

**Town of Pelzer, South Carolina**

*Report on Financial Statements*

*For the year ended June 30, 2021*

# Town of Pelzer, South Carolina

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# Town of Pelzer, South Carolina

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## Independent Auditor's Report

Honorable Mayor and Members of the Town Council  
Town of 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 Pelzer, South Carolina (the "Town"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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 as of June 30, 2021, 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, schedule of revenues, expenditures and changes in fund balances-budget and actual-general fund, schedule of the Town's proportionate share of the net pension liability, and schedule of the Town's contributions, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The schedule of revenues, expenses and changes in net position-budget and actual-proprietary funds is presented for purposes of additional analysis and is not a required part of the basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basis 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 schedule of revenues, expenses and changes in net position-budget and actual-proprietary funds 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 May 31, 2022 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.

A handwritten signature in black ink that reads "Manley Gawin, LLC". The signature is written in a cursive style and is centered within a light gray rectangular box.

Greenwood, South Carolina  
May 31, 2022

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## **Town of Pelzer, South Carolina**

### ***Management's Discussion and Analysis***

#### ***June 30, 2021***

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This section presents management's analysis of the Town's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

#### **Reviewing the Annual Report**

The report covers several financial statements. The Statement of Net Position and the Statement of Activities present information about the activities of the Town as a whole and provide information regarding the Town's finances. For government activities, statements show how services were financed and what remains for future spending. Fund statements report Town operations in different detail than government-wide statements and provide information about the Town's most important funds.

#### **Financial Highlights**

- This year, total assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by approximately \$9,753,000 (net position). Last year, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$10,001,000. This is a decrease of approximately \$247,000. The decrease was primarily due to an increase in general government and parks and recreation expenditures.
- The Town's total assets and deferred outflows of resources decreased by approximately \$309,000. Among changes during the year was a decrease of all cash categories of approximately \$158,000, an increase in all receivable categories of approximately \$37,000, a decrease in net capital assets of approximately \$226,000 and an increase in deferred outflows related to pension of approximately \$38,000.
- The Town's total liabilities and deferred inflows of resources decreased by approximately \$62,000 from the prior fiscal year. Among changes during the year was a decrease of debt of approximately \$77,000, an increase in other liabilities of approximately \$80,000 and a decrease of deferred inflows of resources related to pension of approximately \$65,000.
- As of the close of the current fiscal year, the Town's general fund reported an ending fund balance of approximately \$500,000, a decrease of approximately \$150,000 from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$500,000 or 115% of total general fund expenditures for the fiscal year.
- The Town incurred long-term debt in calendar year 2009 from a sewer line replacement program funded with both grants and loans. This was obligated by the loan that closed on July 16, 2009. That placed the Town approximately \$727,000 in debt for 40 years with monthly installment payments of approximately \$3,000 that began August 2010. The Town also incurred additional long-term debt beginning in June 2016 upon executing the Phase 2 Sewer Line Replacement Project. That placed the Town approximately \$1,453,000 in debt for 40 years with monthly installment payments of approximately \$5,000 that began in July 2016. At June 30, 2021, the outstanding balance of all long-term debt related to these two projects was approximately \$1,949,000.

#### **Overview of the Financial Statements**

The Statement of Net Position and Statement of Activities provide information about the Town as a whole. The statements can assist in determining if the Town has improved or deteriorated as a result of the year's activities. Assets, liabilities, revenues and expenses included in these statements use the accrual basis of accounting and are comparable to accounting used by many private corporations.

**Town of Pelzer, South Carolina**  
**Management's Discussion and Analysis**  
**June 30, 2021**

**Overview of the Financial Statements, Continued**

These statements are intended to give an account of the Town's net position and any changes in that position. The reader should know that to accurately evaluate the financial condition of the Town many factors need to be considered. For example, a modification of a tax base under local, state or other laws could greatly affect the statements from year-to-year. Also, changes to original budgets that are authorized by council can modify the end results.

The Statement of Net Position and Statement of Activities categorize the Town into two types of activities:

- 1.) **Governmental Activities:** The Town's basic services are addressed in this section. This category includes public works, parks and recreation department and general administration. Franchise fees, government grants, etc. should finance the majority of these activities.
- 2.) **Business-type Activities:** Included in this category are services that charge usage fees to cover all or most of the cost of the services. This category includes water, sewer and trash services.

**Table 1**  
**Net Position (in \$000's)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government Activities</b>	
	<b>FY 2021</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2020</b>
<b>ASSETS</b>						
Current assets	\$ 534	\$ 664	\$ 274	\$ 264	\$ 808	\$ 928
Capital assets	686	694	10,584	10,802	11,270	11,496
Total assets	<u>1,220</u>	<u>1,358</u>	<u>10,858</u>	<u>11,066</u>	<u>12,078</u>	<u>12,424</u>
<b>Deferred Outflows of Resources</b>						
Deferred outflows related to pensions	19	7	40	15	59	22
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 1,239</u>	<u>\$ 1,365</u>	<u>\$ 10,898</u>	<u>\$ 11,081</u>	<u>\$ 12,137</u>	<u>\$ 12,446</u>
<b>LIABILITIES</b>						
Current liabilities	\$ 35	\$ 14	\$ 161	\$ 152	\$ 196	\$ 166
Long-term liabilities	43	25	2,109	2,152	2,152	2,177
Total liabilities	<u>78</u>	<u>39</u>	<u>2,270</u>	<u>2,304</u>	<u>2,348</u>	<u>2,343</u>
<b>Deferred Inflows of Resources</b>						
Deferred inflows related to pensions	12	34	24	68	36	102
<b>NET POSITION</b>						
Net Investment in capital assets	686	694	8,635	8,815	9,321	9,509
Restricted	86	101	159	160	245	261
Unrestricted (deficit)	377	497	(190)	(266)	187	231
Total net position	<u>1,149</u>	<u>1,292</u>	<u>8,604</u>	<u>8,709</u>	<u>9,753</u>	<u>10,001</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 1,239</u>	<u>\$ 1,365</u>	<u>\$ 10,898</u>	<u>\$ 11,081</u>	<u>\$ 12,137</u>	<u>\$ 12,446</u>

Net position may serve over time as one useful indicator of the Town's financial condition. The Town's combined net position at June 30, 2021 was approximately \$9,754,000 compared to approximately \$10,001,000 at June 30, 2020, a decrease of approximately \$247,000 over the prior year.

One of the largest portions of net position, approximately \$9,321,000, reflects the Town's investment in capital assets (e.g. land, buildings, vehicles and equipment, infrastructure), less any outstanding debt that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.



**Town of Pelzer, South Carolina**  
**Management's Discussion and Analysis**  
**June 30, 2021**

**Overview of the Financial Statements, Continued**

The Town's restricted net position represents requirements under federally funded loan and grant programs and hospitality/tourism programs. The remaining balance of unrestricted net position, if any, may be used to meet the Town's ongoing obligations to citizens and creditors.

Several aspects of the Town's financial operations influenced the total unrestricted net position:

- During the fiscal year, the Town was obligated to long term debt for replacing sewer lines (Phase 1) at the rate of approximately \$3,000 per month for 40 years and for replacing additional sewer lines (Phase 2) at rates of \$3,400 and \$1,200, respectively per month, for 40 years.
- Revenues from charges for services increased approximately \$41,000 in 2021 versus 2020.

**Table 2**  
**SUMMARY OF CHANGES IN NET POSITON (in \$000's)**

	Governmental		Business-type		Total Primary	
	Activities		Activities		Government Activities	
	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
<b>REVENUE</b>						
Program revenues						
Charges for services	\$ 235	\$ 212	\$ 738	\$ 720	\$ 973	\$ 932
Operating grants and contributions	5	-	-	-	5	-
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Intergovernmental revenue	36	32	-	-	36	32
Investment and miscellaneous revenue	8	10	-	-	8	10
Total revenues	<u>284</u>	<u>254</u>	<u>738</u>	<u>720</u>	<u>1,022</u>	<u>974</u>
<b>EXPENSES</b>						
General Government	250	130	-	-	250	130
Parks and Recreation	158	79	-	-	158	79
Streets and Highways	18	14	-	-	18	14
Water, sewer and trash	-	-	844	828	844	828
Total expenses	<u>426</u>	<u>223</u>	<u>844</u>	<u>828</u>	<u>1,270</u>	<u>1,051</u>
Increase (decrease) in net position before transfers	(142)	31	(106)	(108)	(248)	(77)
Transfers, net	(1)	51	1	(51)	-	-
Net increase (decrease) in net position	(143)	82	(105)	(159)	(248)	(77)
Net position, beginning of year	<u>1,292</u>	<u>1,210</u>	<u>8,709</u>	<u>8,868</u>	<u>10,001</u>	<u>10,078</u>
Net position, end of year	<u>\$ 1,149</u>	<u>\$ 1,292</u>	<u>\$ 8,604</u>	<u>\$ 8,709</u>	<u>\$ 9,753</u>	<u>\$ 10,001</u>

**Town of Pelzer, South Carolina**  
**Management's Discussion and Analysis**  
**June 30, 2021**

**Overview of the Financial Statements, Continued**

Business-type activities net position decreased by approximately \$105,000, while governmental activities net position decreased by approximately \$142,000 for fiscal year 2021. Key elements of the decreases are as follow:

- Business-type activities net capital assets decreased by approximately \$218,000 in fiscal year 2021 compared to 2020. This is mainly attributable to current year depreciation related to sewer line project assets offset by purchase of a new bucket truck.
- Utility services related expenses increased by approximately \$15,000 in fiscal year 2021 compared to fiscal year 2020. The increase was due mostly in part to the expense related to personnel costs.
- Governmental activities intergovernmental revenues remained relatively flat in 2021 compared to 2020 while program revenues increased by approximately \$23,000.
- Total governmental expenses increased in fiscal year 2021 compared to 2020 by approximately \$203,000.
- Transfers from governmental activities to business-type activities totaled approximately \$600 in fiscal year 2021.

The Town is bordered by the towns of Williamston and West Pelzer. To the east are the Saluda River and Greenville County; these factors inhibit expansion and annexation possibilities.

**Table 3**  
**Government activities (in \$000's)**

	<b>FY 2021</b>		<b>FY 2020</b>	
	<b>Cost</b>	<b>(Net Cost)/ Surplus</b>	<b>Cost</b>	<b>(Net Cost)/ Surplus</b>
General administration	\$ 250	\$ (15)	\$ 130	\$ 82
Parks and recreation	158	(153)	79	(79)
Streets and highways	18	(18)	14	(14)
Water, sewer and trash	844	(105)	828	(108)
<b>Totals</b>	<b>\$ 1,270</b>	<b>\$ (291)</b>	<b>\$ 1,051</b>	<b>\$ (119)</b>

Table 3 details the total cost of the Town's major programs and/or services and each program's (net cost)/surplus (total revenues minus cost) generated in a category. The (net cost)/surplus indicates the financial burden that was shifted to the Town's residents by each of the programs, or, it indicates the deficit covered by general fund revenues.

It's noted that in the current year, the Town received approximately \$198,000 and \$166,000 in combined franchise fees and Municipal Association of South Carolina (MASC) payments in fiscal years 2021 and 2020, respectively. MASC is a municipal consulting agency that manages certain franchise ordinances on commission. These ordinances provide for assessment and collection of taxes on telecommunications traffic on systems that run through Pelzer.

Town officials had historically examined the water and sewer categories as a single utility department. Action was taken in fiscal year 2006 to segregate the two categories and adjust the utility billing rate accordingly. The Town subsequently combined water and trash service into the water department classification to allow continuation of the trash collection services to all water customers. Effective June 30, 2011, the Town began presenting these proprietary funds as two separate funds consisting of the sewer fund and the water and trash fund.

**Town of Pelzer, South Carolina**  
**Management's Discussion and Analysis**  
**June 30, 2021**

**Overview of the Financial Statements, Continued**

**Table 4**  
**Capital Assets at Year-End (in \$000's)**

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	
Land	\$ 651	\$ 651	\$ 42	\$ 42	\$ 693	\$ 693	0%
Buildings	211	211	4	4	215	215	0%
Vehicles	-	3	69	39	69	42	39%
Equipment	24	24	61	61	85	85	0%
Infrastructure	-	-	12,026	12,026	12,026	12,026	0%
Construction in progress	-	-	-	-	-	-	0%
<b>Total</b>	<b>886</b>	<b>889</b>	<b>12,202</b>	<b>12,172</b>	<b>13,088</b>	<b>13,061</b>	<b>0%</b>
Less: Accumulated depreciation	200	195	1,618	1,370	1,818	1,565	14%
<b>Capital assets, net</b>	<b>\$ 686</b>	<b>\$ 694</b>	<b>\$ 10,584</b>	<b>\$ 10,802</b>	<b>\$ 11,270</b>	<b>\$ 11,496</b>	<b>-2%</b>

As shown in Table 4, the Town's capital assets, net of depreciation, at the end of fiscal year 2020 were approximately \$11,270,000. These assets consist of the following items:

- Land – Wardlaw Park; 4.2 acres  
 (approximate size) Boat Landing (Saluda Riverfront); 4.7 acres  
 Pelzer Park; 14.0 acres  
 Hopkins Park (ball fields); 9 acres  
 Lagoon Property; approximately 120 acres
- Buildings – Town Hall  
 Three garage/workshops adjacent to Town hall  
 Community Building  
 Gymnasium  
 Rescue Squad building
- Vehicles – Two Chevrolet utility trucks (purchased in 2004 and 2015)  
 One bucket truck (purchased in 2021)
- Equipment – One Harben sewer jet machine with gasoline engine; one Kubota tractor, one golf cart, and one mower
- Infrastructure – A sewer line replacement project, completed in November 2011, added approximately \$5.8 million to capital assets value.  
 A new waste water lift station at the end of Guy Street to transfer wastewater from the Pelzer collection system to Renewable Water Resources; includes approximately 29,000 feet of pipe, some being shared with the Town of West Pelzer.  
 A 2<sup>nd</sup> sewer line replacement project, completed in February 2018, added approximately \$5.3 million to capital assets value.
- Other – A water distribution system serving approximately 565 residential/commercial taps.  
 A sewer collection system serving approximately 550 residential/commercial taps.  
 An elevated 125,000 gallon water tank with security fencing.

### **Noting the Most Important Funds**

The fund financial statements will cover information about the funds of the Town. Certain types of funds are mandated by state law, contracts, bond agreements or even a combination of these. Other funds are established to manage money, meet specific requirements or for administering grants.

- **Governmental Fund:** Basic services are reported in the governmental fund. This section gives 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.
- **Proprietary Fund (Enterprise Fund):** Used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and trash and sewer operations.

### **Debt Management Comments**

The Town was obligated for long term debt as of July 16, 2009 with commencement of a sewer line replacement project. The first debt repayment began in August 2010. This came about as follows:

In the 1990's, the Town of Pelzer, in a joint contract with the Town of West Pelzer, applied for a then valued \$2.8 million grant and loan combination to construct new sewer lines, pump station, and metering station and to rehabilitate much of its current sewer system. The goal was to connect with Western Carolina Regional Sewer Authority (renamed as Renewable Water Resources (ReWa) in November 2008). The intention was to end the treatment of wastewater for eventual river discharge. This construction was required to comply with a consent order from the S. C. Department of Health and Environmental Control (DHEC).

In the middle of 2005, the Town believed it would receive construction and improvement loans from the U.S. Department of Agriculture and change the debt status. However, a violent 2005 hurricane season impacting New Orleans and the Gulf area drove up the price of pipe, concrete, petroleum products and other construction items so that the proposed funding could not cover the estimated cost increase of the project. A revised estimate done in 2006 concluded that the ReWa project cost had ballooned to over \$4.2 million.

In May 2006, the U.S. Department of Agriculture's Rural Development (USDA-RD) office requested that Pelzer and West Pelzer provide updated information concerning its rate structure, customer base and projected rate structure needed after the project was completed. The Town of Pelzer completed and furnished this information shortly after the beginning of fiscal year 2007. However, USDA-RD did not release the funds and no reason was given.

In fiscal year 2007, the Town of Williamston invited Pelzer and West Pelzer to enter into a wastewater treatment and land application discharge project with Williamston. In April 2007, Pelzer was informed by USDA-RD to suspend efforts to obtain ReWa project funding until further notice. This was done because of Williamston's offer and also because the Town of West Pelzer had indicated to USDA-RD officials that West Pelzer was no longer interested in pursuing the Western Carolina project.

At the end of fiscal year 2007, a feasibility study was undertaken by Williamston's engineering firm to determine whether the Williamston project could meet DHEC standards for treating wastewater from the three towns. Pelzer and West Pelzer concluded that permission from DHEC would be needed before entering into the Williamston study.

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**Town of Pelzer, South Carolina**  
*Management's Discussion and Analysis*  
*June 30, 2021*

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**Debt Management Comments, Continued**

In December 2007, Pelzer and West Pelzer were called into conference with USDA-RD and other agencies with a stake in the funding process. Both towns were notified that time was drawing near for them to implement a sewer project or the funding offer would be withdrawn. After several meetings, an agreement was finalized on June 12, 2008 that authorized both towns to replace a significant portion of their sewer collection systems, using the loan and grant money for this endeavor instead of connecting with ReWa. It is noted that that the new DHEC consent order did not allow the towns to ignore DHEC's goal of having both towns eliminating their wastewater discharge and become part of a regional service provider. Ultimately, no sewer project was funded for fiscal year 2008. It was also uncertain whether funding for a ReWa project or a Williamston project could ever be obtained.

As calendar year 2008 progressed, the Town made headway in its efforts to use the USDA-RD funds for a sewer line replacement project instead of a wastewater discharge elimination project to ReWa. The Town's efforts paid off at the end of October 2008 in a meeting with Town, state and federal officials when a letter of commitment was made to release the funds if the Town could produce a viable sewer line replacement project. The Town's engineer produced acceptable plans, the project was advertised for bid and the loan of approximately \$727,000 was implemented and closed on July 16, 2009 (just after the end of the 2009 fiscal year). During the year ended June 30, 2021, the Town repaid approximately \$11,000 in principal on the debt, leaving a balance at that date of approximately \$627,000. Total interest paid on the debt as of June 30, 2021 was approximately \$28,000.

Coincidentally, in 2009 with the economy entering a recession, the opportunity to obtain Troubled Asset Relief Program (TARP) funding through DHEC came along for our sewer treatment plant elimination proposal. This funding was classified as a "forgivable loan" provided we executed and completed the project by December 31, 2013 (later extended until April 30, 2014). The initial value of the "forgivable loan" was approximately \$3,482,000 for Pelzer and approximately \$1,871,000 for West Pelzer. Construction began in the spring of 2010.

The ReWa facility, located just outside the Town limits of West Pelzer became operational at the end of December 2012. Pelzer began pumping its wastewater there on February 22, 2013, and subsequently began the lagoon's closeout process.

As of June 30, 2014, the project status was considered complete.

In addition to the aforementioned project, the Town began construction of its Phase 2 Sewer Rehabilitation Project during fiscal year 2016. The Town's engineer produced acceptable plans, the project was advertised for bid and the loans of approximately \$1,065,000 and \$388,000 were implemented and closed on June 24, 2015. During the year ended June 30, 2021, the Town repaid approximately \$27,000 in principle on the debt, leaving a balance at that date of approximately \$1,322,000.

Interest paid during fiscal year 2021 on the outstanding debt totaled approximately \$28,000.

**Budgetary Comments**

Budget variance reporting is stated only for revenue and expense accounts. For many accounts, the budget is derived from the previous year's actual activity, adjusted for inflation and future planning (a projection). Summarized next are the significant variances and comments:

**Budget versus Actual - General Fund Revenues**

MASC income – these fees are administered and collected by the Municipal Association of South Carolina. They are received from telecommunications companies or other licensees and fluctuate annually. The Town budgeted approximately \$75,000 for fiscal year 2021. Actual revenue received was approximately \$123,000, which was approximately \$48,000 more than budget. The MASC cautions municipalities not to over budget prior payments into future fiscal years.

**Budget versus Actual - General Fund Revenues, continued**

Franchise fees – actual revenue for the current year was approximately \$75,000, which was approximately \$3,000 less than the budgeted amount.

Rental income – actual revenue for the current year was approximately \$36,000, or approximately \$11,000 more than budget.

Community building income – actual revenue for the current year was approximately \$700, or approximately \$8,000 less than budget. Decrease was due to facility being unavailable to rent due to renovation needs.

**Budget versus Actual – Water, Sewer, Trash and Penalties Operating Revenue**

Water, Sewer and Trash revenues – In this overall category, operating revenues were under budget by approximately \$85,000.

**Budget versus Actual - General Fund Expenditures**

General Administration Expenses - The general administration category was approximately \$88,000 unfavorable in fiscal year 2021 versus approximately \$27,000 unfavorable in fiscal 2020 compared to budget. Variance from budget each year due to increase in number of employees during the respective fiscal years and contract for police services.

Recreation Expenses - The recreation category was approximately \$44,000 unfavorable in fiscal year 2021 and approximately \$28,000 favorable in fiscal year 2020 compared to budget.

**Budget versus Actual – Water, Sewer and Trash Expenses**

Operating Expenses – Operations had a total unfavorable overall variance of approximately \$248,000, including depreciation. Spending for salaries and benefits and daily operations compared favorably to budget by approximately \$18,000. Depreciation expense stayed flat compared to fiscal year 2020. Depreciation expense is not being adequately budgeted for. Currently, the Town has set aside approximately \$60,000 in a depreciation reserve fund in accordance with loan covenants.

**Economic Factors and Comments on the Future**

**Sewer infrastructure** – During fiscal year 2018, the Town completed construction of a \$5.44 million Phase 2 Sewer Rehabilitation project funded by USDA-Rural Development. During fiscal year 2017, the Town began repaying the loan portion of the debt related to this project at approximately \$5,000 per month for 40 years. The sewer infrastructure is considered in good shape and repaired at the completion of this project. That does not imply that it can be ignored long term.

**Water distribution system** – Almost all of the Town's water distribution lines are either 6" or 8" diameter lines. It is believed to be in only fair condition, being over 60 years old. Several of the system's major valves have failed and will need to be replaced, costing thousands of dollars each. The Town's water tank storage capacity is 125,000 gallons. It was inspected and repainted in 2013 at a cost of approximately \$173,000.

In January 2015 the Town contracted with and purchased 150,000 gallons of capacity from Greenville Water System (GWS). This arrangement guarantees the Town a place in the GWS supply system and provides a future of reduced rates as a partner. The contract principal purchase of approximately \$381,000 provides for the Town to pay approximately \$4,000 each month for 10 years at an interest rate of 3.5%.

The sole supplier of the Town's bulk drinking water supply is Greenville Water System. There is no backup supplier.

**Budget versus Actual - General Fund Revenues, continued**

**Recreation** – Facilities are aging and expected revenue in years to come are thought to be inadequate to maintain the Community Building, Pelzer Hospital Building, Pelzer Park, Wardlaw Park and two ball fields. Since 2007, the Town remodeled the Community Building, completed various landscape projects and generally worked toward improving or expanding parks and recreation facilities. While some of the improvements were done with modest grants, the majority of costs were borne by the Town with non-recurring funds, thus gobbling up reserves.

**Annexation and tax base** – At the beginning of calendar year 2008, a few residents outside the Town boundary requested a renewed annexation effort from the Town. The Town Council took no action on the request, believing there was not enough support for annexation to incur the expense of pursuing it. That group of residents then began their own efforts to raise funds, hire an attorney to aid them in annexation efforts and convince Town officials to annex. Their efforts failed to gain much support and the effort was abandoned later that year. At the end of fiscal year 2013, a few residents renewed their efforts to begin the annexation process. Town officials appeared to be in favor and some activity for annexation began during fiscal year 2014.

In the spring of 2015, annexation activities increased. Select citizens and Town officials began efforts to circulate a petition for annexation of the areas outside the Town limits plus a limited area along Highway 20 South and along Courtney Street Extension. Their efforts paid off and the county elections office scheduled a vote to determine annexation for June 9, 2015. The voting resulted in a favorable outcome for annexation with 122 voters for annexation and 105 against. On July 19, 2015, the Pelzer Town Council approved the annexation results and Pelzer went from a town of approximately 40 residences to approximately 550. The number of eligible voters increased from approximately 45 to almost 700 overnight.

**Intergovernmental cooperation** – The Town of Pelzer and Town of West Pelzer have historically cooperated on several endeavors, commencing with the joint sewer project. However, a police protection contract with West Pelzer was cancelled in January 2006 citing dissatisfaction with the amount of coverage. The towns continue to share knowledge and skills whenever practical in working with water and wastewater systems. Both towns occasionally help each other with repairs to the water and sewer system whenever a breakdown occurs.

The two towns completed the wastewater force main connection to the ReWa Piedmont Regional facility on February 22, 2013. They both now receive wastewater treatment services from that agency. Afterwards, both towns closed down their on-site sewer treatment facilities, per DHEC consent order. That fulfilled their requirements under the DHEC consent order and both are now classified as in compliance. The completion date was April 30, 2014.

The Town of Pelzer expects the fiscal year 2022 cost of ReWa services to be approximately \$215,000 with annual increases in the 4% – 6% range for each of the next few years.

**Contacting the Town's Financial Management**

This MD&A and financial statements are intended to provide our citizens, customers, creditors and business associates with a general overview of the Town leadership's input on finances and to demonstrate accountability for the monies it receives. If you have questions about this report or wish to obtain additional information, please contact:

Town of Pelzer  
P.O. Box 427  
Pelzer, SC 29669  
Phone: (864) 947-6231

# Town of Pelzer, South Carolina

## Statement of Net Position

As of June 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets and Deferred Outflows of Resources</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 403,412	\$ -	\$ 403,412
Cash and cash equivalents - restricted	86,141	159,594	245,735
Accounts receivable, net	44,277	114,046	158,323
Total current assets	<u>533,830</u>	<u>273,640</u>	<u>807,470</u>
<b>Capital assets</b>			
Non-depreciable	650,883	42,432	693,315
Depreciable capital assets, net	35,046	10,541,749	10,576,795
Total capital assets- net	<u>685,929</u>	<u>10,584,181</u>	<u>11,270,110</u>
Total assets	<u>1,219,759</u>	<u>10,857,821</u>	<u>12,077,580</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows - pension	19,650	39,896	59,546
Total deferred outflows of resources	<u>19,650</u>	<u>39,896</u>	<u>59,546</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 1,239,409</u>	<u>\$ 10,897,717</u>	<u>\$ 12,137,126</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 18,752	\$ 11,573	\$ 30,325
Customer deposits	-	64,651	64,651
Accrued liabilities	14,789	4,998	19,787
Accrued compensated absences	1,709	-	1,709
Current portion of revenue bond payable	-	38,779	38,779
Current portion due to other governments	-	40,513	40,513
Total current liabilities	<u>35,250</u>	<u>160,514</u>	<u>195,764</u>
<b>Non-current liabilities</b>			
Net pension liability	42,663	86,618	129,281
Revenue bond payable	-	1,910,643	1,910,643
Due to other governments	-	111,454	111,454
Total non-current liabilities	<u>42,663</u>	<u>2,108,715</u>	<u>2,151,378</u>
Total liabilities	<u>77,913</u>	<u>2,269,229</u>	<u>2,347,142</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - pension	12,093	24,550	36,643
Total deferred inflows of resources	<u>12,093</u>	<u>24,550</u>	<u>36,643</u>
<b>Net Position</b>			
Net investment in capital assets	685,929	8,634,759	9,320,688
Restricted			
Tourism	86,141	-	86,141
Sewer project	-	159,594	159,594
Unrestricted (deficit)	377,333	(190,415)	186,918
Total net position	<u>1,149,403</u>	<u>8,603,938</u>	<u>9,753,341</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 1,239,409</u>	<u>\$ 10,897,717</u>	<u>\$ 12,137,126</u>

See Notes to Financial Statements



**Town of Pelzer, South Carolina**

*Statement of Activities*

*For the year ended June 30, 2021*

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
<b>Governmental activities</b>							
General government	\$ 249,676	\$ 234,753	\$ -	\$ -	\$ (14,923)	\$ -	\$ (14,923)
Parks and recreation	158,444	-	5,000	-	(153,444)	-	(153,444)
Streets and highways	17,955	-	-	-	(17,955)	-	(17,955)
Total governmental activities	<u>426,075</u>	<u>234,753</u>	<u>5,000</u>	<u>-</u>	<u>(186,322)</u>	<u>-</u>	<u>(186,322)</u>
<b>Business-type activities</b>							
Sewer	583,509	442,107	-	-	-	(141,402)	(141,402)
Water and Trash	259,965	296,120	-	-	-	36,155	36,155
Total business-type activities	<u>843,474</u>	<u>738,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,247)</u>	<u>(105,247)</u>
Total primary government	<u>\$ 1,269,549</u>	<u>\$ 972,980</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>(186,322)</u>	<u>(105,247)</u>	<u>(291,569)</u>
<b>GENERAL REVENUES</b>							
Intergovernmental revenues, not restricted							
to specific purposes					35,827	-	35,827
Accommodations tax					91	-	91
Miscellaneous income					8,577	-	8,577
Transfers in/(out)					(580)	580	-
Total general revenues and transfers					<u>43,915</u>	<u>580</u>	<u>44,495</u>
Change in net position					(142,407)	(104,667)	(247,074)
Net position, beginning of year					1,291,810	8,708,605	10,000,415
Net position, end of year					<u>\$ 1,149,403</u>	<u>\$ 8,603,938</u>	<u>\$ 9,753,341</u>

*See Notes to Financial Statements*

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**Town of Pelzer, South Carolina****Balance Sheet - Governmental Fund - General Fund****June 30, 2021**

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**Assets**

Cash and cash equivalents	\$ 489,553
Accounts receivable, net	44,277
Total assets	<u>\$ 533,830</u>

**Liabilities and Fund Balance****Liabilities**

Accounts payable	\$ 18,752
Accrued liabilities	14,789
Total liabilities	<u>33,541</u>

**Fund balance**

Unassigned	500,289
Total fund balance	<u>500,289</u>
Total liabilities and fund balance	<u>\$ 533,830</u>

**Reconciliation of Balance Sheet - Governmental Fund to Statement of Net Position**

**Total governmental fund balance** \$ 500,289

**Amounts reported for governmental activities in the statement of net position are different because**

Deferred outflows and inflows of resources are not reported in the funds:

Deferred outflows related to pension	19,650
Deferred inflows related to pension	(12,093)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities consisted of the following:

Net pension liability	(42,663)
Compensated absences	(1,709)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

685,929

**Net position of governmental activities**

\$ 1,149,403

**See Notes to Financial Statements**

## Town of Pelzer, South Carolina

### Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund - General Fund For the year ended June 30, 2021

#### Revenues

Charges for services	\$ 234,753
Intergovernmental	35,827
Accommodations tax	91
State grants	5,000
Miscellaneous	8,577
Total revenues	<u>284,248</u>

#### Expenditures

General government	261,800
Parks and recreation	153,872
Streets and highways	17,955
Total expenditures	<u>433,627</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>(149,379)</u>

#### Other Financing Uses

Transfers out	(580)
Total other financing uses	<u>(580)</u>
Net change in fund balance	(149,959)
Fund balance, beginning of year	650,248
Fund balance, end of year	<u>\$ 500,289</u>

#### Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities

**Net change in fund balance - Total Governmental Fund** \$ (149,959)

#### Amounts reported for governmental activities in the Statement of Activities are different because

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. 13,144

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. The net change is as follows:

Town's portion of collective pension expense	905
Compensated absences	(1,743)

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense

Depreciation expense	<u>(4,754)</u>
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**Change in net position of governmental activities** \$ (142,407)

**Town of Pelzer, South Carolina**

*Statement of Net Position - Proprietary Funds*

*June 30, 2021*

	<b>Business-Type Activities</b>		
	<b>Sewer</b>	<b>Water and Trash</b>	<b>Total</b>
<b>Assets and Deferred Outflows of Resources</b>			
<b>Current assets</b>			
Cash and cash equivalents - restricted	\$ 159,594	\$ -	\$ 159,594
Accounts receivable, net	68,428	45,618	114,046
Total current assets	<u>228,022</u>	<u>45,618</u>	<u>273,640</u>
<b>Capital assets</b>			
Non-depreciable	42,432	-	42,432
Depreciable	11,899,305	260,325	12,159,630
Less accumulated depreciation	(1,546,113)	(71,768)	(1,617,881)
Total capital assets - net of accumulated depreciation	<u>10,395,624</u>	<u>188,557</u>	<u>10,584,181</u>
Total assets	<u>10,623,646</u>	<u>234,175</u>	<u>10,857,821</u>
<b>Deferred outflows of resources</b>			
Deferred outflows - pension	19,948	19,948	39,896
Total deferred outflows of resources	<u>19,948</u>	<u>19,948</u>	<u>39,896</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 10,643,594</u>	<u>\$ 254,123</u>	<u>\$ 10,897,717</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 3,488	\$ 8,085	\$ 11,573
Accrued liabilities	2,999	1,999	4,998
Current portion of revenue bonds payable	38,779	-	38,779
Current portion of due to other governments	-	40,513	40,513
Customer deposits	38,791	25,860	64,651
Total current liabilities	<u>84,057</u>	<u>76,457</u>	<u>160,514</u>
<b>Non-current liabilities</b>			
Net pension liability	43,309	43,309	86,618
Revenue bonds payable	1,910,643	-	1,910,643
Due to other governments	-	111,454	111,454
Total non-current liabilities	<u>1,953,952</u>	<u>154,763</u>	<u>2,108,715</u>
Total liabilities	<u>2,038,009</u>	<u>231,220</u>	<u>2,269,229</u>
<b>Deferred inflows of resources</b>			
Deferred inflows - pension	12,275	12,275	24,550
Total deferred inflows of resources	<u>12,275</u>	<u>12,275</u>	<u>24,550</u>
<b>Net position</b>			
Net investment in capital assets	8,446,202	188,557	8,634,759
Restricted - sewer project	159,594	-	159,594
Unrestricted (deficit)	(12,486)	(177,929)	(190,415)
Total net position (deficit)	<u>8,593,310</u>	<u>10,628</u>	<u>8,603,938</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 10,643,594</u>	<u>\$ 254,123</u>	<u>\$ 10,897,717</u>

**See Notes to Financial Statements**

**Town of Pelzer, South Carolina****Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds****For the year ended June 30, 2021**

	Business-Type Activities		
	Sewer	Water and Trash	Total
<b>Operating Revenues</b>			
Charges for sales and services			
Sewer, water and trash	\$ 441,868	\$ 295,959	\$ 737,827
Penalties	239	161	400
Total operating revenues	<u>442,107</u>	<u>296,120</u>	<u>738,227</u>
<b>Operating Expenses</b>			
Salaries and benefits	24,462	24,461	48,923
Daily operations	318,534	228,094	546,628
Depreciation	240,513	7,410	247,923
Total operating expenses	<u>583,509</u>	<u>259,965</u>	<u>843,474</u>
Operating income/(loss)	<u>(141,402)</u>	<u>36,155</u>	<u>(105,247)</u>
Net income (loss) before capital contributions and transfers	(141,402)	36,155	(105,247)
Transfers in (out)	<u>(24,412)</u>	<u>24,992</u>	<u>580</u>
Change in net position	(165,814)	61,147	(104,667)
<b>Net position (deficit), beginning of year</b>	<u>8,759,124</u>	<u>(50,519)</u>	<u>8,708,605</u>
<b>Net position (deficit), end of year</b>	<u>\$ 8,593,310</u>	<u>\$ 10,628</u>	<u>\$ 8,603,938</u>

See Notes to Financial Statements

## Town of Pelzer, South Carolina

### Statement of Cash Flows - Proprietary Funds

For the year ended June 30, 2021

	Business-Type Activities		
	Sewer	Water and Trash	Total
<b>Operating Activities</b>			
Cash received from customers	\$ 453,114	\$ 309,405	\$ 762,519
Cash payments to suppliers for goods and services	(317,840)	(221,871)	(539,711)
Cash payments to employees for services	(58,161)	(58,404)	(116,565)
Net cash provided by (used for) operating activities	77,113	29,130	106,243
<b>Noncapital Financing Activities</b>			
Transfers in/(out)	(24,412)	24,992	580
Net cash provided by (used for) noncapital financing activities	(24,412)	24,992	580
<b>Capital Financing Activities</b>			
Acquisition and construction of capital assets	(14,999)	(15,001)	(30,000)
Repayment of due to other governments	-	(39,121)	(39,121)
Repayment of rural development loan	(37,712)	-	(37,712)
Net cash provided by (used for) capital financing activities	(52,711)	(54,122)	(106,833)
Net increase (decrease) in cash and cash equivalents	(10)	-	(10)
<b>Cash and cash equivalents - beginning of year</b>	159,604	-	159,604
<b>Cash and cash equivalents - end of year</b>	\$ 159,594	\$ -	\$ 159,594
<b>Reconciliation of Operating Income (Loss) to Net Cash provided by Operating Activities</b>			
Operating income (loss)	\$ (141,402)	\$ 36,155	\$ (105,247)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash provided by (used for) Operating Activities</b>			
Depreciation	240,513	7,410	247,923
<b>Changes in Assets and Liabilities</b>			
Accounts receivable	(5,420)	(3,614)	(9,034)
Deferred outflows of resources	(12,464)	(12,464)	(24,928)
Accounts payable	693	6,223	6,916
Accrued liabilities	731	487	1,218
Net pension obligation	17,845	17,845	35,690
Deferred inflows of resources	(21,966)	(21,966)	(43,932)
Customer deposits	(1,417)	(946)	(2,363)
<b>Net cash provided by operating activities</b>	\$ 77,113	\$ 29,130	\$ 106,243

See Notes to Financial Statements

# Town of Pelzer, South Carolina

## Notes to Financial Statements

June 30, 2021

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### Note 1. Summary of Significant Accounting Policies and Activities

The Town of Pelzer, South Carolina (the Town) operates under a five member council and provides the following services as authorized by its charter: sewer, water and trash services and a recreation department.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Town also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 to its governmental and business-type activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Town's accounting policies are described below.

#### A. Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial statements.

##### Government-wide financial statements:

The Statement of Net Position and the Statement of Activities display information about the Town as a whole. These statements include the financial activities of the primary government. The effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The Statement of Net Position presents the financial condition of the governmental and business-type activities for the Town at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for the business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. 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.

##### Fund financial statements:

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column.

##### Fund accounting:

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Town uses two categories of funds: governmental and proprietary.

# Town of Pelzer, South Carolina

## Notes to Financial Statements

June 30, 2021

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### Note 1. Summary of Significant Accounting Policies and Activities, Continued

#### A. Basis of Presentation, Continued

##### Governmental fund types:

Governmental funds are used to account for the Town's general government activities. The Town's expendable financial resources (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The General Fund, a major fund, is the operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is the Town's only governmental fund.

##### Proprietary fund types:

Proprietary funds are used to account for the Town's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The Town uses a type of proprietary fund referred to as an enterprise fund. Enterprise funds account for operations (a) which 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 two enterprise funds included in the financial statements. The Sewer and Water and Trash Funds comprise the Town's major proprietary funds.

#### B. Measurement Focus

##### Government-wide financial statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net position.

##### Governmental fund financial statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.



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## Town of Pelzer, South Carolina

### Notes to Financial Statements

June 30, 2021

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#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The Town considers resources available if they are collected within forty-five days of fiscal year end.

The revenues susceptible to accrual are water, sewer and trash billings, interest income, and franchise fees.

Late fees and penalty revenues are not susceptible to accrual because generally they are not measurable until received in cash.

##### D. Budgets

An annual budget is adopted for the General Fund and the Sewer and Water and Trash Enterprise Funds. Budgets are prepared using the modified accrual basis of accounting for the General Fund and the accrual basis of accounting for the Sewer and Water and Trash Enterprise Funds which is consistent with the accounting system used to record transactions.

##### E. Cash and Cash Equivalents

The Town considers all highly liquid investments with a maturity of three months or less to be cash equivalents. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits.

##### F. Receivables

All trade and miscellaneous receivables are shown net of an allowance for uncollectible amounts. Trade receivables are comprised of amounts due from entities and individuals for a variety of types of fees, charges, and services, including sewer fees and water and trash fees and charges.

##### G. Investments

Investments, comprised mainly of government securities, are stated at fair value as determined by quoted market prices. The Town also considers certificates of deposit with a maturity greater than three months to be investments. It is generally the policy of the Town to hold investments to maturity. At June 30, 2021, the Town held no investments.

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# Town of Pelzer, South Carolina

## Notes to Financial Statements

June 30, 2021

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### Note 1. Summary of Significant Accounting Policies and Activities, Continued

#### H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of proprietary capital assets is included as part of the capitalized value of the assets constructed.

All reported capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 – 30 years
Infrastructure	40 years
Equipment	10 – 20 years
Vehicles	10 – 20 years

#### I. Construction-In-Progress

Construction-in-progress includes design and construction costs incurred related to the construction of sewer lines, pump station and metering station in the sewer fund and water tank rehabilitation in the water and trash fund. The Town had no construction in progress at June 30, 2021.

#### J. Compensated Absences

Accrued compensated absences include annual leave which is recorded in the Enterprise Funds. The estimated amount assumes that all employees will exercise their rights to amounts accrued in the current year. Such accruals, as they are not significant, are presented in accrued liabilities in the proprietary fund financial statements.

#### K. Interfund Transactions

All interfund transactions are reported as transfers.

#### L. Net Position / Fund Balances

Net position represents the difference between assets and liabilities. Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Net investment in capital assets consists 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. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by enabling legislation.

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## Town of Pelzer, South Carolina

### Notes to Financial Statements

June 30, 2021

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#### Note 1. Summary of Significant Accounting Policies and Activities, Continued

##### L. Net Position / Fund Balances, Continued

The Town has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The equity section of the governmental fund balance sheet is comprised of these major fund balance elements: nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is self-imposed limitations imposed at the highest level of decision making authority. Assigned fund balances is a limitation imposed by a designee of the Town. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories.

The Town Council is the Town's highest level of decision making. The Town Council can establish, modify or rescind fund balance commitments through adoption of an ordinance.

The Town considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted amounts are available. When an expenditure is incurred for which committed, assigned or unassigned amounts could be used the Town considers the expenditures to be used in this respective order.

##### M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

##### N. Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

##### O. Estimates

The financial statements include estimates and assumptions that affect the Town's financial position and changes in financial position and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

## Town of Pelzer, South Carolina

### Notes to Financial Statements

June 30, 2021

#### Note 2. Cash and Cash Equivalents

The following are the components of the Town's cash and investments at June 30, 2021:

	<u>General Fund</u>	<u>Proprietary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 489,553	\$ 159,594	\$ 649,147

#### Custodial credit risk:

Custodial credit risk is the risk that, in the event of a failure of a bank or counterparty, the Town will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk. At June 30, 2021, the carrying amount of the Town's deposits was \$648,548 and the bank balance was \$676,524. All of the Town's deposits were covered by Federal Depository Insurance Corporation (FDIC) insurance or collateral held in the pledging financial institution's trust departments in the Town's name at June 30, 2021. The Town had petty cash totaling \$599 at June 30, 2021.

#### Interest rate risk:

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Credit risk:

State statutes authorize the Town to invest in obligations of the United States and its agencies, general obligations (not revenue obligations) of the state of South Carolina and its subdivisions, financial institutions to the extent of federal insurance, certificates of deposit collaterally secured, and repurchase agreements secured by the foregoing obligations. The Town has no investment policy that further limits its investment choices.

#### Concentration of credit risk for investments:

The Town places no limit on the amount the Town may invest in any one issuer.

#### Note 3. Accounts/Grants Receivable

Receivables as of June 30, 2021, for the Town's individual major funds in the aggregate are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Accounts receivable, net	\$ 44,277	\$ 114,046	\$ 158,323

# Town of Pelzer, South Carolina

## Notes to Financial Statements

June 30, 2021

### Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	Balance June 30, 2020	Additions	Retirements	Balance June 30, 2021
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 650,883	\$ -	\$ -	\$ 650,883
Total capital assets at historical cost not being depreciated	650,883	-	-	650,883
Capital assets being depreciated				
Building and improvements	211,455	-	-	211,455
Vehicles	3,000	-	(3,000)	-
Equipment	23,366	-	-	23,366
Total capital assets at historical cost being depreciated	237,821	-	(3,000)	234,821
Less accumulated depreciation				
Building and improvements	(183,967)	(2,953)	-	(186,920)
Equipment	(11,054)	(1,801)	-	(12,855)
	(195,021)	(4,754)	-	(199,775)
Total capital assets being depreciated, net	42,800	(4,754)	(3,000)	35,046
Governmental activities capital assets, net	<u>\$ 693,683</u>	<u>\$ (4,754)</u>	<u>\$ (3,000)</u>	<u>\$ 685,929</u>

Depreciation expense was charged to functions as follows:

General government	\$ 182
Parks and recreation	4,572
	<u>\$ 4,754</u>

	Balance June 30, 2020	Additions	Transfers/ Retirements	Balance June 30, 2021
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land	\$ 42,432	\$ -	\$ -	\$ 42,432
Construction in progress	-	-	-	-
Total capital assets at historical cost not being depreciated	42,432	-	-	42,432
Capital assets being depreciated				
Building and improvements	3,500	-	-	3,500
Vehicles	39,404	30,000	-	69,404
Equipment	61,386	-	-	61,386
Infrastructure	12,025,340	-	-	12,025,340
Total capital assets at historical cost being depreciated	12,129,630	30,000	-	12,159,630
Less accumulated depreciation				
Building and improvements	(3,500)	-	-	(3,500)
Vehicles	(35,904)	(3,829)	-	(39,733)
Equipment	(37,678)	(3,069)	-	(40,747)
Infrastructure	(1,292,876)	(241,025)	-	(1,533,901)
	(1,369,958)	(247,923)	-	(1,617,881)
Total capital assets being depreciated, net	10,759,672	(217,923)	-	10,541,749
Business-type activities capital assets, net	<u>\$ 10,802,104</u>	<u>\$ (217,923)</u>	<u>\$ -</u>	<u>\$ 10,584,181</u>

## Town of Pelzer, South Carolina

### Notes to Financial Statements

June 30, 2021

#### Note 4. Capital Assets, Continued

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water and Trash	\$ 7,410
Sewer	<u>240,513</u>
	<u>\$ 247,923</u>

#### Note 5. Long Term Obligations

On July 16, 2009, the Town entered into a loan agreement in relation to the construction of its wastewater rehabilitation project. The Rural Development Revenue bond of \$726,600 bears interest at a fixed rate of 4.375%. Monthly payments of principal and interest of \$3,241 began July 16, 2010, and continue for 39 years with the final payment due June 16, 2049.

At its January 12, 2015 meeting, Town Council voted to approve a contract with Greenville Water System (GWS) to provide water to the Town of Pelzer. The contract has an initial term of 40 years, with 2 automatically renewable 30-year terms. Either party may elect at the end of the initial or an extended term not to renew by notifying the other party, with written notice, not less than 2 years prior to the end of such term. Under an installment payment plan, the Town will pay GWS an initial capacity charge of approximately \$380,000 in 120 monthly payments of \$3,766, including interest at 3.50%. This monthly payment is in addition to any other monthly payments due to GWS under the contract.

The contract sets the terms for the initial base charges and initial operation and maintenance charges, as well as provides for repayment methods for regulatory capital improvements charges to the facilities as may become necessary to comply with federal, state or local laws.

On June 24, 2015, the Town entered into a loan agreement in relation to the construction of its wastewater rehabilitation project. The Rural Development Revenue bond of \$1,065,000 bears interest at a fixed rate of 2.125%. Interest only payment was due June 24, 2016. Monthly payments of principal and interest of \$3,355 began July 24, 2016, and continue for 39 years with the final payment due February 24, 2055.

On June 24, 2015, the Town entered into a loan agreement in relation to the construction of its wastewater rehabilitation project. The Rural Development Revenue bond of \$388,000 bears interest at a fixed rate of 2.125%. Interest only payment was due June 24, 2016. Monthly payments of principal and interest of \$1,223 began July 24, 2016, and continue for 39 years with the final payment due February 24, 2055.

The following is a summary of changes in the Town's long-term obligations for the year ended June 30, 2021.

<u>Long-Term Obligations</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
<b>Business-type activities:</b>					
Due to other governments	\$ 191,088	\$ -	\$ 39,122	\$ 151,967	\$ 40,513
Rural Development Revenue Bond	<u>1,987,134</u>	<u>-</u>	<u>37,711</u>	<u>1,949,422</u>	<u>38,779</u>
Totals	<u>\$ 2,178,222</u>	<u>\$ -</u>	<u>\$ 76,833</u>	<u>\$ 2,101,389</u>	<u>\$ 79,292</u>

# Town of Pelzer, South Carolina

## Notes to Financial Statements

June 30, 2021

### Note 5. Long Term Debt, Continued

The following represents the annual maturities of long-term obligations for the fiscal years after 2021:

2022	\$	79,292
2023		81,836
2024		84,466
2025		68,250
2026		43,410
2027-2031		236,702
2032-2036		273,691
2037-2041		317,380
2042-2046		369,143
2047-2051		350,486
2052-2056		<u>196,733</u>
	\$	<u>2,101,389</u>

### Note 6. Pension Plans

#### Description of the Entity:

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

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

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

## Town of Pelzer, South Carolina

### Notes to Financial Statements

June 30, 2021

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#### Note 6. Pension Plans, Continued

##### Plan descriptions:

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

##### 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.

##### Benefits:

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

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

An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

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

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.



# Town of Pelzer, South Carolina

## Notes to Financial Statements

June 30, 2021

### Note 6. Pension Plans, Continued

#### Contributions:

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS and PORS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

Additionally, the Board is prohibited from decreasing the SCRS and PORS contribution rates until the funded ratio is at least 85 percent. 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 85 percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85 percent.

Required employee contribution rates<sup>1</sup> are as follows:

	<u>Fiscal Year 2021</u>	<u>Fiscal Year 2020</u>
<b>SCRS</b>		
Employee Class Two	9.00%	9.00%
Employee Class Three	9.00%	9.00%

Required employer contribution rates<sup>1</sup> are as follows:

	<u>Fiscal Year 2021</u>	<u>Fiscal Year 2020</u>
<b>SCRS</b>		
Employer Class Two	15.41%	14.41%
Employer Class Three	15.41%	14.41%
Employer Incidental Death Benefit	.15%	.15%

Contributions to the SCRS pension plan from the Town was \$13,144 for the year ended June 30, 2021.

## Town of Pelzer, South Carolina

### Notes to Financial Statements

June 30, 2021

#### Note 6. Pension Plans, Continued

##### Net Pension Liability:

At June 30, 2021, the Town reported a liability of \$129,281 for its proportionate share of the SCRS net pension liability ("NPL"). The NPL was measured as of June 30, 2020, and the total pension liability ("TPL") used to calculate the NPL was determined by an actuarial valuation as July 1, 2019 and projected forward. The Town's proportionate share of the NPL was based on a projection of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At the June 30, 2020 measurement date, the Town's proportionate share of the SCRS plan was .00051 percent.

##### Non-employer Contributions:

Employer's proportionate shares were calculated on the basis of employer contributions remitted to the plan by employers and non-employer contributions appropriated in the State's budget. In an effort to offset a portion of the burden of the increased contribution requirement for employers, the General Assembly funded 1 percent of the SCRS contribution increases for fiscal year 2020 and 2021. The State budget appropriated these funds directly to PEBA and a credit was issued for each employer to use when submitting their quarterly remittances to PEBA. For the year ended June 30, 2020 measurement period, PEBA provided non-employer contributions to the Town in the amount of \$1,583, which is shown as a reduction of net pension liability and other grant revenue in the government-wide financial statements for the year ended June 30, 2021, which are presented on the economic resources measurement focus and accrual basis of accounting.

##### Pension expense:

For the year ended June 30, 2021, the Town recognized pension income for the SCRS plan of \$36,366.

##### Deferred inflows of resources and deferred outflows of resources:

At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SCRS</u>	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 1,492	\$ 489
Changes of assumptions	158	-
Net difference between projected and actual earnings on pension plan investments	9,509	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	35,243	36,154
Town contributions subsequent to the measurement date	<u>13,144</u>	<u>-</u>
Total	<u>\$ 59,546</u>	<u>\$ 36,643</u>

The \$13,144 reported as of June 30, 2021 as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date for the SCRS plan, will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2022.

## Town of Pelzer, South Carolina

### Notes to Financial Statements

June 30, 2021

#### Note 6. Pension Plans, Continued

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS plan:

<u>Year ended June 30:</u>	<u>SCRS</u>
2022	\$ (18,911)
2023	13,315
2024	12,931
2025	<u>2,424</u>
	<u>\$ 9,759</u>

#### Actuarial assumptions and methods:

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019 for first use in the July 1, 2020 actuarial valuation.

The June 30, 2020, total pension liability ("TPL"), net pension liability ("NPL"), and sensitivity information shown in this report were determined by the Systems' consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on an actuarial valuation performed as of July 1, 2019. The TPL was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2020, using generally accepted actuarial principles.

	<b>SCRS</b>
Actuarial cost method	Entry age normal
Investment rate of return <sup>1</sup>	7.25%
Projected salary increases	3.0% to 12.5% (varies by service) <sup>1</sup>
Benefit adjustments	lesser of 1% or \$500 annually

<sup>1</sup> Includes inflation at 2.25%

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.

## Town of Pelzer, South Carolina

### Notes to Financial Statements

June 30, 2021

#### Note 6. Pension Plans, Continued

##### Actuarial assumptions and methods, continued:

Assumptions used in the determination of the June 30, 2020, TPL are as follows.

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

The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2020, for SCRS is presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 51,844,187,763	\$ 26,292,418,682	\$ 25,551,769,081	50.7%

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

##### Long-term expected rate of return:

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

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2019 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.

# Town of Pelzer, South Carolina

## Notes to Financial Statements

June 30, 2021

### Note 6. Pension Plans, Continued

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
<b>Global Equity:</b>	<b>51.0%</b>		
Global Public Equity	35.0%	7.81%	2.73%
Private Equity	9.0%	8.91%	0.80%
Equity Options Strategies	7.0%	5.09%	0.36%
<b>Real Assets:</b>	<b>12.0%</b>		
Real Estate (Private)	8.0%	5.55%	0.44%
Real Estate (REITs)	1.0%	7.78%	0.08%
Infrastructure (Private)	2.0%	4.88%	0.10%
Infrastructure (Public)	1.0%	7.05%	0.07%
<b>Opportunistic:</b>	<b>8.0%</b>		
Global Tactical Asset Allocation	7.0%	3.56%	0.25%
Other Opportunistic Strategies	1.0%	4.41%	0.04%
<b>Credit:</b>	<b>15.0%</b>		
High Yield Bonds/Bank Loans	4.0%	4.21%	0.17%
Emerging Markets Debts	4.0%	3.44%	0.14%
Private Debt	7.0%	5.79%	0.40%
<b>Conservative Fixed Income:</b>	<b>14.0%</b>		
Core Fixed Income	13.0%	1.60%	0.21%
Cash and Short Duration (Net)	1.0%	0.56%	0.01%
<b>Total Expected Real Return</b>	<b>100.0%</b>		<b>5.80%</b>
Inflation for Actuarial Purposes			<b>2.25%</b>
<b>Total Expected Nominal Return</b>			<b>8.05%</b>

#### Discount rate:

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

#### Sensitivity analysis:

The following table presents the collective NPL of the Town 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.

<b>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</b>			
<b>System</b>	<b>1.00% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1.00% Increase (8.25%)</b>
<b>SCRS</b>	\$ 160,228	\$ 129,281	\$ 103,440

# Town of Pelzer, South Carolina

## Notes to Financial Statements

June 30, 2021

### Note 6. Pension Plans, Continued

#### Additional Financial and Actuarial Information

Information contained in these Notes to the Schedules of Employer and Nonemployer Allocations and Schedules of Pension Amounts by Employer (Schedules) was compiled from the Systems' audited financial statements for the fiscal year ended June 30, 2020, and the accounting valuation report as of June 30, 2020. Additional financial information supporting the preparation of the Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is available in the Systems' CAFR.

### Note 7. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

### Note 8. Net Position

Net position represents the difference between assets and liabilities. Net position was as follows as of June 30, 2021:

	Governmental	Business-type
Net investment in capital assets:		
Net capital assets	\$ 685,929	\$ 10,584,181
Less: Bonds payable, net	-	(1,949,422)
	<u>685,929</u>	<u>8,634,759</u>
Restricted for tourism	86,141	-
Restricted for sewer project	-	159,594
	<u>86,141</u>	<u>159,594</u>
Unrestricted (deficit)	377,333	(190,415)
Total net position	<u>\$ 1,149,403</u>	<u>\$ 8,603,938</u>

### Note 9. Uncertainties

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Town's and its customers' costs, demand for the Town's products and services, and the U.S. economy. These conditions could adversely affect the Town's business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the Town's operations or other businesses of the Town's customers and suppliers, which could significantly disrupt the Town's operations and the operations of the Town's customers. The extent of the adverse impact of the COVID-19 outbreak on the Town cannot be predicted at this time.

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**Town of Pelzer, South Carolina*****Notes to Financial Statements******June 30, 2021***

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**Note 10. Subsequent Events**

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition and disclosure through the date of the independent auditor's report, the date the financial statements were available to be issued.

On May 12, 2022, the Town entered into an agreement to sale its sewer system infrastructure assets in exchange for the payoff of the existing USDA Sewer Bonds debt and a payment of \$600,000.

The Town has entered into discussions regarding the sale of its water system infrastructure assets as well. The sale is expected to occur by the end of June 2022.

**Town of Pelzer, South Carolina****Required Supplementary Information****Schedule of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual (GAAP Basis) - General Fund****For the year ended June 30, 2021**

	<b>Budget - Original and Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>			
Charges for services			
MASC income	\$ 75,000	\$ 123,035	\$ 48,035
Rental	24,420	35,781	11,361
Community Building	9,000	732	(8,268)
Franchise fees	78,000	75,205	(2,795)
Total charges for services	<u>186,420</u>	<u>234,753</u>	<u>48,333</u>
Intergovernmental	27,216	35,827	8,611
Accommodations tax	-	91	91
State grants	-	5,000	5,000
Miscellaneous revenues	3,300	8,577	5,277
Total revenues	<u>216,936</u>	<u>284,248</u>	<u>67,312</u>
<b>Expenditures</b>			
General government			
Salaries and benefits	57,264	65,151	(7,887)
Daily operations	116,172	196,649	(80,477)
	<u>173,436</u>	<u>261,800</u>	<u>(88,364)</u>
Parks, recreation, and tourism			
Salaries and benefits	-	3,167	(3,167)
Daily operations	110,000	150,705	(40,705)
	<u>110,000</u>	<u>153,872</u>	<u>(43,872)</u>
Streets and highways			
Daily operations	18,500	17,955	545
	<u>18,500</u>	<u>17,955</u>	<u>545</u>
Total expenditures	<u>301,936</u>	<u>433,627</u>	<u>(131,691)</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>(85,000)</u>	<u>(149,379)</u>	<u>(64,379)</u>
<b>Other financing sources/(uses)</b>			
Transfers in/(out)	85,000	(580)	(85,580)
Total other financing sources/(uses)	<u>85,000</u>	<u>(580)</u>	<u>(85,580)</u>
Net change in fund balance	<u>\$ -</u>	<u>(149,959)</u>	<u>\$ (149,959)</u>
<b>Fund balance, beginning of year</b>		<u>650,248</u>	
<b>Fund balance, end of year</b>		<u>\$ 500,289</u>	



**Town of Pelzer, South Carolina**

*Required Supplementary Information*

*Schedule of the Town's Proportionate Share of the Net Pension Liability*

*For the year ended June 30, 2021*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>SCRS 2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.00051%	0.00033%	0.00027%	0.00090%	0.00158%	0.00155%	0.00161%
Town's proportionate share of the net pension liability	<u>\$ 129,281</u>	<u>\$ 76,013</u>	<u>\$ 61,361</u>	<u>\$ 201,929</u>	<u>\$ 337,699</u>	<u>\$ 293,966</u>	<u>\$ 277,704</u>
Town's covered payroll during the measurement period	<u>\$ 56,996</u>	<u>\$ 35,518</u>	<u>\$ 21,491</u>	<u>\$ 100,111</u>	<u>\$ 155,186</u>	<u>\$ 147,363</u>	<u>\$ 148,571</u>
Town's proportionate share of the net pension liability as a percentage of its covered payroll	226.82469%	214.01261%	285.51952%	201.70511%	217.60919%	199.48427%	186.91669%
Plan fiduciary net position as a percentage of the total pension liability	50.70%	54.40%	54.10%	53.34%	52.91%	56.99%	59.92%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, information presented is only for those years which is available.

**Town of Pelzer, South Carolina**  
**Required Supplementary Information**  
**Schedule of the Town's Contributions**  
**For the year ended June 30, 2021**

	SCRS							
	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 13,144	\$ 8,783	\$ 5,119	\$ 2,882	\$ 11,422	\$ 16,931	\$ 15,842	\$ 15,526
Contributions in relation to the contractually required contribution	13,144	8,783	5,119	2,882	11,422	16,931	15,842	15,526
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered payroll during the measurement period	\$ 85,297	\$ 56,996	\$ 35,518	\$ 21,491	\$ 100,111	\$ 155,186	\$ 147,363	\$ 148,571
Contributions as a percentage of covered payroll	15.41%	15.41%	14.41%	13.41%	11.41%	10.91%	10.75%	10.45%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, information presented is only for those years which is available.

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**Town of Pelzer, South Carolina****Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual - Proprietary Fund****Sewer Fund****For the year ended June 30, 2021**

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	<b>Budget - Original and Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Operating Revenues</b>			
Sewer service revenue	\$ 497,601	\$ 441,868	\$ (55,733)
Penalties	2,700	239	(2,461)
Total operating revenues	<u>500,301</u>	<u>442,107</u>	<u>(58,194)</u>
<b>Operating Expenses</b>			
Salaries and benefits	33,617	24,462	9,155
Daily operations	323,459	318,534	4,925
Depreciation	-	240,513	(240,513)
Total operating expenses	<u>357,076</u>	<u>583,509</u>	<u>(226,433)</u>
Operating income (loss)	<u>143,225</u>	<u>(141,402)</u>	<u>(284,627)</u>
Income (loss) before transfers	143,225	(141,402)	(284,627)
Transfers in (out)	-	(24,412)	(24,412)
Change in net position	<u>\$ 143,225</u>	<u>\$ (165,814)</u>	<u>\$ (309,039)</u>

**Town of Pelzer, South Carolina****Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual - Proprietary Fund****Water and Trash Fund****For the year ended June 30, 2021**

	<b>Budget - Original and Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Operating Revenues</b>			
Water and trash service revenue	\$ 321,570	\$ 295,959	\$ (25,611)
Penalties	1,800	161	(1,639)
Total operating revenues	<u>323,370</u>	<u>296,120</u>	<u>(27,250)</u>
<b>Operating Expenses</b>			
Salaries and benefits	33,617	24,461	9,156
Daily operations	204,433	228,094	(23,661)
Depreciation	-	7,410	(7,410)
Total operating expenses	<u>238,050</u>	<u>259,965</u>	<u>(21,915)</u>
Operating income (loss)	<u>85,320</u>	<u>36,155</u>	<u>(49,165)</u>
Income (loss) before transfers	85,320	36,155	(49,165)
Transfers in (out)	-	24,992	24,992
Change in net position	<u>\$ 85,320</u>	<u>\$ 61,147</u>	<u>\$ (24,173)</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Pelzer, South Carolina (the “Town”), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated May 31, 2022.

**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.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did identify a deficiency in internal control, described in the accompanying schedule of findings and responses, which we consider to be a material weakness, identified as 2021-001.

## **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*.

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

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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.

A handwritten signature in black ink that reads "Manley Garwin, LLC". The signature is written in a cursive style.

Greenwood, South Carolina  
May 31, 2022

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## Town of Pelzer, South Carolina

### *Schedule of Findings and Responses*

*For the year ended June 30, 2021*

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#### **2021 Financial Statement Findings**

##### **2021-001: Material Weakness**

Condition:	The Town did not have adequate internal controls in place over its annual financial reporting process that would allow for the Town to prevent and detect material misstatements in its basic financial statements. As a result, the external auditors were required to record numerous adjustments, including but not limited to, recording of various receivables, payables and revenues into the general ledger. Additionally, the auditors assisted with bank reconciliations of the operating account, the maintenance of capital assets activity and the conversion to the full accrual basis that is used for government-wide financial statements.
Criteria:	The Town should have adequate internal controls in place that would prevent or detect material misstatements from the day to day transactions all the way to the reporting of those transactions in the annual financial statements.
Effect:	There is a higher risk that material misstatements in the basic financial statements will go undetected. Also, timely and reliable financial data is an important factor in strategic decision making made by Town Council.
Cause:	The size and limited financial resources of the Town.
Recommendation:	The Town should consider the cost/benefit factors related to providing adequate internal controls over its annual financial reporting process.
Response:	The Town agrees with the finding and will evaluate the cost/benefit of implementing the recommended action.

**Town of Pelzer, South Carolina**  
*Summary Schedule of Prior Audit Findings*  
*For the year ended June 30, 2020*

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**2020 Financial Statement Findings**

**2020-001: Material Weakness**

Condition:	The Town did not have adequate internal controls in place over its annual financial reporting process that would allow for the Town to prevent and detect material misstatements in its basic financial statements. As a result, the external auditors were required to record numerous adjustments, including but not limited to, recording of various receivables, payables and revenues into the general ledger. Additionally, the auditors assisted with bank reconciliations of the operating account, the maintenance of capital assets activity and the conversion to the full accrual basis that is used for government-wide financial statements.
Criteria:	The Town should have adequate internal controls in place that would prevent or detect material misstatements from the day to day transactions all the way to the reporting of those transactions in the annual financial statements.
Effect:	There is a higher risk that material misstatements in the basic financial statements will go undetected. Also, timely and reliable financial data is an important factor in strategic decision making made by Town Council.
Cause:	The size and limited financial resources of the Town.
Recommendation:	The Town should consider the cost/benefit factors related to providing adequate internal controls over its annual financial reporting process.
Status:	This finding was repeated during fiscal year end June 30, 2021.