737	212,803
Vehicles and Equipment	10,637	13,828	735,050	751,317	745,687	765,145
Infrastructure	-	-	7,672,897	3,728,261	7,672,897	3,728,261
Total	<u>\$ 490,463</u>	<u>\$ 459,967</u>	<u>\$ 8,407,947</u>	<u>\$ 8,350,906</u>	<u>\$ 8,898,410</u>	<u>\$ 8,810,873</u>

The total increase in the Town's capital assets for 2018 was approximately \$87,537. Major capital asset events during 2018 included the following:

- Capital asset additions of approximately \$248,670 consisted primarily of:
 - Completion of Municipal Center improvements
 - Completion of USDA project

**TOWN OF WEST PELZER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

- Depreciation expense of approximately \$22,000 for governmental activities and \$139,000 for business-type activities.

Additional information on the Town's capital assets can be found in Note 3 in the notes to the financial statements.

Debt

As of June 30, 2018, the Town had total outstanding debt of approximately \$1,709,334. The Town's total debt as of June 30, 2018 and 2017 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds	\$ 119,504	\$ 131,469	\$ -	\$ -	\$ 119,504	\$ 131,469
Special Obligation Bonds	81,534	100,073	-	-	81,534	100,073
Revenue Bonds	-	-	1,508,296	1,534,678	1,508,296	1,534,678
Total	\$ 201,038	\$ 231,542	\$ 1,508,296	\$ 1,534,678	\$ 1,709,334	\$ 1,766,220

The total decrease in the Town's debt for 2018 was approximately \$57,000 or 3%. Major events during 2018 included the following:

Governmental Activities:

- Scheduled principal payments on revenue bonds of approximately \$30,500.

Business-Type Activities:

- Scheduled principal payments on revenue bonds of approximately \$26,000.

Additional information regarding the Town's long-term obligations can be found in Note 4 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Town's elected officials and staff considered many factors when setting the fiscal year 2018 ("2018") budget. The state of the economy, anticipated construction activity, future capital needs, and the best interests of the Town's residents were all taken into account.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide West Pelzer's citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances, and to demonstrate the Town's accountability for the public assets under its management. Please contact the Town of West Pelzer Administration Department, 30 Main Street, West Pelzer, SC 29669 with any questions or to request additional information.

GOVERNMENT - WIDE FINANCIAL STATEMENTS

TOWN OF WEST PELZER, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2018

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 88,354	\$ 23,291	\$ 111,645
Restricted Cash and Cash Equivalents	14,228	36,572	50,800
Accounts Receivable	39,259	75,741	115,000
Taxes Receivable	3,005	-	3,005
Prepaid Items	5,845	2,351	8,196
CAPITAL ASSETS:			
Non-Depreciable	32,089	-	32,089
Depreciable	744,202	10,113,692	10,857,894
Less Accumulated Depreciation	(285,828)	(1,705,745)	(1,991,573)
TOTAL ASSETS	641,154	8,545,902	9,187,056
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Charges	140,577	36,634	177,211
TOTAL DEFERRED OUTFLOWS OF RESOURCES	140,577	36,634	177,211
LIABILITIES			
Accounts Payable	7,894	30,435	38,329
NON-CURRENT LIABILITIES			
DUE WITHIN ONE YEAR:			
Interest Payable	1,301	-	1,301
Compensated Absences	346	238	584
Bond Payable	31,677	26,356	58,033
DUE IN MORE THAN ONE YEAR:			
Compensated Absences	3,117	2,138	5,255
Customer Deposits	-	5,959	5,959
Bond Payable	169,361	1,481,940	1,651,301
Net Pension Liability	412,419	87,930	500,349
TOTAL LIABILITIES	626,115	1,634,996	2,261,111
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	26,633	-	26,633
Deferred Pension Credits	94,574	8,828	103,402
TOTAL DEFERRED INFLOWS OF RESOURCES	121,207	8,828	130,035
NET POSITION			
Net Investment in Capital Assets	288,124	6,899,651	7,187,775
Restricted For:			
Capital Activity	1,439	774	2,213
Debt Service	-	36,277	36,277
Prepaid Items	5,845	-	5,845
Public Safety	4,231	-	4,231
Recreation and Tourism	11,081	-	11,081
Unrestricted	(276,311)	2,010	(274,301)
TOTAL NET POSITION	\$ 34,409	\$ 6,938,712	\$ 6,973,121

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, 2018

	PROGRAM REVENUES				NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		TOTAL
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
FUNCTION/PROGRAM ACTIVITIES							
PRIMARY GOVERNMENT:							
GOVERNMENTAL ACTIVITIES							
General Administration	\$ 213,494	\$ -	\$ 19,849	\$ -	\$ (193,645)	\$ -	\$ (193,645)
Judicial Services	67,309	-	-	-	(67,309)	-	(67,309)
Public Safety	183,259	77,980	-	-	(105,279)	-	(105,279)
Recreation	14,693	-	-	10,000	(4,693)	-	(4,693)
Interest on Long-Term Debt	8,329	-	-	-	(8,329)	-	(8,329)
TOTAL GOVERNMENTAL ACTIVITIES	487,084	77,980	19,849	10,000	(379,255)	-	(379,255)
BUSINESS-TYPE ACTIVITIES							
Utility Activity	780,856	549,603	100,360	216,311	-	85,418	85,418
TOTAL BUSINESS-TYPE ACTIVITIES	780,856	549,603	100,360	216,311	-	85,418	85,418
TOTAL PRIMARY GOVERNMENT	\$ 1,267,940	\$ 627,583	\$ 120,209	\$ 226,311	(379,255)	85,418	(293,837)
GENERAL REVENUES:							
Property Taxes, Levied for General Purposes					149,115	-	149,115
Hospitality Tax					35,396	-	35,396
Franchise Fees					57,041	-	57,041
Business Licenses and Permits					83,446	-	83,446
Intergovernmental Revenues					35,943	-	35,943
Miscellaneous					34,056	-	34,056
Transfers					(13,158)	13,158	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS AND TRANSFERS					381,839	13,158	394,997
CHANGE IN NET POSITION					2,584	98,576	101,160
NET POSITION - BEGINNING					31,825	6,840,136	6,871,961
NET POSITION - ENDING					\$ 34,409	\$ 6,938,712	\$ 6,973,121

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, 2018

	GENERAL FUND	HOSPITALITY TAX FUND	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 88,354	\$ -	\$ 88,354
Restricted Cash and Cash Equivalents	5,670	8,558	14,228
Accounts Receivable	36,736	2,523	39,259
Property Taxes Receivable	3,005	-	3,005
Prepaid Items	5,845	-	5,845
TOTAL ASSETS	\$ 139,610	\$ 11,081	\$ 150,691
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accounts Payable	7,894	-	7,894
TOTAL LIABILITIES	7,894	-	7,894
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Business Licenses	26,633	-	26,633
TOTAL DEFERRED INFLOWS OF RESOURCES	26,633	-	26,633
FUND BALANCES:			
Nonspendable:			
Prepaid Items	5,845	-	5,845
Restricted for:			
Capital Expenditures	1,439	-	1,439
Public Safety	4,231	-	4,231
Recreation and Tourism	-	11,081	11,081
Unassigned:	93,568	-	93,568
TOTAL FUND BALANCE	105,083	11,081	116,164
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 139,610	\$ 11,081	\$ 150,691

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, 2018

Fund balances - total governmental funds		\$	116,164
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 \$776,291 and the accumulated depreciation was \$285,828.			490,463
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.			(366,416)
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.			(1,301)
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	(201,038)	
	Compensated absences	<u>(3,463)</u>	<u>(204,501)</u>
Net position of governmental activities		\$	<u>34,409</u>

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, 2018

	<u>GENERAL FUND</u>	<u>HOSPITALITY TAX FUND</u>	<u>TOTAL</u>
REVENUES			
Property Taxes	\$ 147,656	\$ -	\$ 147,656
Licenses, Permits and Fees	83,446	35,401	118,847
Franchise Fees	57,041	-	57,041
Intergovernmental Revenues	37,402	-	37,402
Fines and Forfeitures	77,980	-	77,980
Miscellaneous and Other	13,498	-	13,498
TOTAL REVENUES	<u>417,023</u>	<u>35,401</u>	<u>452,424</u>
EXPENDITURES			
CURRENT OPERATING:			
General Administration	161,533	-	161,533
Judicial Services	68,065	-	68,065
Public Safety	181,609	-	181,609
Recreation and Tourism	-	14,693	14,693
Capital Expenditures	52,270	-	52,270
DEBT SERVICE:			
Principal	11,965	18,539	30,504
Interest	4,792	3,833	8,625
TOTAL EXPENDITURES	<u>480,234</u>	<u>37,065</u>	<u>517,299</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(63,211)</u>	<u>(1,664)</u>	<u>(64,875)</u>
OTHER FINANCING SOURCES AND (USES)			
Insurance Proceeds	30,553	-	30,553
Capital Contributions	19,849	-	19,849
Transfers	(13,158)	-	(13,158)
TOTAL OTHER FINANCING SOURCES AND (USES)	<u>37,244</u>	<u>-</u>	<u>37,244</u>
NET CHANGE IN FUND BALANCES	<u>(25,967)</u>	<u>(1,664)</u>	<u>(27,631)</u>
FUND BALANCES - BEGINNING	<u>131,050</u>	<u>12,745</u>	<u>143,795</u>
FUND BALANCES - ENDING	<u>\$ 105,083</u>	<u>\$ 11,081</u>	<u>\$ 116,164</u>

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, 2018

Net change in fund balances - total governmental funds	\$ (27,631)
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.	30,504
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.	296
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 \$21,774 was exceeded by capital asset additions of \$52,270, in the current period.	30,496
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.	2,012
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	<u>(33,093)</u>
Change in net position of governmental activities	<u>\$ 2,584</u>

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, 2018

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 23,291
Restricted Cash and Cash Equivalents	36,572
Accounts Receivable	75,741
Prepaid Items	2,351
TOTAL CURRENT ASSETS	<u>137,955</u>

NON-CURRENT ASSETS:

CAPITAL ASSETS:

Infrastructure	8,973,001
Equipment and Vehicles	1,140,691
Less Accumulated Depreciation	(1,705,745)
TOTAL NON-CURRENT ASSETS	<u>8,407,947</u>

TOTAL ASSETS

8,545,902

DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Charges	36,634
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>36,634</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts Payable	30,435
Compensated Absences	238
Bonds Payable	26,356
TOTAL CURRENT LIABILITIES	<u>57,029</u>

NON-CURRENT LIABILITIES:

Compensated Absences	2,138
Customer Deposits	5,959
Bonds Payable	1,481,940
Net Pension Liability	87,930
TOTAL NON-CURRENT LIABILITIES	<u>1,577,967</u>

TOTAL LIABILITIES

1,634,996

DEFERRED INFLOWS OF RESOURCES

Deferred Pension Credits	8,828
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>8,828</u>

NET POSITION

Net Investment in Capital Assets	6,899,651
Restricted for:	
Capital Activity	774
Debt Service	36,277
Unrestricted	2,010
TOTAL NET POSITION	<u>\$ 6,938,712</u>

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, 2018

OPERATING REVENUES

Utility Billings	\$ 549,603
TOTAL OPERATING REVENUES	<u>549,603</u>

OPERATING EXPENSES

Salaries, Wages and Employee Benefits	142,513
Contractual Services, Materials, Supplies and Other Expenses	461,742
Depreciation Expense and Amortization	<u>139,359</u>
TOTAL OPERATING EXPENSES	<u>743,614</u>

OPERATING INCOME (LOSS) (194,011)

NON-OPERATING REVENUES (EXPENSES)

Grant Income	216,311
Interest Expense	<u>(37,242)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>179,069</u>

INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS (14,942)

Capital Contribution	100,360
Transfers	<u>13,158</u>

CHANGE IN NET POSITION 98,576

NET POSITION - BEGINNING 6,840,136

NET POSITION - ENDING \$ 6,938,712

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, 2018

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:

CASH FLOWS FROM OPERATIONS:

Receipts from Customers	\$ 787,411
Payments to Employees and Related Benefits	(151,921)
Payments to Suppliers	(695,188)

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES (59,698)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Advances and Transfers (to) from Other Funds	13,158
--	--------

NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES 13,158

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds of Capital Contributions	100,360
Proceeds of Grant Income	216,311
Acquisition of Capital Assets	(196,400)
Interest Paid on Long-Term Debt	(37,242)
Principal Paid on Long-Term Debt	(26,382)

NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES 56,647

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 10,107

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 49,756

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 59,863

CLASSIFIED AS:

Current Assets	\$ 23,291
Restricted Assets	36,572

TOTALS \$ 59,863

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:

OPERATING INCOME (LOSS) \$ (194,011)

ADJUSTMENTS NOT AFFECTING CASH:

Depreciation and Amortization	139,359
-------------------------------	---------

CHANGE IN ASSETS AND LIABILITIES:

Accounts Receivable	237,808
Prepaid Items	826
Accounts Payable	(238,411)
Compensated Absences	(3,714)
Customer Deposits	4,139
Net Pension Liability	297

CHANGE IN DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

Deferred Pension Charges	196
Deferred Pension Credits	(6,187)

TOTAL ADJUSTMENTS 134,313

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES \$ (59,698)

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

NOTES TO FINANCIAL STATEMENTS

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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. If applicable, 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.

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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.

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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:

	<u>Years</u>
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.

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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.

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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:

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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.

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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.

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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.

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, 2018 were (a) those imposed by the revenue source (i.e. hospitality fees, grants, etc.).

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 3 – CAPITAL ASSETS:

Capital asset activity for the Town’s governmental activities for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 20,089	\$ 12,000	\$ -	\$ 32,089
Construction in Progress	213,247	-	(213,247)	-
Total Capital Assets not being Depreciated	<u>233,336</u>	<u>12,000</u>	<u>(213,247)</u>	<u>32,089</u>
Capital Assets being Depreciated:				
Buildings and Improvements	300,967	253,517	-	554,484
Furniture and Equipment	58,360	-	-	58,360
Vehicles	131,358	-	-	131,358
Total Capital Assets being Depreciated	<u>490,685</u>	<u>253,517</u>	<u>-</u>	<u>744,202</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(88,164)	(18,583)	-	(106,747)
Furniture and Equipment	(44,532)	(3,191)	-	(47,723)
Vehicles	(131,358)	-	-	(131,358)
Total Accumulated Depreciation	<u>(264,054)</u>	<u>(21,774)</u>	<u>-</u>	<u>(285,828)</u>
Total Capital Assets being Depreciated, Net	<u>226,631</u>	<u>231,743</u>	<u>-</u>	<u>458,374</u>
Governmental Activities Capital Assets, Net	<u>\$ 459,967</u>	<u>\$ 243,743</u>	<u>\$ (213,247)</u>	<u>\$ 490,463</u>

Depreciation expense was charged to governmental functions as follows:

<u>Function/Program</u>	<u>Depreciation Expense</u>
General Administration	\$ 18,583
Public Safety	3,191
Total Depreciation Expense	<u>\$ 21,774</u>

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 3 – CAPITAL ASSETS (CONTINUED):

Capital asset activity for the Town’s business-type activities for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	3,871,328	-	(3,871,328)	-
Total Capital Assets not being Depreciated	<u>3,871,328</u>	<u>-</u>	<u>(3,871,328)</u>	<u>-</u>
Capital Assets being Depreciated:				
Infrastructure	4,905,273	4,067,728	-	8,973,001
Equipment and Vehicles	1,140,691	-	-	1,140,691
Total Capital Assets being Depreciated	<u>6,045,964</u>	<u>4,067,728</u>	<u>-</u>	<u>10,113,692</u>
Less Accumulated Depreciation for:				
Infrastructure	(1,177,012)	(123,092)	-	(1,300,104)
Equipment and Vehicles	(389,374)	(16,267)	-	(405,641)
Total Accumulated Depreciation	<u>(1,566,386)</u>	<u>(139,359)</u>	<u>-</u>	<u>(1,705,745)</u>
Total Capital Assets being Depreciated, Net	<u>4,479,578</u>	<u>3,928,369</u>	<u>-</u>	<u>8,407,947</u>
Business-Type Activities Capital Assets, Net	<u>\$ 8,350,906</u>	<u>\$ 3,928,369</u>	<u>\$ (3,871,328)</u>	<u>\$ 8,407,947</u>

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

<u>Function/Program</u>	<u>Depreciation Expense</u>
Water	\$ 87,679
Sewer	51,680
Total Depreciation Expense	<u>\$ 139,359</u>

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 4 – LONG-TERM OBLIGATIONS:

The Town may issue bonds to provide funds for the acquisition and construction of major capital facilities. 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 outstanding debt issues as of June 30, 2018:

General Obligation Bonds

\$139,000 General Obligation Bonds issued in October 2016, due in annual principal installments of \$11,000 to \$16,000 beginning on November 2016 through October 2026, plus interest of 3.75% due monthly. The proceeds from this issue were used to acquire land and construct the Municipal Center.

\$ 119,504

Total General Obligation Bonds

\$ 119,504

Special Obligation Bonds

\$183,000 Series 2012 Hospitality Tax Revenue Bonds dated January 2012 with annual principal payments of approximately \$15,000 to \$22,000, plus interest at 3.83% due annually through January 2022.

\$ 81,534

Total Special Obligation Bonds

\$ 81,534

Revenue Bonds

\$441,100 Series 2009 Waterworks and Sewer System Improvement Revenue Bonds dated December 2009 with annual principal payments of approximately \$6,000 to \$22,000, plus interest at 4.375% due monthly through April 2049.

\$ 400,376

\$663,000 Series 2016A Waterworks and Sewer System Improvement Revenue Bonds dated May 2016 with annual principal payments of approximately \$11,000 to \$23,000, plus interest at 1.75% due monthly through May 2056.

650,047

\$467,000 Series 2016B Waterworks and Sewer System Improvement Revenue Bonds dated May 2016 with annual principal payments of approximately \$8,000 to \$16,000, plus interest at 1.75% due monthly through May 2056.

457,873

Total Revenue Bonds Payable

\$ 1,508,296

Presented below is a summary of changes in long-term obligations for the Town’s governmental activities for the year ended June 30, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
SO Bond - HTAX 1/12	\$ 100,073	\$ -	\$ (18,539)	\$ 81,534	\$ 19,249
GO Bond - 10/16	131,469	-	(11,965)	119,504	12,428
Other Liabilities:					
Compensated Absences	5,475	-	(2,012)	3,463	346
Governmental Activities Long-term Liabilities	<u><u>\$ 237,017</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (32,516)</u></u>	<u><u>\$ 204,501</u></u>	<u><u>\$ 32,023</u></u>

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 4 – LONG-TERM OBLIGATIONS (CONTINUED):

Presented below is a summary of changes in long-term obligations for the Town’s business-type activities for the year ended June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Business-Type Activities:					
RB - Series 2009 - 12/09	\$ 406,333	\$ -	\$ (5,957)	\$ 400,376	\$ 6,296
RB - Series 2016A - 5/16	662,029	-	(11,982)	650,047	11,770
RB - Series 2016B - 5/16	466,316	-	(8,443)	457,873	8,290
Other Liabilities:					
Compensated Absences	6,090	-	(3,714)	2,376	238
Customer Deposits	1,820	4,139	-	5,959	-
Business-Type Activities Long-term Liabilities	\$ 1,542,588	\$ 4,139	\$ (30,096)	\$ 1,516,631	\$ 26,594

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, 2018:

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government
	Principal	Interest	Total	Principal	Interest	Total	
2019	\$ 31,677	\$ 7,452	\$ 39,129	\$ 26,356	\$ 36,540	\$ 62,896	\$ 102,025
2020	32,884	6,245	39,129	26,992	35,904	62,896	102,025
2021	34,160	4,969	39,129	27,645	35,251	62,896	102,025
2022	35,472	3,657	39,129	28,318	34,578	62,896	102,025
2023	14,465	2,292	16,757	29,012	33,884	62,896	79,653
2024-2028	52,380	3,478	55,858	156,215	158,265	314,480	370,338
2029-2033	-	-	-	177,023	137,457	314,480	314,480
2034-2038	-	-	-	201,332	113,148	314,480	314,480
2039-2043	-	-	-	229,841	84,639	314,480	314,480
2044-2048	-	-	-	263,426	51,024	314,450	314,450
2049-2053	-	-	-	194,209	21,218	215,427	215,427
2054-2058	-	-	-	147,927	5,260	153,187	153,187
Total	\$ 201,038	\$ 28,093	\$ 229,131	\$ 1,508,296	\$ 747,168	\$ 2,255,464	\$ 2,484,595

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.

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 6 – PENSION PLAN:

The Town participates in the State of South Carolina’s retirement plans, which are administered by the South Carolina Public Employee Benefit Authority (“PEBA”), which was created July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division.

Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (RSIC) as co-trustees of the Retirement Trust Funds.

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

The PEBA issues a Comprehensive Annual Financial Report (“CAFR”) containing financial statements and required supplementary information for the Systems’ Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits’ link on the 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. The PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established 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 State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established 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 each system is presented below:

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

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 6 – PENSION PLAN (CONTINUED):

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.

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

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 each system is presented below:

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

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

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 6 – PENSION PLAN (CONTINUED):

• 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 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 percentage in SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total 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, if the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 90 percent.

The Retirement System Funding and Administration Act increases employer contribution rates to 13.56 percent for SCRS and 16.24 percent for POR, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation’s ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

- Required employee contribution rates (1) for the following fiscal years are as follows:

	Fiscal Year 2018	Fiscal Year 2017
SCRS		
Employee Class Two	9.00%	8.66%
Employee Class Three	9.00%	8.66%
PORS		
Employee Class Two	9.75%	9.24%
Employee Class Three	9.75%	9.24%

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 6 – PENSION PLAN (CONTINUED):

- Required employer contributions rates (1) for the following fiscal years are as follows:

	Fiscal Year 2018	Fiscal Year 2017
SCRS		
Employer Class Two	13.41%	11.41%
Employer Class Three	13.41%	11.41%
Employer Incidental		
Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	15.84%	13.84%
Employer Class Three	15.84%	13.84%
Employer Incidental		
Death Benefit	0.20%	0.20%
Employer Accidental		
Death Program	0.20%	0.20%

(1) Calculated on earnable compensation as defined in Tile 9 of the South Carolina Code of Laws.

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. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015.

The June 30, 2017, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plans’ fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017 and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used to calculate TPL as of June 30, 2017.

	<u>SCRS</u>	<u>PORS</u>
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	3.5% to 12.5%	4.0% to 10.0%
Includes inflation at	2.25%	2.25%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 6 – PENSION PLAN (CONTINUED):

The post-retiree mortality assumption is dependent upon the member’s job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems’ mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016. Assumptions used in the July 1, 2017, valuations for SCRS and PORS are as follows:

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

Net Pension Liability of the Plan

The NPL is calculated separately for each system and represents that particular system’s total pension liability (TPL) determined in accordance with GASB No. 67 less that System’s fiduciary net position. NPL totals, as of June 30, 2017, 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	\$48,244,437,494	\$25,732,829,268	\$22,511,608,226	53.3%
PORS	\$7,013,684,001	\$4,274,123,178	\$2,739,560,823	60.9%

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems’ audited financial statements for the fiscal year ended June 30, 2017 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017.

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

Long-term expected rate of return

The long-term expected rate of return on pension plan investments is based upon 30-year capital market assumptions. The long-term expected rates of return 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.

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 6 – PENSION PLAN (CONTINUED):

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	100.0%		5.31%
Inflations for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

Discount Rate

The discount rate used to measure the TPL was 7.25%. 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 Code of Laws. Based on those assumptions, each 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 TPL.

Sensitivity Analysis

The following table presents the proportionate share of the NPL of the plans calculated using the discount rate of 7.25 percent, as well as what the Town’s NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	\$377,767	\$293,101	\$241,729
PORS	279,824	207,248	150,081

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 6 – PENSION PLAN (CONTINUED):

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

At June 30, 2018, the Town reported a liability of \$412,419 for the governmental activities and \$87,930 for the business-type activities on the government wide financial statements for its proportionate share of the net pension liability. The NPL was measured as of June 30, 2017, and the TPL used to calculate the NPL was determined by an actuarial valuation as of that date. The Town’s proportion of the NPL 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. At June 30, 2017, the Town’s proportion for SCRS was 0.001302%. The Town’s proportion for PORS was 0.00757% at June 30, 2017.

For the year ended June 30, 2018, the Town recognized pension expense of approximately \$66,000.

At June 30, 2018, 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	\$ 1,307	\$ 162
Changes of assumptions	17,158	-
Net difference between projected and actual investment earnings	8,182	-
Change in allocated proportion	45,633	29,264
Contributions after the measurement date	17,628	-
Total	<u>\$ 89,908</u>	<u>\$ 29,426</u>

PORS	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,848	\$ -
Changes of assumptions	19,670	-
Net difference between projected and actual investment earnings	7,385	-
Change in allocated proportion	37,951	73,976
Contributions after the measurement date	20,453	-
Total	<u>\$ 87,307</u>	<u>\$ 73,976</u>

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 6 – PENSION PLAN (CONTINUED):

The amount of \$17,628 and \$20,453 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
2019	\$ 24,277	\$ 2,732	\$ 27,009
2020	8,149	1,732	9,881
2021	12,285	(10,706)	1,579
2022	(1,857)	(880)	(2,737)
2023	-	-	-
Thereafter	-	-	-
Total	\$ 42,854	\$ (7,122)	\$ 35,732

NOTE 7 – POST-EMPLOYMENT EMPLOYEE BENEFITS:

GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” (“Statement”), which was issued by the GASB in June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local government employers about financial support for OPEB that are provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple employer plan will now be required to recognize a liability for its proportionate share of the net OPEB liability of that plan. It is GASB’s intention that this new Statement will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Town’s financial obligations to current and former employees for past services. 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, 2018, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Major Governmental Fund:</u>		
General Fund	\$ -	\$ 13,158
<u>Major Enterprise Fund:</u>		
Utility Fund	13,158	-
Totals	\$ 13,158	\$ 13,158

TOWN OF WEST PELZER, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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, 2018.

NOTE 10 – SUBSEQUENT EVENTS:

Subsequent events have been evaluated through December 14, 2018, 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, 2018

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Property Taxes	\$ 140,213	\$ 140,213	\$ 147,656	\$ 7,443
Licenses, Permits and Fees	68,000	68,000	83,446	15,446
Franchise Fees	59,026	59,026	57,041	(1,985)
Intergovernmental Revenues	35,680	35,680	37,402	1,722
Miscellaneous and Other	500	500	13,498	12,998
Fines and Forfeitures	36,400	36,400	77,980	41,580
TOTAL REVENUES	<u>339,819</u>	<u>339,819</u>	<u>417,023</u>	<u>77,204</u>
EXPENDITURES				
CURRENT OPERATING:				
General Administration	101,110	101,110	161,533	(60,423)
Judicial Services	34,203	34,203	68,065	(33,862)
Public Safety	169,916	169,916	181,609	(11,693)
Capital Expenditures	26,212	26,212	52,270	(26,058)
DEBT SERVICE:				
Principal	7,378	7,378	11,965	(4,587)
Interest	1,000	1,000	4,792	(3,792)
TOTAL EXPENDITURES	<u>339,819</u>	<u>339,819</u>	<u>480,234</u>	<u>(140,415)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>(63,211)</u>	<u>(63,211)</u>
OTHER FINANCING SOURCES AND (USES)				
Insurance Proceeds	-	-	30,553	30,553
Capital Contributions	-	-	19,849	19,849
Transfers	-	-	(13,158)	(13,158)
TOTAL OTHER FINANCING SOURCES AND (USES)	<u>-</u>	<u>-</u>	<u>37,244</u>	<u>37,244</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>(25,967)</u>	<u>(25,967)</u>
FUND BALANCES - BEGINNING	<u>131,050</u>	<u>131,050</u>	<u>131,050</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 131,050</u>	<u>\$ 131,050</u>	<u>\$ 105,083</u>	<u>\$ (25,967)</u>

Note: The budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America

See independent auditor's report.

TOWN OF WEST PELZER, SOUTH CAROLINA
BUDGETARY COMPARISON SCHEDULE - HOSPITALITY TAX FUND
YEAR ENDED JUNE 30, 2018

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Licenses, Permits and Fees	40,000	40,000	35,401	(4,599)
TOTAL REVENUES	<u>40,000</u>	<u>40,000</u>	<u>35,401</u>	<u>(4,599)</u>
EXPENDITURES				
CURRENT OPERATING:				
Recreation and Tourism	17,628	17,628	14,693	2,935
Capital Expenditures	-	-	-	-
DEBT SERVICE:				
Principal	17,855	17,855	18,539	(684)
Interest	4,517	4,517	3,833	684
TOTAL EXPENDITURES	<u>40,000</u>	<u>40,000</u>	<u>37,065</u>	<u>2,935</u>
NET CHANGE IN FUND BALANCES	-	-	(1,664)	(1,664)
FUND BALANCES - BEGINNING	<u>12,745</u>	<u>12,745</u>	<u>12,745</u>	-
FUND BALANCES - ENDING	<u>\$ 12,745</u>	<u>\$ 12,745</u>	<u>\$ 11,081</u>	<u>\$ (1,664)</u>

Note: The budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America

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, 2018

NOTE 1 – SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE SCRS AND PORS NET PENSION LIABILITY:

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

	SCRS			
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Town's proportion of the net pension liability (asset)	0.001302%	0.001185%	0.001492%	0.000930%
Town's proportion share of the net pension liability (asset)	\$ 293,101	\$ 253,114	\$ 282,965	\$ 160,115
Town's covered payroll	\$ 131,454	\$ 133,127	\$ 116,328	\$ 138,207
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	222.97%	190.13%	243.25%	115.85%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	52.91%	57.00%	59.90%

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

	PORS			
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Town's proportion of the net pension liability (asset)	0.00757%	0.00811%	0.01346%	0.00860%
Town's proportion share of the net pension liability (asset)	\$ 207,248	\$ 205,607	\$ 293,382	\$ 164,602
Town's covered payroll	\$ 129,124	\$ 104,819	\$ 106,444	\$ 114,133
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	160.50%	196.15%	275.62%	144.22%
Plan fiduciary net position as a percentage of the total pension liability	60.90%	60.44%	64.60%	67.50%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year.

The City adopted GASB #68/71 during the year ended June 30, 2015. Information before 2015 is not available.

The discount rate was lowered from 7.50% to 7.25% for the year ended June 30, 2018.

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 (CONTINUED)

JUNE 30, 2018

NOTE 1 – SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE SCRS AND PORS NET PENSION LIABILITY (CONTINUED):

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

	SCRS			
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 17,628	\$ 15,190	\$ 12,691	\$ 12,269
Contributions in relation to the contractually required contribution	(17,628)	(15,190)	(12,691)	(12,269)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 131,454	\$ 131,401	\$ 114,747	\$ 112,560
Contributions as a percentage of covered payroll	13.41%	11.56%	11.06%	10.90%

Notes to SCRS Schedule:

The City adopted GASB #68/71 during the year ended June 30, 2015. Information before 2015 is not available.

The contractually required contribution rate was increased from 11.56% to 13.41% of eligible payroll effective July 1, 2017.

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

	PORS			
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 20,453	\$ 14,507	\$ 14,200	\$ 17,981
Contributions in relation to the contractually required contribution	(20,453)	(14,507)	(14,200)	(17,981)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 129,122	\$ 101,875	\$ 103,348	\$ 134,087
Contributions as a percentage of covered payroll	15.84%	14.24%	13.74%	13.41%

Notes to PORS Schedule:

The City adopted GASB #68/71 during the year ended June 30, 2015. Information before 2015 is not available.

The contractually required contribution rate was increased from 14.24% to 15.84% of eligible payroll effective July 1, 2017.

TOWN OF WEST PELZER, SOUTH CAROLINA

SCHEDULE OF MUNICIPAL COURT FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED JUNE 30, 2018

Court Fines and Assessments

Court Fines and Assessments Collected	\$ 54,290
Court Fines and Assessments Retained by the Town	(28,762)
Total Court Fines and Assessments Remitted to the State Treasurer	<u>\$ 25,528</u>

Court Surcharges

Court Surcharges Collected	\$ 19,805
Total Court Surcharges Remitted to State Treasurer	<u>\$ 19,805</u>

Victims Fund

Funds Available for Carryforward, Beginning of Year	\$ 49,737
Transfer to Anderson County Administration	(49,737)
Funds Available for Carryforward, End of Year	<u>\$ -</u>



PAYNE, WHITE & SCHMUTZ
— CERTIFIED PUBLIC ACCOUNTANTS, PA —

114 West North First Street, Seneca, SC 29678 (864) 882-1937 (864) 882-0849

**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, 2018, 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 14, 2018.

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 (2018 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 14, 2018

TOWN OF WEST PELZER, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2018

A. FINDINGS - FINANCIAL STATEMENT AUDIT

2018 A.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.