

**TOWN OF HOLLYWOOD,
SOUTH CAROLINA**

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2022**

TOWN OF HOLLYWOOD, SOUTH CAROLINA

ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report.....	1 – 4
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position.....	5
Statement of Activities.....	6 and 7
Fund Financial Statements	
Balance Sheet – Governmental Fund.....	8
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	9
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	11
Statement of Net Position – Proprietary Fund	12
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	13
Statement of Cash Flows – Proprietary Fund	14
Notes to Financial Statements	15 – 36

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – GAAP Basis.....	37
Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions – South Carolina Retirement System	38
Notes to Required Supplementary Information	39

OTHER SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – Budgetary Basis – Proprietary Fund	40
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COMPLIANCE SECTION

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 <i>Government Auditing Standards</i>	41 and 42
Schedule of Findings and Responses	43

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the Town Council
Town of Hollywood, South Carolina
Hollywood, South Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **Town of Hollywood, South Carolina** (the "Town"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the General Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance Comparison Schedule on page 37 and the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on page 38 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Budgetary Comparison Schedule – Budget Basis – Proprietary Fund is presented for the purpose of additional analysis and is not a required part of the basic 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 basic financial statements. The 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, Budgetary Comparison Schedule – Budget Basis – Proprietary Fund 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 October 12, 2022, on our consideration of the Town of Hollywood, South Carolina'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Hollywood, South Carolina's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Savannah, Georgia
October 12, 2022

BASIC FINANCIAL STATEMENTS

TOWN OF HOLLYWOOD, SOUTH CAROLINA

STATEMENT OF NET POSITION JUNE 30, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash and cash equivalents	\$ 5,982,714	\$ 139,952	\$ 6,122,666
Receivables:			
Due from other governments	75,405	-	75,405
Accounts receivable	11,727	88,731	100,458
Restricted assets:			
Cash and investments	-	57,719	57,719
Capital assets:			
Non-depreciable	7,256,911	84,629	7,341,540
Depreciable, net of accumulated depreciation	3,858,307	5,307,171	9,165,478
Total assets	<u>17,185,064</u>	<u>5,678,202</u>	<u>22,863,266</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	197,399	-	197,399
Total assets and deferred outflows of resources	<u>\$ 17,382,463</u>	<u>\$ 5,678,202</u>	<u>\$ 23,060,665</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
LIABILITIES			
Accounts payable	\$ 8,226	\$ 129,855	\$ 138,081
Accrued salaries and related liabilities	8,981	-	8,981
Accrued interest payable	6,708	-	6,708
Unearned revenue	1,118,025	-	1,118,025
Non-current liabilities			
Due within one year	98,034	31,340	129,374
Due in more than one year	1,722,512	444,895	2,167,407
Net pension liability - due in more than one year	712,405	-	712,405
Total liabilities	<u>3,674,891</u>	<u>606,090</u>	<u>4,280,981</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	215,391	-	215,391
Total liabilities and deferred inflows of resources	<u>3,890,282</u>	<u>606,090</u>	<u>4,496,372</u>
NET POSITION			
Net investment in capital assets	9,333,313	4,915,565	14,248,878
Restricted for:			
Debt service	-	57,719	57,719
Unrestricted	4,158,868	98,828	4,257,696
Total net position	<u>13,492,181</u>	<u>5,072,112</u>	<u>18,564,293</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,382,463</u>	<u>\$ 5,678,202</u>	<u>\$ 23,060,665</u>

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

TOWN OF HOLLYWOOD, SOUTH CAROLINA

STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 831,900	\$ 415,869	\$ -	\$ -
Parks and public recreation	212,775	-	-	-
Planning and community development	296,027	53,183	-	65,114
Interest and other charges	82,953	-	-	-
Total governmental activities	<u>1,423,655</u>	<u>469,052</u>	<u>-</u>	<u>65,114</u>
Business-type Activities:				
Sewer utilities	1,560,814	931,437	-	-
Total business-type activities	<u>1,560,814</u>	<u>931,437</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 2,984,469</u>	<u>\$ 1,400,489</u>	<u>\$ -</u>	<u>\$ 65,114</u>

General revenues:

Taxes
Local option sales tax
Accommodations tax
Franchise fees
Other taxes
Miscellaneous revenues
Transfers
Total general revenues and transfers
Change in net position
Net position, beginning of year
Net position, end of year

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
\$ (416,031)	\$ -	\$ (416,031)
(212,775)	-	(212,775)
(177,730)	-	(177,730)
(82,953)	-	(82,953)
(889,489)	-	(889,489)
-	(629,377)	(629,377)
-	(629,377)	(629,377)
(889,489)	(629,377)	(1,518,866)
731,141	-	731,141
169,004	-	169,004
344,069	-	344,069
637,271	-	637,271
122,348	5,322	127,670
(1,014,330)	1,014,330	-
989,503	1,019,652	2,009,155
100,014	390,275	490,289
13,392,167	4,681,837	18,074,004
\$ 13,492,181	\$ 5,072,112	\$ 18,564,293

TOWN OF HOLLYWOOD, SOUTH CAROLINA

BALANCE SHEET GOVERNMENTAL FUND JUNE 30, 2022

	General Fund
ASSETS	
Cash and cash equivalents	\$ 5,982,714
Receivables	11,727
Due from other governments	75,405
Total assets	<u>\$ 6,069,846</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 8,226
Accrued salaries and related liabilities	8,981
Unearned revenue	<u>1,118,025</u>
Total liabilities	<u>1,135,232</u>
FUND BALANCE	
Unassigned	<u>4,934,614</u>
Total fund balance	<u>4,934,614</u>
Total liabilities and fund balance	<u>\$ 6,069,846</u>

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

TOWN OF HOLLYWOOD, SOUTH CAROLINA

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2022

Total fund balances - governmental funds	\$	4,934,614
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Amounts reported for governmental activities in the Statement of Net Position are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the government funds:

Cost of assets	\$	11,904,744	
Accumulated depreciation		<u>(789,526)</u>	11,115,218

Deferred outflows of resources related to the recording of the net pension liability are recognized as expense over time and, therefore, are not reported in the funds.

	197,399
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Deferred inflows of resources related to the recording of the net pension liability do not consume current financial resources and are, therefore, not reported in the funds.

(215,391)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Notes payable	\$	(1,781,905)	
Accrued interest		(6,708)	
Compensated absences		(38,641)	
Net pension liability		<u>(712,405)</u>	<u>(2,539,659)</u>

Net position of governmental activities	\$	<u><u>13,492,181</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF HOLLYWOOD, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund
Revenues	
Local:	
Licenses and permits	\$ 986,563
Franchise fees	344,069
Miscellaneous	122,348
State:	
Aid to subdivisions	119,760
Local option sales tax	731,141
Other state revenues	169,004
Federal:	
Grant proceeds	65,114
Total revenues	<u>2,537,999</u>
Expenditures	
Current:	
General government	876,378
Parks and public recreation	277,541
Planning and community development	181,017
Capital outlay	31,264
Debt service:	
Principal	64,439
Interest	83,176
Total expenditures	<u>1,513,815</u>
Excess of revenues over expenditures	1,024,184
Other financing use	
Transfer out	<u>(1,014,330)</u>
Net change in fund balance	9,854
Fund balance, beginning of year	4,924,760
Fund balance, end of year	<u><u>\$ 4,934,614</u></u>

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

TOWN OF HOLLYWOOD, SOUTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Net change in fund balance - total governmental funds	\$	9,854
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

Capital outlay	\$	136,309	
Depreciation expense		<u>(124,686)</u>	11,623

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to change net position.

Asset disposal	(17,100)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal repayment	64,439
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	\$	(10,227)	
Accrued interest		223	
Net pension liability and related deferred outflows and inflows of resources related to pensions		<u>41,202</u>	<u>31,198</u>

Change in net position of governmental activities	\$	<u>100,014</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF HOLLYWOOD, SOUTH CAROLINA

STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2022

	Sewer Fund
<hr/>	
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 139,952
Accounts receivable	88,731
Restricted cash and cash equivalents	57,719
Total current assets	<u>286,402</u>
Non-current assets:	
Non-depreciable assets	84,629
Depreciable assets, net of accumulated depreciation	<u>5,307,171</u>
Total assets	<u>5,678,202</u>
LIABILITIES	
Current liabilities:	
Accounts payable	129,855
Current portion of bonds payable	31,340
Total current liabilities	<u>161,195</u>
Non-current liabilities:	
Bonds payable	444,895
Total long-term liabilities	<u>444,895</u>
Total liabilities	<u>606,090</u>
NET POSITION	
Net investment in capital assets	4,915,565
Restricted for:	
Debt service	57,719
Unrestricted	98,828
Total net position	<u>\$ 5,072,112</u>

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

TOWN OF HOLLYWOOD, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION PROPRIETARY FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Sewer Fund
Operating revenues	
Sewer service charges	\$ 898,967
Sewer hookup and tap fees	32,470
Miscellaneous	5,322
Total operating revenues	<u>936,759</u>
Operating expenses	
Operating costs	432,288
Engineering and professional fees	11,825
Depreciation	222,711
Other operating and maintenance fees	871,825
Total operating expenses	<u>1,538,649</u>
Operating loss	(601,890)
Non-operating expenses	
Interest expense	(22,165)
Total non-operating expenses	<u>(22,165)</u>
Loss before transfers	(624,055)
Transfer	
Transfer in	<u>1,014,330</u>
Change in net position	390,275
Net position, beginning of year	<u>4,681,837</u>
Net position, end of year	<u><u>\$ 5,072,112</u></u>

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

TOWN OF HOLLYWOOD, SOUTH CAROLINA

STATEMENT OF CASH FLOWS PROPRIETARY FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Sewer Fund
Cash flows from operating activities	
Cash received from customers	\$ 934,299
Cash payments to suppliers for goods and services	(814,069)
Cash payments to employees	(432,288)
Payments from other funds	(497,330)
Net cash used in operating activities	<u>(809,388)</u>
Cash flows from noncapital investing activities:	
Transfers	1,014,330
Net cash provided by noncapital financing activities	<u>1,014,330</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(20,346)
Principal payment of bonds payable	(29,963)
Interest payments on debt	(22,165)
Net cash used in capital and related financing activities	<u>(72,474)</u>
Change in cash and cash equivalents	132,468
Cash and cash equivalents, end of year	
Beginning of year	<u>65,203</u>
End of year	<u><u>\$ 197,671</u></u>
Cash	\$ 139,952
Restricted cash	57,719
	<u><u>\$ 197,671</u></u>
Reconciliation of operating loss to net cash used in operating activities	
	\$ (601,890)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	222,711
Change in assets and liabilities:	
Increase in accounts receivable	(2,460)
Increase in accounts payable	69,581
Decrease in due to other funds	(497,330)
Net cash used in operating activities	<u><u>\$ (809,388)</u></u>

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

NOTES TO FINANCIAL STATEMENTS

TOWN OF HOLLYWOOD, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Hollywood, South Carolina (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America ("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 more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town operates under a charter originally granted by the State of South Carolina on December 3, 1949. The Town is governed by an elected mayor and six-member council. All legislative and administrative powers of the municipality and the determination of all matters of policy are vested in the Town Council. Each member of the Town Council, including the Mayor, has one vote.

Among the service which the Town funds in whole, or in part, are the following: 1) administrative, 2) planning and community development, 3) recreation, and 4) sewer.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, intergovernmental grants, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The fund financial statements emphasize the major funds in either the governmental or proprietary categories.

The Town reports the following major governmental fund:

The **General Fund** is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary fund:

The **Sewer Fund** accounts for the provision of sewer services to the residents of the Town. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's sewer function and the other functions of the government. Elimination of these charges would distort the direct costs reported for the various functions concerned.

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for goods and services provided. Operating expenses of the enterprise fund include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Cash Equivalents

The Town considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and investments in the South Carolina Local Government Investment Pool ("SCLGIP") to be cash equivalents. Securities with an initial maturity of more than three months (from when initially purchased) that are not purchased from the SCLGIP are reported as investments.

The Town's restricted accounts are established to account for assets restricted for specific purposes, typically by outside parties or legal agreement. Certain debt agreements require the establishment of an account to hold: 1) maximum annual principle and interest payments, and 2) the next succeeding principal and accrued interest payment.

E. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

Due from other governments consists of local option sales tax, grants and sewer receipts collected not yet received from the County.

Accounts receivable of the General Fund are comprised primarily of franchise taxes. Accounts receivable of the Sewer Fund are comprised primarily of sewer fees collected by the Charleston Water System in June and remitted to the Town in July.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Inventories

Inventories consist of expendable supplies and items acquired for infrastructure repair and maintenance or for possible future expansion. Inventories in governmental funds are stated at average cost. Enterprise fund inventories are stated at lower of average cost or market. The consumption method is used to account for inventories. Under the consumption method, budgetary authority is slated and expenditures are recorded in terms of authority to use or consume inventory items.

G. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the Town as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value on the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of governmental-type activities is not capitalized.

Property, plant, and equipment of the primary government, are depreciated using the straight-line method over the following useful lives:

Asset	Years
Building	10 – 50
Equipment	3 – 15
Sewer system	30 – 50
Vehicles	5 – 12
Furniture and fixtures	3 – 15
Signage	3 – 15
Improvements	10 – 30

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Unused vacation benefits are paid out by the Town when an employee terminates, and any unused sick leave is forfeited. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, when applicable. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund balance is reported in the governmental funds financial statements and generally represents the difference between current assets and current liabilities. Fund balance classifications represent a hierarchy based primarily on the extent to which the Town is bound to honor constraints on specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Non-spendable – Fund balances are classified as non-spendable when amounts cannot be spent because they are either: i) in non-spendable form, or ii) they are legally or contractually required to be maintained intact. The Town includes items that are not expected to be converted to cash such as inventories and prepaid amounts.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Equity (Continued)

Restricted – Fund balances are reported as restricted when their use is restricted for specific purposes including: i) constraints on funds externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or ii) constraints imposed by law through constitutional provisions or enabling legislation.

Committed – Fund balances are reported as committed if their use is for a specific purpose as approved by formal action of the Town Council (majority vote). Amounts committed cannot be used for any other purpose unless the Town Council removes or changes the specific use by approving such action through resolution at a Town Council meeting. Budget resolutions are considered a plan for specific use.

Assigned – Fund balances are reported as assigned when constrained by the Town's intent to use the funds for specific purposes that are neither restricted nor committed. Assigned fund balance includes: i) all remaining amounts (except negative balances) reported in governmental funds, other than the General Fund, that are not classified as non-spendable, restricted or committed, ii) amounts in the General Fund intended for a specific use identified by either the Mayor or Treasurer, and iii) amounts appropriated to eliminate a projected budget deficit in the subsequent year.

Unassigned – Fund balances are reported as unassigned when the balances do not meet any of the above four criterion for classification.

For purposes of fund balance disbursement, unless otherwise approved by the Town Council, the Town will expend restricted fund balance when an expenditure is incurred for which both restricted and unrestricted fund balance is available. Next, the Town will expend committed fund balance when an expenditure is paid for which unrestricted fund balance is available. The Town would next disburse fund balance assigned for purposes of the fund before disbursing other assigned fund balance amounts. In the General Fund, the Town would disburse unassigned fund balance prior to disbursing fund balance assigned for financial policy reserve levels or amounts assigned to eliminate the subsequent year's budget deficit.

Equity is classified as net position and displayed in three components in the government-wide financial statements.

Net investment in capital assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Equity (Continued)

Restricted net position consists of net position with constraints placed on the use either by: 1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

K. Use of Estimates

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

L. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position reports a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position reports a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of fund balance or net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Town reports deferred outflows and inflows of resources resulting from inclusion in the South Carolina Retirement System pension plan. Further information on these amounts can be found in Note 10.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

Budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. Enterprise fund budgets are prepared and utilized as a management tool to access the operations of the enterprise fund. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the General Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CASH

The Town reported the following deposits with financial institutions as of June 30, 2022:

Cash and cash equivalents	\$ 6,122,666
Restricted cash and investments	57,719
Cash deposited with financial institutions	<u>\$ 6,180,385</u>

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. 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. Credit risk is the risk that an issuer of an investment will not fulfill its obligations. State statutes authorize the Town to invest in the following:

- a) Obligations of the United States and agencies thereof;
- b) General obligations of the State of South Carolina or any of its political units;
- c) Savings and loan association deposits to the extent insured by the Federal Deposit Insurance Corporation.

Certificates of deposit and repurchase agreements collateralized by securities of the type described in (a) and (b) above held by a third-party as escrow agent or custodian, of a market value not less than the amount of certificates of deposit and repurchase agreements so secured, including interest.

No-load open or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company, savings and loan association, or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CASH (CONTINUED)

In addition, South Carolina State statutes authorize the Town to invest in the SCLGIP. The SCLGIP is an investment trust fund created pursuant to Section 6-6-10 of the South Carolina Code of Laws, and administered by the State Treasurer, in which public monies under the custody of any political subdivision in excess of current needs may be deposited. The SCLGIP is permitted to purchase obligations of the United States, its agencies and instrumentalities, and any corporation within the United States if such obligations bear any of the three highest ratings of at least two nationally recognized rating services. The SCLGIP is not registered with the Securities and Exchange Commission ("SEC"). It is similar to a money market fund in that it is offered at a stable price and is guided by risk control principles such as significant overnight repurchase agreements for liquidity; attention to credit quality, portfolio diversification and maintenance of a short average maturity of fixed and floating rate investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investment and for External Investment Pools*, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the SCLGIP is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town places no limit on the amount that may be invested in any one issuer.

Custodial credit risk – deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. South Carolina State statutes provide that banks accepting deposits of funds from local government units must furnish an indemnity bond or pledge as collateral obligations of the United States, South Carolina, and political subdivisions of South Carolina, the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation. The Town has no additional custodial credit risk policy other than that stipulated by State law. The Town's cash balances were fully collateralized on June 30, 2022.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2022, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
<i>Non-Depreciable Assets:</i>				
Land	\$ 7,069,879	\$ 3,500	\$ -	\$ 7,073,379
Construction in progress	186,540	14,092	(17,100)	183,532
	<u>7,256,419</u>	<u>17,592</u>	<u>(17,100)</u>	<u>7,256,911</u>
<i>Depreciable Assets:</i>				
Buildings	3,699,215	47,257	-	3,746,472
Equipment	208,367	20,468	(39,601)	189,234
Furniture and fixtures	43,182	15,520	(43,182)	15,520
Improvements	62,324	4,208	-	66,532
Signage	1,240	-	-	1,240
Vehicles	36,081	31,264	-	67,345
Infrastructure	561,490	-	-	561,490
	<u>4,611,899</u>	<u>118,717</u>	<u>(82,783)</u>	<u>4,647,833</u>
<i>Accumulated Depreciation:</i>				
Buildings	(379,973)	(87,962)	-	(467,935)
Equipment	(151,125)	(14,720)	39,601	(126,244)
Furniture and fixtures	(43,182)	(185)	43,182	(185)
Improvements	(49,565)	(2,843)	-	(52,408)
Signage	(1,240)	-	-	(1,240)
Vehicles	(32,698)	(7,746)	-	(40,444)
Infrastructure	(89,840)	(11,230)	-	(101,070)
	<u>(747,623)</u>	<u>(124,686)</u>	<u>82,783</u>	<u>(789,526)</u>
Depreciable assets, net	3,864,276	(5,969)	-	3,858,307
Total Governmental Activities	<u>\$ 11,120,695</u>	<u>\$ 11,623</u>	<u>\$ (17,100)</u>	<u>\$ 11,115,218</u>
Business-Type Activities				
<i>Non-Depreciable Assets:</i>				
Construction in progress	\$ 64,283	\$ 20,346	\$ -	\$ 84,629
<i>Depreciable Assets:</i>				
Equipment	333,283	-	-	333,283
Sewer system	9,780,850	-	-	9,780,850
	<u>10,114,133</u>	<u>-</u>	<u>-</u>	<u>10,114,133</u>
<i>Accumulated Depreciation:</i>				
Equipment	(245,090)	(18,894)	-	(263,984)
Sewer system	(4,339,161)	(203,817)	-	(4,542,978)
	<u>(4,584,251)</u>	<u>(222,711)</u>	<u>-</u>	<u>(4,806,962)</u>
Depreciable assets, net	5,529,882	(222,711)	-	5,307,171
Total Business-Type Activities	<u>\$ 5,594,165</u>	<u>\$ (202,365)</u>	<u>\$ -</u>	<u>\$ 5,391,800</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to function/programs of the Town as follows:

Governmental Activities	
General government	\$ 67,147
Community development	39,053
Parks and public relations	18,486
Total depreciation	<u>124,686</u>
expense governmental	<u>\$ 124,686</u>

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the fiscal year ended June 30, 2022, is as follows:

	<u>June 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2022</u>	<u>Due Within One Year</u>
Governmental Activities:					
Notes payable - direct borrowings	\$ 1,846,344	\$ -	\$ 64,439	\$ 1,781,905	\$ 67,122
Compensated absences	28,414	18,749	8,522	38,641	30,912
Net pension liability	887,406	215,641	390,642	712,405	-
Total Governmental Activities	<u>\$ 2,762,164</u>	<u>\$ 234,390</u>	<u>\$ 463,603</u>	<u>\$ 2,532,951</u>	<u>\$ 98,034</u>
Business-Type Activities:					
Bonds payable	\$ 506,198	\$ -	\$ 29,963	\$ 476,235	\$ 31,340
Total Business-Type Activities	<u>\$ 506,198</u>	<u>\$ -</u>	<u>\$ 29,963</u>	<u>\$ 476,235</u>	<u>\$ 31,340</u>

Notes Payable – Direct Borrowings

Notes payable in the Town's governmental funds on June 30, 2022, are comprised of the following:

6.75% interest note payable to Lowcountry Housing Trust, Inc., in the amount of \$197,340, monthly payments of \$2,941. The note matures in February 2024.

\$ 45,668

4.5% interest note payable to South Carolina Community Loan Fund in the amount of \$1,852,659, monthly payments of \$9,387. The note matures in October 2049.

\$ 1,736,237

NOTES TO FINANCIAL STATEMENTS

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Notes Payable – Direct Borrowings (Continued)

Debt service requirements for the note payable to the Lowcountry Housing Trust, Inc. are as follows:

Year ending June 30,	Principal	Interest	Total
2023	\$ 31,885	\$ 3,082	\$ 34,967
2024	13,783	930	14,713
	\$ 45,668	\$ 4,012	\$ 49,680

Debt service requirements for the note payable to the South Carolina Community Loan Fund are as follows:

Year ending June 30,	Principal	Interest	Total
2023	\$ 35,237	\$ 77,407	\$ 112,644
2024	36,855	75,789	112,644
2025	38,548	74,096	112,644
2026	40,319	72,325	112,644
2027	42,171	70,473	112,644
2028 – 2032	241,757	321,463	563,220
2033 – 2037	302,631	260,589	563,220
2038 – 2042	378,832	184,388	563,220
2043 – 2047	474,220	89,000	563,220
2048 and 2049	145,667	8,336	154,003
	\$ 1,736,237	\$ 1,233,866	\$ 2,970,103

Bonds Payable

The Town's revenue bonds were used to finance construction of the sewer system. The bonds, together with interest thereon, are payable solely from and secured equally and ratably by a lien upon the gross revenues of the sewer system.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Bonds Payable (Continued)

The following is a summary of each long-term bond obligation of the business-type activities of the Town on June 30, 2022:

Series 1994A with interest at 4.50%, maturing in March 2034	\$ 229,975
Series 1994B with interest at 4.50%, maturing in December 2033	32,953
Series 1994C with interest at 4.50%, maturing in March 2034	213,307
	<u>\$ 476,235</u>

Debt service requirements for the bonds payable are as follows:

Year ending June 30,	Principal	Interest	Total
2023	\$ 31,340	\$ 20,788	\$ 52,128
2024	32,780	19,348	52,128
2025	34,285	17,843	52,128
2026	35,860	16,268	52,128
2027	37,508	14,620	52,128
2028 – 2032	215,025	45,615	260,640
2033 and 2034	89,437	3,809	93,246
	<u>\$ 476,235</u>	<u>\$ 138,291</u>	<u>\$ 614,526</u>

NOTE 6. INTERFUND TRANSFERS

The composition of the interfund transfers as of June 30, 2022, is as follows:

Transfer Out	Transfer In	Amount
General Fund	Sewer Fund	\$ 1,014,330

This amount was used to assist the Sewer Fund with operations in the current year.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. NET INVESTMENT IN CAPITAL ASSETS

The net investment in capital assets is calculated as follows as of June 30, 2022:

	<u>Governmental</u>	<u>Business-type</u>
Net capital assets	\$ 11,115,218	\$ 5,391,800
Capital related debt	<u>(1,781,905)</u>	<u>(476,235)</u>
Net investment in capital assets	<u>\$ 9,333,313</u>	<u>\$ 4,915,565</u>

NOTE 8. RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters, which the Town insures against with participation in the South Carolina Insurance Reserve Fund, a state risk pool currently operating as a common risk management and insurance program for local governments. The pool is self-sustaining through member premiums and reinsures through commercial companies for certain claims. The Town pays annual premiums to the pool for the insurance coverage.

In addition, the Town insures the risk of job-related injury or illness to its employees through the South Carolina Insurance Trust (the "Insurance Trust"), a public entity risk pool operating for the benefit of local government. The Town pays an annual premium to the Insurance Trust for its insurance coverage. Additional premium assessments may be required for workers' compensation claims based on the Town's claims experience.

For the above risk management programs, the Town has not significantly reduced insurance coverage from the previous year and settled claims in excess of insurance coverage for the last three years were immaterial. For each of the insurance programs and public entity risk pools in which it participates, the Town has effectively transferred all risk with no liability for unfunded claims, other than ordinary policy deductibles and premium assessments.

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES

Grants – Amounts received or receivable from grantor agencies in previous years are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of the general fund or other applicable funds.

Litigation – The Town is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of the Town's management, based on the advice of legal counsel with respect to litigation, the ultimate disposition of these lawsuits and claims will not materially affect the Town's financial position.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. EMPLOYEE RETIREMENT SYSTEM AND PLANS

Overview:

The South Carolina Public Employee Benefit Authority ("PEBA"), created July 1, 2012 and governed by an 11-member Board, is the state agency responsible for the administration and management of the various retirement systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the South Carolina Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' ("SCRS") five defined benefit pension plans. The Retirement Funding and Administration Act of 2017, which became effective July 1, 2017, increased the employer and employee contribution rates, established a ceiling on the SCRS and Police Officers' Retirement System ("PORS") employee contribution rates, lowered the assumed rate of return, required a scheduled reduction of the funding periods, and addressed various governance issues including the assignment of the PEBA Board as custodian of the retirement trust funds and assignment of the Retirement Systems Investment Commission ("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 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 an Annual Comprehensive Financial Report containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The Annual Comprehensive Financial Report is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 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 Annual Comprehensive Financial Report of the State.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Plan Description:

The Town contributes to the SCRS, a cost-sharing multiple-employer defined benefit pension plan, which was established 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 school districts, 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 described below.

Generally, all employees of covered employers are required to participate in and contribute to the SCRS as a condition of employment. This plan covers general employees, teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the SCRS with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the SCRS 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 final salary. A brief summary of benefit terms for SCRS is presented below.

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 1% or \$500 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. EMPLOYEE RETIREMENT SYSTEM AND 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 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 employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00%. The legislation also increased employer contribution rates beginning July 1, 2017 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 1% increase in the 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 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 contribution rates until the funded ratio is at least 85%. 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%, then the Board, effective on the following July 1, 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%. 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%, then effective on the following July 1, 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%. For the fiscal year ended June 30, 2022, the Town contributed \$68,704 to the SCRS plan.

Required employee contribution rates for the fiscal year ended June 30, 2022, are as follows:

South Carolina Retirement System

Employee Class Two	9.00% of earnable compensation
Employee Class Three	9.00% of earnable compensation

Required employer contribution rates for the fiscal year ended June 30, 2022, are as follows:

South Carolina Retirement System

Employee Class Two	16.41% of earnable compensation
Employee Class Three	16.41% of earnable compensation
Employer incidental death benefit	0.15% of earnable compensation

NOTES TO FINANCIAL STATEMENTS

NOTE 10. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Net Pension Liability and Pension Expense:

The June 30, 2021 (the measurement date) total pension liability, net pension liability, and sensitivity information were determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2020. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2021, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS. The Town's proportionate share of the net pension liability as of June 30, 2021 (the measurement date) was .003292% which was a decrease of .00018% from the prior year.

As of June 30, 2022 (measurement date of June 30, 2021), the net pension liability amounts for the Town's proportionate share of the collective net pension liabilities associated with the SCRS plan are as follows:

<u>System</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Employer's Net Pension Liability</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>	<u>Town's Proportionate Share of the Net Pension Liability</u>
SCRS	\$ 1,814,866	\$ 1,102,461	\$ 712,405	60.7%	0.003292%

For the fiscal year ended June 30, 2022, the Town recognized its proportionate share of collective pension expense of \$52,021 and recognition of deferred amounts from changes in proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions of (\$23,958) for a total of \$28,063 for the SCRS plan.

Actuarial Assumptions and Methods:

Actuarial valuations of the ongoing 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 ended June 30, 2019.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Actuarial Assumptions and Methods (Continued):

The following table provides a summary of the actuarial assumptions and methods used in the June 30, 2021 valuations for SCRS.

	SCRS
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	3.0% to 11.0% (varies by service)
Benefit adjustments	Lesser of 1% or \$500 annually

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

Assumptions used in the determination of the June 30, 2021, total pension liability are as follows:

Former Job Class	Males	Females
General Employees and Members of the General Assembly	2020 PRSC Males multiplied by 95%	2020 PRSC Females multiplied by 94%

Long-Term Expected Rate of Return:

The long-term expected rate of return on pension plan investments is based upon 20-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.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Long-Term Expected Rate of Return (Continued):

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the Plan's 2021 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 7.00% assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75% real rate of return and a 2.25% inflation component.

Allocation/Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Public Entity	46.0%	6.87%	3.16%
Bonds	26.0%	0.27%	0.07%
Private Equity	9.0%	9.68%	0.87%
Private Debt	7.0%	5.47%	0.39%
Real Assets	12.0%		
Real Estate	9.0%	6.01%	0.54%
Infrastructure	3.0%	5.08%	0.15%
	Total expected real return		5.18%
	Inflation for actuarial purposes		2.25%
	Total expected nominal return		7.43%

Discount Rate:

The discount rate used to measure the total pension liability was 7.00%. 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 State Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Sensitivity Analysis:

The following table presents the sensitivity of the net pension liability to changes in the discount rate.

Sensitivity of the Net Position Liability to Changes in the Discount Rate

	1% Decrease (6.%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability	\$ 933,162	\$ 712,405	\$ 528,910

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

On June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to the SCRS pension plan from the following sources:

SCRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,135	\$ 961
Changes of assumptions	38,995	-
Net difference between projected and actual earnings on pension plan investments	-	103,486
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions	77,565	110,944
Employer contributions subsequent to the measurement date	68,704	-
Total	<u>\$ 197,399</u>	<u>\$ 215,391</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 10. EMPLOYEE RETIREMENT SYSTEM AND PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued):

Town contributions subsequent to the measurement date of \$68,704 for the SCRS plan are deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	
2023	\$ (12,152)
2024	(10,176)
2025	(17,302)
2026	(47,066)

Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, which is administered and controlled by the State of South Carolina. The plan, available to all government employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Great-West Retirement Services, P.O. Box 173764, Denver, CO 80217-3764, (under state contract) is the program administrator of the 457 plan as well as the 401(k) plan and 401(k) Roth plan which are also available to Town employees at their option.

NOTE 12. CONTRACT WITH CHARLESTON WATER SYSTEM

On October 23, 2012, the Town entered into a contract with the Commissioners of Public Works ("CPW") of the City of Charleston to amend three previous agreements dated May 1, 2006, February 28, 2003, and October 30, 1990. These agreements cover the transportation and treatment services associated with the wastewater generated by the Hollywood Sewerage System. The term of contract of the agreement extends for a period of 30 years.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HOLLYWOOD, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GAAP BASIS FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local:				
Licenses and permits	\$ 885,000	\$ 885,000	\$ 986,563	\$ 101,563
Franchise fees	273,000	273,000	344,069	71,069
Miscellaneous	164,070	164,070	122,348	(41,722)
State:				
Aid to subdivision	-	-	119,760	119,760
Local option sales tax	705,000	705,000	731,141	26,141
Other state revenue	25,100	25,100	169,004	143,904
Federal:				
Grant proceeds	296,024	296,024	65,114	(230,910)
Total revenues	<u>2,348,194</u>	<u>2,348,194</u>	<u>2,537,999</u>	<u>189,805</u>
Expenditures				
Current:				
General government	1,066,271	1,066,271	876,378	189,893
Parks and public recreation	904,513	904,513	277,541	626,972
Planning and community development	222,010	222,010	181,017	40,993
Capital outlay	-	-	31,264	(31,264)
Debt service:				
Principal	111,000	111,000	64,439	46,561
Interest expense	44,400	44,400	83,176	(38,776)
Total expenditures	<u>2,348,194</u>	<u>2,348,194</u>	<u>1,513,815</u>	<u>834,379</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>1,024,184</u>	<u>1,024,184</u>
Other financing use				
Transfers out	<u>-</u>	<u>-</u>	<u>(1,014,330)</u>	<u>(1,014,330)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>9,854</u>	<u>9,854</u>
Fund balances, beginning of year	<u>4,924,760</u>	<u>4,924,760</u>	<u>4,924,760</u>	<u>-</u>
Fund balances, end of year	<u>\$ 4,924,760</u>	<u>\$ 4,924,760</u>	<u>\$ 4,934,614</u>	<u>\$ 9,854</u>

TOWN OF HOLLYWOOD, SOUTH CAROLINA

REQUIRED SUPPLEMENT INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2022

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY SOUTH CAROLINA RETIREMENT SYSTEM

Plan Year Ended June 30,	Town's proportion of the net pension liability	Town's proportionate share of the net pension liability	Town's covered payroll	Town's share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2021	0.003292%	\$ 712,405	\$ 418,670	170.2%	60.7%
2020	0.003472%	887,406	387,455	229.0%	50.7%
2019	0.004150%	947,645	350,703	270.2%	54.4%
2018	0.002718%	608,960	375,627	162.1%	54.1%
2017	0.003713%	790,477	374,646	211.0%	61.7%
2016	0.003766%	714,240	381,228	187.4%	52.4%
2015	0.002903%	499,800	353,119	141.5%	45.1%
2014	0.002903%	520,695	263,562	197.6%	41.9%

SCHEDULE OF CONTRIBUTIONS SOUTH CAROLINA RETIREMENT SYSTEM

Fiscal Year Ended June 30,	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Town's covered payroll	Contributions as a percentage of covered payroll
2022	\$ 68,704	\$ 68,704	\$ -	\$ 418,670	16.41%
2021	57,343	57,343	-	372,116	15.41%
2020	59,707	59,707	-	387,455	15.41%
2019	51,062	51,062	-	350,703	14.56%
2018	50,936	50,936	-	375,627	13.56%
2017	42,747	42,747	-	374,646	11.41%
2016	42,164	42,164	-	381,228	11.06%
2015	38,490	38,490	-	353,119	10.90%

TOWN OF HOLLYWOOD, SOUTH CAROLINA

NOTES TO REQUIRED SUPPLEMENT INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Actuarial Assumptions:

Calculation date	July 1, 2019
Actuarial cost method	Entry Age Normal
Asset valuation method	Five-year smoothed
Amortization method	Level % of pay
Amortization period	28-year maximum, closed period
Investment return	7.25%
Inflation	2.25%
Salary increases	3.00% plus step-rate increases for members with less than 21 years of service.
Mortality	2016 Public Retirees of South Carolina Mortality Tables for males and females, both projected at scale AA from the year 2016. Male rates multiplied by 100%. Female rates multiplied by 111%.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF HOLLYWOOD, SOUTH CAROLINA

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS* - PROPRIETARY FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Budget		Actual	Variance With Final Budget
	Original	Final		
Operating revenues				
Sewer service charges	\$ 1,054,400	\$ 1,054,400	\$ 898,967	\$ (155,433)
Sewer hookup and tap fees	-	-	32,470	32,470
Miscellaneous	-	-	5,322	5,322
Total operating revenues	1,054,400	1,054,400	936,759	(117,641)
Operating expenses				
Operating costs	368,600	368,600	432,288	(63,688)
Engineering and professional fees	285,572	285,572	11,825	273,747
Other operating and maintenance expenses	374,587	374,587	871,825	(497,238)
Total operating expenses	1,028,759	1,028,759	1,315,938	(287,179)
Operating income (loss)	25,641	25,641	(379,179)	(404,820)
Non-operating expenses				
Interest expense	25,641	25,641	22,165	3,476
Total non-operating expenses	25,641	25,641	22,165	3,476
Income (loss) before transfers	-	-	(401,344)	(401,344)
Transfer in	-	-	1,014,330	1,014,330
Change in net position - budgetary basis	\$ -	\$ -	612,986	\$ 612,986
Depreciation			(222,711)	
Change in net position - GAAP basis			<u>\$ 390,275</u>	

*Annual budget is not prepared on a basis consistent with GAAP

COMPLIANCE SECTION



**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 the Town Council
Town of Hollywood, South Carolina
Hollywood, 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 Hollywood, South Carolina (the "Town") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 12, 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) as a basis for determining 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified

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 financial statements. 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, that are required to be reported under *Government Auditing Standards*.

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 "Mauldin & Jenkins, LLC". The script is cursive and fluid, with the company name written in a professional, yet personal, style.

Savannah, Georgia
October 12, 2022

TOWN OF HOLLYWOOD, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2022

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements
audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

____ Yes X No

Significant deficiencies identified not considered to be material weaknesses?

____ Yes X No

Noncompliance material to financial statements noted?

____ Yes X No

Federal Awards

There was not an audit of major federal award programs as of June 30, 2022, due to the total amount expended being less than \$750,000.

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

None reported.

SECTION III FEDERAL AWARD FINDINGS AND RESPONSES

Not applicable.

SECTION IV SCHEDULE OF PRIOR YEAR FINDINGS

None reported.