Donalds-Due West Water & Sewer Authority
Donalds, South Carolina

Report on Financial Statements

For the fiscal years ended June 30, 2021 and 2020

Financial Section

Independent Auditor's Report

Board of Directors
Donalds-Due West Water & Sewer Authority
Donalds, South Carolina

Report on the Financial Statements

We have audited the accompanying basic financial statements of the business-type activities of the Donalds-Due West Water & Sewer Authority (the Authority), as of and for the years ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority'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 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2021, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Restatement of prior year financial statements

As part of our audit of the June 30, 2021 financial statements, we also audited the adjustment described in Note 16 that was applied to restate the June 30, 2020 financial statements. In our opinion, such adjustment is appropriate and has been properly applied. Our opinion is not modified with respect to this matter.

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 the Employer's proportionate share of the net pension liability and schedule of the Employer'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 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 inquires, 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 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 Authority's basic financial statements. The supplementary data information, as listed in the table of contents, is presented for additional analysis and is not a required part of the basis financial statements.

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

Prior Period Financial Statements

The financial statements of the Authority, as of June 30, 2020, were audited by other auditors whose report dated January 25, 2021, expressed an unmodified opinion on those financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Manley Garvin, LLC

Greenwood, South Carolina
September 17, 2021

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

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial condition is strong. The following are key financial highlights:

- Total assets and deferred outflows of resources at year-end were approximately $7,255,000 and total liabilities and deferred inflows of resources were approximately $1,092,000. Of the total net position, approximately $1,008,000 was unrestricted and was available to support short-term operations
- Total revenues were approximately $1,316,000, with approximately $1,219,000 from customer billings.
- Operating expenses before depreciation were approximately $1,049,000, of which approximately $594,000 was related to purchased water and salaries.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, a statement of cash flows, and notes to the financial statements. The statement of net position presents the financial position of the Authority on a full accrual historical cost basis. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning. Comments regarding year-to-year variances are included in each section by the name of the statement or account.

Condensed Financial Analysis

	June 30,		Variance	
			Dollars	Percentage
	2021	2020	2021-2020	2021-20
Current assets	$ 1,561,855	$ 1,387,931	$ 173,924	12.5%
Noncurrent assets	399,630	354,125	45,505	12.8%
Capital assets - net	5,218,865	5,444,054	(225,189)	-4.1%
Total Assets	**7,180,350**	**7,186,110**	**(5,760)**	-0.1%
Deferred Outflows of Resources				
Deferred outflows related to pension	74,375	48,499	25,876	53.4%
Total deferred outflows of resources	**74,375**	**48,499**	**25,876**	53.4%
Current Liabilities	185,980	176,778	9,202	5.2%
Long term liabilities	896,916	886,830	10,086	1.1%
Total liabilities	**1,082,896**	**1,063,608**	**19,288**	1.8%
Deferred Inflows of Resources				
Deferred inflows related to pension	**9,569**	**9,041**	**528**	5.8%
Net Position				
Net investment in capital assets	4,754,559	4,951,278	(196,719)	-4.0%
Restricted	399,630	354,125	45,505	12.8%
Unrestricted	1,008,071	856,557	151,514	17.7%
Total net position	**$ 6,162,260**	**$ 6,161,960**	**$ 300**	0.0%

Total assets are composed primarily of capital assets and cash as of June 30, 2021.

Total liabilities are composed primarily of customer deposits, net pension liability and revenue bonds payable as of June 30, 2021.

The Authority restricted approximately $400,000 of net assets capital outlay and debt service.

The following comparative schedule presents a summary of the Authority's revenues and expenses.

Changes in Net Position

	June 30,	
	2021	**2020**
Operating Revenues		
Water revenue, net	$ 1,219,390	$ 1,154,243
Tap fees	27,100	46,915
Late fees/cut-on fees	39,103	36,992
Sewer revenue	16,401	15,141
Miscellaneous operating revenues	11,018	10,329
Total revenues	**$ 1,313,012**	**$ 1,263,620**
Operating Expenses		
Salaries	$ 213,483	$ 205,156
Employees/ benefits		
Group health insurance	35,363	36,122
Retirement expense	44,250	43,078
Billing and collection fees	19,213	21,581
Utilities	11,820	13,490
Purchased water	380,645	411,476
Repairs and maintenance	74,079	77,233
Materials and supplies	98,303	52,669
Professional fees	19,500	18,663
Sewer service charges	15,803	18,349
Insurance	20,993	18,230
Gasoline and oil	17,810	15,712
Payroll taxes	15,454	15,694
Credit card processing fees	12,285	10,928
Directors' fees	10,800	10,800
Tap installation	10,000	10,575
Telephone	8,883	9,849
Water sampling	8,272	9,170
Office supplies	4,175	8,243
Computer expenses	10,094	11,214
Training	454	5,176
Licenses and permits	10,277	14,273
Dues and subscriptions	3,186	3,756
Uniforms	1,312	1,480
Advertising	2,347	1,811
Office expense	548	473
Miscellaneous	-	526
	1,049,349	1,045,727
Operating income (loss) before depreciation	263,663	217,893
Depreciation	240,889	244,608
Operating income (loss)	22,774	(26,715)
Nonoperating revenues (expenses)		
Interest income	2,695	5,153
Gain/(loss) on disposal of capital assets	-	8,259
Interest expense	(25,169)	(26,765)
Total nonoperating revenues (expenses)	(22,474)	(13,353)
Capital Contribution	-	120,000
Increase (decrease) in net position	300	79,932
Net Position - beginning of year, as originally stated	6,161,960	6,053,783
Restatement (See Note 16)	-	28,245
Net position, beginning of year, as restated	6,161,960	6,082,028
Net Position - ending	**$ 6,162,260**	**$ 6,161,960**

The Authority generated approximately $1,313,000 and $1,264,000 from service revenue for the years ended June 30, 2021 and 2020, respectively.

The largest expenses of the Authority were purchased water and salaries of approximately $594,000 and $617,000, for the years ended June 30, 2021 and 2020, respectively.

OTHER SELECTED INFORMATION

Ratio of operating revenue to:	2021	2020
Operating expenses	1.02	0.98
Operating expenses net of depreciation	1.25	1.20
Total Assets	0.18	0.18
Net Position	0.21	0.21

CASH FLOW ACTIVITY

The following table shows the Authority's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues.

	2021	2020
Total operating revenues	$ 1,313,012	$ 1,263,620
Net cash provided by operations	244,702	222,284
Net cash provided by operations as a % of operating revenue	18.6%	17.6%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2021, the Authority had invested approximately $5,219,000, net of depreciation, in capital assets.

Capital Assets
(net of depreciation)

			Variance	
			Dollars	Percentage
	2021	2020	2021-2020	2021-2020
Land and right-of-ways	$ 252,712	$ 252,712	$ -	0.0%
Buildings and improvements	171,801	171,801	-	0.0%
Machinery and equipment	27,020	27,020	-	0.0%
Vehicles	102,147	102,147	-	0.0%
Infrastructure	9,779,004	9,763,304	15,700	0.2%
Accumulated depreciation	(5,113,819)	(4,872,930)	(240,889)	4.9%
Net	$ 5,218,865	$ 5,444,054	$ (225,189)	-4.1%

More detailed information about the Authority's capital assets is presented in Note 6 to the financial statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Matthew Cox, General Manager, 134 N. Main St., Donalds, South Carolina 29638.

Donalds-Due West Water & Sewer Authority

Statements of Net Position

June 30, 2021 and 2020

	2021	2020
Assets and Deferred Outflows of Resources		
Current assets		
Cash	$ 1,160,028	$ 946,202
Investments	224,745	305,842
Accounts receivable, net	162,856	120,809
Accrued interest receivable	-	176
Prepaid expenses	14,226	14,902
Total current assets	1,561,855	1,387,931
Noncurrent assets		
Cash, restricted	285,038	240,797
Investments, restricted	114,592	113,328
Capital assets		
Land and right-of-ways	252,712	252,712
Buildings and improvements	171,801	171,801
Machinery & equipment	27,020	27,020
Vehicles	102,147	102,147
Infrastructure	9,779,004	9,763,304
Less accumulated depreciation	(5,113,819)	(4,872,930)
Total noncurrent assets	5,618,495	5,798,179
Total assets	7,180,350	7,186,110
Deferred outflows of resources		
Deferred outflows - pension	74,375	48,499
Total deferred outflows of resources	74,375	48,499
Total assets and deferred outflows of resources	$ 7,254,725	$ 7,234,609
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Accounts payable	$ 39,953	$ 35,486
Accrued wages and payroll liabilities	8,209	12,563
Accrued compensated absences	2,323	-
Accrued interest payable	542	567
Customer deposits	104,050	98,790
Accrued director's fees	900	900
Revenue bonds	30,003	28,472
Total current liabilities	185,980	176,778
Long-term liabilities		
Accrued compensated absences	774	3,043
Net pension liability	461,839	419,483
Revenue bonds	434,303	464,304
Total long-term liabilities	896,916	886,830
Total liabilities	1,082,896	1,063,608
Deferred inflows of resources		
Deferred inflows - pension	9,569	9,041
Total deferred inflows of resources	9,569	9,041
Net position		
Net investment in capital assets	4,754,559	4,951,278
Restricted	399,630	354,125
Unrestricted	1,008,071	856,557
Total net position	6,162,260	6,161,960
Total liabilities, deferred inflows of resources and net position	$ 7,254,725	$ 7,234,609

See Notes to Financial Statements

Donalds-Due West Water & Sewer Authority

Statements of Revenues, Expenses, and Changes in Net Position

For the years ended June 30, 2021 and 2020

	2021	2020
Operating revenues		
Water revenue	$ 1,219,390	$ 1,154,243
Tap fees	27,100	46,915
Late fees/cut-on fees	39,103	36,992
Sewer revenue	16,401	15,141
Miscellaneous operating revenues	11,018	10,329
	1,313,012	1,263,620
Operating expenses before depreciation		
Salaries	213,483	205,156
Employees' benefits		
Group health insurance	35,363	36,122
Retirement expense	44,250	43,078
Billing and collection fees	19,213	21,581
Utilities	11,820	13,490
Purchased water	380,645	411,476
Repairs and maintenance	74,079	77,233
Materials and supplies	98,303	52,669
Professional fees	19,500	18,663
Sewer service charges	15,803	18,349
Insurance	20,993	18,230
Gasoline and oil	17,810	15,712
Payroll taxes	15,454	15,694
Credit card processing fees	12,285	10,928
Directors' fees	10,800	10,800
Tap installation	10,000	10,575
Telephone	8,883	9,849
Water sampling	8,272	9,170
Office supplies	4,175	8,243
Computer expenses	10,094	11,214
Training	454	5,176
Licenses & permits	10,277	14,273
Dues & subscriptions	3,186	3,756
Uniforms	1,312	1,480
Advertising	2,347	1,811
Office expense	548	473
Miscellaneous	-	526
	1,049,349	1,045,727
Operating income (loss) before depreciation	263,663	217,893
Depreciation	240,889	244,608
Operating income (loss)	22,774	(26,715)
Nonoperating revenues (expenses)		
Interest income	2,695	5,153
Gain/(loss) on disposal of capital assets	-	8,259
Interest expense	(25,169)	(26,765)
Total nonoperating revenues (expenses)	(22,474)	(13,353)
Capital contributions	-	120,000
Increase (decrease) in net position	300	79,932
Net position, beginning of year, as originally stated	6,161,960	6,053,783
Restatement, (See Note 16)	-	28,245
Net position, beginning of year, as restated	6,161,960	6,082,028
Net position, end of year	**$ 6,162,260**	**$ 6,161,960**

See Notes to Financial Statements

Donalds-Due West Water & Sewer Authority

Statements of Cash Flows

For the years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Cash received from charges, fees and other	$ 1,276,049	$ 1,279,561
Cash paid to employees	(200,800)	(191,685)
Cash paid to suppliers	(830,547)	(865,592)
Net cash provided by (used for) operating activities	244,702	222,284
Cash flows from investing activities		
Interest on investments	2,871	5,349
Proceeds from sale of investments	79,833	414,009
Purchases of investments	-	(418,957)
Net cash provided by (used for) investing activities	82,704	401
Cash flows from capital and related financing activities		
Purchases of capital assets	(15,700)	(271,844)
Proceeds from sale of capital assets	-	8,259
Principal paid on revenue bonds	(28,470)	(27,017)
Capital contributions	-	120,000
Interest paid	(25,169)	(26,647)
Net cash provided by (used for) capital and related financing activities	(69,339)	(197,249)
Net increase (decrease) in cash	258,067	25,436
Cash and restricted cash, beginning of year	1,186,999	1,161,563
Cash and restricted cash, end of year	**$ 1,445,066**	**$ 1,186,999**
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	$ 22,774	$ (26,715)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	240,889	244,608
Changes in deferred and accrued amounts		
Accounts receivable, net	(42,047)	20,304
Prepaid expenses	676	(2,667)
Deferred outflows of resources	(25,876)	6,345
Accounts payable	4,467	(29,274)
Accrued wages and liabilities	(4,354)	(1,955)
Customer deposits	5,260	7,375
Other accrued liabilities	(25)	(265)
Accrued compensated absences	54	(842)
Net pension obligation	42,356	12,083
Deferred inflows of resources	528	(6,713)
Net cash provided by (used for) operating activities	$ 244,702	$ 222,284

See Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Donalds-Due West Water and Sewer Authority is a political subdivision of the State of South Carolina created by Act No. 1675 of 1972, Joint Acts and Resolutions of the General Assembly and empowered thereby to own and operate both water and sewer systems.

Reporting Entity

This report includes all operations of the Authority for which the Authority's Governing Board has oversight responsibility. The following criteria were used in determining the operations for which an oversight responsibility existed:

1. Financial interdependency
2. Selection of a governing authority
3. Designation of management
4. Ability to significantly influence operations
5. Accountability for fiscal matters

The Authority's significant accounting policies are as follows:

Basis of presentation and accounting:

The accrual basis of accounting is utilized by the Authority. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (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 accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets, restricted, and unrestricted components.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services. The principal operating revenues of the Authority are charges to customers for services. Operating expenses for the Authority include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note 1. Summary of Significant Accounting Policies, Continued

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Statement of cash flows:

For purposes of reporting changes in cash flows, the Authority considers all liquid non-equity investments with an original maturity of three months or less to be cash.

Cash and Cash equivalents:

For purposes of reporting cash flows, the Authority's cash consists of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

Investments:

Investments are stated at fair value. State statutes authorize the Authority to invest in obligations of the U.S. Treasury, commercial paper, corporate and municipal bonds, certificates of deposit, repurchase agreements and the SC Local Government's Investment Pool.

Receivables:

All trade receivables are shown net of an allowance for uncollectible. Trade accounts receivable consist primarily of water and sewer services receivables for which amounts in excess of ninety days are included in the allowance for uncollectible.

Receivables due from other governments, if any, due in the next year are reflected as current due from other governments and are recorded at their net realizable value.

Capital assets:

Capital assets, including additions and betterments, are carried at cost, if purchased or constructed. Minimum capitalization costs are $5,000 for all categories of capital assets. Assets acquired through contributions from other customers, or other governmental entities are capitalized at their acquisition value. Maintenance and repair costs and minor replacements not resulting in betterments are charged to expenses when incurred. Depreciation is provided for, principally using the straight-line method, over the estimated useful lives of the assets.

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' 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.

Note 1. Summary of Significant Accounting Policies, Continued

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.

Compensated absences:

Vested or accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Full-time employees of the Authority accumulate based on longevity of service, ranging from 5 days for employment up to 2 years of service to a maximum of 20 days for 20+ years of service. On termination and retirement, employees are paid for unused, accumulated vacation. These amounts are shown as both current and long-term liabilities on the Statement of Net Position. The liability for accumulated vacation leave was approximately $3,000 at June 30, 2021.

Net position:

Net position consists of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt service; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation, net of related debt. Restricted for capital activity and debt service consists of net position for which constraints are placed thereon by the governing board, external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation. Unrestricted consists of all other net position not included in the above categories.

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 Authority's financial position and results of operations and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Note 2. Cash and Time Deposits

Custodial credit risk – deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As June 30, 2021, the carrying amount of the Authority's deposits was $1,444,212 and the bank balance was approximately $1,499,749. From time to time, the bank balance may exceed amounts covered by federal depository insurance. As of June 30, 2021, all of the Authority's deposits were covered by federal depository insurance or by collateral held in the pledging financial institution's trust department in the Authority's name. Petty cash of approximate $854 was kept on hand at the Authority's premises as of June 30, 2021.

Note 3. Investments and Funds

State statutes authorize the Authority to invest in the following:

(1) Obligations of the United States and agencies thereof
(2) General obligations of the State of South Carolina
(3) (a) Accounts or certificates of deposit of financial institutions to the extent that the same are insured by an agency of the federal government
(b) Certificates of deposit or accounts that are collaterally secured by securities of the type described in (1) and (2) above with the collateral security not less than the amount of the account or certificate including interest
(c) Repurchase agreements when collateralized by securities as stipulated above
(d) No load open end or closed end management type of investment companies or investment trusts registered under the Investment Company Act of 1940 where a bank or trust company is making investments for the fund in securities which qualify as referenced above and whose objective is to maintain a constant net position value of one dollar.

As of June 30, 2021, the Authority had the following investments:

		Investment maturities (in years)			
Investment Type	Fair Value	Less than 1	Greater than 1, less than 5	Greater than 5, less than 10	Greater than 10
Certificates of deposit	$ 114,592	$ 58,193	$ 56,399	$ -	$ -
Cash and sweep balances	224,745	224,745	-	-	-
	$ 339,337	**$ 282,938**	**$ 56,399**	**$ -**	**$ -**

As of June 30, 2020, the Authority had the following investments:

		Investment maturities (in years)			
Investment Type	Fair Value	Less than 1	Greater than 1, less than 5	Greater than 5, less than 10	Greater than 10
Certificates of deposit	$ 194,287	$ 80,959	$ 113,328	$ -	$ -
Cash and sweep balances	224,883	224,883	-	-	-
	$ 419,170	**$ 305,842**	**$ 113,328**	**$ -**	**$ -**

Note 3. Investments and Funds

Establishment of funds – The terms of the bond ordinances of 1974 authorizing the waterworks system revenue bonds require that all revenues from the operation of the system shall be deposited in a gross revenue fund account and then allocated in the form of monthly transfers to various fund accounts in the following order:

1. Bond and interest fund account
2. Cushion fund account
3. Operation and maintenance fund account
4. Depreciation fund account
5. Contingent fund account

Bond and interest fund:

By agreement between Donalds-Due West Water and Sewer Authority and the USDA – Rural Development, the principal and interest payments on the revenue bonds are being made monthly rather than annually as originally provided in the bond resolution.

During each of the years ended June 30, 2021 and 2020, $53,664 and $53,664 respectively, was transferred to the bond interest account from the gross revenue account. Principal and interest paid from this account for each year totaled $53,664, leaving a balance in the bank account of $29,586 at June 30, 2021 and $6,250 at June 30, 2020.

Cushion fund:

The asset of the cushion fund at June 30, 2021, consisted of $56,399 in a certificate of deposit which consist of certificates of deposit with an interest rate of 1.30% and due to mature during fiscal year 2023. Under the terms of the bond ordinance, the monthly deposit into the account shall not be less than one-tenth of the required monthly deposit to be made into the bond and interest account and shall continue to be made until the cash and securities on deposit shall equal at least the highest combined principal and interest requirements on the bonds in any subsequent calendar year. The cushion fund at June 30, 2021 was funded in accordance with the terms of the bond ordinance.

Operation and maintenance fund:

The bond ordinance provides that there shall be deposited into the operation and maintenance account that sum which has been currently determined to be the cost of operating and maintaining the system for next ensuing month. At June 30, 2021, the assets of the operations and maintenance fund consisted of cash in a bank account with a balance of $98,811 and cash on hand of $854. The operating and maintenance fund at June 30, 2021 was funded in accordance with the terms of the bond ordinance.

Depreciation fund:

The bond ordinance specifies that there be transferred monthly from the gross revenue account, one-twelfth of the sum determined to be needed for the depreciation account to restore depreciated and obsolete items of the system for the then current fiscal year. As of June 30, 2021, the assets of the depreciation fund consisted of cash in a savings account of $141,652 and $32,843 in a certificate of deposit with an interest rate of 1.3% and set to mature during fiscal year 2022.

Note 3. Investments and Funds, Continued

Contingent fund:

Under provisions of the bond ordinance, there is to be transferred monthly from revenues of the system to the contingent account, one-twelfth of the sum determined to be needed for the then current fiscal year to build up a reasonable reserve for improvements, betterments, and extensions to the system, other than the expense which are reasonably necessary to maintain the system in good repair and working order, and to defray the cost of unforeseen contingencies. The assets of the contingent fund at June 30, 2021 consisted of cash in a savings account of $15,496 and $4,824 in a certificate of deposit with an interest rate of 1.30% and set to mature during fiscal year 2022.

Customer deposits:

The Authority requires customers to make deposits at the time of connection to the system. These deposits are designed to ensure payment of final service billings and to protect the Authority against damage to equipment located on the customer's property. When a customer withdraws from the system, this deposit is refunded less the amount of any charges outstanding against the account. Customer deposits held by the Authority are still owned by its customers; thus, the customer deposits are classified as restricted assets and reported separately on the balance sheet. The Authority has cash deposited in restricted accounts more than the customers deposits, thus the account is funded properly.

Construction fund:

The Authority has established an account that the Authority has restricted to be used for construction. The account had a balance of $11,307 as of June 30, 2021, to be used to pay for construction payments after any grant funds are expensed.

Note 4. Accounts Receivable

The Authority uses the allowance for doubtful accounts method to write-off accounts estimated to be uncollectible. The following is a summary of receivables as of June 30:

	2021	2020
Trade accounts	$ 281,032	$ 123,044
Less: Allowance for doubtful accounts	(118,176)	(2,235)
Net accounts receivable	$ 162,856	$ 120,809

Note 5. Restricted Assets

For the statement of cash flows, cash and cash equivalents includes restricted assets that are cash and cash equivalents and unrestricted assets that are cash and cash equivalents. The cash and cash equivalents as of June 30, 2021 and 2020 are as follows:

	2021	2020
Unrestricted assets		
Cash and cash equivalents	$ 1,160,028	$ 946,202
Restricted assets		
Cash and cash equivalents		
Bond and interest account	29,586	6,250
Depreciation account	141,652	129,516
Contingent account	15,495	14,281
Customer deposits	86,570	79,015
Construction account	11,307	11,307
Grant account	428	428
Total restricted assets-cash and cash equivalents	285,038	240,797
Total cash and cash equivalents	$ 1,445,066	$ 1,186,999

Note 6. Capital Assets

The following is a summary of the changes in capital assets:

	Balance June 30, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Capital Assets, Not Being Depreciated					
Land	$ 58,293	$ -	$ -	$ -	$ 58,293
Rights-of-way	194,419	-	-	-	194,419
Total capital assets, not being depreciated	252,712	-	-	-	252,712
Capital Assets, Being Depreciated					
Water system	9,556,689	15,700	-	-	9,572,389
Sewer system	82,445	-	-	-	82,445
Old Due West water system	124,170	-	-	-	124,170
Buildings	171,801	-	-	-	171,801
Vehicles	102,147	-	-	-	102,147
Office equipment	8,113	-	-	-	8,113
Machinery & equipment	18,907	-	-	-	18,907
	10,064,272	15,700	-	-	10,079,972
Accumulated Depreciation					
Water system	4,536,427	220,872	-	-	4,757,299
Sewer system	39,849	1,649	-	-	41,498
Old Due West water system	124,170	-	-	-	124,170
Buildings	99,665	6,328	-	-	105,993
Vehicles	58,021	8,859	-	-	66,880
Office equipment	7,592	481	-	-	8,073
Machinery & equipment	7,206	2,700	-	-	9,906
	4,872,930	240,889	-	-	5,113,819
Total capital assets, being depreciated net	5,191,342	(225,189)	-	-	4,966,153
Total capital assets, net	$ 5,444,054	$ (225,189)	$ -	$ -	$ 5,218,865

Note 6. Capital Assets, Continued

The following is a summary of the estimated useful lives of the system and equipment used to determine depreciation:

Buildings & improvements	10 to 40 years
Office equipment	5 years
Machinery & Equipment	5-7 years
Vehicles	5 to 7 years
Water and sewer lines	10 to 50 years

Statutory liens upon the system and its revenues have been created under the terms of the ordinances of the revenue bonds outstanding. These liens will remain in effect until such time as all interest and principal payments have been made.

Note 7. Long-term Debt

The Authority's liability on revenue bonds consists of the following:

	2021	2020
Revenue bonds:		
$896,000 – 5.25% waterworks system revenue bonds of 1995 payable in monthly installments of $4,472.00 (principal and interest) through January 2033.	$ 464,306	$ 492,776

Maturities of long-term debt for each of the years subsequent to June 30, 2021, are as follows:

	Revenue Bonds		Total
	Principal	Interest	Requirement
2022	$ 30,003	$ 23,661	$ 53,664
2023	31,617	22,047	53,664
2024	33,317	20,347	53,664
2025	35,109	18,555	53,664
2026	36,997	16,667	53,664
2027-2031	217,061	51,259	268,320
2032-2036	80,202	3,506	83,708
Totals	$ 464,306	$ 156,042	$ 620,348

The following is a summary of changes in long-term liabilities – bonds payable:

	Total
Balance – June 30, 2019	$ 519,985
Retirements	(27,209)
Balance - June 30, 2020	$ 492,776
Retirements	(28,470)
Balance - June 30, 2021	$ 464,306

Note 7. Long-term Debt, Continued

As stated previously, a statutory lien upon the system and its revenues has been created under the terms of the ordinances of the 1974 revenue bond issue. In addition, the $896,000 revenue bond issue is secured by a pledge of revenue and statutory lien on the waterworks system junior no other bond issue. This lien will remain in effect until such time as all interest and principal payments have been made.

Note 8. Long-term Liabilities

Compensated absences liability activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long-Term Portion
Compensated absences*	$ 3,043	$ 54	$ -	$ 3,097	$ 2,323	$ 774

*Changes in accrued compensated absences are reported as a net change

Note 9. Net Position

Net position represents the difference between assets and liabilities. The restricted net position amounts were as follows:

Net investment in capital assets:	2021	2020
Net property, plant, and equipment in service	$ 5,218,865	$ 5,444,054
Less: Revenue bonds payable	464,306	492,776
Net invested in capital assets	4,754,559	4,951,278
Restricted for capital activity, debt service and customer deposits:		
Restricted cash and cash equivalents	285,038	240,797
Restricted investments	114,592	113,328
Total restricted for capital activity, debt service and customer deposits:	$ 399,630	$ 354,125
Unrestricted	$ 1,008,071	$ 856,557
Total net position	$ 6,162,260	$ 6,161,960

Note 10. Pension Plan

Description of the entity:

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, 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 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. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for 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, 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.

Plan description:

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 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.

Note 10. Pension Plan, Continued

Membership:

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under SCRS is presented below.

SCRS - 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 and 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 annual salary. A brief summary of the benefit terms for SCRS 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 years 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.

Note 10. Pension Plan, Continued

<u>*Contributions:*</u>

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 percent for SCRS. The legislation also increased employer contribution rates beginning July 1, 2017 for SCRS 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 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 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 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 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 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 percent.

Required <u>**employee**</u> contribution rates for client’s fiscal year 2021 are as follows:

<u>**SCRS**</u>

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

Required <u>**employer**</u> contributions for client’s fiscal year 2021 are as follows:

<u>**SCRS**</u>

Employer Class Two	15.41% of earnable compensation
Employer Class Three	15.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

Contributions to the SCRS pension plan from the Authority were approximately $32,000 for the year ended June 30, 2021.

Note 10. Pension Plan, Continued

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 SCRS was most recently issued for the period ending June 30, 2019 for first use in the July 1, 2021 actuarial valuation.

The June 30, 2019, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2011. The TPL was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2020, using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2020.

	SCRS
Actuarial cost method	Entry age normal
Investment rate of return	7.25%
Projected salary increases	3.0% to 12.5% (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 assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the SCRS' 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, 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%

Note 10. Pension Plan, Continued

The NPL is calculated for the SCRS and represents the TPL determined in accordance with GASB No. 67 less the SCRS' fiduciary net position. NPL totals as of June 30, 2020, are as follows:

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

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

Net pension liability:

At June 30, 2021, the Authority reported a liability of approximately $462,000 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 Authority's proportionate share of the NPL was based on a projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the Authority's proportionate share of the SCRS plan was .00181%.

Pension expense:

For the year ended June 30, 2021, the Authority recognized pension expense for the SCRS plan of approximately $49,000.

Deferred inflows of resources and deferred outflows of resources:

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

	SCRS	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 5,329	$ 1,746
Changes of assumptions	566	-
Net difference between projected and actual earnings on pension plan investments	33,972	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	2,120	7,823
Authority contributions subsequent to the measurement date	32,388	-
Total	$ 74,375	$ 9,569

The approximately $32,000 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date for the SCRS plan during the year ended June 30, 2021 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2022.

Note 10. Pension Plan, 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:

Year ended June 30:		SCRS
2022	$	3,682
2023		9,853
2024		10,213
2025		8,670
	$	32,418

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 represents 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 2020 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 on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity:	**51.0%**		
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%
Real Assets:	**12.0%**		
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%
Opportunistic:	**8.0%**		
Global Tactical Asset Allocation	7.0%	3.56%	0.25%
Other Opportunistic Strategies	1.0%	4.41%	0.04%
Credit:	**15.0%**		
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%
Rate Sensitive:	**14.0%**		
Core Fixed Income	13.0%	1.60%	0.21%
Cash and Short Duration (Net)	1.0%	0.56%	0.01%
Total Expected Real Return	100.0%		5.80%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			8.05%

Note 10. Pension Plan, Continued

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 SCRS' 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 Authority calculated using the discount rate of 7.25 percent, as well as what the Authority's NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	$ 572,392	$ 461,839	$ 369,525

Additional financial and actuarial information:

Information contained in these Notes to the Schedule of Employer and Nonemployer Allocations and Schedules of Pension Amounts by Employer (Schedules) was compiled from the SCRS' 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 SCRS' CAFR.

Note 11. Fair Value Measurements

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2021. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

Note 11. Fair Value Measurements, Continued

The Authority's investments measured and reported at fair value are classified according to the following hierarchy:

Level 1: Investments reflect prices quoted in active markets.

Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3: Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk. Assets classified as Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

The Authority's investments within the fair value hierarchy at June 30, 2021:

Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Certificates of deposit	$ 114,592	$ -	$ 114,592	$ -
Cash and sweep balances	224,745	-	224,745	-
	$ 339,337	**$ -**	**$ 339,337**	**$ -**

The Authority's investments within the fair value hierarchy at June 30, 2020:

Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Certificate of deposits	$ 194,287	$ -	$ 194,287	$ -
Cash and sweep balances	224,883	-	224,883	-
	$ 419,170	**$ -**	**$ 419,170**	**$ -**

Note 12. Contingencies, Risks and Uncertainties

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against casualty risks, the Authority is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments in South Carolina.

The Authority acquires insurance from the State Accident Fund for job related injury and illness (workers' compensation) to its employees.

The Authority continues to carry commercial insurance for all other risks of loss.

The Authority has obtained insurance on the assets of the Authority with replacement coverage up to approximately $3,362,000 on the buildings and personal property. Also, the Authority, has tort liability coverage up to $1,000,000. The Authority also has fidelity bond coverage which makes the Authority in compliance with its bond covenant. The Authority has a $600,000 fidelity bond for coverage through September 30, 2021. The Authority also carries basic worker's compensation coverage on all employees.

Note 13. Commitments

In past years, the Authority entered into a maintenance agreement with a service company related to its elevated water tanks. Under the agreement, the company will repair, paint and maintain the tanks of the Authority. The agreement expense was $35,086 and $33,050 for the years ended June 30, 2021 and 2020, respectively. For future years, the maintenance company must notify the Authority within 90 days of the expiration date of the current contract of an increase in fees. The maintenance company may raise the fee by up to 5% for any future years.

Note 14. Department of Health and Environmental Control Violation

The Authority had elevated levels of lead results from test of lead in water during the year ended June 30, 2020 that were in violation of DHEC regulations and was subject to a fine from DHEC. The Authority paid a fine of $4,000 during the fiscal year ended June 30, 2020. The Authority's water supplier added an additional chemical that brought the Authority's lead level back into compliance during the fiscal year ended June 30, 2021.

Note 15. Novel Coronavirus (COVID-19)

The 2019 novel coronavirus ("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 Authority's and its customer's costs, demand for the Authority's products and services, and the U.S. economy. These conditions could adversely affect the Authority's business, financial condition and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the Authority's operations or other businesses of the Authority's customers and suppliers, which could significantly disrupt the Authority's operations. The extent of the adverse impact of the COVID-19 outbreak on the Authority can't be predicted at this time.

Note 16. Restatement

Beginning net position for the year ended June 30, 2020 has been increased by $28,245, from $6,053,783 to $6,082,028, and the change in net position has been increased by $3,131, from $76,801 to $79,932 due to an understatement of deferred outflows of resources related to pension.

Note 17. Subsequent Events

In preparing these financial statements, the Authority's management has evaluated events and transactions for potential recognition or disclosure through the date of the independent auditor's report, the date the financial statements were available for issuance.

Required Supplementary Information

Donalds-Due West Water & Sewer Authority

Required Supplementary Information

Schedule of the Employer's Proportionate Share of the Net Pension Liability

For the year ended June 30, 2021

	SCRS			
	2021	**2020**	**2019**	**2018**
Employer's proportion of the net pension liability	0.00181%	0.00184%	0.00182%	0.00187%
Employer's proportionate share of the net pension liability	$ 461,839	$ 419,483	$ 407,400	$ 421,192
Employer's covered payroll during the measurement period	$ 201,647	$ 193,991	$ 188,416	$ 182,952
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	229.03341%	216.23838%	216.22368%	230.21995%
Plan fiduciary net position as a percentage of the total pension liability	50.70%	54.40%	54.10%	53.34%

This schedule is presented to illustrate the requirements to show information for 10 years. Until 10 years of information is available, information is shown only for those years which information was available.

Donalds-Due West Water & Sewer Authority

Required Supplementary Information

Schedule of the Employer's Contributions

For the year ended June 30, 2021

	SCRS			
	2021	**2020**	**2019**	**2018**
Contractually required contribution	$ 32,388	$ 31,376	$ 28,245	$ 25,550
Contributions in relation to the contractually required contribution	32,388	31,376	28,245	25,550
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 208,159	$ 201,647	$ 193,991	$ 188,416
Contributions as a percentage of covered payroll	15.55926%	15.55986%	14.55995%	13.56042%

This schedule is presented to illustrate the requirements to show information for 10 years. Until 10 years of information is available, information is shown only for those years which information was available.

Supplementary Data Information

Donalds-Due West Water & Sewer Authority

Schedule 1 - Budgetary Comparison Schedule

For the year ended June 30, 2021

	Original and Final Budget	Actual	Variance favorable (unfavorable)
Operating revenues			
Water revenue	$ 1,220,000	$ 1,219,390	$ (610)
Tap fees	20,000	27,100	7,100
Late fees/cut-on fees	41,000	39,103	(1,897)
Sewer revenue	16,000	16,401	401
Miscellaneous operating revenues	12,000	11,018	(982)
	1,309,000	1,313,012	4,012
Operating expenses before depreciation			
Salaries	221,102	213,483	7,619
Employees' benefits			
Group health insurance	39,500	35,363	4,137
Retirement expense	35,050	44,250	(9,200)
Billing and collection fees	19,500	19,213	287
Utilities	14,250	11,820	2,430
Purchased water	400,000	380,645	19,355
Repairs and maintenance	89,087	74,079	15,008
Materials and supplies	55,000	98,303	(43,303)
Professional fees	20,000	19,500	500
Sewer service charges	19,000	15,803	3,197
Insurance	24,050	20,993	3,057
Gasoline and oil	20,000	17,810	2,190
Payroll taxes	16,385	15,454	931
Credit Card Processing fees	11,500	12,285	(785)
Directors' fees	10,800	10,800	-
Tap installation	5,500	10,000	(4,500)
Telephone	10,500	8,883	1,617
Water sampling	9,500	8,272	1,228
Office supplies	5,500	4,175	1,325
Computer expenses	11,000	10,094	906
Training	15,000	454	14,546
Licenses & permits	10,277	10,277	-
Dues & subscriptions	5,000	3,186	1,814
Uniforms	1,500	1,312	188
Advertising	2,700	2,347	353
Office expense	600	548	52
Miscellaneous	1,250	-	1,250
	1,073,551	1,049,349	24,202
Operating income before depreciation	235,449	263,663	28,214
Depreciation	223,070	240,889	(17,819)
Operating income	12,379	22,774	10,395
Nonoperating revenues (expenses)			
Interest income	6,000	2,695	(3,305)
Interest expense	(25,182)	(25,169)	13
	(19,182)	(22,474)	(3,292)
Increase (decrease) in net position	**$ (6,803)**	**$ 300**	**$ 7,103**

Donalds-Due West Water & Sewer Authority

Schedule 2 - Schedule of Revenues and Expenses

For the years ended June 30, 2021, 2020 and 2019

	2021	2020	2019
Operating revenues			
Water revenue	$ 1,219,390	$ 1,154,243	$ 1,149,822
Tap fees	27,100	46,915	36,825
Late fees/cut-on fees	39,103	36,992	40,653
Sewer revenue	16,401	15,141	10,069
Miscellaneous operating revenues	11,018	10,329	9,339
	1,313,012	1,263,620	1,246,708
Operating expenses before depreciation			
Salaries	213,483	205,156	197,718
Employees' benefits			
Group health insurance	35,363	36,122	35,346
Retirement expense	44,250	43,078	35,270
Billing and collection fees	19,213	21,581	22,446
Utilities	11,820	13,490	12,886
Purchased water	380,645	411,476	369,346
Repairs and maintenance	74,079	77,233	127,280
Materials and supplies	98,303	52,669	32,389
Professional fees	19,500	18,663	19,927
Sewer service charges	15,803	18,349	16,299
Insurance	20,993	18,230	16,462
Gasoline and oil	17,810	15,712	17,764
Payroll taxes	15,454	15,694	16,097
Credit Card Processing fees	12,285	10,928	9,779
Directors' fees	10,800	10,800	8,875
Tap installation	10,000	10,575	9,650
Telephone	8,883	9,849	9,536
Water sampling	8,272	9,170	6,994
Office supplies	4,175	8,243	5,027
Computer expenses	10,094	11,214	9,179
Training	454	5,176	2,348
Licenses & permits	10,277	14,273	10,175
Dues & subscriptions	3,186	3,756	3,674
Uniforms	1,312	1,480	1,500
Advertising	2,347	1,811	2,379
Office expense	548	473	2,199
Miscellaneous	-	526	232
	1,049,349	1,045,727	1,000,777
Operating income before depreciation	263,663	217,893	245,931
Depreciation	240,889	244,608	234,031
Operating income (loss)	22,774	(26,715)	11,900
Nonoperating revenues (expenses)			
Interest income	2,695	5,153	6,780
Gain/(loss) on disposal of capital assets	-	8,259	-
Interest expense	(25,169)	(26,765)	(27,848)
	(22,474)	(13,353)	(21,068)
Capital contributions	-	120,000	252,720
Increase in net position	**$ 300**	**$ 79,932**	**$ 243,552**

Donalds-Due West Water & Sewer Authority

Schedule 3 - Insurance Policies and Fidelity Bonds

For the year ended June 30, 2021

Company	Policy Number	Policy Date From - To	Type of Coverage	Amount
SC Insurance		5/15/21-	Tort	
Reserve Co.	T141190122	5/15/2022	Liability	$ 1,000,000
State Worker's		1/01/21-	Basic Limit	
Compensation	10-064153-5	12/31/2021	Truck	
SC Insurance		5/15/21-	Liability On	
Reserve Co.	L141190122	5/15/2022	3 trucks Limit	1,000,000
			Basic Economic	
			Loss (each person)	1,000
			Uninsured	
			Motorists	Basic
				Limits
SC Insurance		5/15/21-	Collision	200
Reserve Co.	C141190122	5/15/2022		Deductible
			Comprehensive	200
				Deductible
SC Insurance		5/15/21-	Water Tank	1,165,000
Reserve Co.	F141190122	5/15/2022	Building	137,000
			Contents of	
			Building	60,000
			Water Tank-	
			SC-178	1,777,500
			(2) Pressure Reducing Pits	139,200
			(2) Fences	18,992
			Shop	45,000
			Shop Contents	20,000
Fidelity Deposit				
Co. of Maryland	CCP-0068482-01	9/11/2020	Employee	600,000
		9/11/2021	Theft	Deductible
			Coverage	6,000

Donalds-Due West Water & Sewer Authority

Schedule 4 - Net Earnings for Debt Service and Debt Coverage

For the years ended June 30, 2021 and 2020

	2021		2020	
Operating Income (loss)	**$**	**22,774**	**$**	**(26,715)**
Adjustments to derive net earnings:				
Depreciation		240,889		244,608
Interest income		2,695		5,153
Gain on sale of assets/casualty gain		-		8,259
Net earnings per bond resolution	$	266,358	$	231,305
Total debt service paid	$	53,664	$	53,664
Debt coverage	$	212,694	$	177,641
Percent debt coverage		396%		331%

The Authority's Bond Resolution requires that net earnings as defined in the Bond Resolution, equal to at least 110% of the annual principal and interest requirements of all series of bonds outstanding in such years. For the years ended June 30, 2021 and 2020, the Authority's "net earnings" were 396% and 331%, respectively, of its annual principal and interest requirements of all series of bonds. Management believes the Authority is in compliance with all bond covenants and restrictions.

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*

To the Board of Directors
Donalds-Due West Water & Sewer Authority
Donalds, 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 business-type activities of Donalds-Due West Water & Sewer Authority (the Authority), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 17, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing auditing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as items 2021-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2021-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 or other matter that are required to be reported under *Government Auditing Standards*.

Management's Response

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

Manley Garvin, LLC

Greenwood, South Carolina
September 17, 2021

Section I. Financial Statement Findings

Material Weakness

2021-001: Understatement of Deferred Outflows of Resources

Condition:	In prior years, the Authority failed to correctly account for contributions made subsequent to the net pension liability's measurement date, which resulted in an understatement of the deferred outflows of resources related to pension. During the current year, the error was identified and corrected.
Criteria:	The Authority should appropriately account for contributions made subsequent to the measurement date of its net pension liability computation.
Effect:	The Authority's deferred outflows of resources related to pension was understated in prior years.
Cause:	The Authority's internal control over recording its deferred outflows of resources related to pension did not function to ensure proper recording and reporting in prior years.
Recommendation:	We recommend the Authority review its internal control procedures for pension related assets to ensure proper recording and reporting under generally accepted accounting principles.
Response:	The Authority has placed appropriate controls in place during the year ended June 30, 2021. At June 30, 2021, the Authority recorded its deferred outflows of resources related to pension accurately.

Section I. Financial Statement Findings, continued

Significant Deficiency

2021-002: Inadequate Segregation of Duties

Condition:	Due to small staff size, the Authority does not have complete segregation of duties. One person has access to multiple areas of the financial accounting system, which results in overlapping duties within the control environment.
Criteria:	In an ideal situation, one person would not be allowed to perform multiple transactions within a cycle.
Effect:	There is a higher risk that fraud or irregularities could occur. An error in financial reporting may not be detected in a timely manner or misappropriation of assets could be concealed.
Cause:	The size and limited financial resources of the Authority.
Recommendation:	The Board and management should continue to use supervisory reviews such as monitoring financial statements and budget to actual reports, and segregate duties where it is cost beneficial to do so.
Response:	The Board and management will continue to review and monitor financial statements and budget to actual reports, and will continue to segregate duties where it is cost beneficial to do so.

Section I. Financial Statement Findings

Significant Deficiency

2020-001: Inadequate Segregation of Duties

Condition:	Due to small staff size, the Authority does not have complete segregation of duties. One person has access to multiple areas of the financial accounting system, which results in overlapping duties within the control environment.
Criteria:	In an ideal situation, one person would not be allowed to perform multiple transactions within a cycle.
Effect:	There is a higher risk that fraud or irregularities could occur. An error in financial reporting may not be detected in a timely manner or misappropriation of assets could be concealed.
Cause:	The size and limited financial resources of the Authority.
Recommendation:	The Board and management should continue to use supervisory reviews such as monitoring financial statements and budget to actual reports, and segregate duties where it is cost beneficial to do so.
Current Status:	The finding was repeated in the current year.