

GAFFNEY BOARD OF PUBLIC WORKS

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
MARCH 31, 2023 AND 2022**

GAFFNEY BOARD OF PUBLIC WORKS
FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

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To the Board of Commissioners of
Gaffney Board of Public Works
Gaffney, South Carolina

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Gaffney Board of Public Works as of and for the years ended March 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Gaffney Board of Public Works' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Gaffney Board of Public Works as of March 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Gaffney Board of Public Works and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Gaffney Board of Public Works' management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements - Continued

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gaffney Board of Public Works' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Gaffney Board of Public Works' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of the Board's proportionate share of the collective net pension liability and contributions, schedules of changes in net OPEB liability and related ratios, and OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Gaffney Board of Public Works' basic financial statements. The supplementary schedules of departmental operations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

To the Board of Commissioners of
Gaffney Board of Public Works
Page Three

Supplementary Information - Continued

Such information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Halliday, Schwartz & Co.

Spartanburg, South Carolina
July 25, 2023

**Board of Public Works
Management's Discussion and Analysis (Unaudited)**

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

Financial Highlights

Management believes the Board's financial condition is very strong. During FY 2023 water, electrical, and sewer department revenues increased from FY 2022. The Board has continued to improve service, provide for future growth, and maintain a very stable and competitive rate structure. The following are key financial highlights for FY 2023 and FY 2022.

Total assets and deferred outflows of resources for FY 2023 year-end were \$82,356,872 and exceeded liabilities and deferred inflows of resources by \$49,406,399. Of the total net position, \$5,072,500 was unrestricted. Total assets and deferred outflows of resources for FY 2022 year-end were \$70,931,406 (as restated) and exceeded liabilities and deferred inflows of resources by \$37,130,686 (as restated) of the total net position, \$7,965,024 (as restated) was unrestricted. Total net position increased compared to prior year. The current year operations resulted in an increase in net position of \$12,275,713.

For FY 2023, the Board sold approximately 327 million kwh of electricity and 2.06 billion gallons of potable water and treated 1.08 billion gallons of wastewater. This compares to 235 million kwh of electricity, 2.09 billion gallons of potable water, and 1.10 billion gallons of wastewater in FY 2022.

Operating revenues for FY 2023 were \$45,085,659 as compared to \$37,096,748 for FY 2022 (as restated).

Operating expenses for FY 2023 were \$47,942,542 as compared to \$41,354,499 for FY 2022. Management and staff are continually evaluating operations to control and/or reduce costs and improve efficiency.

Interest income includes income on investments as well as income from long-term lease agreements and for FY 2023 totaled \$110,721 compared to \$43,819 for FY 2022 (as restated). The increase was due to income on investments.

The Board transferred 3.05% of electric sales, the equivalent of a franchise fee, to the City of Gaffney in accordance with our Intergovernmental Agreement. The transfer for FY 2023 was \$844,910 compared to \$667,540 for FY 2022.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements, notes to the financial statements, and supplementary information. The MD&A represents management's examination and analysis of the Board's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Board's strategic plan, budget, bond resolutions, and other management tools were used for this analysis.

The basic financial statements consist of the Enterprise Fund, which is a type of Proprietary Fund to account for its electric, water, and sewer operations, that reports information about the Board 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 statements of net position; statements of revenues, expenses, and changes in net position; statements of cash flows; and notes to the financial statements.

The *statements of net position* present the financial position of the Board on a full accrual basis. The statements of net position present information on all the Board's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in the net position are one indicator of whether the financial position of the Board is improving or deteriorating.

While the statements of net position provide information about the nature and amount of resources and obligations at year-end, the *statements of revenues, expenses, and changes in net position* present the results of the business and fiduciary activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in the 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. These statements also provide certain information about the Board's recovery of its costs. Rate setting policies are different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on a basis of long-term capacity needs, ensuring growth pays for growth.

The *statements of cash flows* present changes in cash and cash equivalents, resulting from operational, financing, and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital costs.

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 Board's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplementary Information* concerning the Board's proportionate share of the collective net pension liability and contributions to the retirement system, as well as the schedules in changes in the net OPEB liability and ratios, contributions and investment returns. *Supplementary information*, immediately following the *required supplementary information*, includes detailed schedules of departmental operations.

Financial Analysis

The following comparative condensed financial statements and other information serve as the key financial data and indicators for management, monitoring, and planning.

Condensed Financial Statements

Condensed Statements of Net Position

Assets:	3/31/2023	3/31/2022 (restated)	3/31/2021
Current & Other Assets	\$35,420,061	\$35,802,125	\$ 36,207,565
Capital Assets	42,984,527	31,526,370	24,882,164
Total Assets	78,404,588	67,328,495	61,089,729
Total Deferred Outflows of Resources	3,952,284	3,602,911	2,276,115
Liabilities:			
Current Liabilities	9,826,550	11,443,040	7,559,023
Long-Term Liabilities	20,037,295	17,290,604	16,720,800
Total Liabilities	29,863,845	28,733,644	24,279,823
Total Deferred Inflow of Resources	3,086,620	5,067,076	1,482,298
Net Position			
Net Investment in Capital Assets	42,440,663	29,165,662	24,316,777
Restricted for Capital Projects	1,893,236	-	-
Unrestricted	5,072,500	7,965,024	14,574,217
Total Net Position	\$49,406,399	\$37,130,686	\$ 38,890,994

Condensed Statements of Revenues, Expenses and Changes in Net Position

Revenues:	3/31/2023	3/31/2022 (as restated)	3/31/2021
Operating Revenues			
Water Department	\$ 7,981,700	\$ 7,043,648	\$ 6,967,514
Sewer Department	6,220,556	5,673,961	5,817,548
Electrical Department	30,883,403	24,379,139	24,353,840
Non-operating Revenues	331,742	159,912	77,437
Total Revenues	45,417,401	37,256,660	37,216,339
Expenses:			
Operating Expenses, Excluding Depreciation			
Water Department	6,354,797	5,929,773	5,686,863
Sewer Department	4,979,490	4,601,214	4,204,908
Electrical Department	26,414,802	21,448,774	19,993,345
Warehouse, Clinic/Safety, and Administrative Departments	6,415,661	6,061,765	6,441,218
Depreciation Expense	3,777,792	3,312,973	3,025,254
Non-operating Expenses	-	9,572	71,792
Total Expense	47,942,542	41,364,071	39,423,380
Increase (Decrease) in Net Position, Before Capital Contributions	(2,525,141)	(4,107,411)	(2,207,041)
Capital Contributions	14,800,854	2,290,744	934,141
Increase (Decrease) in Net Position	12,275,713	(1,816,667)	(1,272,900)
Net Position (Beginning of Year) *restated 3/31/22	37,130,686	38,947,353	40,163,894
Net Position End of Year	\$ 49,406,399	\$ 37,130,686	\$ 38,890,994

General Trends and Significant Events

In FY 2023 the overall number of electric, water, and sewer accounts increased. Electric service accounts increased overall by 63; water service accounts increased by 1,243; and wastewater accounts increased by 20.

The Board had 327 million kwh electrical sales for FY 2023 and 235 million kwh electrical sales for FY 2022, for a total increase of 39.2% in electrical sales. Litchain was the largest electric customer accounting for 29.89% of total electrical usage. In FY 2022 Brown's Packing was the Board's largest electric demand customer, contributing approximately 9.5% of the total electrical usage for the utility.

The volume of water sold in FY 2023 was approximately 2.06 billion gallons compared to 2.09 billion gallons sold in FY 2022, netting an decrease in sales of 1.4%. Industrial water customer sales accounted for approximately 37% of the total usage. During FY 2023 and FY 2022, the Nestle Corporation was the Board's largest water customer, accounting for approximately 8.69% and 9.4% in FY 2022. FY 2023

wholesale water sales accounted for 22% of the total usage compared to 25% in FY 2022. The City of Blacksburg was the largest wholesale customer for both FY 2023 and FY 2022.

The volume of wastewater (sewer) billed in FY 2023 was 1.08 billion gallons compared to 1.10 billion gallons sold in FY 2022. During FY 2023 and FY 2022, the Nestle Corporation was the Board's largest sewer customer, contributing approximately 16.4% and 14.6%, respectively of the total sewer usage for the utility.

Financial Condition

The Board experienced an increase in its net position of \$12,275,713 for FY 2023 after experiencing a decrease of \$1,816,667 (as restated) for FY 2022 when accounting for capital contributions. The increase in net position was due to the acquisition of Macedonia Water Works, donated assets, grant monies received for ongoing construction projects, and also increased electricity sales to Bit5ive cryptocurrency mining. The Board's financial condition remains strong at year-end with adequate liquid assets, reliable facilities to meet demand, and a reasonable level of an unrestricted net position. The current financial condition, technical support staff capabilities, and operating and expansion plans to meet anticipated customer needs are well balanced and under control.

Total assets and deferred outflows of resources combined in FY 2023 were \$82,356,872, with a \$42,440,663 net investment in capital assets, \$1,893,236 restricted for capital projects, and \$5,072,500 unrestricted for a \$49,406,399 total net position. Total assets and deferred outflows of resources combined for FY 2022 were \$70,931,406 with a \$29,165,662 net investment in capital assets and \$7,965,024 unrestricted for a \$37,130,686 (as restated) total net position.

Accounts receivable for FY 2023 were \$4,382,445 compared to \$3,569,238 in FY 2022.

Results of Operations

Operating Revenues:

Revenues from operations fall into three categories: electric service, water service and wastewater service. The ancillary charges such as tap fees, service charges and penalties are shown in each of the respective categories. The Board has inside and outside the city residential, commercial, and industrial water and sewer customer classes. The Board has seven electric customer classifications: residential all gas, residential gas hot water heater, residential total electric, commercial, commercial total electric, industrial, and economic development.

The average realized rate from electrical sales in FY 2023 was \$94.44 per thousand kwh delivered compared to \$103.74 and \$106.35 in FY 2022 and FY 2021, respectively. The average realized rate from water sales in FY 2023 was \$3.87 per thousand gallons compared to \$3.37 and \$3.44 in FY 2022 and FY 2021, respectively. The average realized rate from wastewater treatment in FY 2023 was \$5.76 per thousand gallons treated compared to \$5.16 and \$5.28 in FY 2022 and FY 2021, respectively.

Operating Expenses:

The Board operates and maintains an electrical distribution system, a potable water treatment and delivery system, and a wastewater collection and treatment system. The overhead electrical distribution system consists of 16 dedicated circuits originating from 6 different outdoor substations. The water is treated at

the Victor Gaffney and Cherokee Water Treatment Plants with a capacity of 12 million gallons per day and 6 million gallons per day, respectively.

The following table shows the operating expenses for each of the departments.

Actual Amounts in 1000's

	<u>3/31/2023</u>	<u>3/31/2022</u>	<u>3/31/2021</u>
Water Operating Expenses			
Total	\$ 7,909	\$ 7,259	\$ 6,855
Excluding Depreciation	\$ 6,355	\$ 5,930	\$ 5,687
Wastewater Operating Expenses			
Total	\$ 6,004	\$ 5,516	\$ 5,022
Excluding Depreciation	\$ 4,979	\$ 4,601	\$ 4,205
Electrical Operating Expenses			
Total	\$ 27,478	\$ 22,399	\$ 20,928
Excluding Depreciation	\$ 26,415	\$ 21,449	\$ 19,993

The average electric operating cost per thousand kwh delivered was \$84.03 in FY 2023 versus \$95.31 and \$91.38 in FY 2022 and FY 2021, respectively. The average water operating cost per thousand gallons consumed was \$3.84 in FY 2023 versus \$3.47 and \$3.39 in FY 2022 and FY 2021, respectively. The wastewater operating cost per thousand gallons treated was \$5.56 in FY 2023 versus \$5.01 and \$4.56 in FY 2022 and FY 2021, respectively. The domestic component of the wastewater flow is relatively constant and directly proportional to the domestic water flow, but the industrial component and required treatment fluctuates with the strength of the industrial waste stream. The sewer surcharge rates, industrial discharge permits and other associated fees related to the industrial wastewater are designed to recover the additional expenses incurred due to the higher strength waste. The relatively stable cost per thousand gallons is an indication that the industrial fee structure is effective in recovering those costs.

Capital Contributions and Grants:

The Board agrees to own and operate water and sewer lines that are funded by developers as long as the facilities are installed in accordance with the Board's specifications. The Board also receives contributions from developers and occasionally, contributions from federal/state agencies and other entities in the form of grants for capital projects. Additionally, during FY 2023 the Board absorbed the Macedonia Water Works system.

During FY 2023, the total contributed assets were \$14,800,854; the following contributions and grants make up that amount:

- \$46,635 in water line extension for subdivision and commercial expansions.
- \$1,059,701 in capital contributions for Upstate Corporate Park wastewater extension
- \$3,071,618 from the SC Dept. of Commerce for engineering of Project Gateway wastewater extension
- \$2,587,386 in water and sewer line relocations resulting from the widening of the I-85 corridor through Cherokee County
- \$7,106,341 from the acquisition of Macedonia Water Works
- The remaining \$929,173 in contributed assets was made up of water, sewer and electric tap charges and other miscellaneous developer funds.

Cash Flow Activity

The following table shows the Board'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.

	<u>2023</u>	<u>2022</u> <u>(as restated)</u>	<u>2021</u>
Total operating revenues	\$45,085,659	\$37,096,748	\$37,138,902
Net cash provided (used) by operations	<u>(\$ 1,818,212)</u>	<u>\$ 4,029,661</u>	<u>\$ 3,814,894</u>
Net operating cash as a % of operating revenue	(4.03%)	10.86%	10.30%

Capital Assets and Debt Administration

Capital Assets

At the end of FY 2023, the Board had \$42,984,527 invested in capital assets as provided in the following schedule:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Transmission, Distribution, and Treatment Facilities	\$ 156,024,118	\$ 138,310,484	\$ 137,077,173
Property and Other Facilities	8,468,122	7,533,266	6,319,424
Vehicles, Office and Maintenance Equipment	7,765,397	8,100,147	7,019,668
Construction in Progress	<u>3,720,997</u>	<u>7,411,366</u>	<u>1,491,787</u>
	175,978,634	161,355,263	151,908,052
Accumulated Depreciation	<u>(132,994,107)</u>	<u>(129,828,893)</u>	<u>(127,025,888)</u>
	<u>\$ 42,984,527</u>	<u>\$ 31,526,370</u>	<u>\$ 24,882,164</u>

For FY 2023, the Board spent \$7,950,592 on significant improvements and additions, compared to \$9,957,179 and \$3,962,841 in FY 2022 and FY 2021, respectively.

In FY 2023, capital expenses included significant additions to construction in progress through construction of electric, water, and sewer infrastructure; \$328,239 in water tank improvements and \$2,504,239 for engineering services for Project Gateway. Other significant additions included \$316,755 for the Macedonia Water Works acquisition; \$883,113 for Picnic Shelter and Rifle Range upgrades; \$2,632,790 for lift stations, and \$219,231 for new water meters.

For more information on the changes in capital assets, see Note 3 to the financial statements.

Economic Factors and Fiscal Year 2023 Significant Notations

During the Board's final fiscal quarter of 2022, global inflation began effecting board operating expenses. Fiscal year 2023 saw significant inflation cost pressure and increased lead times on materials, which is expected to continue into FY 2024.

On April 1st 2022, the Board finalized the asset acquisition of Macedonia Water Works. Macedonia Water Works Board of Commissioners voted to dissolve the organization and turn over the all assets, customers, and operations of their system to the Board. As part of the merger Macedonia Water Works transferred \$2,500,000 to the Board as restricted funds for infrastructure improvements. In April 2023, the Board was awarded \$10,000,000 of federal funds allocated by State and Local Fiscal Recovery Funds through the American Rescue Plan Act (ARPA) of 2021 for Macedonia water improvements.

During FY 2023, the Board was awarded \$50,000,000 of federal funds allocated by the State and Local Fiscal Recovery Funds through ARPA to provide funding for sewer infrastructure construction costs along Interstate 85. At year end, the project was still in the engineering phase and construction will begin in FY 2024.

The positive net position at year end confirms the Board continues to take necessary measures to keep the utility in a stable economic position.

Request for Information

This financial report is intended to provide a general overview of the Board's finances. For questions concerning this report or other requests for financial information, please contact:

General Manager
Gaffney Board of Public Works
P.O. Box 64
Gaffney, South Carolina 29342
(864) 488-8800

GAFFNEY BOARD OF PUBLIC WORKS
STATEMENTS OF NET POSITION
MARCH 31, 2023 AND 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2023	Restated 2022
Current Assets		
Cash	\$ 12,339,163	\$ 15,378,729
Investments	1,905,585	5,432,626
Accounts receivable - net of allowance for doubtful accounts of \$49,086 and \$63,775 at March 31, 2023 and 2022, respectively	4,382,445	3,569,238
Leases receivable - current portion	89,897	83,951
Other receivables	2,091,835	1,793,584
Inventories	2,358,604	1,714,526
Prepaid expenses	182,463	281,006
Total Current Assets	<u>23,349,992</u>	<u>28,253,660</u>
Noncurrent Assets		
Restricted cash	5,831,904	4,714,220
Investments	4,233,597	739,780
Leases receivable - net of current portion	2,004,568	2,094,465
Capital assets - nondepreciable	5,726,551	9,379,150
Capital assets - net of accumulated depreciation	37,257,976	22,147,220
Total Noncurrent Assets	<u>55,054,596</u>	<u>39,074,835</u>
Total Assets	<u>78,404,588</u>	<u>67,328,495</u>
Deferred Outflows of Resources		
Deferred amounts related to pensions	2,024,393	2,221,083
Deferred amounts related to OPEB	1,927,891	1,381,828
Total Deferred Outflows of Resources	<u>3,952,284</u>	<u>3,602,911</u>

GAFFNEY BOARD OF PUBLIC WORKS
STATEMENTS OF NET POSITION - CONTINUED
MARCH 31, 2023 AND 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2023</u>	<u>Restated 2022</u>
Current Liabilities		
Accounts payable	1,095,684	2,729,431
Accrued salaries and related withholdings	873,868	813,347
Accrued compensated absences	702,192	596,218
Accrued expenses	2,607,114	2,535,574
Payable from restricted assets - customer deposits	3,938,668	4,714,220
Advanced tapping fees	609,024	54,250
Total Current Liabilities	<u>9,826,550</u>	<u>11,443,040</u>
Long-term Liabilities		
Net pension liability	13,758,262	11,842,994
Net OPEB liability	6,279,033	5,447,610
Total Long-term Liabilities	<u>20,037,295</u>	<u>17,290,604</u>
Total Liabilities	<u>29,863,845</u>	<u>28,733,644</u>
Deferred Inflows of Resources		
Deferred amounts related to pensions	59,958	1,736,335
Deferred amounts related to OPEB	1,058,465	1,244,138
Deferred amounts related to leases	1,968,205	2,086,603
Total Deferred Inflows of Resources	<u>3,086,628</u>	<u>5,067,076</u>
Net Position		
Net investment in capital assets	42,440,663	29,165,662
Restricted for capital projects	1,893,236	-
Unrestricted	5,072,500	7,965,024
Total Net Position	<u>\$ 49,406,399</u>	<u>\$ 37,130,686</u>

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

GAFFNEY BOARD OF PUBLIC WORKS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	2023	Restated 2022
Operating Revenues		
Water department	\$ 7,981,700	\$ 7,043,648
Sewer department	6,220,556	5,673,961
Electrical department	30,883,403	24,379,139
	45,085,659	37,096,748
Operating Expenses		
Water department	6,354,797	5,929,773
Sewer department	4,979,490	4,601,214
Electrical department	26,414,802	21,448,774
Warehouse, clinic/safety and administrative departments	6,415,661	6,061,765
Depreciation expense	3,777,792	3,312,973
	47,942,542	41,354,499
Operating Loss	(2,856,883)	(4,257,751)
Nonoperating Revenues (Expenses)		
Interest income	110,721	43,819
Lease revenue	118,398	116,093
Gain (loss) on sale of capital assets	102,623	(9,572)
	331,742	150,340
Decrease in Net Position - Before Capital Contributions	(2,525,141)	(4,107,411)
Capital Contributions	14,800,854	2,290,744
Increase (Decrease) in Net Position	12,275,713	(1,816,667)
Net Position - Beginning of Year	37,130,686	38,947,353
Net Position - End of Year	\$ 49,406,399	\$ 37,130,686

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

GAFFNEY BOARD OF PUBLIC WORKS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	2023	Restated 2022
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 44,528,975	\$ 36,551,520
Cash paid to suppliers for goods and services	(32,155,311)	(19,938,021)
Cash paid to or for the benefit of employees	(14,191,876)	(12,583,838)
	(1,818,212)	4,029,661
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Proceeds from the sale of capital assets	106,078	5,000
Acquisition and construction of capital assets	(7,950,592)	(9,957,179)
Capital contributions	7,512,948	2,290,744
Lease revenue	83,951	80,639
Interest received on leases	38,909	39,971
	(208,706)	(7,540,825)
Cash Flows Provided (Used) by Investing Activities		
Interest received on cash investments	71,812	3,848
Sale (purchase) of investments	(4,334,642)	1,497,559
	(4,262,830)	1,501,407
Net Increase (Decrease) in Cash and Cash Equivalents	(6,289,748)	(2,009,757)
Cash and Cash Equivalents - Beginning of Year	24,490,429	26,500,186
Cash and Cash Equivalents - End of Year	\$ 18,200,681	\$ 24,490,429

GAFFNEY BOARD OF PUBLIC WORKS
 STATEMENTS OF CASH FLOWS - CONTINUED
 FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	<u>2023</u>	<u>Restated 2022</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	<u>\$ (2,856,883)</u>	<u>\$ (4,257,751)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	3,777,791	3,312,973
Pension expense	1,352,504	983,043
OPEB expense	99,687	1,880,111
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(813,207)	(515,482)
Unbilled revenue	(298,251)	(76,746)
Inventories	(644,983)	(241,342)
Other current assets	98,543	(104,462)
Deferred outflows related to pensions	(916,923)	(834,700)
Increase (decrease) in liabilities:		
Accounts payable	(1,633,747)	1,765,289
Accrued salaries and related withholdings	60,521	95,762
Accrued compensated absences	105,974	(15,411)
Accrued expenses	71,540	444,175
Customer deposits	(775,552)	1,547,202
Advanced tapping fees	554,774	47,000
	<u>1,038,671</u>	<u>8,287,412</u>
Net Cash Provided by Operating Activities	<u>\$ (1,818,212)</u>	<u>\$ 4,029,661</u>
Noncash Investing, Capital and Financing Activities		
Contribution of capital assets	\$ 7,287,906	\$ -

GAFFNEY BOARD OF PUBLIC WORKS
 STATEMENTS OF CASH FLOWS - CONTINUED
 FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	<u>2023</u>	<u>Restated 2022</u>
Reconciliation of Cash and Investments as Shown on the Statements of Net Position and Statements of Cash Flows		
Statements of Net Position classifications		
Current assets		
Cash	\$ 12,339,163	\$ 15,378,729
Investments	1,905,585	5,432,626
	<u>14,244,748</u>	<u>20,811,355</u>
Noncurrent assets		
Restricted cash	5,831,904	4,714,220
Investments	4,233,597	739,780
	<u>10,065,501</u>	<u>5,454,000</u>
	<u>\$ 24,310,249</u>	<u>\$ 26,265,355</u>
Cash flow classifications		
Petty cash	\$ 2,500	\$ 2,500
Cash deposits	18,168,567	20,090,450
Money market funds	29,614	4,397,479
	<u>18,200,681</u>	<u>24,490,429</u>
Certificates of deposit	6,109,568	1,774,926
	<u>\$ 24,310,249</u>	<u>\$ 26,265,355</u>

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

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023 AND 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Gaffney Board of Public Works (the Board) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Board's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from these estimates.

Reporting Entity

The Gaffney Board of Public Works was created pursuant to Act No. 389 of the Acts and Joint Resolutions of the South Carolina General Assembly, 1907. This and other Acts empower the Board to be the sole provider of electric, water and sewer services within the corporate limits of the City of Gaffney and surrounding areas, to establish rules and regulations and to set rates for such services. The Board is governed by an elected five-member Board of Commissioners.

Financial Statements and Method of Accounting

Under accounting principles generally accepted in the United States of America (GAAP), the Board is considered to be a self-supporting enterprise, and these financial statements are presented accordingly. Enterprise funds, a type of proprietary fund, are used to account for operations 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. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles.

The enterprise fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Use of Restricted Resources

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

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Cash and Cash Equivalents

For purposes of reporting cash flows, all investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments

Investments are reported at fair value.

Inventories

Inventories are stated at the lower of cost (moving average) or net realizable value. Inventories consist of expendable supplies held for consumption.

Leases

The Board is lessor on leases of communications sites (water tank) and excess fiber optic cable capacity. The lease receivable is measured at the present value of payments expected to be received and is reduced in subsequent years by the principal portion of payments received. The deferred inflow of resources is initially measured at the present value of future lease payments plus any payments received prior to the beginning of the lease period. The deferred inflow of resources is amortized over the life of the lease and is recognized as revenue in subsequent years.

The Board uses the interest rate specified in the lease agreement to determine the interest portion of the lease payment. If no interest rate is specified in the lease agreement, the Board uses its estimated incremental borrowing rate as the discount rate.

The lease term typically includes the original lease term plus any optional terms of renewal, if it is reasonably certain that those renewal options will be exercised.

The Board annually monitors changes in circumstances that may require remeasurement of the lease receivable and deferred inflow of resources. Adjustments are made when significant changes occur to the asset and/or liability.

Capital Assets

Capital assets are stated at cost. Donated capital assets are recorded at estimated acquisition value on the date donated. Major outlays for capital assets and improvements of \$500 or more are capitalized as projects are constructed. Interest costs associated with monies borrowed and used to finance construction of capital projects have been expensed as a period cost in the year in which it became due.

Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Water plant and lines	20-50
Sewer plant and lines	20-33.3
Electrical	10-25
Office and warehouse buildings	20-40
Office equipment	10
Equipment and vehicles	4-8

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2023 AND 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences

Eligible employees receive Personal Time Off (PTO) based on years of service ranging from one (1) to forty-eight (48) days annually. The PTO policy provides for no carry over from one calendar year to the next. All unused PTO as of December 31st is paid on an annual basis.

Long-term Debt

Bond premium and discounts are deferred and equally amortized over the life of the bonds.

Pensions

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 South Carolina Retirement System (SCRS) and additions to/deductions from the SCRS' fiduciary net position have been determined on the accrual basis of accounting as it is reported by the SCRS in accordance with GAAP. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

In the Statements of Net Position, in addition to assets and liabilities, separate sections for deferred outflows and deferred inflows of resources are reported. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an expense until then. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as revenue until that time. The Board's deferred outflows of resources are deferred amounts related to the Board's defined benefit pension plan and other post-employment benefits (OPEB) plan. The Board's deferred inflows of resources are amounts related to the Board's defined benefit pension plan, OPEB plan, and leases.

Capital Contributions

The Board frequently has contributions to its sewer and water system from developers and contractors. In addition, the Board receives grant monies for construction of improvements or extensions to its system at various times. These contributions are recognized in the Statements of Revenues, Expenses and Changes in Net Position when earned. For the years ended March 31, 2023 and 2022, the Board received the following capital contributions:

	2023	2022
Donated assets	\$ 7,287,906	\$ -
Private industry and developers	4,401,215	2,236,127
Federal agencies	40,115	-
State agencies	3,071,618	54,617
	\$14,800,854	\$ 2,290,744

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Custodial Credit Risk – deposits – the risk that in the event of bank failure, the deposits may not be returned to the Board. The Board has no formal policy for custodial credit risk; however the Board does adhere to Section 6-5-15 of the S.C. Code of Laws, and will include collateralization of deposits through appropriately pledged securities or other investments.

Credit Risk - State statutes authorize the Board to invest in obligations of the United States and its agencies, general obligations (not revenue obligations) of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer’s Investment Pool. The Board has no formal investment policy that would further limit its investment choices.

Interest rate risk - the Board does not have a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At March 31, 2023 and 2022 the Board had the following investments:

Investment Type	Maturity	2023	2022	Rating
Edward Jones Money Market Fund	<60 days	\$ 29,614	\$ 4,397,479	AAAm

The Gaffney Board of Public Works is required under bond indenture agreements and GASB to segregate certain assets. The following assets have been segregated and are restricted in use. The assets listed below are shown in their respective categories in the accompanying statements of net position.

	2023	2022
Noncurrent Assets		
Restricted cash		
Capital projects	\$ 1,893,236	\$ -
Customer deposits	3,917,759	4,689,998
Operation HOPE	20,909	24,221
	<u>\$ 5,831,904</u>	<u>\$ 4,714,219</u>

The following assets, although not legally restricted, have been designated by the Board:

	2023	2022
Depreciation fund	\$ 10,962,597	\$ 12,912,597
Contingency fund	3,723,182	5,673,182
	<u>\$ 14,685,779</u>	<u>\$ 18,585,779</u>

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 3 - CAPITAL ASSETS

Components of capital assets include the following for the fiscal years ended March 31, 2023 and 2022:

	2023				Balance at March 31, 2023
	Balance at March 31, 2022	Additions	Deletions	Transfers	
Capital Assets					
Nondepreciable					
Land and land rights	\$ 1,967,784	\$ 37,770	\$ -	\$ -	\$ 2,005,554
Construction in progress	7,411,366	5,262,146	-	(8,952,515)	3,720,997
Total Nondepreciable	<u>9,379,150</u>	<u>5,299,916</u>	<u>-</u>	<u>(8,952,515)</u>	<u>5,726,551</u>
Depreciable					
Water plant and lines	54,904,361	7,437,887	-	385,899	62,728,147
Sewer plant and lines	44,323,887	903,220	-	8,566,616	53,793,723
Electrical distribution and transmission lines	39,082,236	443,740	(23,728)	-	39,502,248
Office and warehouse buildings	5,565,482	897,086	-	-	6,462,568
Office equipment	2,372,363	60,090	(9,000)	-	2,423,453
Equipment and vehicles	5,727,784	235,039	(620,879)	-	5,341,944
	<u>151,976,113</u>	<u>9,977,062</u>	<u>(653,607)</u>	<u>8,952,515</u>	<u>170,252,083</u>
Accumulated Depreciation					
Water plant and lines	46,904,370	1,278,608	-	-	48,182,978
Sewer plant and lines	39,967,675	798,418	-	-	40,766,093
Electrical distribution and transmission lines	33,295,129	847,420	(23,728)	-	34,118,821
Office and warehouse buildings	3,358,828	174,766	-	-	3,533,594
Office equipment	1,960,293	160,438	(6,450)	-	2,114,281
Equipment and vehicles	4,342,598	518,141	(582,399)	-	4,278,340
	<u>129,828,893</u>	<u>3,777,791</u>	<u>(612,577)</u>	<u>-</u>	<u>132,994,107</u>
Total depreciable	<u>22,147,220</u>				<u>37,257,976</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 31,526,370</u>				<u>\$ 42,984,527</u>

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 3 - CAPITAL ASSETS - CONTINUED

	2022				Balance at March 31, 2022
	Balance at March 31, 2021	Additions	Deletions	Transfers	
Capital Assets					
Nondepreciable					
Land and land rights	\$ 1,967,784	\$ -	\$ -	\$ -	\$ 1,967,784
Construction in progress	1,491,787	6,069,053	-	(149,474)	7,411,366
Total Nondepreciable	<u>3,459,571</u>	<u>6,069,053</u>	<u>-</u>	<u>(149,474)</u>	<u>9,379,150</u>
Depreciable					
Water plant and lines	54,348,608	508,314	(102,664)	150,103	54,904,361
Sewer plant and lines	44,238,383	146,274	(60,141)	(629)	44,323,887
Electrical distribution and transmission lines	38,490,182	760,951	(168,897)	-	39,082,236
Office and warehouse buildings	4,351,640	1,214,807	(965)	-	5,565,482
Office equipment	2,182,111	190,766	(514)	-	2,372,363
Equipment and vehicles	4,837,557	1,156,232	(266,005)	-	5,727,784
	<u>148,448,481</u>	<u>3,977,344</u>	<u>(599,186)</u>	<u>149,474</u>	<u>151,976,113</u>
Accumulated Depreciation					
Water plant and lines	45,882,184	1,124,850	(102,664)	-	46,904,370
Sewer plant and lines	39,322,873	704,943	(60,141)	-	39,967,675
Electrical distribution and transmission lines	32,644,648	819,378	(168,897)	-	33,295,129
Office and warehouse buildings	3,276,854	82,939	(965)	-	3,358,828
Office equipment	1,803,062	157,745	(514)	-	1,960,293
Equipment and vehicles	4,096,267	423,118	(176,787)	-	4,342,598
	<u>127,025,888</u>	<u>3,312,973</u>	<u>(509,968)</u>	<u>-</u>	<u>129,828,893</u>
Total depreciable	<u>21,422,593</u>				<u>22,147,220</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 24,882,164</u>				<u>\$ 31,526,370</u>

Depreciation expense was \$3,777,791 and \$3,312,973 for the fiscal years ending March 31, 2023 and 2022, respectively.

NOTE 4 – LEASES

The Board participates in a number of lease agreements as lessor for the lease of space at Board-owned communication towers (water tanks) and excess capacity of the Board-owned fiber optic cable system.

In October 2014, the Board entered into a 10-year lease agreement as lessor for the use of space at communication towers (water tanks) owned by the Board. The lease includes the option to renew for 4 additional five-year periods. The Board anticipates the lessee will exercise these renewal options. The agreement requires annual principal and interest payments of \$35,280, with a five-year 5% escalation clause. Interest is calculated using the Board's incremental borrowing rate of 2.60%. The initial lease receivable was recorded at \$684,350 as of the GASB 87 implementation date and has an outstanding balance of \$648,921 and \$666,863 as of March 31, 2023 and 2022, respectively. A deferred inflow of resources was recorded for \$673,338 and is being amortized over the remaining life of the lease. The unamortized deferred inflow of resources as of March 31, 2023 and 2022, was \$617,226 and \$645,282, respectively and had accumulated amortization of \$84,168 and \$56,112, respectively.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 4 - LEASES - CONTINUED

In January 2019, the Board entered into a five-year lease agreement as lessor for the use of space at communication towers (water tanks) owned by the Board. The lease includes the option to renew for 5 additional five-year periods. The Board anticipates the lessee will exercise these renewal options. The agreement requires annual principal and interest payments of \$26,500, with a 15% escalation clause each renewal. Interest is calculated using the Board's incremental borrowing rate of 1.45%. The initial lease receivable was recorded at \$898,284 as of the GASB 87 implementation date and has an outstanding balance of \$871,139 and \$884,809 as of March 31, 2023 and 2022, respectively. A deferred inflow of resources was recorded for \$863,015 and is being amortized over the remaining life of the lease. The unamortized deferred inflow of resources as of March 31, 2023 and 2022, was \$801,371 and \$832,193, respectively and had accumulated amortization of \$123,288 and \$92,466, respectively.

In September 2020, the Board entered into a 10-year lease agreement as lessor for the excess capacity of the fiber optic cable system owned by the Board. The agreement requires monthly principal and interest payments of \$2,990. Interest is calculated using the Board's incremental borrowing rate of 1.45%. The initial lease receivable was recorded at \$255,613 as of the GASB 87 implementation date and has an outstanding balance of \$190,364 and \$223,225 as of March 31, 2023 and 2022, respectively. A deferred inflow of resources was recorded for \$253,373 and is being amortized over the remaining life of the lease. The unamortized deferred inflow of resources as of March 31, 2023 and 2022, was \$186,557 and \$219,965, respectively and had accumulated amortization of \$114,144 and \$80,736, respectively.

In September 2011, the Board entered into a 10-year lease agreement as lessor for the excess capacity of the fiber optic cable system owned by the Board. The lease included the option to renew for an additional 10 years that was exercised in September 2021. The agreement requires monthly principal and interest payments of \$450, with an increase of \$50 a month or CPI, whichever is greater, escalation clause every five years. Interest is calculated using the Board's incremental borrowing rate of 1.45%. The initial lease receivable was recorded at \$55,280 as of the GASB 87 implementation date and has an outstanding balance of \$47,920 and \$52,588 as of March 31, 2023 and 2022, respectively. A deferred inflow of resources was recorded for \$55,280 and is being amortized over the remaining life of the lease. The unamortized deferred inflow of resources as of March 31, 2023 and 2022, was \$46,521 and \$52,053, respectively and had accumulated amortization of \$8,759 and \$3,227, respectively.

In July 2017, the Board entered into a 10-year lease agreement as lessor for the excess capacity of the fiber optic cable system owned by the Board. The lease includes the option to renew for an additional 10 years. The Board anticipates the lessee will exercise these renewal options. The agreement requires monthly principal and interest payments of \$500, with an increase of approximately 12% or CPI, whichever is greater, escalation clause every five years. Interest is calculated using the Board's incremental borrowing rate of 1.45%. The initial lease receivable was recorded at \$105,292 as of the GASB 87 implementation date and has an outstanding balance of \$96,220 and \$100,789 as of March 31, 2023 and 2022, respectively. A deferred inflow of resources was recorded for \$102,034 and is being amortized over the remaining life of the lease. The unamortized deferred inflow of resources as of March 31, 2023 and 2022, was \$89,482 and \$95,758, respectively and had accumulated amortization of \$23,535 and \$17,259, respectively.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 4 - LEASES - CONTINUED

In January 2018, the Board entered into a 10-year lease agreement as lessor for the excess capacity of the fiber optic cable system owned by the Board. The lease includes the option to renew for an additional 10 years. The Board anticipates the lessee will exercise these renewal options. The agreement requires monthly principal and interest payments of \$650, with an increase of \$75-100 or CPI, whichever is greater, escalation clause every five years. Interest is calculated using the Board's incremental borrowing rate of 1.45%. The initial lease receivable was recorded at \$141,022 as of the GASB 87 implementation date and has an outstanding balance of \$129,350 and \$135,228 as of March 31, 2023 and 2022, respectively. A deferred inflow of resources was recorded for \$137,857 and is being amortized over the remaining life of the lease. The unamortized deferred inflow of resources as of March 31, 2023 and 2022, was \$121,393 and \$129,625, respectively and had accumulated amortization of \$26,754 and \$18,522, respectively.

In September 2020, the Board entered into a 5-year lease agreement as lessor for the excess capacity of the fiber optic cable system owned by the Board. The lease includes the option to renew for an additional 3 fee year periods. The Board anticipates the lessee will exercise these renewal options. The agreement requires monthly principal and interest payments of \$500, with an increase of approximately 12% or CPI, whichever is greater, escalation clause every renewal. Interest is calculated using the Board's incremental borrowing rate of 1.45%. The initial lease receivable was recorded at \$119,214 as of the GASB 87 implementation date and has an outstanding balance of \$110,551 and \$114,914 as of March 31, 2023 and 2022, respectively. A deferred inflow of resources was recorded for \$117,799 and is being amortized over the remaining life of the lease. The unamortized deferred inflow of resources as of March 31, 2023 and 2022, was \$105,655 and \$111,727, respectively and had accumulated amortization of \$16,192 and \$10,120, respectively.

NOTE 5 - PENSION PLAN

Plan Description - The Board, as the employer, participates in the South Carolina Retirement System (SCRS) Plan - a cost-sharing multiple-employer defined benefit pension plan administered and managed by the South Carolina Public Employee Benefit Authority (PEBA), a state agency. PEBA issues an Annual Comprehensive Financial Report containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The Comprehensive Annual Financial Report is publicly available through 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.

Benefits Provided/Membership - SCRS provides retirement and other benefits for teachers and employees of the state and its political subdivisions. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Membership and 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. Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 5 - PENSION PLAN - CONTINUED

Benefits Provided/Membership - Continued - This plan covers general employees and teachers and first-term individuals elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. 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.

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

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or \$500 every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions - Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. The Retirement Funding and Administrative Act of 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% for SCRS. The legislation also increased employer contribution rates 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. The General Assembly postponed the one percent increase in the SCRS employer contribution rate that was scheduled to go into effect beginning July 1, 2020. In accordance with the legislative funding schedule, employer contribution rates will continue to increase by one percentage point each year until reaching 18.56% for SCRS but may be increased further, if the scheduled contributions are not sufficient to meet the funding periods set for the applicable year. The board shall increase the employer contribution rates as necessary to meet the amortization period set by state statute.

Pension reform legislation modified state statute such that the employer contributions rates for SCRS to be further increased, not to exceed one-half of a percent in any one year if necessary, in order to improve the funding of the plans. The statute set rates intended to reduce the unfunded liability of SCRS to the maximum amortization period of 20 years from 30 years over a 10-year schedule, as determined by the annual actuarial valuations of the plan. Finally, under the revised statute, the contribution rates for SCRS may not be decreased until the plan is at least 85% funded.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 5 - PENSION PLAN - CONTINUED

Contributions - Continued - Required employee (both Class II and III) contribution rates for the years ended March 31, 2023 and 2022 was 9.00%. Required employer contribution rates for the years ended March 31, 2023 and 2022 were 17.41% and 16.41%, respectively. Both required employee and employer contribution rates are calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws. Employers also contribute an additional .15% of earnable compensation, if participating in the incidental death benefit program.

Contributions to the Plan from the Board were \$1,201,348 and \$1,084,013, for the years ended March 31, 2023 and 2022, respectively

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At March 31, 2023, the Board reported a net pension liability of \$13,758,262 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability, net pension liability and sensitivity information are based on an actuarial valuation performed as of July 1, 2021. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2022, using generally accepted actuarial principles. The allocation of the Board's proportion shares of the collective net pension liability and pension expense were calculated on the basis of the Board's contributions actually remitted to the plan relative to the total contributions remitted to the plan for all participating employers, less employer contributions that are not representative of future contributions effort, as of June 30, 2022. Based upon this information, the Board's proportion of the collective net pension liability at March 31, 2023 and 2022 was .056753% and .054724%, respectively, an increase of .00203%, since June 30, 2021, the prior measurement date.

For the years ended March 31, 2023 and 2022, the Board recognized pension expense of \$1,352,504 and \$983,043, respectively. At March 31, 2023 and 2022, the Board reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

	2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 119,534	\$ (59,958)
Changes in assumptions	441,260	-
Net difference between projected and actual earnings on pension plan investments	21,218	-
Changes in Board's proportion and differences between the Board's contributions and proportionate share of contributions	525,458	-
Board contributions subsequent to the measurement date	916,923	-
Total	\$ 2,024,393	\$ (59,958)

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 5 - PENSION PLAN - CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued -

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 201,732	\$ (15,984)
Changes in assumptions	648,247	-
Net difference between projected and actual earnings on pension plan investments	-	(1,720,351)
Changes in proportion and differences between County contributions and proportionate share of contributions	536,404	-
Board contributions subsequent to the measurement date	834,700	-
Total	\$ 2,221,083	\$ (1,736,335)

\$916,923 reported as deferred outflows of resources related to pensions in 2023, resulted from Board contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended March 31, 2024. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended March 31	
2024	\$ (588,419)
2025	(329,602)
2026	229,318
2027	(358,809)
	\$ (1,047,512)

Actuarial Assumptions - Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared to 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 System was most recently issued for the period ending July 1, 2019.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 5 - PENSION PLAN - CONTINUED

Actuarial Assumptions - Continued - The June 30, 2022, total pension liability, net pension liability, and sensitivity information determined by and based on an actuarial valuation performed as of July 1, 2021, used the following actuarial assumptions and methods:

Actuarial cost method	Entry age normal
Inflation	2.25%
Projected salary increases	3.0% to 11.0% (varies by service and includes 2.25% inflation)
Benefit adjustments	lesser of 1% or \$500 annually
Investment rate of return	7.00% (includes 2.25% inflation)

There was no legislation enacted during the 2022 legislative session that had a material change in the benefit provisions.

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2022 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 following table. For actuarial purposes, the 7.00% assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75% real rate of return and a 2.25% inflation component.

Allocation/Exposure	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-term Expected Portfolio Real Rate of Return
Public Equity	46%	6.79%	3.12%
Bonds	26%	-0.35%	-0.09%
Private Equity	9%	8.75%	0.79%
Private Debt	7%	6.00%	0.42%
Real Assets			
Real Estate	9%	4.12%	0.37%
Infrastructure	3%	5.88%	0.18%
Total Expected Return	100%		4.79%
Inflation for Actuarial Purposes			2.25%
			7.04%

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2023 AND 2022

NOTE 5 - PENSION PLAN - CONTINUED

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on actuarially determined rates based on the provisions of the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Board's proportionate share of the collective net pension liability calculated using the discount rate of 7.00%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Board's proportionate share of the collective net pension liability	\$ 17,639,790	\$ 13,758,262	\$ 10,531,276

Pension Plan Fiduciary Net Position - Detailed information regarding the fiduciary net position of the plan, administered by PEBA, is available in the Systems' audited financial statements for the fiscal year ended June 30, 2022 (including the unmodified opinion on the financial statements). Information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the accrual basis of accounting. Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2022. The additional information is publicly available on PEBA's website at www.peba.sc.gov.

NOTE 6 - DEFERRED COMPENSATION PLANS

The Board offers its employees and Commissioners a deferred compensation plan through the South Carolina Deferred Compensation Commission, created in accordance with the Internal Revenue Code Sections 457 and 401(k). The plan, available to all Board employees and Commissioners, permits them to defer a portion of their salary, up to the maximum allowed by law, until future years. The Board does not "own" the amounts deferred by plan participants or the related income on those amounts and does not have a contractual liability to the plan participants, except as it relates to employer matching contributions.

The Board matches employee contributions, 100%, to the Section 457 and 401(k) plans. The Board's match for the fiscal years ended March 31, 2023 and 2022 was \$982,010 and \$893,803, respectively.

In addition, the Board matches contributions for selected management employees, up to the maximum amount allowed by the 457 and 401(k) plans and pays related personal income taxes, to nonqualified supplemental retirement plans. The Board's expense for the years ended March 31, 2023 and 2022 was \$39,874 for the contributions and related income taxes.

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2023 AND 2022

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS

Plan Description

Plan Administration and Benefits – The Board, through its commitment to provide other post-employment benefits (OPEB), maintains a defined benefit plan to provide certain post-retirement healthcare benefits, administered by the Board. The plan provides medical and dental insurance coverage through third-party insurers to all retirees and their dependents who meet the SCRS qualifications for unreduced retirement and have been employed by the Board a minimum of 20 consecutive years prior to their retirement from SCRS. Commissioners must have served two full terms or 12 consecutive years. Retirees must have attained the minimum age of 60 years prior to retirement and qualifying spouses must be the spouse on record at the time of the employee’s retirement.

The Board, upon majority vote of the elected 5 member Board of Commissioners, has the authority to establish and amend benefit provisions.

The plan is an agent multiple employer plan with the Public Agencies Post-Retirement Health Care Irrevocable Plan and Trust (PARS), which is a tax-exempt trust under the Internal Revenue Code Section 115. The General Manager of the Board serves as the Plan Administrator as appointed by the Board of Commissioners. With PARS, the Board has its own benefit plan (as disclosed previously) and its own separate agency account for the plan assets, contributions, income and fees. PARS issues annual audited financial statements for the Public Agencies Post-Retirement Health Care Plan Trust available upon request by participating agencies by contacting the Plan Accounting Department or emailing Trust@pars.org.

Plan Membership - Membership in the Plan as of March 31, 2023, was:

Inactive plan members or beneficiaries receiving benefits	37
Active plan members	86
Total plan members	123

Contributions - The contribution requirements of plan members and the Board are established and may be amended by the Board of Commissioners, upon majority vote of its members. The Board pays the entire premium for eligible retirees under 65. Medicare retirees (those retirees 65 and over) have their own supplemental health plan that is reimbursed monthly for their health and drug premiums from their supplemental plan by the Board. The Board contributes to the plan on a pay-as-you-go basis based on contractual insurance premiums. The Board also pre-funds future OPEB costs by making separate contributions to PARS, as determined annually by the Board. The Board contributions for the years ended March 31, 2023 and 2022 were \$1,106,347 and \$1,074,139, respectively that included an implicit subsidy of \$73,756 and \$51,065, respectively. \$750,000 of the total contributions were set aside in trust for the years ended March 31, 2023 and 2022.

Net OPEB Liability

The Board’s net OPEB liability as of March 31, 2023 and 2022 of \$6,279,033 and \$5,447,610, respectively was measured as of March 31, 2023 and 2022, respectively, and the total OPEB liability used to calculate the net OPEB liability as of March 31, 2023 and 2022 was determined by an actuarial valuation date of March 31, 2022 and March 31, 2020. Update procedures were used to roll forward the total OPEB liability to March 31, 2023 and 2022, respectively.

GAFFNEY BOARD OF PUBLIC WORKS
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 MARCH 31, 2023 AND 2022

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Net OPEB Liability - Continued

Actuarial Assumptions and Methods - the total OPEB liability in the March 31, 2022 actuarial valuation, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry-Age Normal
Inflation	2.25%
Salary Increases	3.00% to 9.5%, including inflation
Single Discount Rate	2.00% as of March 31, 2023
Demographic Assumptions	Based on the experience study covering the five year period ending June 30, 2019 as conducted for the South Carolina Retirement System (SCRS).
Mortality Assumptions	For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with the following multipliers are applied to the base tables: 97% for male SCRS members, 107% for female SCRS members. The rates are projected on a fully generational basis using 80% of the ultimate rates of Scale MP-2019 to account for future mortality improvements.
Health Care Trend Rates	Initial rate of 5.75% declining to an ultimate rate of 3.75% after 13 years
Participation Rates	It was assumed that 95% of eligible retirees would choose to receive retiree health care plan.

The assets are currently invested in cash and cash equivalents. The long-term expected rate of return was assumed to equal long-term inflation assumption of 2.00%

Discount Rate - A Single Discount Rate of 2.00% was used to measure the total OPEB liability. This Single Discount Rate was based on the expected rate of return on OPEB plan investments of 2.00%. The OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of Net OPEB Liability - Regarding the sensitivity of the net OPEB liability to changes in the Single Discount Rate, the following represents the plan's net OPEB liability, calculated using a Single Discount Rate of 2.00%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher:

1% Decrease 1.00%	Current Single Discount Rate Assumption 2.00%	1% Increase 3.00%
\$ 10,519,241	\$ 6,279,033	\$ 3,033,061

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Net OPEB Liability - Continued

Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, the following represents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$ 2,524,162	\$ 6,279,033	\$ 11,421,153

Changes in the Net OPEB Liability

	2023		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance as of March 31, 2022	\$ 16,907,933	\$ 11,460,323	\$ 5,447,610
Changes for the Year			
Service cost	823,840	-	823,840
Interest on the total OPEB liability	342,834	-	342,834
Changes of benefit terms	-	-	-
Difference between expected and actual experience	875,120	-	875,120
Change of assumptions	-	-	-
Employer contributions	-	1,106,347	(1,106,347)
Net investment income	-	132,754	(132,754)
Benefit payments	(356,347)	(356,347)	-
Administrative expense	-	(28,730)	28,730
Net Changes	1,685,447	854,024	831,423
Balance as of March 31, 2023	\$ 18,593,380	\$ 12,314,347	\$ 6,279,033
	2022		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance as of March 31, 2021	\$ 13,688,496	\$ 10,847,697	\$ 2,840,799
Changes for the Year			
Service cost	581,160	-	581,160
Interest on the total OPEB liability	276,340	-	276,340
Changes of benefit terms	2,167,508	-	2,167,508
Difference between expected and actual experience	17,010	-	17,010
Change of assumptions	501,558	-	501,558
Employer contributions	-	1,074,139	(1,074,139)
Net investment income	-	(109,835)	109,835
Benefit payments	(324,139)	(324,139)	-
Administrative expense	-	(27,539)	27,539
Net Changes	3,219,437	612,626	2,606,811
Balance as of March 31, 2022	\$ 16,907,933	\$ 11,460,323	\$ 5,447,610

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ending March 31, 2023 and 2022, the Board recognized OPEB expense of \$1,132,278 and \$2,903,185, respectively. At March 31, 2023 and 2022, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2023	
	Deferred Outflow s of Resources	Deferred Inflow s of Resources
Differences between expected and actual experience, liability	\$ 1,138,214	\$ -
Changes in assumptions	386,726	1,058,465
Difference between expected and actual experience, assets	402,951	-
	\$ 1,927,891	\$ 1,058,465

	2022	
	Deferred Outflow s of Resources	Deferred Inflow s of Resources
Differences between expected and actual experience, liability	\$ 450,351	\$ -
Changes in assumptions	444,145	1,244,138
Difference between expected and actual experience, assets	487,332	-
	\$ 1,381,828	\$ 1,244,138

The above deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending March 31	Net Deferred Outflow s (Inflow s)
2024	\$ 221,356
2025	191,327
2026	146,535
2027	35,134
2028	9,827
Thereafter	265,247
	\$ 869,426

NOTE 8 - EMPLOYMENT AGREEMENTS

The Board has an agreement with the general manager that provides for a minimum base salary, various benefits and a six (6) year severance package in the event of termination without cause.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 9 - RISK MANAGEMENT

The Board 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 Board is insured under policies through the South Carolina Office of Insurance Services, South Carolina Reserve Fund (the Fund) that is a public entity risk pool. The Board pays premiums to the Fund for its general liability, property and accidental insurance. The agreement for formation of the Fund provides that the Fund will be self-sustaining through member premiums and will reinsure through commercial companies for each insured event.

The Board did not have settled claims that exceeded the Board's insurance coverage in any of the past three years.

The Board provides group health insurance for all of its full time employees under the State Insurance Plan. The Board pays the employee and qualifying dependent premiums for this insurance plan. In addition to this plan, the Board provides employees and Commissioners with a health reimbursement account intended to assist in payment of increased deductibles and out of pocket, medical, dental, vision and prescription expenses.

The Board also participates in the South Carolina Municipal Insurance Trust for workers compensation insurance coverage up to the statutory limits.

NOTE 10 - INTERDEPARTMENTAL ALLOCATION OF COSTS

The Board records on its books, costs allocated to various departments, with the offsetting expense charged to the individual department. These amounts are included in the utility expenses of the administrative, clinic/safety, warehouse, water and sewer departments, and the offset is shown as a reduction of the total expenses of the water, sewer and electrical departments.

NOTE 11 - FRANCHISE FEES

The Board pays the City of Gaffney a fee of 3.05% of electricity sales. For the fiscal years ended March 31, 2023 and 2022, the Board paid the City \$844,910 and \$667,540, respectively, in franchise fees.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. Piedmont Municipal Power Agency

The City of Gaffney is a charter member of the Piedmont Municipal Power Agency (PMPA) that was formed in 1979. PMPA is a public body corporate and politic of the State of South Carolina consisting of ten municipalities in South Carolina, which purchase electric power from PMPA. PMPA owns a 25% undivided interest in Unit 2 of Duke Power's Catawba Nuclear Station in York County, South Carolina. The City and therefore the Board has agreed pursuant to the Catawba Nuclear Project Power Sales Agreement, in exchange for a share of the power and energy from the Catawba Nuclear Station, to take or pay for the cost of its share (10.05%) of the Catawba Project output whether or not the Project is operable or operating.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

A. Piedmont Municipal Power Agency - Continued

Such costs are all of PMPA's costs resulting from or attributable to the ownership, operation, maintenance, termination, retirement from service, decommissioning of necessary repairs and additions, and amounts required to be deposited to debt service funds. In addition, if any other party to the agreement defaults, the City/Board's share of the Project output would increase pro rata by a maximum of 25% of the non-defaulting participant's Catawba share prior to any such increases. The Sales Agreement is in effect until the completion of payment and satisfaction of bond obligations under the agreement. In no case may the agreement extend beyond August 1, 2035.

The City and the Board are not required to make any payments to PMPA under these agreements except from the revenues of its electric system.

For the years ended March 31, 2023 and 2022, the Board's purchased power expense from PMPA was \$22,641,799 and \$17,930,803, respectively. Also, the amount included in accrued expenses for accrued purchased power from PMPA at March 31, 2023 and 2022 is \$1,639,319 and \$1,740,114, respectively.

B. Annual Leave/PTO

As described more fully in Note 1, the total amount of PTO accumulated and unused, as of March 31, 2023 and 2022 is as follows:

	2023	2022
Beginning of the year liability	\$ 596,218	\$ 611,629
Increase	701,764	643,453
Decrease	(595,790)	(658,864)
End of year liability	702,192	\$ 596,218

C. Unemployment Compensation

The Board is required to pay unemployment compensation on covered employees. It has chosen the alternative of paying claims as billed by the South Carolina Employment Security Commission. However, under this method of funding, no accurate estimate of potential liability has been made.

D. Contract Commitments

There was \$1,372,554 and \$4,671,705 in outstanding commitments on construction contracts at March 31, 2023 and 2022.

E. Litigation

Due to the nature of the Board's normal operating activities, it is routinely subject to a variety of claims and demands by various individuals and entities. At the present time, the Board is not involved in any additional litigation that in management's opinion represents a material potential liability.

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 13 - RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 14 - SUBSEQUENT EVENT

In April 2023, the Board was awarded \$10,000,000 in federal funds allocated by the State and Local Fiscal Recovery Funds through the American Rescue Plan Act (ARPA) of 2021 to provide funding for water improvements to the Macedonia area.

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The Board implemented GASB Statement No. 87 *Leases* as of April 1, 2021. The beginning net position as of March 31, 2022 was restated to record a lease receivable of \$2,259,055 and deferred inflows of resources of \$2,202,696, with an increase in beginning net position of \$56,359. The financial statements for the year ended March 31, 2022 were restated as follows:

Statement of Net Position	<u>Previously Reported</u>	<u>Increase / (Decrease)</u>	<u>Restated</u>
Current Assets			
Lease receivable - current portion	\$ -	\$ 83,951	\$ 83,951
Total Current Assets	28,169,709	83,951	28,253,660
Noncurrent Assets			
Lease receivable - net of current portion	-	2,094,465	2,094,465
Total Noncurrent Assets	36,980,370	2,094,465	39,074,835
Total Assets	65,150,079	2,178,416	67,328,495
Deferred Inflows of Resources			
Deferred amounts related to leases	-	2,086,603	2,086,603
Total Deferred Inflows of Resources	2,980,473	2,086,603	5,067,076
Net Position			
Unrestricted	7,873,211	91,813	7,965,024
Total Net Position	37,038,873	91,813	37,130,686

GAFFNEY BOARD OF PUBLIC WORKS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MARCH 31, 2023 AND 2022

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT - CONTINUED

	Previously Reported	Increase / (Decrease)	Restated
Statement of Revenues, Expenses and Changes in Net Position			
Operating Revenues			
Water department	\$ 7,105,428	\$ (61,780)	\$ 7,043,648
Electrical department	24,437,969	(58,830)	24,379,139
Operating Loss	(4,137,141)	(120,610)	(4,257,751)
Nonoperating Revenues			
Interest income	3,848	39,971	43,819
Lease revenue	-	116,093	116,093
Decrease in Net Position - Before			
Capital Contributions	(4,142,865)	35,454	(4,107,411)
Increase (Decrease) in Net Position	(1,852,121)	35,454	(1,816,667)
Net Position - Beginning of Year	38,890,994	56,359	38,947,353
Net Position - End of Year	37,038,873	91,813	37,130,686
Statement of Cash Flows			
Cash Flows Provided (Used) by Operating Activities			
Cash received from customers	\$ 36,672,130	\$ (120,610)	\$ 36,551,520
Cash Flows Provided (Used) by Capital and Related			
Lease revenue	-	80,639	80,639
Interest received on leases	-	39,971	39,971

REQUIRED SUPPLEMENTARY INFORMATION

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF
 THE COLLECTIVE NET PENSION LIABILITY
 SOUTH CAROLINA RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS*

	2023	2022	2021	2020	2019	2018	2017	2016
Board's Proportion of the Collective Net Pension Liability	0.056753%	0.054724%	0.054321%	0.051988%	0.048152%	0.048002%	0.047018%	0.047696%
Board's Proportionate Share of the Collective Net Pension Liability	\$ 13,758,262	\$ 11,842,994	\$ 13,880,001	\$ 11,870,958	\$ 10,789,370	\$ 10,806,022	\$ 10,042,975	\$ 9,045,776
Board's Covered Payroll	\$ 6,758,006	\$ 6,186,056	\$ 6,060,256	\$ 5,489,763	\$ 4,989,904	\$ 4,843,201	\$ 4,553,055	\$ 4,472,093
Board's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll	203.58%	191.45%	229.03%	216.24%	216.22%	223.12%	220.58%	202.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57.06%	60.75%	50.71%	54.40%	54.40%	53.34%	52.91%	56.99%

*The amounts presented were determined as of the prior fiscal years ending June 30.

Notes to Schedule:

March 31, 2016 was the first year of GASB 68 implementation, therefore 10-year data is not yet available.

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULE OF THE BOARD'S CONTRIBUTIONS
 SOUTH CAROLINA RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016
Statutorially Required Contributions	\$ 1,201,348	\$ 1,084,013	\$ 952,639	\$ 917,745	\$ 755,374	\$ 646,947	\$ 548,177	\$ 495,887
Contributions in Relation to the Statutorially Required Contributions	1,201,348	1,084,013	952,639	917,745	755,374	646,947	548,177	495,887
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's Covered Payroll	\$ 6,939,199	\$ 6,642,726	\$ 6,122,358	\$ 5,992,637	\$ 5,992,637	\$ 5,274,229	\$ 4,792,404	\$ 4,499,689
Contributions as a Percentage of Covered Payroll	17.31%	16.32%	15.56%	15.31%	12.61%	12.27%	11.44%	11.02%

Notes to Schedule:

March 31, 2016 was the first year of GASB 68 implementation, therefore 10-year data is not yet available.

GAFFNEY BOARD OF PUBLIC WORKS
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019
Total OPEB Liability					
Service cost	\$ 823,840	\$ 581,160	\$ 410,924	\$ 351,873	\$ 351,643
Interest on the total OPEB liability	342,834	276,340	272,844	264,515	248,566
Changes in benefit terms	-	2,167,508	2,531,827	-	-
Difference between expected and actual experience	875,120	17,010	290,532	55	417,684
Changes in assumptions	-	501,558	(1,600,586)	-	(19,788)
Benefit payments, including refunds of employee contributions	(356,347)	(324,139)	(275,932)	(275,721)	(302,952)
Net Change in Total OPEB Liability	1,685,447	3,219,437	1,629,609	340,722	695,153
Total OPEB Liability - Beginning	16,907,933	13,688,496	12,058,887	11,718,165	11,023,012
Total OPEB Liability - Ending (a)	<u>\$ 18,593,380</u>	<u>\$ 16,907,933</u>	<u>\$ 13,688,496</u>	<u>\$ 12,058,887</u>	<u>\$ 11,718,165</u>
Plan Fiduciary Net Position					
Employer contributions	\$ 1,106,347	\$ 1,074,139	\$ 575,932	\$ 725,721	\$ 602,952
OPEB plan net investment income	132,754	(109,835)	16,553	80,367	91,710
Benefit payments	(356,347)	(324,139)	(275,932)	(275,721)	(302,952)
OPEB plan administrative expense	(28,730)	(27,539)	(15,518)	(7,500)	(7,500)
Net Change in Plan Fiduciary Net Position	854,024	612,626	301,035	522,867	384,210
Plan Fiduciary Net Position - Beginning	11,460,323	10,847,697	10,546,662	10,023,795	9,639,585
Plan Fiduciary Net Position - Ending (b)	<u>\$ 12,314,347</u>	<u>\$ 11,460,323</u>	<u>\$ 10,847,697</u>	<u>\$ 10,546,662</u>	<u>\$ 10,023,795</u>
Net OPEB Liability - Ending (a)-(b)	<u>\$ 6,279,033</u>	<u>\$ 5,447,610</u>	<u>\$ 2,840,799</u>	<u>\$ 1,512,225</u>	<u>\$ 1,694,370</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	66.23%	67.78%	79.25%	87.46%	85.54%
Covered-Employee Payroll	\$ 8,307,838	\$ 7,420,552	\$ 7,192,354	\$ 6,361,614	\$ 5,865,106
Net OPEB Liability as a Percentage of Covered-Employee Payroll	75.58%	73.41%	39.50%	23.77%	28.89%

Notes to Schedule:

2022: Changes to benefit terms reflects changes to the Medicare plan options and additional dental and vision benefits for employees who retire after February 26, 2019. Changes of assumptions reflects updates to the demographic and salary increase assumptions based on the 2020 SCRS experience study.

2021: Assumption Changes - The long-term rate of return and inflation assumptions were changed from 2.25% to 2.00%; the spousal coverage assumption was reduced from 70% to 55%; the period of service used for allocation of normal costs was changed to only reflect service with the Board; and the health care trends were updated to reflect the plan's experience and the repeal of the excise tax on high-cost employer health plans.

2019: Assumption Change - The Health Care Trend assumptions were slightly updated to better reflect the plan's anticipated experience.

March 31, 2019 was the first year of GASB 75 implementation, therefore 10-year data is not yet available.

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULE OF THE BOARD'S OPEB CONTRIBUTIONS
 LAST TEN FISCAL YEARS

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually Required Contributions	\$ 282,591	\$ 273,074	\$ 228,798	\$ 229,575	\$ 252,250
Contributions in Relation to the Contractually Required Contributions	<u>1,106,347</u>	<u>1,074,139</u>	<u>575,932</u>	<u>725,721</u>	<u>602,952</u>
Contribution Deficiency (Excess)	<u>\$ (823,756)</u>	<u>\$ (801,065)</u>	<u>\$ (347,134)</u>	<u>\$ (496,146)</u>	<u>\$ (350,702)</u>
Board's Covered-Employee Payroll	\$ 8,307,838	\$ 7,420,552	\$ 7,192,354	\$ 6,361,614	\$ 5,865,106
Contributions as a Percentage of Covered-Employee Payroll	3.40%	3.68%	3.18%	3.61%	4.30%

Notes to Schedule:

March 31, 2019 was the first year of GASB 75 implementation, therefore 10-year data is not yet available.

SUPPLEMENTARY INFORMATION

GAFFNEY BOARD OF PUBLIC WORKS
SCHEDULES OF WATER DEPARTMENT OPERATIONS - PROPRIETARY FUND
FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	<u>2023</u>	<u>Restated 2022</u>
Operating Revenues		
Water sales	\$ 7,667,499	\$ 6,572,879
Other	314,201	470,769
Total Operating Revenues	<u>7,981,700</u>	<u>7,043,648</u>
Operating Expenses - Excluding Depreciation		
Plant		
Salaries and related payroll expenses	1,992,612	1,610,420
Uniforms	3,564	3,116
Training and schools	2,190	2,283
Professional fees	45,627	49,544
Postage	65	900
Telephone	5,265	4,508
Insurance	56,917	46,362
Vehicle expense	8,421	3,448
Equipment maintenance and operation	349,195	154,067
Building and grounds maintenance	126,144	13,587
Materials and supplies	46,900	33,123
Chemicals	519,650	532,639
Other expenses	388	398
Landfill disposal	35,236	-
Bad debts - net	(631)	8,629
Lab expense	75,492	73,173
Contract services	93,603	86,379
Other post-employment benefits	331,863	773,773
Utilities	873,494	786,024
	<u>4,565,995</u>	<u>4,182,373</u>
Maintenance		
Salaries and related payroll expenses	1,511,753	1,374,721
Uniforms	12,219	3,392
Training and schools	2,527	1,574
Professional fees	9,220	36,686
Telephone	6,365	5,590
Insurance	33,937	28,869
Vehicle expense	43,975	33,306
Equipment maintenance and operation	92,588	85,817
Building and grounds maintenance	902	175
Materials and supplies	326,276	392,150
Other expenses	65	38
Utilities	10,620	8,161
Computer processing	211	207
Scholarship program	2,775	2,000
	<u>2,053,433</u>	<u>1,972,686</u>
Costs allocated to other departments	<u>(264,631)</u>	<u>(225,286)</u>
Total Operating Expenses - Excluding Depreciation	6,354,797	5,929,773

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULES OF WATER DEPARTMENT OPERATIONS - PROPRIETARY FUND - CONTINUED
 FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Depreciation		
Plant depreciation	1,420,791	1,175,501
Maintenance depreciation	<u>133,404</u>	<u>153,317</u>
	<u>1,554,195</u>	<u>1,328,818</u>
 Total Operating Expenses	 <u>7,908,992</u>	 <u>7,258,591</u>
 Operating Income (Loss)	 <u>\$ 72,708</u>	 <u>\$ (214,943)</u>

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULES OF SEWER DEPARTMENT OPERATIONS - PROPRIETARY FUND
 FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	2023	2022
Operating Revenues		
Sewer	\$ 6,052,806	\$ 5,620,027
Other	167,750	53,934
Total Operating Revenues	<u>6,220,556</u>	<u>5,673,961</u>
Operating Expenses - Excluding Depreciation		
Plant		
Salaries and related payroll expenses	1,806,479	1,632,980
Uniforms	5,436	3,222
Training and schools	3,389	3,815
Professional fees	27,230	95,132
Postage	212	-
Telephone	5,561	5,456
Insurance	58,548	44,481
Vehicle expense	18,529	12,727
Equipment maintenance and operation	230,846	145,440
Building and grounds maintenance	33,919	1,241
Materials and supplies	41,082	43,307
Chemicals	121,537	83,044
Other expenses	175	67
Bad debts - net	(4,650)	3,769
Lab expense	53,199	51,664
Landfill disposal costs	282,330	258,013
Other post-employment benefits	305,972	512,519
Utilities	1,181,097	1,007,778
	<u>4,170,891</u>	<u>3,904,655</u>
Maintenance		
Salaries and related payroll expenses	875,015	783,514
Uniforms	1,623	1,491
Professional fees	16,981	9,745
Telephone	6,365	5,620
Insurance	32,200	28,989
Vehicle expense	17,338	13,221
Equipment maintenance and operation	15,733	29,448
Building and grounds maintenance	12,513	3,385
Materials and supplies	39,970	24,286
Other expenses	19	38
Utilities	9,735	7,481
Computer processing	210	206
Scholarship program	2,775	2,000
	<u>1,030,477</u>	<u>909,424</u>
Costs allocated to other departments	<u>(221,878)</u>	<u>(212,865)</u>
Total Operating Expenses - Excluding Depreciation	4,979,490	4,601,214
Depreciation		
Plant depreciation	863,398	721,930
Maintenance depreciation	161,386	192,952
	<u>1,024,784</u>	<u>914,882</u>
Total Operating Expenses	<u>6,004,274</u>	<u>5,516,096</u>
Operating Income	<u>\$ 216,282</u>	<u>\$ 157,865</u>

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULES OF ELECTRICAL DEPARTMENT OPERATIONS - PROPRIETARY FUND
 FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	<u>2023</u>	<u>Restated 2022</u>
Operating Revenues		
Electric sales	\$ 30,128,942	\$ 23,683,225
Other	754,461	695,914
Total Operating Revenues	<u>30,883,403</u>	<u>24,379,139</u>
 Operating Expenses - Excluding Depreciation		
Power purchased	23,285,290	18,515,843
 Line expenses		
Salaries and related payroll expenses	3,092,157	2,568,249
Uniforms	26,404	6,822
Training and schools	16,757	4,352
Professional fees	45,253	84,424
Telephone	16,611	11,178
Insurance	104,167	101,463
Vehicle expense	92,093	60,043
Equipment maintenance and operation	494,906	125,668
Building and grounds maintenance	22,260	1,951
Materials and supplies	272,749	336,773
Other expenses	1,078	680
Bad debts - net	(906)	10,222
Public relations	182	-
Contract services	168,562	113,140
Other post-employment benefits	369,823	903,322
Utilities	33,924	30,740
Scholarship program	1,000	-
Computer processing	19,162	413
	<u>28,061,472</u>	<u>22,875,283</u>
Costs allocated to other departments	<u>(1,646,670)</u>	<u>(1,426,509)</u>
 Total Operating Expenses - Excluding Depreciation	26,414,802	21,448,774
 Depreciation		
Line Depreciation	<u>1,062,926</u>	<u>949,999</u>
Total Operating Expenses	<u>27,477,728</u>	<u>22,398,773</u>
 Operating Income	<u>\$ 3,405,675</u>	<u>\$ 1,980,366</u>

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULES OF WAREHOUSE, CLINIC/SAFETY, ADMINISTRATIVE AND SERVICE
 DEPARTMENT EXPENSES - PROPRIETARY FUND
 FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	2023	2022
Warehouse		
Salaries and related payroll expenses	\$ 819,245	\$ 662,537
Uniforms	2,814	400
Training and schools	570	-
Professional fees	4,142	4,331
Postage	2,072	1,282
Telephone	1,543	1,477
Insurance	14,003	13,437
Vehicle expense	2,687	1,891
Equipment maintenance and operation	9,499	8,566
Building and grounds maintenance	6,302	755
Materials and supplies	18,631	13,489
Other expenses	59	-
Other post-employment benefits	6,069	43,272
Utilities	23,010	17,683
	<u>910,646</u>	<u>769,120</u>
Clinic/Safety		
Salaries and related payroll expenses	326,729	293,376
Training and schools	5,437	-
Professional fees	14,986	13,517
Telephone	1,846	1,435
Insurance	910	411
Materials and supplies	43,789	43,258
Utilities	4,425	3,401
Claims reimbursements	(110,435)	(117,235)
	<u>287,687</u>	<u>238,163</u>
Administrative		
Salaries and related payroll expenses	3,337,372	2,862,504
Uniforms	5,507	5,412
Training and schools	18,420	27,841
Professional fees	184,755	173,612
Public relations	157,775	91,793
Postage	2,845	1,729
Telephone	27,803	24,235
Insurance	44,471	31,319
Vehicle expense	2,313	970
Equipment maintenance and operation	11,632	5,462
Building and grounds maintenance	22,564	23,162
Materials and supplies	135,191	121,869
Other expenses	155,551	125,119
Computer processing	202,807	199,225
Other post-employment benefits	118,550	670,299
Utilities	42,699	32,741
Scholarship program	7,500	12,000
	<u>4,477,755</u>	<u>4,409,292</u>

GAFFNEY BOARD OF PUBLIC WORKS
 SCHEDULES OF WAREHOUSE, CLINIC/SAFETY, ADMINISTRATIVE AND SERVICE
 DEPARTMENT EXPENSES - PROPRIETARY FUND - CONTINUED
 FOR THE YEARS ENDED MARCH 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Service		
Salaries and related payroll expenses	707,423	621,457
Uniforms	4,386	785
Telephone	4,569	4,916
Vehicle expense	21,054	13,175
Materials and supplies	2,141	4,857
	<u>739,573</u>	<u>645,190</u>
 Total Warehouse, Clinic/Safety, Administrative and Service Expenses - Excluding Depreciation	 <u>6,415,661</u>	 <u>6,061,765</u>
 Depreciation		
Warehouse depreciation	44,679	27,880
Clinic depreciation	296	321
Administration depreciation	90,912	91,073
	<u>135,887</u>	<u>119,274</u>
 Total Warehouse, Clinic/Safety, Service and Administrative Expenses	 <u>\$ 6,551,548</u>	 <u>\$ 6,181,039</u>