

**LUGOFF WATER DISTRICT
OF KERSHAW COUNTY,
SOUTH CAROLINA**

**ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2017**

**LUGOFF WATER DISTRICT OF KERSHAW COUNTY,
SOUTH CAROLINA
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2017**

Table of Contents

	<u>Page</u>
Board of Directors	
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-8
BASIC FINANCIAL STATEMENTS:	
Fund Financial Statements:	
Statement of Net Position	9-10
Statement of Revenues, Expenses and Changes in Net Position	11-12
Statement of Cash Flows	13-14
Notes to the Financial Statements	15-30
SUPPLEMENTAL INFORMATION:	
Required Supplemental Information:	
Budgetary Comparison Schedule-Proprietary Fund	31-32
Schedule of District's Proportionate Share of the Net Pension Liability	33
Schedule of District's Contributions	34
Notes to Required Supplemental Information	35
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>	36-37
Schedule of Findings and Responses	38

**LUGOFF WATER DISTRICT OF KERSHAW COUNTY,
SOUTH CAROLINA
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2017**

Board of Directors

<u>Name</u>	<u>Term Expires</u>
Charles Everett, Chairperson	2020
Gordon McCaa, Secretary-Treasurer	2020
Dean Watts	2020
Clyde Smith	2018
Joel Schmalzel	2018
Danny Tyner	2020
Anna Stewart	2018

SHEHEEN, HANCOCK & GODWIN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

1011 FAIR STREET

P.O. DRAWER 428

CAMDEN, SOUTH CAROLINA 29201

FOUNDED 1959

AUSTIN M. SHEHEEN, JR., CPA
TERRY M. HANCOCK, CPA
LARRY F. GODWIN, CPA
THOMAS B. MYERS, CPA
DARYL W. TAYLOR, CPA
ANTHONY E. BOYKIN, CPA
JANE M. PEACOCK, CPA
MATTHEW C. IRICK, CPA
J. RICHARD PARKER, CPA
R. MARC WOOD
SHANE E. KIRKLEY, CPA
B. KEACH JORDAN, CPA

MARC A. QUIGLEY, CPA
REBECCA M. LEE, CPA
TRACY L. FAILE, CPA
CHRISTOPHER H. HARRELL
JOHN F. MARTIN
JOHN C. BOYKIN, III

MEMBERS OF
AMERICAN INSTITUTE OF CPA'S

SOUTH CAROLINA ASSOCIATION OF CPA'S

TELEPHONE
(803) 432-1424
FAX
(803) 432-1831

WEBSITE: WWW.SHGCPA.COM

October 3, 2017

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lugoff Water District of Kershaw County
Lugoff, South Carolina 29078

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Lugoff Water District of Kershaw County, South Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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 *Governmental Auditing Standards*, issued by 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Lugoff Water District of Kershaw County, South Carolina, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 31 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide 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 Lugoff Water District of Kershaw County, South Carolina's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the 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 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 3, 2017, on our consideration of the Lugoff Water District of Kershaw County, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Sheheen, Hancock & Godwin, LLP

Sheheen, Hancock and Godwin, LLP
Camden, South Carolina

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017

In accordance with Governmental Accounting Standards, management is required to make an appraisal of the organization's financial condition. Management's assessment of the District's financial performance during the fiscal year ended on June 30, 2017, follows below and is presented in conjunction with our audited basic financial statements.

Financial Highlights for Fiscal Year 2017

- The District's net position increased by \$859,131 or 9.84% from \$8,729,149 to 9,588,280.
- Operating revenues increased by \$78,772 or 1.44% from \$5,469,465 to \$5,548,237.
- Operating expenses increased by \$102,489 or 2.72% from \$3,774,671 to \$3,877,160.

Overview of the Financial Statements

This annual report consists of the following four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information (which includes this management's discussion and analysis) and the internal control and compliance over financial reporting section. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Required Financial Statements

The financial statements of the District report information utilizing the full accrual basis of accounting. The District has only one fund, which is a proprietary fund. This fund accounts for the services provided to users and the cost associated with those services. The financial statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). The Statement of Revenues, Expenses, and Changes in Net Position identify the District's revenues and expenses for the fiscal year ended on June 30, 2017. This statement provides information on the District's operations and can be used to determine if the District has recovered all of its actual and projected costs through user fees and other charges. The Statement of Cash Flows provides information on the District's cash receipts, cash payments, and changes in cash resulting from operations, investments, and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash balance.

Financial Analysis of the District

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of the District's financial condition. The District's net position reflects the difference between assets and liabilities. An increase in net position over time usually indicates an improvement in financial condition.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017
(Continued)

Net Position. The following table is a summary of the District's net position for 2017 compared to 2016.

Table 1
Condensed Statement of Net Position

	2017	2016	Dollar Change
Current and Other Assets	\$ 8,666,813	\$ 7,912,468	\$ 754,345
Capital Assets	23,266,108	24,262,503	(996,395)
Deferred Outflows	<u>851,726</u>	<u>729,945</u>	<u>121,781</u>
Total Assets and Deferred Outflows	<u>32,784,647</u>	<u>32,904,916</u>	<u>(120,269)</u>
Long-Term Debt	22,432,509	23,427,022	(994,513)
Other Liabilities	737,934	733,522	4,412
Deferred Inflows	<u>25,924</u>	<u>15,223</u>	<u>10,701</u>
Total Liabilities and Deferred Inflows	<u>23,196,367</u>	<u>24,175,767</u>	<u>(979,400)</u>
Net Investment in Capital Assets	3,236,108	2,947,503	288,605
Restricted For:			
Debt Service	3,050,602	2,277,079	773,523
Renewal and Replacement	1,991,072	1,989,253	1,819
Unrestricted	<u>1,310,488</u>	<u>1,515,314</u>	<u>(204,826)</u>
Total Net Position	<u>\$ 9,588,270</u>	<u>\$ 8,729,149</u>	<u>\$ 859,121</u>

As the above table indicates, total assets and outflows decreased by \$120,269 from \$32,904,916 to \$32,784,647 during the fiscal year ended June 30, 2017. This is comprised of an increase of \$754,345 in current and other assets, a decrease of \$996,395 in capital assets, and an increase of \$121,781 in deferred outflows of resources. The increase in current and other assets reflects cash increases and the decrease in capital assets reflects current year depreciation greater than current year additions.

Total liabilities reflect a decrease of \$979,400. This includes a decrease of \$994,513 in long-term debt, an increase of 4,412 in other liabilities and an increase of \$10,701 in deferred inflows.

Table 1 also indicates that total net position increased by \$859,131 from \$8,729,149 to \$9,588,280.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017
(Continued)

Changes in Net Position. The following table is a summary of the District's change in net position for 2017 compared to 2016.

Table 2
Condensed Statement of Revenues, Expenses
and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>
Program Revenues- Charges for Services	\$ 5,548,237	\$ 5,469,465	\$ 78,772
General Revenues	<u>35,434</u>	<u>24,400</u>	<u>11,034</u>
Total Revenues	<u>5,583,671</u>	<u>5,493,865</u>	<u>89,806</u>
Depreciation	1,242,209	1,243,713	(1,504)
Other Operating Expenses	2,634,951	2,530,958	103,993
Non-Operating Expenses	<u>847,380</u>	<u>866,509</u>	<u>(19,129)</u>
Total Expenses	<u>4,724,540</u>	<u>4,641,180</u>	<u>83,360</u>
Change in Net Position	859,131	852,685	6,446
Net Position, Beginning of Year	<u>8,729,149</u>	<u>7,876,464</u>	<u>852,685</u>
Net Position, End of Year	<u>\$ 9,588,280</u>	<u>\$ 8,729,149</u>	<u>\$ 859,131</u>

Table 2 indicates that the District's total revenues increased by \$89,806 or 1.63 percent to \$5,583,671 in the fiscal year ended June 30, 2017, from \$5,493,865 the prior year. The increase is related to an increase in water rates from prior year. Total expenses increased by \$83,360 or 1.8 percent during the fiscal year ended June 30, 2017. The major portion of this increase is the increase in pension expense related to the increase in pension liability.

Budgetary Highlights

The District's budget is prepared according to South Carolina Law and is based on accounting for certain transactions on a cash receipts and disbursements basis. The only budgeted fund is the proprietary fund.

Proprietary Fund Highlights

Proprietary fund revenues, including interest income were under budgeted amounts by \$174,921, while the District's expenses, including interest expense, were under budgeted amounts by \$142,414.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017
(Continued)

Capital Assets

As of June 30, 2017, the District's investment in capital assets totaled \$40,999,814. The District's major capital assets include infrastructure assets, construction in progress, water treatment facilities, water mains, pipes, storage tanks, land, District headquarters and other structures as well as vehicles and other equipment. A summary of the District's capital assets comparing 2017 to 2016 is shown below. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Table 3
Capital Assets

	2017	2016	Dollar Change	Percent Change
Land and Easements	\$ 268,484	\$ 268,484	\$ -	0.0%
Construction in Progress	1,655,181	1,531,940	123,241	8.0%
Buildings	315,228	315,228	-	0.0%
Water System	37,730,538	37,711,739	18,799	0.0%
Machinery and Equipment	626,052	619,142	6,910	1.1%
Vehicles	263,411	351,120	(87,709)	-25.0%
Office Equipment	140,920	137,930	2,990	2.2%
Total Fixed Assets	40,999,814	40,935,583	64,231	0.2%
Accumulated Depreciation	(17,733,706)	(16,673,080)	(1,060,626)	6.4%
Total Net Fixed Assets	<u>\$ 23,266,108</u>	<u>\$ 24,262,503</u>	<u>\$ (996,395)</u>	<u>-4.1%</u>

Long-Term Debt

As of June 30, 2017, the District had \$20,030,000 in outstanding debt compared to \$21,315,000 as of June 30, 2016. The decrease of \$1,285,000 represents principal payments made during the year ending June 30, 2017. The outstanding debt includes four revenue bonds, which were issued in 2007, 2013 and 2015. Interest rates on the bonds vary from 1.75 percent on the bonds maturing in 2023 to 5.00 percent on the bonds maturing in 2038.

The District has covenanted that it will fix, prescribe, and collect rates, fees, and charges for use of the District's water system during each fiscal year, which are at least sufficient to yield in each fiscal year net revenues equal to at least 120 percent of the debt service for each year. More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017
(Continued)

Economic Factors and Next Year's Budget and Rates

The District's Board of Directors adopts the budget in the spring of each year. This is done after the staff and management have conferred on the necessary expenditures for the system. Rates are also examined at that time for any change that may be needed to maintain the covenant conditions.

For FY 2017 a rate increase was required.

Projects and Status

In past years, northeast Richland County and southwest Kershaw County have experienced significant population growth and economic and real estate activity. This path of development, towards and within the Authority's service area has slowed significantly, but is still ongoing today. Even with the economic downturn, Lugoff-Elgin Water Authority maintains its status as an essential element for the continued growth and economic development of this portion of South Carolina.

Additional Financial Information

This financial information is designed to provide the District's customers, investors, and other interested parties with an overview of the District's financial operation and financial condition. Should the reader have any questions regarding this information or wish for additional information, please contact the Manager of the Lugoff Water District of Kershaw County doing business as the Lugoff-Elgin Water Authority at P.O. Box 125, Lugoff, S. C. 29078.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
STATEMENT OF NET POSITION
June 30, 2017

Assets

Current Assets:

Cash on Hand	\$ 1,450
Cash and Cash Equivalents	2,984,113
Accounts Receivable, Net	519,147
Inventory	70,296
Prepaid Insurance	<u>50,133</u>
 Total Current Assets	 <u>3,625,139</u>

Non-Current Assets:

Restricted Cash and Cash Equivalents	5,041,674
Capital Assets:	
Land and Easements	268,484
Construction in Progress	1,655,181
Buildings	315,228
Water System	37,730,538
Machinery and Equipment	626,052
Vehicles	263,411
Office Equipment	140,920
Less: Accumulated Depreciation	<u>(17,733,706)</u>
 Total Non-Current Assets	 <u>28,307,782</u>

Deferred Outflows of Resources:

Prepaid Pension Cost	372,846
Deferred Amount on Refunding, Net of Accumulated Amortization of \$534,884	<u>478,880</u>
 Total Deferred Outflows of Resources	 <u>851,726</u>

Total Assets and Deferred Outflows of Resources	<u><u>\$ 32,784,647</u></u>
--	------------------------------------

The notes to the financial statements are an integral part of these statements.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
STATEMENT OF NET POSITION

June 30, 2017
(Continued)

Liabilities

Current Liabilities:

Accounts Payable and Accrued Expenses	\$ 74,392
Accrued Payroll and Payroll Withholdings	60,887
Customer Deposits Payable	<u>227,008</u>

Total Current Liabilities	<u>362,287</u>
---------------------------	----------------

Current Liabilities Payable from Restricted Assets:

Accrued Interest Payable	375,647
Current Portion - Bonds Payable	<u>1,330,000</u>

Total Current Liabilities Payable from Restricted Assets	<u>1,705,647</u>
--	------------------

Non-Current Liabilities:

Compensated Absences Payable	57,411
Net Pension Liability	2,345,098
Bonds Payable	<u>18,700,000</u>

Total Non-Current Liabilities	<u>21,102,509</u>
-------------------------------	-------------------

Total Liabilities	<u>23,170,443</u>
--------------------------	--------------------------

Deferred Inflows of Resources

Unavailable Revenue - Water Billings Prepaid	23,377
Unavailable Revenue - Pension	<u>2,547</u>

Total Deferred Inflows of Resources	<u>25,924</u>
--	----------------------

Net Position

Net Investment in Capital Assets	3,236,108
Restricted for:	
Debt Service	3,050,602
Renewal and Replacement	1,991,072
Unrestricted	<u>1,310,488</u>

Total Net Position	<u><u>\$ 9,588,280</u></u>
---------------------------	-----------------------------------

The notes to the financial statements are an integral part of these statements.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2017

Program Revenues - Charges for Services

Water Charges	\$ 5,076,509
Impact Fees	115,120
Service and Administrative Fees	36,577
Late Charges and Reconnections	193,759
Tap Fees	88,967
Other	<u>37,305</u>
 Total Program Revenues	 <u>5,548,237</u>

Operating Expenses

Advertising	3,392
Auto Expense	54,372
Bad Debts	19,504
Bank Charges	778
Casual Labor	12,045
Chemicals and Supplies	207,578
Directors' Fees	13,575
Depreciation	1,242,209
Dues and Subscriptions	16,351
Employee Benefits	222,766
Employee Awards	10,050
Equipment Rental	736
Insurance	284,135
Legal and Professional	62,423
Miscellaneous	44,963
Office Supplies	16,656
Payroll Taxes	83,251
Postage	34,920
Repairs and Maintenance	87,556
Salaries and Wages	1,047,417
System Maintenance and Supplies	169,117
Taxes and Licenses	1,125
Telephone	21,060
Testing	33,918
Training	1,800
Uniforms	13,782
Utilities	<u>171,681</u>
 Total Operating Expenses	 <u>3,877,160</u>

The notes to the financial statements are an integral part of these statements.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2017
(Continued)

Operating Income	\$ 1,671,077
Non-Operating Revenues (Expenses)	
General Revenues:	
Interest Income	35,434
Interest Expense	(778,391)
Amortization of Bond Refunding Cost	<u>(68,989)</u>
 Total Non-Operating Revenues (Expenses)	 <u>(811,946)</u>
 Change in Net Position	 859,131
 Net Position, Beginning of Year	 <u>8,729,149</u>
 Net Position, End of Year	 <u><u>\$ 9,588,280</u></u>

The notes to the financial statements are an integral part of these statements.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017

Cash Flows From Operating Activities

Cash Received From Customers	\$ 5,501,456
Cash Payments to Suppliers	(1,337,679)
Cash Payments to Employees	(1,164,288)
Customer Deposits Received	52,088
Customer Deposits Returned	<u>(59,248)</u>

Net Cash Provided By Operating Activities	<u>2,992,329</u>
---	------------------

Cash Flows From Capital and Related Financing Activities

Purchase of Capital Assets	(234,522)
Principal Payments on Bonds	(1,285,000)
Interest Paid	<u>(804,102)</u>

Net Cash (Used) By Capital and Related Financing Activities	<u>(2,323,624)</u>
---	--------------------

Cash Flows From Investing Activities

Interest on Investments	<u>35,434</u>
-------------------------	---------------

Net Cash Provided By Investing Activities	<u>35,434</u>
---	---------------

Net Increase in Cash and Cash Equivalents	704,139
---	---------

Cash and Cash Equivalents, Beginning of Year	<u>7,323,098</u>
--	------------------

Cash and Cash Equivalents, End of Year	<u><u>\$ 8,027,237</u></u>
--	----------------------------

The notes to the financial statements are an integral part of these statements.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017
(Continued)

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating Income	\$ <u>1,671,077</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	1,242,209
(Increase) in Accounts Receivable	(46,781)
(Increase) in Prepaid Insurance	(363)
(Increase) in Inventory	(3,062)
(Increase) in Deferred Outflows	(189,970)
(Decrease) in Compensated Absences	(1,977)
(Decrease) in Customer Deposits	(7,160)
Increase in Accounts Payable	27,089
(Decrease) in Accrued Payroll and Payroll Liabilities	(1,898)
Increase in Net Pension Liability	292,464
Increase in Deferred Inflows	<u>10,701</u>
 Total Adjustments	 <u>1,321,252</u>
 Net Cash Provided by Operating Activities	 <u><u>\$ 2,992,329</u></u>

Reconciliation of Total Cash and Cash Equivalents

Current Assets - Cash on Hand	\$ 1,450
Current Assets - Cash and Cash Equivalents	2,984,113
Non-Current Assets - Restricted Cash and Cash Equivalents	<u>5,041,674</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 8,027,237</u></u>

The notes to the financial statements are an integral part of these statements.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 1. Summary of Significant Accounting Policies

The Lugoff Water District of Kershaw County (the District) was created under the laws of the State of South Carolina in 1964 as a Special Purpose District. The District exists for the purpose of providing water to residents of its defined area of operation. The District is governed by a seven-member Board of Directors.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America, (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Also, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Following are the more significant of the District's accounting policies.

A. Reporting Entity

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is a fiscal dependency by the organization on the District

Based on the aforementioned criteria, the Lugoff Water District of Kershaw County has no component units.

B. Basis of Presentation

The District's basic financial statements consist of fund financial statements which provide a more detailed level of financial information.

Fund Financial Statements:

Fund financial statements of the District are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category of type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the District are described below:

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The following is the District's proprietary fund:

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on the net income measurement similar to the private sector. The District's only fund is an enterprise fund and is used to account for the financial transactions related to the water services provided to the residents of its operating area.

C. Measurement Focus and Basis of Accounting

Measurement Focus

The proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases and decreases in total net position. The statement of cash flows reflects how the District finances and meets the cash flow of its proprietary fund.

Basis of Accounting

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic resource used.

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

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 1. Summary of Significant Accounting Policies (continued)

D. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts in demand deposits, restricted cash and certificates of deposits.

Investments

Any investments held by the District are stated at fair value in accordance with *GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for Investment Pools*. Investment policies of the District must operate within existing state statutes of the State of South Carolina, which authorizes what the District may and may not invest in. The District did not have any investments at June 30, 2017.

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation.

The restrictions on assets for debt service are explained in Note 6.

The other restriction on assets is the requirement for a Renewal and Replacement Fund. The amount has been established and certified by the consulting engineer of the District. The District is in compliance with this covenant.

F. Compensated Absences

The District has a liability to its employees for accumulated vacation leave. An employee may accrue up to 200 hours of vacation, and any unused vacation leave is paid upon termination. The District has recorded an expense and liability for accumulated vacation leave of its employees that has been accrued to them.

The District allows employees to accumulate up to 400 hours of sick leave which the employee may carry over into the next year on their anniversary date. Each employee accrues 80 hours of sick leave annually. If an employee has 480 hours accumulated on their anniversary date, then the District will pay for 40 hours and the employee loses 40 hours leaving a balance of 400 hours.

When an employee terminates employment with the District for any reason other than a qualifying sickness, all accumulated sick leave is forfeited. Because of this uncertainty, accumulated unpaid sick leave is recognized only when paid. These expenses are not accrued.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 1. Summary of Significant Accounting Policies (continued)

G. Receivables

Water receivables compose the majority of proprietary fund receivables. Receivables are carried at the net realizable value less an allowance for uncollectible accounts. A proprietary fund allowance for uncollectible accounts receivable, in the amount of \$3,000, is recorded based on historical collections from previous years.

H. Capital Assets

Fixed assets are accounted for as capital assets in the financial statements. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are reported at their estimated fair value at the date of donation. Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Revenues, Expenses and Changes in Net Position, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The District utilizes a \$500 capitalization policy. The range of estimated useful lives by type of asset is as follows:

Buildings	25-50 years
Water System	10-50 years
Machinery and Equipment	5-10 years
Vehicles	5 years
Office Equipment	5-10 years

I. Inventory and Prepaid Items

Inventories are valued at cost using the first-in/first-out method. The cost of inventory is expensed using the consumption method. The amount of inventory on hand at year end consists of supplies, pipes and meters.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

J. Equity Classifications

Equity is classified as net position and displayed in three components:

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

b. Restricted net position. This consists of net position with constraints placed on the use by either external groups such as creditors, grantors, contributors, or laws or regulations of other governments or law through constitutional provisions or enabling legislation.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 1. Summary of Significant Accounting Policies (continued)

J. Equity Classifications (continued)

c. Unrestricted net position. All other net position that do not meet the definition of “restricted” or “ net investment in capital assets” are classified as unrestricted net position.

K. Operating and Non-Operating Revenues

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those, which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. The District does not allocate indirect costs.

L. Long-term Obligations

All long-term debt to be repaid from business-type resources are reported as liabilities in the basic financial statements. The long-term debt consists primarily of bonds payable.

M. Capital Contributions

Contributions of capital on enterprise fund financial statements arise from outside contributions of capital assets, contributions from other funds, or grants or outside contributions of resources restricted to capital acquisition and construction.

N. 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 and 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.

O. Statement of Cash Flows

For purposes of the statement of cash flows, the District’s Proprietary Fund considers cash, restricted cash and cash equivalents. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include certificates of deposits.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management. Neither of these types of transactions occurred during the fiscal year.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 1. Summary of Significant Accounting Policies (continued)

Q. Deferred Outflows of Resources

In addition to assets, the District reports deferred outflows of resources in a separate section of its government wide and proprietary fund statements. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period. The District only has two items that qualified for reporting in this category. The first deferred outflow of resources reported in this year's financial statements is a deferred amount arising from the refunding of enterprise fund bonds in a previous year. This deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of amortization expense. The second is prepaid cost related to the GASB 68 pension liability.

In addition to liabilities, the District reports deferred inflows of resources in a separate section of its government wide and proprietary fund statements. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period. The District has one type of item which is future pension revenues related to the GASB 68 pension liability.

R. Pensions

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

Note 2. Deposits – Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$7,098,900 of the District's bank balance of \$8,074,919, which has a carrying value of \$8,025,767, was exposed to custodial credit risk as follows:

Uninsured by FDIC, but collateral held by pledging bank in the District's name	<u>\$7,098,900</u>
---	--------------------

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 3. Capital Assets

Capital Asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Disposals & Transfers	Balance June 30, 2017
Non-Depreciable Assets:				
Construction in Progress	1,531,937	189,339	66,095	1,655,181
Depreciable Assets:				
Buildings	315,228	-	-	315,228
Water System	37,711,743	105,947	87,152	37,730,538
Machinery and Equipment	619,141	23,539	16,628	626,052
Vehicles	351,121	-	87,710	263,411
Office Equipment	137,930	5,683	2,693	140,920
Totals	<u>40,935,584</u>	<u>324,508</u>	<u>260,278</u>	<u>40,999,814</u>
Less: Accumulated Depreciation				
Buildings	(225,658)	(12,558)	-	(238,216)
Water System	(15,494,902)	(1,173,699)	74,552	(16,594,049)
Machinery and Equipment	(528,268)	(36,111)	16,629	(547,750)
Vehicles	(293,870)	(15,927)	87,710	(222,087)
Office Equipment	(130,383)	(3,913)	2,693	(131,603)
Totals	<u>(16,673,081)</u>	<u>(1,242,208)</u>	<u>181,584</u>	<u>(17,733,705)</u>
Total Capital Assets, Net	<u>\$ 24,262,503</u>	<u>\$ (917,700)</u>	<u>\$ 441,862</u>	<u>\$ 23,266,109</u>

Construction in progress and construction commitments consisted of the following at June 30, 2017:

	Expenditures to Date	Total Contract	Contract Payments Remaining
Flexnet	\$ 1,378,263	\$ 1,378,263	\$ -
Warren Crossroads	106,650	106,650	
Pine Grove & 25 Mile Creek	<u>170,268</u>	<u>170,268</u>	<u>-</u>
	<u>\$ 1,655,181</u>	<u>\$ 1,655,181</u>	<u>\$ -</u>

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 4. Long-Term Debt

On July 12, 2007, the District issued \$16,160,000 in Waterworks System Revenue Bonds. The bonds range in maturity dates from 2010 to 2038. Interest rates on the bonds vary from 4.00 percent on the bonds maturing on July 1, 2010, to 4.625 percent on the bonds maturing on July 1, 2038. The balance owed on the principal amount of these bonds on June 30, 2017, was \$420,000.

On June 14, 2013, the District issued \$2,035,000 in Waterworks System Refunding Revenue Bonds. The bonds range in maturity dates from 2014 to 2023. Interest rates on the bonds are 1.75 percent. The balance owed on the principal amount of these bonds on June 30, 2017, was \$1,260,000.

On March 26, 2015, the District issued \$5,965,000 and \$13,325,000 in Waterworks System Refunding Revenue Bonds, Series A and B, respectively. The bonds range in maturity dates from 2015 to 2037. Interest rates on the bonds vary from 2.00 percent on the bonds maturing on July 1, 2015, to 3.75 percent on the bonds maturing on July 1, 2037. The refunding bonds were used to advance refund a portion of the 2005 and 2007 Revenue Bonds. The balance owed on the principal amounts on these bonds on June 30, 2017, was \$18,350,000.

The following is a schedule showing the annual debt service requirements to maturity for the long-term debt.

Fiscal Year Ending June 30	Principal	Interest	Total
2018	\$ 1,330,000	\$ 1,411,202	\$ 2,741,202
2019	1,350,000	727,699	2,077,699
2020	1,380,000	691,336	2,071,336
2021	1,410,000	651,618	2,061,618
2022	1,450,000	608,790	2,058,790
2023-2027	4,470,000	2,417,611	6,887,611
2028-2032	3,410,000	1,631,625	5,041,625
2033-2037	4,270,000	680,438	4,950,438
2038	960,000	18,000	978,000
Total	<u>\$ 20,030,000</u>	<u>\$ 8,838,319</u>	<u>\$ 28,868,319</u>

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 5. Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year
Revenue Bonds	\$ 21,315,000	\$ -	\$ 1,285,000	\$ 20,030,000	\$ 1,330,000
Compensated Absences	<u>59,388</u>	<u>57,411</u>	<u>59,388</u>	<u>57,411</u>	
Total	<u>\$ 21,374,388</u>	<u>\$ 57,411</u>	<u>\$ 1,344,388</u>	<u>\$ 20,087,411</u>	

Note 6. Debt Service Fund and Renewal and Replacement Fund

The 2007 Series Bond Resolutions require the establishment of a debt service fund to facilitate the payment of the bonds when they become due. Each month, the District is required to deposit an amount with the trustee that would be sufficient to pay the semi-annual interest and annual principal on the bonds that comes due each year. As of June 30, 2017, the Debt Service Funds totaled \$467,492.

The bond covenants require the establishment of the renewal and replacement fund. The covenant requires an annual contribution to the fund in the amount of five (5) percent of the prior year's gross receipts, only if there is less than \$500,000 in the System fund and less than \$1,000,000 in the Plant fund. As of June 30, 2017, the Renewal and Replacement Fund totaled \$1,991,072.

The District is in compliance with the Debt Service Fund requirements.

Note 7. Employee Retirement Systems

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 allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

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

SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 7. Employee Retirement Systems (continued)

the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

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

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is

eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

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

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

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 7. Employee Retirement Systems (continued)

Required employee contribution rates for fiscal year 2016-2017 are as follows:

SCRS	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
Employee Class Two	8.66 % of earnable compensation	8.16 % of earnable compensation
Employee Class Three	8.66 % of earnable compensation	8.16 % of earnable compensation

Required employer contributions for fiscal year 2015-2016 are as follows:

SCRS	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
Employee Class Two	11.41 % of earnable compensation	10.91 % of earnable compensation
Employee Class Three	11.41 % of earnable compensation	10.91 % of earnable compensation
Employer Incidental Death Benefit	0.15 % of earnable compensation	0.15 % of earnable compensation

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions- At June 30, 2017, the District reported a liability of \$2,345,098 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating state entities, actuarially determined. At June 30, 2016, the District's proportion was 0.010979 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$220,607. Plus employer's amortization of change in proportionate share and difference between employer contributions and proportionate share or contributions and deferred outflows and inflows of resources, \$80,057. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 24,310	\$ 2,547
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	197,298	-
Changes in proportion and differences between District contributions and proportionate share of contributions	32,214	-
Town contributions subsequent to measurement date	119,024	-
Total	<u>\$ 372,846</u>	<u>\$ 2,547</u>

The deferred outflow of resources in the amount of \$119,024 relate to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 7. Employee Retirement Systems (continued)

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

Year Ended June 30:

2016	\$ 13,622
2017	13,622
2018	1,095
2019	<u>33,404</u>
Total	<u>\$ 61,743</u>

Actuarial Assumptions and Methods- Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual evaluation process are subject to periodic revision, typically with an experienced study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS.

	SCRS
Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.5% to 12.5% (varies by service)
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or \$500

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 7. Employee Retirement Systems (continued)

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions are used in July 1, 2014 valuations for SCRS are as follows:

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

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012.

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission (RSIC) in collaboration with its investment consultant, Aon Hewitt. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the RSIC for the fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding the expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

LUGOFF WATER DISTRICT OF Kershaw County
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 7. Employee Retirement Systems (continued)

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	31.0%	7.10%	2.20%
Global Tactical Asset Allocation	10.0%	4.90%	0.49%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

Discount rate- The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis- The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.5 percent) or 1.00 percent higher (8.5 percent) than the current rate.

	<u>(6.50%)</u>	<u>(7.50%)</u>	<u>(8.50%)</u>
System			
SCRS	\$ 2,925,446	\$ 2,345,098	\$ 1,861,981

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

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 8. Major Customers

As of June 30, 2017, the Lugoff Water District had a total of 8,083 customers. The top ten customers for the fiscal year are listed in order of the amount billed:

<u>Name</u>	<u>Amount Billed</u>
Weylchem	\$ 208,863
Kershaw County Schools	75,693
TB Kawashima Textile	49,542
Mancor	36,994
Hallmark at Truesdale	33,632
UTI Integrated Logistics	30,884
Pine Ridge Apartments	29,836
Bridle Station	28,976
HBD Thermoid	26,054
Target	25,293
Total	<u>\$ 545,767</u>

The billing rates in effect as of June 30, 2017, are as follows:

<u>METER SIZE/MINIMUM</u>	<u>RATE</u>
3/4"/2,000 Gal.	\$ 26.15 Minimum
All Over 2,000 Gal.	4.805 Per 1,000 Gallons
1"/25,000 Gal.	\$ 136.67 Minimum
All Over 25,000 Gal.	4.805 Per 1,000 Gallons
 <u>METER SIZE/MINIMUM</u>	 <u>RATE</u>
1-1/2"/30,000 Gal.	\$ 160.69 Minimum
All Over 30,000 Gal.	4.805 Per 1,000 Gallons
2"/50,000 Gal.	\$ 256.78 Minimum
All Over 50,000 Gal.	4.805 Per 1,000 Gallons
3"/200,000 Gal.	\$ 977.54 Minimum
All Over 200,000 Gal.	4.805 Per 1,000 Gallons
4"/400,000 Gal.	\$ 1,938.54 Minimum
All Over 400,000 Gal.	4.805 Per 1,000 Gallons
6"/1,850,000 Gal.	\$ 8,905.79 Minimum
All Over 1,850,000 Gal.	4.805 Per 1,000 Gallons

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Note 9. Self-Insurance

The Lugoff Water District is a political sub-division of the State of South Carolina. Since it is deemed to be a governmental agency, it is allowed to self-insure for unemployment benefits. As of July 1, 2002, the District elected to self-insure. The history of the District indicates a small turnover in personnel.

Note 10. Risk Management

The Lugoff Water District 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. The District continues to carry commercial insurance for property and casualty insurance. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

Note 11. Deferred Compensation Plan

The District offers its employees the option to participate in the South Carolina 401(k) Deferred Compensation Plan ("401(K) Plan"), a defined contribution plan. The 401(k) Deferred Compensation Plan is administered by the South Carolina Deferred Compensation Commission ("Commission"). All amounts of compensation contributed under the 401(k) Plan, all income, and rights attributable to such amounts remain the sole property of the participating employee. Current year payroll covered under the 401(k) Plan was \$341,933 of the District's \$1,047,417 total payroll (for all District employees). Employees can contribute a minimum of \$10 of gross salary per paycheck, up to a maximum of \$18,000 per year.

Contributions are not available to employees until termination of employment, retirement, death, or unforeseeable emergency, with the exceptions of education and purchase or improvement of a primary residence. There is no eligibility or vesting requirements. The District does not contribute to the Plan for the employees that choose to participate. Employee contributions were \$32,582 for the fiscal year ended June 30, 2017. There were no significant changes in plan provisions during the current year.

Note 12. Subsequent Events

The District has evaluated subsequent events through October 3, 2017, which is the date the financial statements were available to be issued. During this period, the District did not have any material subsequent events that required recognition in the District's disclosures to the financial statements at June 30, 2017.

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive (Negative)
Operating Revenues	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Water Charges	\$ 4,691,700	\$ 5,116,280	\$ 5,076,509	\$ (39,771)
Impact Fees	75,000	-	115,120	115,120
Service and Administrative Fees	16,700	17,722	36,577	18,855
Late Charges and Reconnections	170,000	216,586	193,759	(22,827)
Tap Fees	-	-	88,967	88,967
Other	<u>18,500</u>	<u>22,728</u>	<u>37,305</u>	<u>14,577</u>
 Total Operating Revenues	 <u>4,971,900</u>	 <u>5,373,316</u>	 <u>5,548,237</u>	 <u>174,921</u>
 Operating Expenses				
Advertising	3,000	1,930	3,392	(1,462)
Auto Expense	51,000	50,656	54,372	(3,716)
Bad Debts	22,000	32,796	19,504	13,292
Bank Charges	18,000	11,668	778	10,890
Casual Labor	15,000	22,338	12,045	10,293
Chemicals and Supplies	230,000	222,792	207,578	15,214
Directors' Fees	17,200	14,900	13,575	1,325
Depreciation	1,242,209	1,242,209	1,242,209	-
Dues and Subscriptions	31,050	23,994	16,351	7,643
Employee Benefits	128,000	122,790	222,766	(99,976)
Employee Awards	10,000	10,000	10,050	(50)
Equipment Rental	1,000	1,000	736	264
Insurance	290,000	353,300	284,135	69,165
Legal and Professional	70,000	63,200	62,423	777
Miscellaneous	24,000	20,000	44,963	(24,963)
Office Supplies	21,500	16,356	16,656	(300)
Payroll Taxes	88,252	83,262	83,251	11
Postage	26,500	24,244	34,920	(10,676)
Repairs and Maintenance	20,000	20,000	87,556	(67,556)
Salaries and Wages	1,103,152	1,089,754	1,047,417	42,337
System Maintenance and Supplies	43,681	43,681	169,117	(125,436)
Taxes and Licenses	1,500	1,000	1,125	(125)
Telephone	16,700	16,174	21,060	(4,886)
Testing	40,000	56,552	33,918	22,634
Travel	1,000	1,050	-	1,050
Training	1,000	1,050	1,800	(750)
Uniforms	12,250	12,250	13,782	(1,532)
Utilities	<u>176,000</u>	<u>175,800</u>	<u>171,681</u>	<u>4,119</u>
 Total Operating Expenses	 <u>3,703,994</u>	 <u>3,734,746</u>	 <u>3,877,160</u>	 <u>(142,414)</u>

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Operating Income	\$ 1,267,906	\$ 1,638,570	\$ 1,671,077	\$ 32,507
Non-Operating Revenues (Expenses)				
Interest Income	13,000	17,746	35,434	17,688
Interest Expense	(778,391)	(778,391)	(778,391)	-
Amortization of Bond Refunding Cost	<u>(68,989)</u>	<u>(68,989)</u>	<u>(68,989)</u>	<u>-</u>
Total Non-Operating Revenues (Expenses)	<u>(834,380)</u>	<u>(829,634)</u>	<u>(811,946)</u>	<u>17,688</u>
Changes in Net Position	<u>\$ 433,526</u>	<u>\$ 808,936</u>	859,131	<u>\$ 50,195</u>
Total Net Position, Beginning of Year			<u>8,729,149</u>	
Total Net Position, End of Year			<u>\$ 9,588,280</u>	

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Fiscal Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 119,024	\$ 117,372	\$ 109,726
Contributions in relation to contractually required contribution	<u>119,024</u>	<u>117,372</u>	<u>109,726</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Town's covered-employee payroll	 \$ 1,047,417	 \$ 1,078,729	 \$ 1,020,678
Contributions as a percentage of covered-employee payroll	11.36%	10.88%	10.75%

<p>This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10- year trend is compiled, governments should present information for those years for which information is available</p>

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2017

SCRS	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability (asset)	0.0107120%	0.0107120%	0.0107120%
Town's proportionate share of the net pension liability (asset)	\$ 2,345,098	\$ 2,052,634	\$ 1,844,251
Town's covered employee payroll	\$ 1,047,417	\$ 1,078,729	\$ 1,020,678
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	223.89%	190.28%	180.69%
Plan fiduciary net position as a percentage of total pension liability	22.49%	23.51%	23.41%

<p>This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10- year trend is compiled, governments should present information for those years for which information is available</p>

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2017

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The accounting system provides for appropriate budgetary control. Budgetary comparisons are included in the supplemental schedules for the Enterprise Fund. All annual appropriations lapse at fiscal year-end.

B. Legal Compliance - Budgets

The Board prepares the annual operating budget. The budget includes proposed expenses and the means for financing them. The fiscal year of the District begins each July 1, and the Board adopts the tentative budget for the coming year. The budget is legally adopted after majority approval by the Board. Expenses may not legally exceed budgeted appropriations. Total operating expenses exceeded budget expenses of \$142,414 for the year ending June 30, 2017.

SHEHEEN, HANCOCK & GODWIN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

1011 FAIR STREET

P.O. DRAWER 428

CAMDEN, SOUTH CAROLINA 29201

FOUNDED 1959

AUSTIN M. SHEHEEN, JR., CPA
TERRY M. HANCOCK, CPA
LARRY F. GODWIN, CPA
THOMAS B. MYERS, CPA
DARYL W. TAYLOR, CPA
ANTHONY E. BOYKIN, CPA
JANE M. PEACOCK, CPA
MATTHEW C. IRICK, CPA
J. RICHARD PARKER, CPA
R. MARC WOOD
SHANE E. KIRKLEY, CPA
B. KEACH JORDAN, CPA

MARC A. QUIGLEY, CPA
REBECCA M. LEE, CPA
TRACY L. FAILE, CPA
CHRISTOPHER H. HARRELL
JOHN F. MARTIN
JOHN C. BOYKIN, III

MEMBERS OF
AMERICAN INSTITUTE OF CPA'S

SOUTH CAROLINA ASSOCIATION OF CPA'S

TELEPHONE
(803) 432-1424
FAX
(803) 432-1831

WEBSITE: WWW.SHGCPA.COM

October 3, 2017

**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***

Board of Directors

Lugoff Water District of Kershaw County

Lugoff, South Carolina 29078

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 the Lugoff Water District of Kershaw County, South Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Lugoff Water District of Kershaw County, South Carolina's basic financial statements and have issued our report thereon dated October 3, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. We consider the deficiency described in the accompanying schedule of findings and responses as item 17-1 to be a material weakness.

Compliance and Other Matters

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

Lugoff Water District of Kershaw County, South Carolina's Response to Findings

The Lugoff Water District of Kershaw County, South Carolina's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Lugoff Water District of Kershaw County, South Carolina's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Sheheen, Hancock & Godwin, LLP". The signature is written in a cursive, flowing style.

Sheheen, Hancock and Godwin, LLP
Camden, South Carolina

LUGOFF WATER DISTRICT OF KERSHAW COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2017

17-1 Lack of Expertise in the Preparation of Financial Statements

Condition:

As is common in small governmental agencies, the District does not have anyone on staff with the sufficient knowledge to prepare complete year-end financial statements including related footnote disclosures in accordance with accounting principles generally accepted in the United States of America. As such, District officials requested us to assist in identifying adjustments to the accounting records and prepare the financial statements including the related footnote disclosures. The outsourcing of these services is not unusual in governmental agencies of the District's size and is a cost benefit decision to rely on our accounting expertise rather than incurring the internal resource cost.

Criteria:

The District should have a system of internal controls that would enable District officials to conclude that the financial statements and the related disclosures are complete and presented in accordance with accounting principles generally accepted in the United States of America.

Questioned Cost:

Unknown

Recommendations:

We recommend that the District provide continuing education and training to existing employees in order to develop a financial reporting internal control system that would allow District officials to conclude the financial statements and related disclosures are complete and presented in accordance with accounting principles generally accepted in the United States of America.

View of Responsible Official and Planned Corrective Action:

Management agrees with this finding but recognize the outsourcing of certain financial reporting services may remain as a cost benefit decision for the District given its size and the cost of internal resources.