

*In the opinion of Bond Counsel, assuming continuing compliance by the Authority with certain covenants, interest on the Series 2020 Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations and judicial decisions. Interest on the Series 2020 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax. See "TAX MATTERS" for a brief description of certain federal income tax consequences to certain recipients of interest on the Series 2020 Bonds. The Series 2020 Bonds and the interest thereon will also be exempt from all State, county, municipal and school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer and certain franchise taxes. The Series 2020 Bonds have been designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended.*



**\$4,425,000**  
**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY,**  
**SOUTH CAROLINA**  
**WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2020**

**Dated: Date of Delivery**

**Due: January 1, as shown on the inside front cover hereof**

The Edgefield County Water and Sewer Authority, South Carolina, Waterworks and Sewer System Revenue Bonds, Series 2020 (the "Series 2020 Bonds"), are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), to which payments of principal and interest on the Series 2020 Bonds will be made. Individual purchases will be made in book-entry-only form, in denominations of \$5,000 each, or any integral multiple thereof. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2020 Bonds, references herein to holders or registered owners of Series 2020 Bonds shall mean Cede & Co., and shall not mean the beneficial owners of the Series 2020 Bonds. Interest on the Series 2020 Bonds shall be payable on each January 1 and July 1 commencing January 1, 2021, until maturity. See "THE SERIES 2020 BONDS – Book Entry Only System."

The Series 2020 Bonds are being issued under the authority of the Constitution and laws of the State of South Carolina, including Title 6, Chapter 17, Code of Laws of South Carolina 1976, as amended (the "Act"), and a general bond resolution adopted by the Edgefield County Water and Sewer Authority, South Carolina (the "Authority"), on February 24, 1998 (the "Bond Resolution"), and a Series Resolution adopted by the Authority on May 18, 2020 (the "2020 Series Resolution") (the Bond Resolution and the 2020 Series Resolution are collectively referred to as the "Resolution").

The Series 2020 Bonds are being issued for the purposes of (a) defraying a portion of the cost of the acquisition, installation and construction of various improvements to the System including (i) installation of a force main from the prison to Brooks Street; (ii) upgrades to the Brooks Street Wastewater Treatment Facility; (iii) rehabilitation of various portions of the collection system; (iv) improvements to the operations and administration building; and (v) engineering costs related to the above (collectively, the "Project"); and (b) paying costs and expenses relating to the issuance of the Series 2020 Bonds.

The Series 2020 Bonds, including interest thereon, are payable solely from the Gross Revenues (as defined herein) of the Authority's waterworks and sewer system (the "System") and are secured by a pledge of and lien on the Gross Revenues thereof. The lien upon and pledge of the Gross Revenues at all times and in all respects is and remains superior to pledges and liens made and given to secure any other bonds or other obligations payable from the revenues of the System, will be on a parity with the Authority's Series 2007 Bond, Series 2016 Bond and the Series 2019 Bonds (as defined herein), and will be on a parity with the pledge securing any Additional Bonds issued hereafter (as defined herein). See "SECURITY FOR THE SERIES 2020 BONDS" herein for a description of the priority of such pledge and lien.

**THE SERIES 2020 BONDS WILL NOT BE SUBJECT TO OPTIONAL REDEMPTION PRIOR TO MATURITY.**

**THE SERIES 2020 BONDS DO NOT CONSTITUTE A DEBT OF THE AUTHORITY WITHIN THE MEANING OF ANY PROVISION, LIMITATION OR RESTRICTION OF THE CONSTITUTION OR THE LAWS OF THE STATE OF SOUTH CAROLINA, OTHER THAN THOSE PROVISIONS AUTHORIZING INDEBTEDNESS PAYABLE SOLELY FROM A REVENUE-PRODUCING PROJECT NOT INVOLVING REVENUES FROM ANY TAX OR LICENSE; AND THE FAITH, CREDIT AND TAXING POWER OF THE AUTHORITY ARE EXPRESSLY NOT PLEDGED THEREFOR. THE AUTHORITY IS NOT OBLIGATED TO PAY ANY OF THE SERIES 2020 BONDS OR THE INTEREST THEREON EXCEPT FROM GROSS REVENUES FROM THE OPERATION OF THE SYSTEM.**

The Series 2020 Bonds are offered when, as and if issued and delivered by the Authority, subject to the final approving opinion of Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Sumner Law Firm, LLC, Edgefield, South Carolina and for the Underwriter by its counsel, Parker Poe Adams & Bernstein LLP, Columbia, South Carolina. Haynsworth Sinkler Boyd, P.A., Charleston, South Carolina, is serving as Disclosure Counsel to the Authority and Compass Municipal Advisors, LLC, Columbia, South Carolina is serving as Financial Advisor to the Authority in connection with the Series 2020 Bonds. It is expected that the Series 2020 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about August 13, 2020.

*This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

**Stephens Inc.**

**MATURITY SCHEDULE**

**\$4,425,000**

**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY, SOUTH CAROLINA  
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2020**

<b><u>Due January 1</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP*</u></b>
2023	\$490,000	3.00%	0.36%	280038BW9
2024	510,000	3.00	0.43	280038BX7
2025	525,000	3.00	0.54	280038BY5
2026	540,000	4.00	0.73	280038BZ2
2027	560,000	4.00	0.87	280038CA6
2028	580,000	4.00	0.97	280038CB4
2029	600,000	4.00	1.08	280038CC2
2030	620,000	4.00	1.17	280038CD0

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\* Copyright, American Bankers Association. CUSIP data herein are provided by CUSIP Global Services. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Series 2020 Bonds, and the Authority makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future.

**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY,  
SOUTH CAROLINA**

**BOARD OF DIRECTORS**

James Earl Kennamer, Chairman  
C. Raymond Johnson, Vice Chairman  
Ronald Creswell, Secretary/Treasurer  
Carroll L. Clark  
Bernard E. Kitchens  
John C. Timmerman

**ADMINISTRATOR**

John Hare

**COUNSEL TO EDGEFIELD COUNTY WATER AND SEWER AUTHORITY**

Sumner Law Firm, LLC

**BOND AND DISCLOSURE COUNSEL**

Haynsworth Sinkler Boyd, P.A.

**UNDERWRITER**

Stephens Inc.

**UNDERWRITER'S COUNSEL**

Parker Poe Adams & Bernstein LLP

**FINANCIAL ADVISOR**

Compass Municipal Advisors, LLC

**TRUSTEE**

The Bank of New York Mellon Trust Company, N.A.

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2020 Bonds identified on the cover. No person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2020 Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Stephens Inc. (the “Underwriter”), has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Except for information with respect to The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), the Trustee has not provided, or undertaken to determine the accuracy of, any of the information contained in this Official Statement, and the Trustee makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the Series 2020 Bonds, or (iii) the tax-exempt status of the interest on any of the Series 2020 Bonds.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12.

Upon execution and delivery, the Series 2020 Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Series 2020 Bonds or passed upon the adequacy or accuracy of this Official Statement. Any representation to the contrary is a criminal offense.

Certain information contained in this Official Statement may have been obtained from sources other than records of the Authority and, while believed to be reliable, is not guaranteed as to completeness or accuracy. **THE INFORMATION AND EXPRESSIONS OF OPINION IN THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE UNDER THIS DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE AUTHORITY SINCE THE DATE HEREOF.**

References herein to laws, rules, regulations, ordinances, resolutions, agreements, reports, and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to this Official Statement, they will be furnished on request.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements,” within the meaning of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as “may,” “will,” “could,” “should,” “expect,” “forecast,” “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget,” “potential,” “continue,” or the negative of these terms or other similar words. **THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE, OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE, OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY THE FORWARD-LOOKING STATEMENTS. THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THESE FORWARD-LOOKING STATEMENTS IF OR WHEN CHANGES TO EXPECTATIONS, OR EVENTS, CONDITIONS, OR CIRCUMSTANCES, ON WHICH THE FORWARD-LOOKING STATEMENTS ARE BASED, OCCUR OR FAIL TO OCCUR.**

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## SUMMARY STATEMENT

*The following Summary Statement is qualified in its entirety by the more detailed information and financial statements contained elsewhere in this Official Statement and the Appendices hereto (collectively, the “Official Statement”). Unless otherwise defined in this Official Statement, all capitalized terms shall have those meanings ascribed to them in “APPENDIX C - Bond Resolution.” The offering of the Series 2020 Bonds to potential investors is made only by means of this entire Official Statement, and no person is authorized to detach this Summary Statement from the Official Statement or to otherwise use it without the entire Official Statement.*

The Authority	The Edgefield County Water and Sewer Authority (the “Authority”) is a body corporate and politic and a special purpose district of the State of South Carolina which was created pursuant to the provisions of Title 6, Chapter 13, Article 9 of the Code of Laws of South Carolina, 1976, as amended, whereby the Authority is given the function to acquire, construct and operate a waterworks and sewer system (the “System”) within its service area which consists of the territory of Edgefield County, South Carolina, and a small area in the southwestern corner of Aiken County. The Authority is not empowered to authorize the levy of taxes for the purpose of operations and maintenance. See “APPENDIX B - Supplemental Information Regarding Edgefield County.”
The Series 2020 Bonds	The \$4,425,000 Edgefield County Water and Sewer Authority, South Carolina, Waterworks and Sewer System Revenue Bonds, Series 2020 (the “Series 2020 Bonds”) are being issued initially in book entry only form in authorized denominations of \$5,000 and integral multiples thereof. See “THE SERIES 2020 BONDS - General.”
Date of Issue and Delivery of Bonds	The Series 2020 Bonds will be dated their date of delivery and will bear interest from that date. It is expected that the Series 2020 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about August 13, 2020.
Interest Payments	Interest on the Series 2020 Bonds is payable on each January 1 and July 1 commencing January 1, 2021.
Maturities	The Series 2020 Bonds mature on January 1, 2023 through January 1, 2030, as indicated on the inside front cover hereof.
Redemption	The Series 2020 Bonds are not subject to optional redemption prior to maturity.
Security	The Series 2020 Bonds, including interest thereon, are payable solely from the Gross Revenues of the System and are secured by a pledge of and lien upon the Gross Revenues of the System. The pledge of and lien upon the Gross Revenues for the payment of the Series 2020 Bonds are on a parity with the pledge and lien securing the Series 2007 Bond, the Series 2016 Bond, the Series 2019 Bonds (as such terms are hereinafter defined) and any Additional Bonds hereafter issued. The Authority has pledged to establish, levy, maintain and collect fees and charges of the System so that Revenues of the System will be sufficient to meet certain minimum levels. See “SECURITY FOR THE SERIES 2020 BONDS.”
Purpose of the Issue	The Series 2020 Bonds are authorized for the purposes of: (a) defraying a portion of the cost of the acquisition, installation and construction of various improvements to the System including (i) installation of a force main from the prison to Brooks Street; (ii) upgrades to the Brooks Street Wastewater Treatment Facility; (iii) rehabilitation of various portions of the collection system; (iv) improvements to the operations and administration building; and (v) engineering costs related to the above (collectively, the “Project”); and (b) paying costs and expenses relating to the issuance of the Series 2020 Bonds.
Information Concerning Terms of the Offering	The Series 2020 Bonds are being issued under the Constitution and laws of the State of South Carolina, including Title 6, Chapter 17, Code of Laws of South Carolina 1976, as amended, and certain Resolutions adopted by the Authority. See “AUTHORIZATION AND PURPOSE.” The Series 2020 Bonds are offered when, as and if issued and delivered by the Authority, subject to the final approving opinion of Bond Counsel.

Tax Status of Interest on the Series 2020 Bonds	<p>In the opinion of Bond Counsel, assuming continuing compliance by the Authority with certain covenants, interest on the Series 2020 Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations and judicial decisions. Interest on the Series 2020 Bonds is not an item of tax preference in computing alternative minimum tax. See “TAX MATTERS” for a brief description of certain federal income tax consequences to certain recipients of interest on the Series 2020 Bonds. The Series 2020 Bonds and the interest thereon will also be exempt from all State, county, municipal and school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer and certain franchise taxes. The Series 2020 Bonds have been designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended.</p>
Professionals involved in the Offering	<p>The Bank of New York Mellon Trust Company, N.A., is serving as Registrar, Trustee, and Paying Agent (the “Registrar/Paying Agent”). Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, is serving as Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Sumner Law Firm, Edgefield, South Carolina. Stephens Inc. is serving as Underwriter. Certain legal matters will be passed upon for the Underwriter by its counsel, Parker Poe Adams &amp; Bernstein LLP, Columbia, South Carolina. Haynsworth Sinkler Boyd, P.A., Charleston, South Carolina, is serving as Disclosure Counsel to the Authority. Compass Municipal Advisors, LLC, Columbia, South Carolina is serving as Financial Advisor to the Authority.</p>
Continuing Disclosure	<p>The Authority has covenanted, so long as required, to comply with the requirements of Section 11-1-85 of the Code of Laws of South Carolina 1976, as amended, by filing with a central repository for availability in the secondary bond market when requested: (i) an annual independent audit, within thirty days of the Authority’s receipt of the audit; and (ii) event specific information within thirty days of an event adversely affecting more than five percent of the Gross Revenues.</p> <p>In addition, pursuant to Securities and Exchange Commission Rule 15c2-12, the Authority has covenanted to execute and deliver prior to closing, and to thereafter comply with the terms of, a Disclosure Dissemination Agent Agreement in substantially the form appearing as Appendix E to this Official Statement.</p>
General	<p>This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of the Official Statement will be deposited with the Electronic Municipal Market Access (“EMMA”) system. Copies of the Official Statement, the Bond Resolution and the 2020 Series Resolution (as such documents are defined herein) and other relevant documents and information regarding the Series 2020 Bonds, are available from John Hare, Administrator, Edgefield County Water and Sewer Authority, telephone: (803) 279-1503.</p> <p>This Official Statement, including the cover page and the attached Appendices, contains specific information relating to the Series 2020 Bonds, the Authority and the System and other information pertinent to this issue. All information included herein has been provided by the Authority except where attributed to other sources. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such reference or summary is qualified in its entirety by reference to each such document, statute, report or other instrument.</p>



**OFFICIAL STATEMENT**  
**\$4,425,000**  
**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY, SOUTH CAROLINA**  
**WATERWORKS AND SEWER SYSTEM REVENUE BONDS,**  
**SERIES 2020**

**INTRODUCTION**

This Official Statement of the Edgefield County Water and Sewer Authority, South Carolina (the “Authority”), which includes the cover page hereof and the appendices hereto, provides information relating to the Authority and its \$4,425,000 Waterworks and Sewer System Revenue Bonds, Series 2020 (the “Series 2020 Bonds”). The Series 2020 Bonds, the Authority’s Series 2007 Bond, Series 2016 Bond and Series 2019 Bonds and any Additional Bonds (as such terms are hereinafter defined) are referred to herein as the “Bonds.” Included in this Official Statement are brief descriptions of the Series 2020 Bonds and the security therefor, the waterworks and sewer system of the Authority (the “System”), the Authority and the surrounding area, and the Resolutions pursuant to which the Series 2020 Bonds are authorized and issued by the Authority. Also included is certain financial information relating to the System. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such reference or summary is qualified in its entirety by reference to each such document, statute, report or other instrument. Capitalized terms used herein without specific definition are used as defined in Appendix C - “Bond Resolution.”

**COVID-19**

The United States, including the State of South Carolina (the “State”) and the Authority, is currently in the midst of a pandemic caused by a novel coronavirus and resulting disease known as COVID-19. The pandemic led to a declaration of emergency by the Governor of South Carolina on March 13, 2020, followed by the issuance of progressively more stringent orders by the Governor through the rest of March and most of April 2020 including, but not limited to, a stay-at-home order and the closure of (1) public schools and colleges through the remainder of the school year, (2) dining establishments (except for take-out services), (3) non-essential businesses and (4) public access to recreational sites. Beginning in late April 2020, the Governor issued a series of orders gradually easing most of those restrictions, including lifting the stay-at-home order, and allowing for most retail, dining, and non-essential businesses, including those requiring close contact such as salons and gyms, to reopen with some limitations.

The most recent usage data through June 30, 2020 shows that aggregate usage for the Authority’s top ten customers is comparable with the usage in the prior year. Additionally, revenues and expenses for the Authority for the twelve-month period ending June 30, 2020 are comparable with the budget for the 2020 Fiscal Year and with the actual results of operation for the 2019 Fiscal Year.

The COVID-19 pandemic has altered and is continuing to alter the behavior of businesses, government and people in a manner that is having detrimental effects on global and local economies, including the economy within the Authority’s service territory. In addition, global financial markets have experienced significant volatility attributed to concerns over COVID-19. The impact of the pandemic on the Authority, its operations, and the local, regional, national and international economies cannot be predicted due to the dynamic nature of the outbreak, including uncertainties relating to its duration and severity, as well as what actions may be taken by governmental authorities, businesses and institutions to attempt to contain or mitigate its impact.

**AUTHORIZATION AND PURPOSE**

**Authorization**

The Series 2020 Bonds are being issued pursuant to (i) the Constitution and laws of the State, including particularly Title 6, Chapter 17, Code of Laws of South Carolina 1976, as amended (the “Act”), and (ii) a general bond resolution adopted by the Authority on February 24, 1998 (the “Bond Resolution”), and a Series Resolution adopted by the Authority on May 18, 2020 (the “2020 Series Resolution”) (the Bond Resolution and the 2020 Series Resolution are collectively referred to as the “Resolution”).

## **Purpose**

The Series 2020 Bonds are authorized for the purposes of: (a) defraying a portion of the cost of the acquisition, installation and construction of various improvements to the System including (i) installation of a force main from the prison to Brooks Street; (ii) upgrades to the Brooks Street Wastewater Treatment Facility; (iii) rehabilitation of various portions of the collection system; (iv) improvements to the operations and administration building; and (v) engineering costs related to the above (collectively, the “Project”); and (b) paying costs and expenses relating to the issuance of the Series 2020 Bonds.

## **THE SERIES 2020 BONDS**

### **General**

The Series 2020 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any multiple thereof, not exceeding the principal amount of the Series 2020 Bonds maturing in each year. Each Series 2020 Bond shall be numbered by the Registrar in such a fashion as to reflect the fact that it is one of the Series 2020 Bonds, and to identify the owner thereof on the books kept by the Registrar. The Series 2020 Bonds will be dated and bear interest from their date of delivery. The Series 2020 Bonds mature on January 1 in the years shown on the front inside cover hereof. Interest on the Series 2020 Bonds, at the rates shown on the front inside cover hereof, is payable on January 1 and July 1 of each year commencing January 1, 2021.

### **Redemption Provisions**

The Series 2020 Bonds are not subject to optional redemption prior to their maturity.

### **Registration, Transfers and Exchanges**

#### *Series 2020 Bonds Held in Book Entry Only Form*

So long as the Series 2020 Bonds are in book entry only form and are registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”), the Series 2020 Bonds may be registered, transferred and exchanged as set forth under “Book Entry Only System” below.

#### *Series 2020 Bonds Not Held in Book Entry Only Form*

Each Series 2020 Bond not held in book entry only form shall be transferable only upon the registration books of the Authority, which shall be kept for such purpose at the corporate trust office of the Trustee, or if there shall have been appointed a Registrar other than the Trustee with respect to a Series of Bonds, the Registrar, by the registered owner thereof in person or by his duly authorized attorney upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee or the Registrar, as the case may be, duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such Series 2020 Bond, the Trustee or the Registrar, as the case may be, shall cause to be issued in the name of the transferee a new fully registered Series 2020 Bond or Series 2020 Bonds, of the same aggregate principal amount, interest rate and maturity as the surrendered Series 2020 Bond. Any registered owner requesting a transfer shall pay any tax or other governmental charge required to be paid with respect thereto. Any Series 2020 Bond surrendered in exchange for a new registered Series 2020 Bond shall be cancelled by the Trustee or the Registrar, as the case may be.

The Authority and the Trustee or the Registrar, as the case may be, may deem and treat the person in whose name any Series 2020 Bond not held in book entry only form shall be registered as the absolute owner of such Series 2020 Bond for all purposes including the payment of or on account of the principal, premium, if any, or interest thereon and any such payment made to a registered owner shall be effectual to satisfy and discharge the liability upon such Series 2020 Bond with respect thereto.

In the event any Series 2020 Bond not held in book entry only form is mutilated in whole or in part, lost, stolen or destroyed, or be so defaced as to impair the value thereof to the Holder, the Authority shall execute and the Trustee or the Registrar, as the case may be, shall authenticate and deliver a new Series 2020 Bond of the same interest rate and denomination and like tenor and effect in exchange or in substitution for such mutilated, lost, stolen or destroyed Series 2020 Bond; provided that, in the case of any mutilated Series 2020 Bond, such bond shall be

surrendered to the Trustee or the Registrar, as the case may be, and in the case of any lost, stolen or destroyed Series 2020 Bond there shall be furnished to the Authority and the Trustee or the Registrar, as the case may be, evidence of such loss, theft or destruction satisfactory to the Authority and the Trustee or the Registrar, as the case may be, together with such indemnity as they shall require. In the event any such mutilated, lost, stolen or destroyed Series 2020 Bond shall have matured, instead of issuing a duplicate Series 2020 Bond, the Authority may pay the same. The Authority and the Trustee or the Registrar, as the case may be, may charge the holder or owner of such mutilated, lost, stolen or destroyed Series 2020 Bond with their reasonable fees and expenses in connection therewith.

### **Book Entry Only System**

DTC will initially act as securities depository for the Series 2020 Bonds. The Series 2020 Bonds will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee). Upon issuance of the Series 2020 Bonds, one fully registered Series 2020 Bond will be issued for each maturity of the Series 2020 Bonds as set forth on the cover page hereof, each in the aggregate principal amount of such maturity and will be deposited with DTC. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2020 Bonds, references herein to the holders or registered owners of the Series 2020 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners (hereinafter defined) of the Series 2020 Bonds.

*The information under this caption concerning DTC and DTC's book-entry system has been obtained from sources believed to be reliable, but the Authority does not take any responsibility for the accuracy or completeness thereof.*

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2020 Bond ("Beneficial Owner") is in turn to be recorded on the DTC Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other names may be requested by an authorized representative of DTC. The deposit of Series 2020 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

The Authority and the Trustee as Registrar/Paying Agent will recognize DTC or its nominee, Cede & Co., as the registered owner of the Series 2020 Bonds for all purposes. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2020 Bonds are credited on the record date (identified on a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2020 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit DTC Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Registrar/Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Authority or the Registrar/Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority acting through the Trustee as Registrar/Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2020 Bonds at any time by giving reasonable notice to the Authority or the Registrar/Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2020 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2020 Bond certificates will be printed and delivered to DTC.

## **SECURITY FOR THE SERIES 2020 BONDS**

### **Security for Payment of the Series 2020 Bonds**

The Series 2020 Bonds are payable solely from and are secured, equally and ratably with the Series 2007 Bond, the Series 2016 Bond and the Series 2019 Bonds (as defined herein) and all additional bonds hereafter issued pursuant to the Bond Resolution on a parity therewith (with respect to the pledge of and lien upon the Gross Revenues), by a pledge of and lien upon the Gross Revenues (hereinafter defined). Such pledge and lien at all times and in all respects is and remains superior to pledges and liens made and given to secure any other bonds or other obligations payable from the revenues of the System. As defined in the Bond Resolution, "Gross Revenues" means (a) all receipts and revenues (except customers' deposits) derived from the operation of the System, except for those

allocable to the operation of Special Facilities to the extent the same have been pledged to the payment of Special Facilities Bonds (as such terms are defined in Appendix C), including all service fees (which include, but are not limited to, tap-in fees, connection fees, availability fees (but not including impact fees), administration fees and meter purchases); (b) all proceeds from the sale or other disposition of any property owned directly or beneficially by the Authority in connection with the operation of the System; (c) all interest and other income received by the Authority, directly or indirectly from the investment of any moneys or accounts relating to the System, excluding, however, investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service, and specifically excluding (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of borrowing by the Authority; and (d) all other unencumbered money to which the Authority may become entitled from any source whatsoever, but specifically excluding any amounts received by way of government grants or aids-to-construction.

The term "Series 2007 Bond," used herein, means the outstanding \$2,038,000 of the Authority's \$4,000,000 original principal amount Waterworks and Sewer System Revenue Bond, Series 2007.

The term "Series 2016 Bond," used herein, means the outstanding \$961,000 of the Authority's \$2,340,000 original principal amount Waterworks and Sewer System Revenue Bond, Series 2016.

The term "Series 2019 Bonds," used herein, means the outstanding \$5,035,000 of the Authority's \$5,035,000 original principal amount Waterworks and Sewer System Refunding Revenue Bonds, Series 2019.

### **Limited Obligations**

THE SERIES 2020 BONDS DO NOT CONSTITUTE A DEBT OF THE AUTHORITY WITHIN THE MEANING OF ANY PROVISION, LIMITATION OR RESTRICTION OF THE CONSTITUTION OR THE LAWS OF THE STATE, OTHER THAN THOSE PROVISIONS AUTHORIZING INDEBTEDNESS PAYABLE SOLELY FROM A REVENUE-PRODUCING PROJECT NOT INVOLVING REVENUES FROM ANY TAX OR LICENSE; AND THE FAITH, CREDIT AND TAXING POWER OF THE AUTHORITY ARE EXPRESSLY NOT PLEDGED THEREFOR. THE AUTHORITY IS NOT OBLIGATED TO PAY ANY OF THE SERIES 2020 BONDS OR THE INTEREST THEREON EXCEPT FROM GROSS REVENUES FROM THE OPERATION OF THE SYSTEM.

### **Rates and Charges**

The Authority has covenanted in the Bond Resolution to maintain rates and charges for all services furnished by the System which are at all times sufficient:

(a) to provide for the punctual payment of principal of and interest on all Bonds and all Junior Lien Bonds (hereinafter defined) that may from time to time be Outstanding (as such term is defined in Appendix C);

(b) to maintain the Debt Service Funds (hereinafter defined) and thus provide for the punctual payment of the principal of and interest on the Bonds;

(c) to maintain the Debt Service Reserve Funds (hereinafter defined) in the manner prescribed in the Bond Resolution;

(d) to provide for the payment of the Operation and Maintenance Expenses (as such term is defined in Appendix C);

(e) to build and maintain a reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions to the System other than those necessary to maintain the same in good repair and working order;

(f) to pay all amounts owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit funding any Reserve Requirement (as such term is defined in Appendix C); and

(g) to discharge all obligations imposed by the Act and by the Bond Resolution.

The Authority has further covenanted and agreed that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the System which, together with other income, will yield annual Net Earnings (as such term is defined in Appendix C) in the current fiscal year equal to at least the sum of:

(a) 110% of the Annual Principal and Interest Requirement (as such term is defined in Appendix C) in such fiscal year for all Bonds Outstanding in such fiscal year; plus

(b) 100% of the amount necessary to make payment of any amount owing in such fiscal year under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under the Bond Resolution; plus

(c) 100% of the principal and interest on Junior Lien Bonds, or the capital costs pursuant to the provisions of long-term contracts which the Authority has entered into in order to provide water or sewer services to the areas included within its service area, due in such fiscal year; plus

(d) 100% of any required payment into a Debt Service Reserve Fund due in such fiscal year.

The Authority has further covenanted and agreed that it will, promptly upon any material change in the circumstances which were contemplated at the time such rates and charges were most recently reviewed, but not less frequently than once in each fiscal year, review the rates and charges as necessary to comply with the foregoing requirement. Prior to the beginning of each fiscal year, the Authority will adopt an Annual Budget (as such term is defined in Appendix C) including amended rate schedules for such fiscal year which shall set forth in reasonable detail the estimated revenues and operating expenses and other expenditures of the System for such fiscal year and which shall include appropriations of the estimated operating expenses and the amount to be deposited during such fiscal year in the Depreciation and Contingent Fund (hereinafter defined). The Authority may at any time adopt an amended Annual Budget for the remainder of the then current fiscal year.

### **Disposition of Revenues and Funds Established by the Resolution**

The Bond Resolution provides for the creation of a general revenue fund (the "General Revenue Fund"), a debt service fund with respect to each series of Bonds Outstanding (each a "Debt Service Fund"), a debt service reserve fund, if any, as authorized by any Series Resolution with respect to Bonds of that Series (each a "Debt Service Reserve Fund"), an operation and maintenance fund (the "Operation and Maintenance Fund"), and a depreciation and contingent fund (the "Depreciation and Contingent Fund"). So long as the Authority establishes, from an accounting standpoint, proper records of receipts and disbursements for the General Revenue Fund, the General Revenue Fund may be used for the purposes of the Operation and Maintenance Fund and the Depreciation and Contingent Fund, subject to prior application of the amounts in the General Revenue Fund for the purposes of any Debt Service Fund or Debt Service Reserve Fund. The funding requirements and flow of funds with respect to the foregoing funds and accounts are discussed in greater detail in Appendix C – "Bond Resolution."

### **Debt Service Reserve Fund**

A separate Debt Service Reserve Fund may (but is not required to) be established for each Series of Bonds issued pursuant to the Bond Resolution. There will not be a Debt Service Reserve Fund for the Series 2020 Bonds.

### **Additional Bonds**

The Bond Resolution makes provision for the issuance from time to time of bonds on a parity as to the pledge of and lien on the Gross Revenues securing the Series 2020 Bonds, the Series 2007 Bond, the Series 2016

Bond and the Series 2019 Bonds (“Additional Bonds”) in compliance with the provisions of the Bond Resolution, including, among others:

(a) There exists, on the occasion of the issuance of the Additional Bonds, no default in the payment of the principal of or interest on any Bonds or Junior Lien Bonds then Outstanding.

(b) The Authority obtains an opinion of Bond Counsel (as such term is defined in Appendix C) to the effect that (i) the Bond Resolution and the applicable Series Resolution (as such term is defined in Appendix C) have been duly and lawfully adopted and are in full force and effect; (ii) the Additional Bonds have been duly and lawfully authorized, executed and issued by the Authority and are valid and binding upon, and enforceable against, the Authority (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); and (iii) with respect to such Additional Bonds, the Bond Resolution creates the valid pledge of the Gross Revenues subject to the application thereof to the purposes and on the conditions permitted by the Bond Resolution.

(c) Unless on the date of delivery of such Additional Bonds there shall be on deposit in each Debt Service Reserve Fund an amount equal to the applicable Reserve Requirement, if any, immediately following the issuance of such Additional Bonds, or a qualified line of credit, surety bond, insurance policy or letter of credit shall be in effect in lieu thereof in accordance with the Bond Resolution, there is deposited in each Debt Service Reserve Fund such amount, or a qualified substitute in accordance with the Bond Resolution is provided, as is necessary to make the value of the moneys and securities in each Debt Service Reserve Fund, including any such qualified substitute, equal to the respective Reserve Requirement, unless:

(i) the Series Resolution under which such Additional Bonds are to be issued and any previous Series Resolutions have provided for successive monthly payments beginning in the first month following the date of the issuance of the Additional Bonds in substantially equal monthly amounts (the “Monthly Series Payments”) so that by the end of 12 months from the date of issuance of such Series of Bonds there is in the applicable Debt Service Reserve Fund an amount equal to the applicable Reserve Requirement with respect to such Bonds; and

(ii) there are no unremedied defaults of any Monthly Series Payments required to have been made.

(d) Except in the case of Additional Bonds issued for the purpose of refunding any Bonds and which meet the test described in subparagraph (e):

(i) Net Earnings during the most recent fiscal year (as such term is defined in Appendix C) for which audited financial statements of the System are completed are certified by the Accountants or by the Consulting Engineers (as such terms are defined in Appendix C) on the basis of such audited financial statements to be not less than 120% of the maximum Annual Principal and Interest Requirement on all Bonds Outstanding and on such proposed Series of Additional Bonds; provided that for purposes of the test described in this paragraph, such Net Earnings are adjusted to reflect (A) any rate increases currently adopted and to be in effect prior to or coincident with the issuance of such proposed Series of Additional Bonds and determined *pro forma* as though such rate increases had been in continuous effect during such recent fiscal year; (B) in the event a utility, system or enterprise that is in existence and operating and whose current customers have become customers of the System prior to the issuance of the proposed Series of Additional Bonds or will become customers of the System concurrently with the issuance of such proposed Series of Additional Bonds, 100% of the Net Earnings that the Accountants or Consulting Engineers estimate would have been received during such fiscal year if the utility, system or enterprise had been a part of the System throughout such recent fiscal year, taking into account, for the estimation of such Net Earnings in this subparagraph (B) only, the then-existing customer base and population of the acquired utility, system or enterprise; (C) in the event proceeds of such proposed Series of Additional Bonds will be used to construct or to acquire a newly-constructed utility, system, enterprise or component of the System which will serve an existing customer base and currently-populated area, 100% of the Net Earnings, estimated by the Consulting Engineers, to be received by the System during the first fiscal year beginning after the earlier of (1) the date on which such project constructed or acquired with the proceeds of the

proposed Series of Additional Bonds is placed in service and (2) the third anniversary of the date of delivery of the proposed Additional Bonds, from the newly-constructed or to-be-constructed utility system, enterprise, or component of the System, taking into account for the estimation of such Net Earnings in this subparagraph (C) only the then-existing customer base and population; (D) in the event proceeds of such proposed Series of Additional Bonds will be used to pay interest on such proposed Series of Additional Bonds, 100% of the interest that will accrue on such Additional Bonds during the first 12 full months following the date of delivery of the proposed Series of Additional Bonds and that will be paid from such proceeds, provided however that any such interest accruing in such 12-month period that is to be paid on a date within the fiscal year of maximum Annual Principal and Interest Requirements is not so added into such Net Earnings; and (E) in the event proceeds of such proposed Series of Additional Bonds will be used to construct or to acquire improvements to or an expansion to the System and to the extent not included by sub-paragraph (C), 100% of estimated Net Earnings to be received by the System in the first fiscal year following the completion of such project, certified by the Consulting Engineers, from customers under long-term contracts which extend for the life of such proposed Series of Additional Bonds; or

(ii) (A) Net Earnings during the most recent fiscal year for which audited financial statements of the System are completed shall be certified by the Accountants or by the Consulting Engineers on the basis of such audited financial statements to be not less than 120% of the Annual Principal and Interest Requirement during such fiscal year on all Bonds Outstanding; provided that for purposes of this paragraph, such Net Earnings shall be adjusted to reflect (1) any rate increases currently adopted and to be in effect prior to or coincident with the issuance of such proposed Series of Additional Bonds and determined *pro forma* as though such rate increases had been in continuous effect during such recent fiscal year; and (2) in the event a utility, system or enterprise had been or is being acquired by the System other than from the proceeds of the proposed Series of Additional Bonds and whose current customers have become customers of the System prior to the issuance of the proposed Series of Additional Bonds or will become customers of the System concurrently with the issuance of such proposed Series of Additional Bonds, 100% of the Net Earnings estimated by the Accountants or Consulting Engineers that would have been received by the System during such fiscal year if the utility, system or enterprise had been a part of the System during such recent fiscal year, taking into account for the estimation of such Net Earnings in this subparagraph (2) only the then-existing customer base and population of the acquired utility, system or enterprise; and

(B) For each of the five fiscal years following the later of the date of the delivery of the Bonds of such Series, or the period (if any) for which interest is funded from the proceeds of such Bonds, Net Earnings, as shall have been forecasted by Consulting Engineers, will be not less than 120% of the Annual Principal and Interest Requirements on all Bonds then proposed to be Outstanding in each of such five fiscal years.

Whenever subsections (i) or (ii) above require a certification for the most recent fiscal year for which audited financial statements are available, the Authority may, in its discretion, provide for a special audit and a certification based upon such special audit, in lieu of the audit for such fiscal year, provided such special audit covers 12 consecutive calendar months of the 18 full consecutive calendar months preceding the date of issuance of the proposed Series of Additional Bonds.

In addition, in the event the aggregate principal amount of the proposed Series of Additional Bonds to be issued shall not exceed \$1,000,000, any certifications, estimates or forecasts otherwise required to be made pursuant to subparagraphs (i) or (ii) above by the Accountants or the Consulting Engineers may be made instead by the chief operating officer of the Authority.

(e) In lieu of compliance with the test described in paragraph (d), in the case of a Series or a portion of a Series of Additional Bonds issued for the purpose of refunding any Bonds, the Annual Principal and Interest Requirement of the refunding Bonds shall not exceed the Annual Principal and Interest Requirements of the refunded Bonds for any fiscal year until a time subsequent to the last maturity of Bonds issued prior to the issuance of such refunded Bonds which are not refunded and which remain Outstanding following the issuance of the refunding Bonds.



(f) If any Series of Additional Bonds shall contain Variable Rate Bonds (as such term is defined in Appendix C):

- (i) The Series Resolution shall provide for and specify a maximum interest rate on (A) such Additional Bonds and (B) any reimbursement obligation to a liquidity provider for such Additional Bonds;
- (ii) The liquidity provider for such Additional Bonds shall be rated in at least the second highest short-term rating category by either Moody's Investors Service ("Moody's") or S&P Global Ratings ("S&P"); and
- (iii) Any accelerated principal payments or any interest computed at a rate in excess of that on such Additional Bonds due to the liquidity provider for such Additional Bonds pursuant to any reimbursement agreement with such liquidity provider shall be subordinate to the payment of debt service on all Bonds; provided, however, if the tests described in paragraphs (d) or (e), as the case may be, are calculated (and met) assuming such accelerated principal payment and such excess interest amount to the liquidity provider, then such accelerated principal payment and excess interest amount may be on a parity with the payment of debt service on all Bonds.

(g) All amounts then due under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit credited to a Debt Service Reserve Fund have been paid.

#### **Junior Lien Bonds**

Notwithstanding that Bonds may be Outstanding, the Authority may, at any time, and without limitation and free of all conditions issue Junior Lien Bonds (as such term is defined in Appendix C), in such amount as it may from time to time determine, payable from the revenues of the System, provided that the pledge of revenues and any lien upon the revenues of the System granted for the protection of said Junior Lien Bonds, shall at all times be and remain subordinate and inferior in all respects to the pledges of revenues and liens upon such revenues made or authorized for the Bonds and to the payment of all Operation and Maintenance Expenses; and provided, further, that the maturity of Junior Lien Bonds may not be accelerated and paid in full unless all of the Bonds shall have been paid or provision for their defeasance has been made pursuant to the Bond Resolution. Such Junior Lien Bonds may, under certain circumstances specified in the Bond Resolution, accede to the status of Bonds as discussed in Appendix C.

#### **Special Facilities Bonds**

The Authority has at all times the right to enter into contracts, leases or other agreements pursuant to which it will agree to construct, operate and pay the costs of Special Facilities (defined herein) to be financed by its issuance of Special Facilities Bonds (as defined in Appendix C) subject to the following conditions:

(a) It has been determined to the satisfaction of the Authority that the rents, revenues or receipts to be derived from the Special Facilities are at least equal to the principal, interest and any reserve requirements contained in the resolution authorizing such Special Facilities Bonds and to pay all operation, maintenance and other costs and expenses applicable to such Special Facilities; and

(b) The Authority's revenues derived from Special Facilities need not be deposited in the General Revenue Fund, and may be pledged to secure Special Facilities Bonds, but no debt service or other cost or expense related to any Special Facilities may be paid from System revenues deposited in the General Revenue Fund except from surplus moneys.

For purposes of the Bond Resolution, the term "Special Facilities" includes all or a portion of the water or sewer (or other utilities, enterprises or activities which may be added to the System pursuant to the Bond Resolution) facilities and rights to all or a portion of the use of, or the capacity available from, any such facilities.

### **Lease Financing Agreements**

The Authority has at all times the right to enter into capital leases or other lease financing agreements secured by a lien on the property, plant and equipment comprising a part of the System; provided, however, that the aggregate principal amount of such obligations outstanding at any time does not exceed 10% of the property, plant and equipment of the System less accumulated depreciation as shown on the audited balance sheet of the System for the most recent fiscal year for which audited financial statements are available.

### **Acquisition of Additional Utilities or Enterprises**

No provision of the Bond Resolution prevents the combining of the System with any other utility system or enterprise of whatever type if such combination then be permitted or authorized by the provisions of State law and if the requirements set forth below are met; but no such combination shall impair the validity or priority of the pledge of revenues and the lien thereon created by the Bond Resolution. The Authority has the right from time to time to add other utilities, enterprises, activities and facilities (which at the date of adoption of the Bond Resolution were not included in the definition of System thereunder) to the System, provided that:

- (a) the members of the Authority have determined that such utilities, enterprises, activities or facilities are of a similar public utility nature as are the utilities now constituting the System;
- (b) the members of the Authority have adopted an appropriate amendatory resolution to the Bond Resolution;
- (c) the Authority has received an opinion of Bond Counsel to the effect that such action to be taken is authorized under the Bond Resolution and the laws of the State and will not adversely affect the excludability of interest on the Bonds which were intended upon their issuance to be exempt from federal income taxation; and
- (d) for each of the five fiscal years following the date of the additions to the System, Net Earnings, as shall have been forecasted either by Consulting Engineers with a reputation for expertise in the type of enterprise being added to the System or by Accountants, will be not less than 120% of the Annual Principal and Interest Requirements on all Bonds then proposed to be Outstanding in each of such five fiscal year; provided, however, that in the event that Bonds are being issued to acquire or improve the acquired utility or enterprise, this paragraph (d) does not apply and the Authority meets the applicable requirements of the Bond Resolution before issuing such Bonds and acquiring such utility or enterprise.

### **Removal of Component or Enterprise from the System**

The Authority may at any time remove an entire component or enterprise from the System provided the following conditions are met:

- (a) a resolution of the members of the Authority is adopted describing, in reasonable detail, the component or enterprise of the System to be removed from the System and the rationale for its removal and providing that such component or enterprise will no longer be part of the System;
- (b) (1) a certificate by the Accountants or Consulting Engineers is delivered stating that the Authority would have been in compliance with the rate covenant set forth in the Bond Resolution (as described under “—Rates and Charges” above) for the last fiscal year for which audited financial statements are available exclusive of that portion of the Net Earnings derived by the component or enterprise to be removed from the System or (2) a report by the Consulting Engineers stating that, in the best judgment of such Consulting Engineers, the removal of such component or enterprise would not materially adversely affect the ability of the Authority to comply with said rate covenant for the current and next succeeding fiscal year;
- (c) an opinion of Bond Counsel is delivered to the effect that the removal of an enterprise or component of the System from the System has been effected in accordance with the terms of the Bond Resolution; and

(d) there is provided evidence (in the form of a letter or certificate) from any rating agency then rating any Series of Bonds that the removal of such component or enterprise from the System would not result in the ratings on any Series of Bonds being suspended or downgraded below “investment grade” by the rating agency then rating such Series of Bonds.

If any component or enterprise of the System to be removed from the System will be sold, exchanged or disposed of by the Authority in connection with such removal from the System, the proceeds, if any, of such sale or other disposition may be applied, at the discretion of the Authority, as follows:

(a) to the payment or satisfaction in whole or in part of (i) Bonds associated with or related to such component or enterprise and (ii) any other type of indebtedness of the Authority associated with or related to such component or enterprise; or

(b) to the payment or satisfaction, in whole or in part, of the amount due under any type of contractual obligations of the Authority associated with or related to such enterprise or component; or

(c) to the payment of the construction or purchase of additional improvements or expansions to the System.

### **SOURCES AND USES OF FUNDS**

The proceeds of the sale of the Series 2020 Bonds are expected to be used substantially as follows:

*Estimated Sources of Funds*

Principal Amount of Series 2020 Bonds	\$4,425,000.00
Original Issue Premium	<u>752,599.55</u>
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$5,177,599.55</b>

*Estimated Uses of Funds*

Deposit to Construction Fund	\$5,000,000.00
Costs of Issuance*	<u>177,599.55</u>
<b>TOTAL USES OF FUNDS</b>	<b>\$5,177,599.55</b>

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\*Includes certain legal, accounting and other financing expenses, including Underwriter’s discount, incurred by the Authority.

### **THE PROJECT**

On or upon the delivery of the Series 2020 Bonds, \$5,141,412.05 of the proceeds of the sale thereof shall be deposited in the 2020 Construction Fund and shall be used for purposes of defraying a portion of the cost of the Project and paying cost of issuance of the Series 2020 Bonds. The 2020 Construction Fund shall be held, maintained and controlled by the Authority. Moneys in the 2020 Construction Fund shall be invested and reinvested in Authorized Investments. All earnings shall be added to and become a part of the 2020 Construction Fund. Withdrawals from the 2020 Construction Fund shall be made upon written order of the Authority. Any amounts remaining in the 2020 Construction Fund following completion of the construction of the Project shall be used to pay principal or interest on the Series 2020 Bonds or deposited in the Depreciation and Contingent Fund, in the discretion of the Authority.

## FINANCIAL FACTORS

### Five-Year Summary

The following table sets forth a summary of the operating revenues, operating expenses, non-operating revenues and expenses and net income of the System for the fiscal years ended June 30, 2015 through June 30, 2019. This summary should be read in conjunction with the audited financial statements of the System for the applicable fiscal years, copies of which are available for inspection at the Authority. Included as Appendix A to this Official Statement is the portion of the Authority's financial statements for the fiscal year ended June 30, 2019, which relates to the System.

	<u>Fiscal Year Ending</u>				
	<u>6/30/15</u>	<u>6/30/16</u>	<u>6/30/17</u>	<u>6/30/18</u>	<u>6/30/19</u>
<u>Operating Revenues</u>					
Charges for services:					
Water sales	\$ 3,976,046	\$ 4,173,308	\$ 4,972,370	\$ 4,803,906	\$ 5,083,147
Sewer sales	3,386,265	3,636,193	3,599,379	3,942,927	4,201,925
Other fees and charges	197,610	194,815	179,928	153,317	242,731
Adjustments	<u>(39,380)</u>	<u>(60,332)</u>	<u>(73,618)</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 7,520,541	\$ 7,943,984	\$ 8,678,059	\$ 8,900,150	\$ 9,482,803
<u>Operating Expenses</u>					
Distribution operations	\$ 730,872	\$ 770,606	\$ 724,670	\$ 724,909	\$ 744,156
Water operations	1,105,277	1,134,642	1,196,087	1,154,198	1,117,143
Sewer operations	469,530	480,615	474,199	459,505	495,429
Wastewater operations	2,041,208	2,217,737	2,061,878	2,265,194	2,536,205
General and administrative	1,428,384	1,467,646	1,673,747	1,471,717	1,548,875
Depreciation expense	<u>1,885,355</u>	<u>1,868,916</u>	<u>1,700,709</u>	<u>1,924,473</u>	<u>1,936,889</u>
TOTAL OPERATING EXPENSES	\$ 7,660,626	\$ 7,940,162	\$ 7,831,290	\$ 8,029,996	\$ 8,378,697
Operating income	\$ (140,085)	\$ 3,822	\$ 846,769	\$ 870,154	\$ 1,104,106
<u>Non-Operating Revenue (Expenses)</u>					
Intergovernmental revenues-Federal					\$ 949,358
Intergovernmental revenues-State					250,000
Interest income	\$ 6,322	\$ 12,658	\$ 24,186	\$ 53,528	100,161
Other income	(16,654)	(91,476)	(130,898)	37,019	66,301
Interest expense and fiscal charges	<u>(462,572)</u>	<u>(444,119)</u>	<u>(421,733)</u>	<u>(419,732)</u>	<u>(374,674)</u>
Total Non-Operating Revenues (Expenses), net	\$ (472,904)	\$ (522,937)	\$ (528,445)	\$ (329,185)	\$ 991,146
Income Before Contributions	\$ (612,989)	\$ (519,115)	\$ 318,324	\$ 540,969	\$ 2,095,252
Capital Contributions	450,000	209,160	794,352	264,128	96,000
Change in Net Position	(162,989)	(309,955)	1,112,676	805,097	2,191,252
Total Net Position, beginning, as previously reported	\$21,669,966	\$21,506,977	\$21,197,022	\$22,309,698	\$22,832,663
Prior period adjustment			-	(282,132)*	
Total net position, beginning, as restated			\$21,197,022	\$22,027,566	\$22,832,663
Total Net Position Ending	\$21,506,977	\$21,197,022	\$22,309,698	\$22,832,663	\$25,023,915

\*Restatement due to the Authority's adoption of GASB 75.

## Management's Discussion

### Operating Revenues

The District's operating revenues for Fiscal Year 2019 increased by approximately \$582,000 to approximately \$9.5 million due to increases in user rates, customers and usage.

### Operating Expenses

The District's operating expenses, including depreciation and amortization, for Fiscal Year 2019 increased by approximately \$349,000 to approximately \$8.4 million due primarily to increased expenses for wastewater operations resulting from increased flow from Saluda County Water & Sewer Authority to the City of North Augusta ("North Augusta"). See "THE AUTHORITY AND THE SYSTEM – Regionalization" herein.

### Year Ending June 30, 2019

For the year ending June 30, 2019, operating revenues of the System were approximately 103% of the amount budgeted for such year, and operating expenses for the System, were approximately 97% of the amount budgeted for such year.

For further management discussion, see also "THE AUTHORITY AND THE SYSTEM – Water and Sewer Facilities" and "THE AUTHORITY AND THE SYSTEM – Capital Improvements" herein.

## Historical Debt Service Coverage of the System

The following table sets forth the total operating revenues, total operating expenses, net earnings, annual debt service requirements, and debt service coverage of the System for the fiscal years ended June 30, 2015 through 2019.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Gross Revenues					
Water Fees	\$3,976,046	\$4,173,308	\$4,972,370	\$4,803,906	\$5,038,147
Sewer Fees	3,386,265	3,636,193	3,599,379	3,942,927	4,201,925
Other	197,610	194,815	(73,618)	153,317	242,731
Adjustment	<u>(39,380)</u>	<u>60,332</u>	<u>179,928</u>	<u>0</u>	<u>0</u>
Total Gross Revenues	\$7,520,541	\$7,943,984	\$8,678,059	\$8,900,150	\$9,482,803
Operating Expenses					
Water/Sewer Expenses	\$4,346,887	\$4,603,600	\$4,060,969	\$4,633,806	\$4,892,933
General/Admin. Expenses	1,428,384	1,467,646	1,708,443	1,471,717	1,548,875
Depreciation	<u>1,885,355</u>	<u>1,868,916</u>	<u>1,700,709</u>	<u>1,924,473</u>	<u>1,936,889</u>
Total Operating Expenses	\$7,660,626	\$7,940,162	\$7,831,290	\$8,029,996	\$8,378,697
Interest Expense	\$ 462,572	\$ 444,119	\$ 421,733	\$ 419,732	\$ 374,674
Net Earnings*	\$2,207,842	\$2,316,857	\$2,969,211	\$3,214,359	\$3,415,669***
Debt Service	\$1,077,250	\$1,088,721	\$1,575,362	\$1,579,986	\$1,583,017
Coverage**	2.05x	2.13x	1.88x	2.03x	2.16x

\*Pursuant to the Bond Resolution, Net Earnings is calculated by adding depreciation and interest expense to net revenues.

\*\*Coverage equals Net Earnings divided by Debt Service.

\*\*\*Pursuant to the Bond Resolution, Net Earnings for fiscal year 2019 excludes grants in the amount of \$1,199,358.

Source: The Authority.

## Debt Service Requirements of the System

The following table sets forth the debt service requirements for the Series 2007 Bond, the Series 2016 Bond, the Series 2019 Bonds and the Series 2020 Bonds for the fiscal years shown.

Fiscal Year Ended <u>June 30</u>	Outstanding Principal & <u>Interest</u>	<u>Series 2020 Bonds</u>			Total <u>Debt Service</u>
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2021	\$1,534,284		\$ 62,004	\$ 62,004	\$ 1,596,288
2022	1,530,981		161,750	161,750	1,692,731
2023	1,040,165	\$ 490,000	161,750	651,750	1,691,915
2024	1,035,286	510,000	147,050	657,050	1,692,336
2025	1,037,349	525,000	131,750	656,750	1,694,099
2026	1,035,861	540,000	116,000	656,000	1,691,861
2027	1,037,518	560,000	94,400	654,400	1,691,918
2028	1,041,932	580,000	72,000	652,000	1,693,932
2029		600,000	48,800	648,800	648,800
2030		<u>620,000</u>	<u>24,800</u>	<u>644,800</u>	<u>644,800</u>
	<u>\$9,293,376</u>	<u>\$4,425,000</u>	<u>\$1,020,304</u>	<u>\$5,445,304</u>	<u>\$14,738,680</u>

## THE AUTHORITY AND THE SYSTEM

### General Description

The Authority is a body corporate and politic and a special purpose district of the State of South Carolina which was created pursuant to the provisions of Title 6, Chapter 13, Article 9 of the Code of Laws of South Carolina, 1976, as amended, whereby the Authority is given the function to acquire, construct and operate a waterworks and sewer system within its service area which consists of the territory of Edgefield County, South Carolina, and a small area in the southwestern corner of Aiken County. The Authority is not empowered to authorize the levy of taxes for the purpose of operations and maintenance.

### Administration of the Authority

Pursuant to the Act, a seven-member Board governs the Authority. Each member serves a term of six years. Members are appointed by the Governor upon the recommendation of a majority of the members of the Edgefield County Council, with the approval of the House delegation. The members of the Board elect a Chairman, a Vice Chairman and a Secretary from their group.

The present members of the Board, the dates on which they became members of the Board, and the dates on which their respective terms expire, are as follows:

<u>Name</u>	<u>Tenure Began</u>	<u>Current Term Expires</u>
James Earl Kennamer, Chairman	September 15, 1982	September 15, 2023
C. Raymond Johnson, Vice Chairman	November 19, 1991	September 15, 2021
Ronald Creswell, Secretary/Treasurer	November 14, 2007	September 15, 2019*
Carroll L. Clark	January 27, 2009	September 15, 2020
Bernard E. Kitchens	December 12, 2012	September 15, 2023
John C. Timmerman	January 2, 1997	September 15, 2020

\*Reappointment is pending.

The Authority is under the control and management of the Administrator who in turn is responsible to the Board. The Authority has a total of 43 full-time employees. The management of the Authority consists of the Administrator, General Manager, Operations Manager, and Business Manager. The Authority is divided into five departments: Administration, Distribution, Water Treatment, Wastewater Treatment, and Wastewater Maintenance. Each Department has a Superintendent that reports to the General Manager.

John Hare has served as Administrator of the Authority since April 2013. Mr. Hare graduated from USC-Aiken in 1995 with a B.S. in Biology with an emphasis on Environmental Science. He began his career in 1996 with the South Carolina Department of Health & Environmental Control as an Environmental Technician. In 1999, he began working at the Authority as a Wastewater Operator before later serving in various roles in the Wastewater, Distribution, and Administrative Departments.

For further information regarding Edgefield County, see Appendix B attached hereto.

## **Service Area**

The service area of the Authority comprises all of Edgefield County and a small area of the southwestern corner of Aiken County bordered on the eastern right-of-way of U.S. Highway 25 and on the south by the southern right-of-way of I-20. By various agreements, the Authority has permitted other providers to provide service within the Authority's service area and serves certain areas outside of its service area. See "Major Contracts" below.

## **Water and Sewer Facilities**

### *Water*

The Authority's only raw water source is the Savannah River at a site in North Augusta, South Carolina, approximately one mile south of the Authority's water treatment facility (the "Water Plant"). The Water Plant was originally built in 1974 with a 4.4 million gallons per day ("MGD") permit capacity and was upgraded in 2010 to an 8.9 MGD permit capacity. The peak daily demand at the Water Plant during the 12 months ended June 30, 2019 was 7.2 MGD.

The State Primary Drinking Water Regulations ("SPDWR") set standards for the operation and maintenance of public water systems. As part of these standards, public water systems are required to plan for the expansion of their water treatment facility and prepare a preliminary engineering report for submittal to the South Carolina Department of Health & Environmental Control ("SCDHEC") when peak monthly demand exceeds 80% of a water treatment facility's reliable capacity. When peak monthly demand exceeds 90% of the water plant's reliable capacity, public water systems are required to submit plans and specifications for the expansion of that water treatment facility along with an application for a permit to construct to SCDHEC. The Authority is currently updating its water system hydraulic model to better forecast consumer demands on the current system. Once this update has occurred, the Authority will use the data as a tool for planning capital improvements to the water distributions system and the Water Plant.

The Authority operates a raw water pump station at the intake site on the Savannah River. From the pump station, raw water is pumped to the Water Plant for treatment. The Authority also has a 20 MGD withdrawal permit issued by SCDHEC for water withdrawals from the Savannah River.

The Authority operates six elevated tanks with a combined storage capacity of 2,800,000 gallons and individual capacities ranging from 200,000 gallons to 750,000 gallons. The Authority also operates two ground-level storage tanks with a combined capacity of 3,200,000 gallons. These two ground-level storage tanks, with capacities of 2,000,000 gallons and 1,200,000 gallons, are located at the Water Plant and are used to hold water pending distribution. Finished water capacity is 14 MGD; DHEC permitted capacity is 10 MGD.

From the ground-level storage tanks at the Water Plant, treated water is distributed through approximately 500 miles of supply line, ranging from 24 inches in diameter to 6 inches in diameter, to the Authority's 10,249 active water customers. The Authority also operates two pump stations, constructed in 1974 and 2010, respectively, to aid in treated water distribution.

### *Sewer*

The Authority operates and maintains three independent wastewater treatment plants in the Town of Edgefield (the "Brooks Street Plant"), the Town of Johnston (the "Johnston Plant") and the Town of Trenton (the "Trenton Plant") along with gravity collection lines, force mains and 36 pump stations located in the Town of Edgefield, the Town of Johnston, the Town of Trenton, and in portions of Edgefield County. The Authority also

operates and maintains over 34 miles of sewer force mains and three lift stations that are part of the Regional Sewer System (as defined below). This system conveys wastewater to the Horse Creek wastewater treatment facility of the Aiken County Public Service Authority (“Aiken County PSA”) for treatment. See also “THE AUTHORITY AND THE SYSTEM - Regionalization” herein.

The Brooks Street Plant was last upgraded in 1990 and currently has a treatment capacity of 725,000 gallons per day and treats an average flow of 198,000 gallons per day. The Brooks Street Plant utilizes the sequencing batch reactor process, a form of activated sludge treatment, and the treated effluent from the plant is discharged to Beaverdam Creek.

The Johnston Plant uses a multi-cell aerated lagoon treatment process preceded by coarse solids and grit removal and followed by disinfection and flow monitoring. It provides secondary treatment of combined domestic and light commercial process wastewater. The plant has a design treatment capacity of 968,000 gallons per day and treats an average flow of 250,000 gallons per day. The treated effluent from this wastewater treatment plant is discharged into the South Fork Edisto River. The Johnston Plant is also connected to a Regional Sewer System pump station located on site as a backup. This connection enables the Authority to pump wastewater received at the Johnston Plant into the Regional Sewer System in lieu of treatment and discharge if operational problems are encountered at the plant. This plant was upgraded in 2014.

The Trenton Plant uses an aerated lagoon treatment process. The plant has a design treatment capacity of 73,000 gallons per day. The plant normally has no discharge, due to wastewater being pumped into the Regional System.

## **Major Contracts**

### *Federal Correctional Institution in Edgefield*

Pursuant to an agreement effective October 1, 2018, the Authority has agreed to provide water and sewer service at the Federal Correctional Institution (FCI) in Edgefield. The estimated annual volume of potable water is 149,399,714 gallons, with an estimated maximum daily volume of 409,314 gallons and estimated average daily rate of 280 gallons per minute. The estimated annual volume of wastewater is 126,989,757 gallons with an estimated maximum daily volume of 343,151 gallons. Because wastewater flow from FCI is unmetered, sewer service usage is estimated at 85 percent of FCI’s actual monthly metered water consumption. Estimated fees to the Authority under the contract are \$261,000 for water service and \$536,205 for sewer service. Charges increase if daily flow is higher than estimated, and rates for service automatically increase with any system-wide increase or increase in wastewater received from North Augusta. The FCI agreement is for a term of one year and is renewable on an annual basis as per Federal Bureau of Prisons requirements.

### *North Augusta Agreement*

Pursuant to an agreement dated August 23, 1988 (the “North Augusta Agreement”) between the Authority and North Augusta, the Authority authorized North Augusta to provide sewer service within certain areas of the Authority’s statutorily designated service area. These areas include the portion of the Authority’s service area located within Aiken County, certain areas within Edgefield County which were within the corporate limits of North Augusta at the date of the agreement and the Bergen/Meybohm properties located in Edgefield County. The North Augusta Agreement also permits the Authority to purchase from North Augusta a cumulative sewer treatment capacity of 1.5 million gallons per day, representing a portion of the treatment capacity previously purchased by North Augusta from the Aiken County Public Service Authority. The Authority is charged for the usage of this capacity based upon metered flow at the lowest rate available to North Augusta customers (taking into account rates applicable to users inside and outside of North Augusta corporate limits). The Authority uses the treatment capacity available under the North Augusta Agreement to provide service to customers in the County, including the Federal Correctional Institution, the State correctional facility, and Saluda County. The Authority paid North Augusta a capacity fee of \$621,060 to purchase 1.3 million gallons per day of capacity from North Augusta. The North Augusta Agreement does not affect the Authority’s water service area. This agreement has no expiration date.



North Augusta and the Authority have agreed to implement a cooperative billing and collection system for customers served by the Authority for water and by North Augusta for sewer.

#### *Saluda Agreement*

The Authority and Saluda County Water and Sewer Authority (“Saluda County WSA”) are parties to an agreement dated August 22, 1995 (the “Saluda Agreement”) pursuant to which the Authority has agreed to accept, subject to the Authority having available capacity, up to 2.3 million gallons per day (peak flow) of wastewater from Saluda County WSA’s sewer system. The Saluda Agreement has a term of 40 years from the date of the initial flow of wastewater to the Authority’s sewer unit thereunder. To provide a portion of the 2.3 million gallons per day capacity, the Authority has agreed to reserve up to 900,000 gallons per day of the Authority’s 1.5 million gallons per day permitted discharge to the Aiken County PSA under the Aiken Agreement. The Authority does not intend to reserve for Saluda County WSA capacity in addition to the 900,000 gallons per day currently reserved until such time as the Authority acquires, by contract or otherwise, additional treatment capacity.

Under the Saluda Agreement, Saluda County WSA constructed at its expense an approximately 20-mile force main from Saluda County into Edgefield County to the Authority’s Pine House Pump Station in Trenton, and paid the Authority \$300,000 to cover a portion of the cost incurred by the Authority to increase the capacity of the Pine House Pump Station, install a force main from the Authority’s Pump Station No. 1 (in Johnston) and a metering station to measure Saluda County WSA flows to the System. Saluda County WSA has further agreed to provide for an alternate point of connection for its flows to North Augusta should North Augusta have insufficient handling capacity at the Authority’s point of connection for both the Authority’s and Saluda County WSA’s flows. Saluda County WSA is charged the Authority’s bulk industrial rate as in effect from time to time for discharges under the Saluda Agreement.

#### *Aiken Agreement*

The Authority has, pursuant to a 1985 agreement with Aiken County (the “Aiken Agreement”), provided water service to approximately 106 customers in Pinewood Plantation in Aiken County outside of the Authority’s service area. The Aiken Agreement provides that at such time as Aiken County develops a long-range plan for utility service in the area in which the subdivision is located and an Aiken County utility is able to provide permanent service to the area, the Authority will withdraw from providing service to the subdivision.

#### *McCormick Agreement*

Through an agreement dated March 19, 1992 among the Authority, Edgefield County and McCormick County (the “McCormick Agreement”), the Authority and Edgefield County agreed to allow McCormick County to provide water service to a retirement center and nursing home and certain other users located on Highway 67 in Edgefield County. The McCormick Agreement provides that at such time as the loan cost incurred by McCormick County in extending service to this area of Edgefield County and repairing, altering or expanding such service are paid by McCormick County, and the Authority develops a long-range plan for utility service in the area, the right of McCormick County to provide service to the area shall cease, and McCormick County will withdraw from providing service at the request of the Authority. The Authority has no immediate plans to cause McCormick County to withdraw from providing water service to the areas of Edgefield County covered by the McCormick Agreement. This agreement has no expiration date.

### **Regionalization**

The Authority is part of a multi-agency regional sewer system serving the Authority, Saluda County Water & Sewer Authority, North Augusta, and Aiken County PSA (the “Regional Sewer System”). This Regional Sewer System begins in Saluda County, travels through Edgefield County, and in to Aiken County and North Augusta. From North Augusta, it flows into Aiken County PSA trunk lines and into their Horse Creek wastewater treatment facility.

The Authority's Regional Sewer System comprises approximately 37,900 linear feet of 12-inch sewer force main from pump station #3 on Riegel Road in Johnston to pump station #2 on Star Road. From this pump station, a

16-inch force main runs parallel with U.S. Highway 25 for approximately 20,700 linear feet to the Pine House pump station in Trenton. From the Pine House pump station, approximately 63,500 linear feet of 18-inch sewer force main runs parallel with U.S. Highway 25, then reduces to a 12-inch sewer force main for approximately 8,800 linear feet and ties into North Augusta's metering site on Austin Graybill Road. The force main continues under I-20 and along Ascauga Lake Road in North Augusta, as part of the Mims Branch Project. North Augusta transports the wastewater flow from the Authority's Regional Sewer System to Aiken County PSA's system for treatment at the Horse Creek wastewater plant. The Authority has 2.3 MGD of capacity in this sewer main. The Authority acquired from North Augusta 1.8 MGD of treatment capacity at Aiken County PSA's Horse Creek water treatment plant. The Horse Creek wastewater treatment plant has a treatment capacity of 26 MGD and is currently treating approximately 13 MGD. Saluda County funded the cost of constructing a pump station at the Johnston Plant that interconnects a 16-inch sewer force main that runs from Saluda County to the Johnston Plant, then parallel with S.C. Highway 121 to the Pine House pump station in Trenton.

Major contributors of the Authority's flow into the system are the Federal and State prisons, the Town of Trenton, Pine Ridge Country Club, and Mount Vintage Plantation. Industrial users such as Trantech and US Fibers also discharge into the Regional Sewer System.

### Usage

The following table shows historical information pertaining to the annual amounts of water sold and daily amounts of water pumped from the Water Plant and the daily amounts of wastewater treated at the Authority's wastewater treatment plants and transported to North Augusta for treatment by Aiken County PSA for the fiscal years indicated. Daily sewer flows are the effluent discharges of the Brooks Street Plant, the Johnston Plant and the metered sewer flow from the Authority into North Augusta.

Fiscal Year	Total System Annual Water Sales (thousands of gallons)	Daily Water Consumption*		Daily Sewer Flows*	
		Peak	Average	Peak	Average
2015	1,155,666	6.6	3.17	3.760	2.15
2016	1,135,987	6.6	3.10	4.315	2.30
2017	1,165,472	6.7	4.27	3.530	2.22
2018	1,082,460	6.0	4.10	4.400	2.40
2019	1,117,867	7.2	3.10	5.390	2.93

\*Millions of gallons.

Source: The Authority.

The following table shows the daily amounts of wastewater delivered by the Authority to Aiken County PSA through North Augusta for treatment at the Horse Creek wastewater treatment plant, and the amounts paid by the Authority for treatment of such wastewater in the fiscal years shown.

Fiscal Year	Daily Amount Collected*		Authority Payments
	Peak	Average	
2015	2.20	1.700	\$1,629,871
2016	2.70	1.956	1,808,593
2017	2.69	1.820	1,761,232
2018	2.50	1.900	1,969,578
2019	3.45	2.295	2,516,991

\*Millions of gallons.

Source: The Authority.

## Production

Set forth below is the water production by month of the Authority for the 12 months shown. Such amounts reflect gallons pumped by the Authority and not actual gallons sold to customers.

<u>Month</u>	<u>Gallons (millions)</u>	<u>Month</u>	<u>Gallons (millions)</u>
July 2018	133	January 2019	101
August 2018	131	February 2019	90
September 2018	144	March 2019	109
October 2018	131	April 2019	120
November 2018	106	May 2019	177
December 2018	102	June 2019	155

Total = 1,504,000,567 gallons pumped\*

Total = 1,117,867,000 gallons billed\*

\*The Authority conforms to industry standards for Unaccounted for Non-Billable Water. Gallons pumped includes non-billable water used during flushing and fire-fighting activities as well as leaks.

Source: The Authority.

## Customers

Set forth below are the historical number of water and sewer customers (measured by number of active accounts) of the System as of the end of the fiscal years indicated.

<u>Fiscal Year</u>	<u>Number of Customers</u>	
	<u>Water</u>	<u>Sewer</u>
2015	9,650	2,534
2016	9,766	2,539
2017	9,957	2,556
2018	10,082	2,546
2019	10,249	2,545

Source: The Authority.

## Largest Customers

Set forth below is information relating to the ten largest water and sewer customers of the System for the fiscal year ended June 30, 2019.

### *Largest Water Customers*

<u>Customer</u>	<u>Average Monthly Water Usage (gallons)</u>	<u>Average Monthly Water Bill</u>	<u>Average Percentage of Total System Monthly Water Billings</u>
Federal Correctional Institute	9,922,250	\$21,600.06	5.00%
State Correctional Facility	3,118,167	7,379.53	2.00
Milliken & Company	1,867,000	3,750.12	1.00
US Fibers	1,192,833	2,477.97	1.00
Edgefield County School District	816,083	1,890.09	0.40
Willow Wick Apartments	797,083	2,123.89	0.01
National Healthcare Center	683,333	1,716.87	0.40
Tranter, Inc.	665,083	1,416.80	0.30
Bondex, Inc.	501,250	1,159.02	0.20
Costa Layman, Inc.	506,500	927.94	0.20

Source: The Authority.

*Largest Sewer Customers*

<u>Customer</u>	<u>Average Monthly Sewer Flow (gallons)</u>	<u>Average Monthly Sewer Bill</u>	<u>Average Percentage of Total System Monthly Sewer Billings</u>
Saluda County Water & Sewer Authority	48,455,750	\$206,421.50	59.00%
Federal Correctional Institute	9,922,250	43,007.38	12.00
State Correctional Facility	3,118,167	13,916.52	4.00
U S Fibers	1,192,833	4,814.76	1.00
Tranter, Inc.	665,083	2,218.30	1.00
Bondex, Inc.	524,667	1,724.56	0.49
Edgefield County School District	441,333	1,842.24	1.00
Trinity Mission Health & Rehab	341,917	1,366.72	0.39
Milliken & Company	321,083	1,563.13	0.44
Soap 'N Suds	122,083	473.68	0.13

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Source: The Authority.

**Recent Developments**

The most recent usage data through June 30, 2020 shows that aggregate usage for the Authority's top ten customers is comparable with the usage in the prior year. Additionally, revenues and expenses for the Authority for the twelve-month period ending June 30, 2020 are comparable with the budget for the 2020 Fiscal Year and with the actual results of operation for the 2019 Fiscal Year.

The COVID-19 pandemic has altered and is continuing to alter the behavior of businesses and people in a manner that is having negative effects on global and local economies, including the economy within the Authority's service territory. In addition, global financial markets have experienced significant volatility attributed to concerns over COVID-19. The impact of the pandemic on the System, the Authority's operations, and the local, regional, national and international economies cannot be predicted due to the dynamic nature of the outbreak, including uncertainties relating to its duration and severity, as well as what actions may be taken by governmental authorities, businesses and institutions to attempt to contain or mitigate its impact.

**Rates**

*Ratemaking*

The rates charged by the Authority for water and sewer service are not subject to approval by any state or federal regulatory authority. The Authority generally reviews rates in connection with its annual budgeting and determines whether it is necessary or desirable to revise rates. As part of its rate-making philosophy, the Authority attempts to operate and budget for the water and sewer units as independent, self-sustaining profit centers. The Authority last completed a rate study in 2010. Most recently, the Authority increased its rates with an effective date of July 1, 2020. Rates are examined annually during the budgeting process, and adjusted as needed to account for inflation, labor, debt service and other factors.

*Water Rates*

There are three classes of water service: residential, commercial and industrial. Any agricultural operation which directly produces agricultural commodities may be classified as industrial. The water service charge is charged to all customers and does not include a water-use allowance.

The minimum monthly charge for water only customers is \$17.50. The following rates for water usage became effective on July 1, 2020:

*Water Service Charges for All Customer Classes*

<u>Meter Size</u>	<u>Charge</u>	<u>Meter Size</u>	<u>Charge</u>
3/4"	\$17.50	3"	\$ 173.85
1"	29.03	4"	289.64
1 1/2"	57.89	6"	579.48
2"	92.67	8"	927.20
		10"	1,483.54

*Residential Water Rates*

First 8,000 gallons	\$2.71 per 1,000 gallons
8,001-16,000 gallons	\$3.47 per 1,000 gallons
16,001-24,000 gallons	\$4.01 per 1,000 gallons
24,001-32,000 gallons	\$4.48 per 1,000 gallons
Over 32,000 gallons	\$4.96 per 1,000 gallons

*Commercial Water Rates*

First 100,000 gallons	\$2.64 per 1,000 gallons
Over 100,000 gallons	\$2.32 per 1,000 gallons

*Industrial Water Rates*

First 100,000 gallons	\$2.07 per 1,000 gallons
Over 100,000 gallons	\$1.80 per 1,000 gallons

*Sewer Rates*

There are five classes of sewer service: residential, commercial, industrial, prison and wholesale/Saluda County. Each sewer service will fit into one of the five classes and is billed at the rate for that class. The sewer service charge is charged to all customers and does not include a water-use allowance. Sewer rates are charged based upon 100% of the amount of water metered each month with a cap of 12,000 gallons for residential customers. The following rates became effective on July 1, 2020:

*Sewer Service Charges for All Customer Classes*

<u>Meter Size</u>	<u>Charge</u>	<u>Meter Size</u>	<u>Charge</u>
3/4"	\$11.96	3"	\$119.52
1"	19.96	4"	199.12
1 1/2"	39.81	6"	398.38
2"	63.71	8"	637.43

*Residential Sewer Rate* – flat rate of \$4.23 per 1,000 gallons.

*Commercial Sewer Rate* – flat rate of \$4.23 per 1,000 gallons.

*Industrial Sewer Rate* – flat rate of \$4.23 per 1,000 gallons.

*Other Sewer Rates*

State and federal prisons – \$5.65 per 1,000 gallons (based on 85% of metered use)

Saluda County – \$4.41 per 1,000 gallons. (based on metered wastewater flow)

Sewer-only customers (no water service) – flat rate of \$29.08 per month.

*Temporary Services*

Temporary services are installed only for special services where the total time for use of the service is less than sixty (60) days. The user desiring such service is required to pay the actual cost of the installation and the service is billed in accordance with the water service and sewer service schedules above.

Water used from fire hydrants for other than fire protection is metered. No water may be used from the fire hydrants except for special community services as approved by the Board or Administrator, on an individual basis. A permit fee of \$100.00, which provides service for up to 30 days, must be paid before water is used. After 30 days, the rental fee on the meter is \$2.00 per day. Water is billed on a monthly basis at the rate of \$3.30 per 1,000 gallons. The charge for filling a swimming pool up to size 40' x 20' is \$250.00. The charge for filling larger sized pools is determined by the Business Manager.

Temporary services for house cleaning, one-time events, or other uses that are non-reoccurring (less than 3 times per year) are charged at a rate of \$25 per ten days. Any service that is needed more than described is classified as permanent and is treated as a “normal” or “typical” connection. Any usage in excess of 2,000 gallons is charged at \$2.68/1,000 gallons. Any variance from the above regulation will be at the sole discretion of the Business Manager or Administrator.

*Service Connection Fees and Other Fees*

In addition to water and sewer charges, revenue is recovered for the total cost of service provided by the Authority from connection and other fees. These are generally charges to recover costs that are not directly related to distributing water or collecting wastewater from customers but are still part of being in the water and sewer business. These fees include tap fees, fire protection fees, impact fees, delegated review fees and other fees.

New customers must pay a fee to have a water tap installed and connected onto the System. The following tap fees became effective on September 1, 2017:

*Water Tap Fees for Residential Customers*

<u>Meter Size</u>	<u>Total Service</u>	<u>Meter Only</u>
3/4"	\$1,200	\$ 500
1"	1,550	600
2"	3,450	1,000

Charges for larger residential meters are based on actual cost.

*Water Tap Fees for Industrial and Commercial Customers  
where the Authority installs the tap, meter, and all associated appurtenances.*

<u>Meter Size</u>	<u>Total Service</u>
3/4"	\$ 1,200
1"	1,550
2"	3,450
3"	3,000 + cost of materials
4"	5,000 + cost of materials
6"	10,000 + cost of materials
8"	16,000 + cost of materials

Charges for larger industrial/commercial meters are based on actual cost and evaluated on a case-by-case basis.

New customers must pay a fee to have a sewer tap installed and connected onto the System. Effective July 1, 2019, the tap fees for installation of sewer service connections for flows to be treated at the Authority’s treatment plants are as follows:

*Sewer Tap Fees – Edgefield/Johnston/Trenton Service Area*

<u>Tap Size</u>	<u>Total Service</u>
4"	Actual Cost – not less than \$3,500
6"	Actual Cost – not less than \$4,000
8"	Actual Cost – not less than \$5,000

For sewer taps for flows to be transported by the Authority for treatment at treatment facilities operated by Regional Sewer System providers other than the Authority, charges for tap fees are based on actual cost.

After the review and approval of the construction permit application submittal package, the Authority forwards the submittal package to SCDHEC. SCDHEC processes the submittal package issuing a construction permit generally within a few days after receipt of the submittal package. The fee for this review is \$500, with \$425 going to the Authority to cover costs for reviewing the submittal package and \$75 going to SCDHEC as a processing fee for the construction permit.

The Aiken County Capacity Fee is \$564.60 per 1,000 gallons per day for any high volume users discharging into the Regional Sewer System.

The other current fees charged by the Authority are as follows:

*Security Deposits*

Owner Deposit - Water System	\$60.00
Owner Deposit - Sewer System	40.00
Rental Deposit - Water System	80.00
Rental Deposit - Sewer System	40.00

*Administrative Fees*

Water and Sewer Systems	\$25.00
Meter Reading Recheck Fee	25.00

*Sampling Fees*

Bacteriological Test	\$100.00
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*Water Main Extension Fees*

Engineering & Permitting	\$2,500.00 if under 5,000 LF; actual cost if greater than 5,000 LF.
Line Installation	\$5.00/LF minimum; plus engineering costs and tap fees.

**Historical Rates**

The following table sets forth the water and sewer charges which would have been paid by a residential customer of the System based on a monthly water usage of 6,000 gallons in the fiscal years indicated based upon prevailing rates.

<u>Fiscal Year</u>	<u>Volume Charge Water</u>	<u>Volume Charge Sewer</u>	<u>Total Monthly Charge</u>	<u>Percent Increase in Total Monthly Charge</u>
2016	\$24.34	\$31.85	\$56.19	0%
2017	28.83	32.81	61.64	10
2018	28.83	33.35	62.18	0
2019	30.30	33.35	63.65	2
2020	33.41	34.25	67.66	6

**Accounting and Budgeting**

The Authority's annual goal is to have an independent audit completed and approved by the Board before September 30 of each year. The independent auditor is responsible to express an opinion on the Authority's general purpose financial statement based on the audits.

The budget process of the Authority begins in February of each year. Revenue projections and expenses are prepared by the Administrator and presented to the Board at the March meeting. During the months of April and May various meetings take place with interaction between the Administrator, the Business Manager and Board at which the budget is discussed. Until adoption, the budget is continually refined and is typically adopted in June to be effective on the immediately succeeding July 1.

## Procedure for Collection of Charges

All metered accounts are read and billed monthly. Bills are mailed to the customer the last working day of each month. If a bill is not paid by the twentieth of the month, a \$5.00 or 5% penalty, whichever is greater, is added to the bill. If the bill is not paid in its entirety (unless other arrangements have been made in special cases) by the fifth of the following month, a cutoff notice is mailed to all delinquent customers, with a date services will be disconnected.

For restoration of a service a \$25 reconnection fee is charged, plus the entire amount of the outstanding bill. For restoration of a service before or after regular weekday business hours (8:30 a.m. to 5:00 p.m.), on weekends or on official Authority holidays, a reconnection fee of \$50 is charged plus outstanding balance must be paid in full.

## Capital Improvements

### *Historical Capital Improvements*

The following table indicates the amount expended by the Authority for water and sewer capital improvement projects for each of the five fiscal years shown.

<u>Year</u>	<u>Grant Funds</u>	<u>Authority Funds</u>	<u>Bond Funds</u>	<u>Totals</u>
2015	\$ 450,000	\$385,810	\$ 0	\$ 835,810
2016	0	270,192	0	270,192
2017	0	0	2,340,000	2,340,000
2018	1,200,000	400,000	0	1,600,000
2019	0	250,000	0	250,000

## Retirement Plans

The Authority is a member of the South Carolina Retirement System (“SCRS”), one of four defined benefit retirement systems maintained by the Retirement Division of the State Fiscal Accountability Authority. Each system publishes their own component unit financial report. The systems provide retirement, death and disability benefits to State employees, public school employees and employees of counties, municipalities and certain other State political subdivisions. Each system is independent. Assets may not be transferred from one system to another or used for any purpose other than to benefit each system’s participants. SCRS is a cost-sharing, multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions including the Authority. Membership is required as a condition of employment. Employees contribute at 9% of their salary and employers at 15.56%.

The Authority’s contributions to the SCRS for the last five fiscal years are as follows:

	<u>Fiscal Year</u>				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Contributions:	\$339,563.28	\$351,370.24	\$338,818.41	\$381,791.47	\$416,384.52
District	\$195,832.91	\$202,192.94	\$193,706.13	\$229,481.22	\$257,324.43
Employee	\$143,730.37	\$149,177.30	\$145,112.28	\$152,310.25	\$159,060.09

The District has paid all required contributions for fringe benefits as they have come due and there are no liabilities for underfunding of such fringe benefits.

## GASB 75

The Authority implemented Governmental Accounting Standards Board Statement No. 75 (“GASB 75”) in fiscal year 2018. GASB 75 requires the Authority to recognize a net OPEB (other post-employment benefits) liability and any related deferred outflows and inflows of resources along with a more comprehensive measure of OPEB expense for the Authority’s OPEB plan on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e. the Statement of Net Position) and requires more extensive note disclosures. The adoption of GASB 75 had no impact on the Authority’s government fund financial statements, which continue to report expenditures in the amount of the contributions made to the Authority’s OPEB plan.



However, the adoption has resulted in the restatement of the Authority's net position as of July 1, 2017 for its government-wide financial statements to reflect the reporting of a net OPEB liability and deferred outflows of resources for the Authority's OPEB plan in accordance with GASB 75. Net position of the Authority's government-wide financial statements as of July 1, 2017, was decreased by \$282,132, reflecting the cumulative change in the accounting principle related to the adoption of GASB 75. The Authority's OPEB expense in 2019 was \$34,610. Changes in the Authority's net OPEB liability for fiscal year 2019 are shown in the following table.

Balance as of July 1, 2018	\$516,963
Changes for the year:	
Service Cost	20,701
Interest	18,050
Difference between actual and expected experience	(2,513)
Assumption changes	(36,456)
Benefit payments and implicit subsidy	<u>(20,030)</u>
Net changes	<u>\$(20,248)</u>
Balance as of June 30, 2019	\$496,715

### **Liability Insurance**

The Authority maintains workers compensation insurance with the State Accident Fund as required by State law. The Authority also maintains automobile, fire, equipment, inland marine, and tort liability insurance with the State of South Carolina Division of General Services Insurance Reserve Fund. The Authority also maintains position fidelity schedule bonds with State Farm Fire and Casualty Company.

## **LEGAL MATTERS**

### **Litigation**

No litigation, to the knowledge of the Authority, is pending or threatened in any court to restrain or enjoin the issuance or delivery of the Series 2020 Bonds or the collection, payment or receipt of the moneys pledged or to be pledged to pay the principal of, premium, if any, and interest on the Series 2020 Bonds or, in any way contesting or affecting the validity of the Series 2020 Bonds or the Bond Resolution or 2020 Series Resolution, the power to collect, pay or receive the moneys with which to pay the Series 2020 Bonds or the organization or the powers of the Authority, including the power to operate the System and to collect revenues therefrom.

### **Opinion of Bond Counsel**

Certain legal matters with regard to the issuance of the Series 2020 Bonds are subject to the approval of Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, Bond Counsel ("Bond Counsel"), whose approving opinion will be available at the time of the delivery of the Series 2020 Bonds. The proposed form of Bond Counsel's opinion appears as Appendix D to this Official Statement.

## **TAX MATTERS**

### **Federal Income Tax Generally**

On the date of issuance of the Series 2020 Bonds, Bond Counsel will render an opinion that, assuming continuing compliance by the Authority with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable regulations promulgated thereunder (the "Regulations") and further subject to certain considerations described in "Collateral Federal Tax Considerations" below, under existing statutes, regulations and judicial decisions, interest on the Series 2020 Bonds is excludable from the gross income of the registered owners thereof for federal income tax purposes. Interest on the Series 2020 Bonds will not be treated as an item of tax preference for purposes of the federal alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which no opinion will be rendered by Bond Counsel, as a result of (i) ownership of the Series 2020 Bonds or (ii) the inclusion in certain computations of interest that is excluded from gross income.

The Authority has designated the Series 2020 Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code, and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Code), a deduction is allowed for 80% of that portion of such financial institution’s interest expense allocable to interest on the Series 2020 Bonds.

The opinion of Bond Counsel will be limited to matters relating to the authorization and validity of the Series 2020 Bonds and the tax-exempt status of interest on the Series 2020 Bonds as described herein. Bond Counsel makes no statement regarding the accuracy and completeness of this Official Statement.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Series 2020 Bonds for federal income tax purposes. Bond Counsel’s opinions are based upon existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof which have not been independently verified by Bond Counsel. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service (the “IRS”) or the courts; rather, such opinions represent Bond Counsel’s professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinions.

The opinion of Bond Counsel described above is subject to the condition that the Authority comply with all requirements of the Code and the Regulations, including, without limitation, certain restrictions on the use, expenditure and investment of the gross proceeds of the Series 2020 Bonds and the obligation to rebate certain earnings on investments of such gross proceeds to the United States Government, that must be satisfied subsequent to the issuance of the Series 2020 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2020 Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2020 Bonds. The opinion of Bond Counsel delivered on the date of issuance of the Series 2020 Bonds is conditioned on compliance by the Authority with such requirements and Bond Counsel has not been retained to monitor compliance with the requirements subsequent to the issuance of such Series 2020 Bonds.

### **Collateral Federal Tax Considerations**

Prospective purchasers of the Series 2020 Bonds should be aware that ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Bond Counsel expresses no opinion concerning such collateral income tax consequences and prospective purchasers of Series 2020 Bonds should consult their tax advisors as to the applicability thereof.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series 2020 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series 2020 Bonds. Prospective purchasers of the Series 2020 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Series 2020 Bonds. Bond Counsel’s engagement with respect to the Series 2020 Bonds ends with the issuance of the Series 2020 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Owners regarding the tax-exempt status of the Series 2020 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination

process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2020 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2020 Bonds, and may cause the Authority or the Owners to incur significant expense, regardless of the ultimate outcome. Under certain circumstances, the Authority may be obligated to disclose the commencement of an audit under the Disclosure Dissemination Agent Agreement. See “CONTINUING DISCLOSURE.”

### **Original Issue Premium**

The Series 2020 Bonds have been sold at an initial public offering price which is greater than the amount payable at maturity. An amount equal to the excess of the purchase price of the Series 2020 Bonds over their stated redemption prices at maturity constitutes premium on such Series 2020 Bonds. A purchaser of a Series 2020 Bond must amortize any premium over such Series 2020 Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the purchaser’s basis in such Series 2020 Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2020 Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of any Series 2020 Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2020 Bonds.

### **State Tax Exemption**

Bond Counsel is of the further opinion that the Series 2020 Bonds and the interest thereon are exempt from all taxation by the State, its counties, municipalities and school districts except estate, transfer or certain franchise taxes. Interest paid on the Series 2020 Bonds is currently subject to the tax imposed on banks by Section 12-11-20, Code of Laws of South Carolina 1976, as amended, which is enforced by the South Carolina Department of Revenue as a franchise tax. The opinion of Bond Counsel is limited to the laws of the State and federal tax laws. No opinion is rendered by Bond Counsel concerning the taxation of the Series 2020 Bonds or the interest thereon under the laws of any other jurisdiction.

## **CONTINUING DISCLOSURE**

The Authority has covenanted, so long as required, to comply with the requirements of Section 11-1-85 of the Code of Laws of South Carolina 1976, as amended, by filing with a central repository for availability in the secondary bond market when requested:

- (i) an annual independent audit, within thirty days of the Authority’s receipt of the audit; and
- (ii) event specific information within thirty days of an event adversely affecting more than five percent of the Gross Revenues.

Pursuant to a Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”) to be dated as of the date of delivery of the Series 2020 Bonds between the Authority and Digital Assurance Certification, L.L.C. (“DAC”), the Authority will covenant for the benefit of the registered owners and the “Beneficial Owners” (as defined in the Disclosure Agreement) of the Series 2020 Bonds to provide certain financial information and operating data relating to the System by not later than seven months after the end of each of the Authority’s fiscal years, commencing with the report for the fiscal year ending June 30, 2020 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events with respect to the Series 2020 Bonds, if material. The Annual Report and the notices of material events will be filed on behalf of the Authority by DAC, as dissemination agent, with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in Appendix E - “FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT”. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

As provided in the Disclosure Agreement, if the Authority fails to comply with any provision of the 2020 Series Resolution relating to the continuing disclosure, any registered owner or “Beneficial Owner” of the Series 2020 Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Authority to comply with its continuing disclosure obligations under the Disclosure Agreement. “Beneficial Owner” is defined in the Disclosure Agreement to mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2020 Bonds (including persons holding Series 2020 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2020 Bonds for Federal income tax purposes. If any person seeks to cause the Authority to comply with its continuing disclosure obligations under the Disclosure Agreement, it is the responsibility of such person to demonstrate that it is a “Beneficial Owner” within the meaning of the Disclosure Agreement.

On October 25, 2019, the Authority filed tables on EMMA showing corrected historical debt service coverage, number of customers, historical rates, and historical water usage of the System. Such tables pertained to certain information for fiscal years 2015-2018 and included additional information for fiscal year 2019. On July 20, 2020, the Authority filed a table on EMMA showing corrected net earnings and debt service coverage for fiscal year 2019.

## **UNDERWRITING**

The Series 2020 Bonds are being purchased for reoffering by Stephens Inc. (the “Underwriter”). The Underwriter has agreed, subject to certain conditions, to purchase the Series 2020 Bonds at an aggregate principal amount of \$5,141,412.05 (which reflects original issue premium of \$752,599.55 and Underwriter’s discount of \$36,187.50). The initial public offering prices are set forth on the inside cover of this Official Statement. The Underwriter is obligated to purchase all of the Series 2020 Bonds, if any are purchased, such obligation being subject to certain conditions precedent.

The Underwriter may offer and sell the Series 2020 Bonds to certain dealers and others at a yield or price lower than the offering prices or yields stated on the inside cover hereof. The offering prices may be changed from time to time by the Underwriter.

## **RATING**

Moody’s has assigned the Series 2020 Bonds the rating of “A1.” An explanation of the significance of the rating may be obtained from Moody’s. The rating reflects only the views of Moody’s, and the Authority makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody’s, if in the judgment of Moody’s, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2020 Bonds.

## **FINANCIAL STATEMENTS**

The portion of the general purpose financial statements prepared for the Authority relating to the System for the fiscal year ended June 30, 2019, attached hereto as Appendix A, were prepared by the Authority and audited by Mauldin & Jenkins, certified public accountants, Columbia, South Carolina. In connection with such audit, the Authority received an opinion of such accountants that the general purpose financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2019, and the results of its operations and cash flows for the period in conformity with generally accepted accounting principles.

## **MISCELLANEOUS**

Compass Municipal Advisors, LLC has acted as Financial Advisor to the Authority in connection with the issuance of the Series 2020 Bonds. In this capacity, Compass Municipal Advisors, LLC provided technical assistance in the preparation of the offering documents and assisted the Authority in preparing for this financing.

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof. All references to the Series 2020 Bonds and the determinations of the Authority relating thereto are qualified in their entirety by reference to the definitive forms of the Series 2020 Bonds and the Resolution and to such determinations. All such summaries, explanations and references are further qualified in their entirety by reference to the exercise of sovereign police powers of the State and the constitutional powers of the United States of America, and to valid bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors.

Certain of the information set forth in the Official Statement and in the appendices hereto has been obtained from sources other than the Authority that are believed to be reliable but is not guaranteed as to accuracy or completeness.

The agreement between the Authority and holders of the Series 2020 Bonds is fully set forth in the Resolution and neither any advertisement for the Series 2020 Bonds nor this Official Statement is to be construed as constituting an agreement with the holders of the Series 2020 Bonds.

Anyone having questions should direct them to John Hare, Administrator, Edgefield County Water and Sewer Authority, telephone: (803) 279-1503.

The delivery of this Official Statement and its use in connection with the sale of the Series 2020 Bonds has been duly authorized by the Authority.

EDGEFIELD COUNTY WATER AND SEWER  
AUTHORITY, SOUTH CAROLINA

/s/ James Earl Kenamer  
Chairman, Edgefield County Water and Sewer  
Authority

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**AUDITED FINANCIAL STATEMENTS  
OF EDGEFIELD COUNTY WATER AND SEWER AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**EDGEFIELD COUNTY  
WATER AND SEWER AUTHORITY  
  
FINANCIAL REPORT  
  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2019 AND 2018**

**EDGEFIELD COUNTY  
WATER AND SEWER AUTHORITY**

**FINANCIAL REPORT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

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**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY  
BOARD OF DIRECTORS AND ADMINISTRATOR  
FOR FISCAL YEAR JULY 1, 2018 TO JUNE 30, 2019**

<b>NAME</b>	<b>COMMISSION EXPIRES</b>
James Earl Kenamer, Chairman 753 Columbia Road Edgefield, SC 29824	09/15/2023
C. Raymond Johnson, Vice Chairman 1514 W. Martintown Road North Augusta, SC 29841	09/15/2021
John C. Timmerman, Secretary/Treasurer 334 Woodridge Road Edgefield, SC 29824	09/15/2020
Henry Williams 72 Williams Road Trenton, SC 29847	09/15/2021
Ronald Creswell 2951 Highway 23 West Modoc, SC 29838	09/15/2019
Carrol L. Clark P.O. Box 189 Trenton, SC 29847	09/15/2020
Bernard E. Kitchens 115 Adams Branch Road North Augusta, SC 29860	09/15/2023
Administrator John Hare 126 Equine Drive Saluda, SC 29138	



## INDEPENDENT AUDITOR'S REPORT

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**To the Board of Directors of the  
Edgefield County Water and Sewer Authority  
Edgefield, South Carolina**

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the **Edgefield County Water and Sewer Authority** (the "Authority"), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2019 and 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 4 through 13), the Schedule of the Authority's Proportionate Share of the Net Pension Liability (on page 46), the Schedule of Authority Pension Contributions (on page 47), and the Schedule of the Changes in the Authority's Total OPEB Liability and Related Ratios (on page 48) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Edgefield County Water and Sewer Authority's basic financial statements. The Schedule of Outstanding Debt, the Schedule of Net Earnings, and the Schedule of Expenditures of Federal Awards (as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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The schedule of outstanding debt; the schedule of net earnings; and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the schedule of outstanding debt, the schedule of net earnings, the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Mauldin & Jenkins, LLC*

Columbia, South Carolina  
September 30, 2019

# EDGEFIELD COUNTY WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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As management of the Edgefield County Water and Sewer Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2019, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements.

### Financial Highlights

- The Authority's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2019, by approximately \$25,024,000 (net position). Of this amount, \$22.02 million represented the Authority's investment in capital assets net of related debt, \$4.08 million is restricted for debt service and system improvements (restricted net position), leaving a deficit of \$1.08 million unrestricted net position.
- The Authority's total net position increased by approximately \$2,191,000 primarily due to an increase in both operating and non-operating revenues.
- Operating revenue increased by 6.55% from \$8.9 million to \$9.5 million. The July 1, 2018, rate increase as well as customer growth and an increase in consumption accounted for our increase in operating revenue.

### Proprietary Fund Accounting and Reporting

The Authority operates as a single fund in a business-like manner. Thus, the Authority uses the accrual approach to account for and report financial transactions. This means that revenues are recognized as they are earned and expenses are recognized as the liability is incurred, regardless of the timing of related cash inflows and outflows. All assets and liabilities that are measurable and probable are included in the financial statements. The full acquisition costs of all fixed assets are included in the Statement of Net Position and are depreciated over their estimated useful life. Consequently, the Authority's accounting practices generally resemble a commercial entity's approach.

### Summary of Organization and System

The Authority is a body corporate and politic and a special purpose district of the State of South Carolina which was created pursuant to the provisions of Act 571 of the Acts and Joint Resolutions of South Carolina General Assembly, Regular Session of 1967, as amended by Act No. 1192 of the Acts and Joint Resolutions of the South Carolina General Assembly, Regular Session of 1970 (together, the "Act") whereby the Authority is given the function to acquire, construct and operate a waterworks and sewer system within its service area which consists of the territory of Edgefield County, South Carolina, and a small area in the southwestern corner of Aiken County. The Authority is not empowered to authorize the levy of taxes for the purpose of operations and maintenance. Pursuant to the Act, a seven-member Board of Directors governs the Authority. Each member serves a term of six years. Members are appointed by the Governor upon the recommendation of a majority of the members of the Edgefield County Council, with the approval of the House Delegation. The members of the Board elect a Chairman, a Vice Chairman and a Secretary from their group.

The Authority is under the control and management of the Administrator who in turn is responsible to the Board of Directors. The Authority has 41 full-time employees. The Administrative office is supervised by the Business Manager. The Authority's Operations are divided into three departments: Water Treatment, Wastewater Treatment, and Water Distribution/Sewer Collections. Each department has a Superintendent that reports to the Administrator.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Service Area**

The service area of the Authority comprises all of Edgefield County and a small area of the southwestern corner of Aiken County bordered on the eastern right-of-way of US Highway 25 and on the south by the southern right-of-way of I-20. By various agreements, the Authority has permitted other providers to provide service within the Authority's service area and serves certain areas outside of its service area.

### **Water and Sewer Facilities**

#### *Water*

The Authority's only raw water source is the Savannah River at a site in North Augusta, South Carolina, approximately one mile south of the Water Plant. The Water Plant was originally built in 1974 with a 4.4 MGD permit capacity and was upgraded in 2010 to an 8.9 MGD permit capacity. The peak daily demand at the Water Plant during the 12 months ended June 30, 2019, was 7.2 MGD.

The State Primary Drinking Water Regulations ("SPDWR") set standards for the operation and maintenance of public water systems. As part of these standards, public water systems are required to plan for the expansion of the water plant and prepare a preliminary engineering report for submittal to South Carolina Department of Health and Environmental Control (SCDHEC) when peak monthly demand exceed 80% of the water plant's reliable capacity. When peak monthly demand exceeds 90% of the water plant's reliable capacity, public water systems are required to submit plans and specifications for the expansion of the water plant along with an application for a permit to construct to the SCDHEC. Over the last several years, the Authority and its consulting engineers have reviewed population trends, and water usage projections have been developed through the year 2018.

The Authority operates a raw water pump station at the intake site on the Savannah River. From the pump station raw water is pumped to the Water Plant for treatment. Present capacity = 14 MGD; DHEC permitted capacity = 10 MGD. The Authority also has a 20 MGD withdrawal permit issued by SCDHEC for water withdrawals from the Savannah River.

The Authority operates six elevated tanks with a combined storage capacity of 2,800,000 gallons and individual capacities ranging from 200,000 gallons to 750,000 gallons. The Authority also operates two ground-level storage tanks with a combined capacity of 3,200,000 gallons. These two ground-level storage tanks, with capacities of 2,000,000 gallons and 1,200,000 gallons, are located at the Water Plant and are used to hold water-pending distribution. Finished water (H.S.) capacity = 14 MGD; DHEC permitted = 10.0 MGD.

From the ground-level storage tanks at the Water Plant, treated water is distributed through approximately 500 miles of supply line, ranging from 24 inches in diameter to 6 inches in diameter, to the Authority's 9,760 active water customers. The Authority also operates two (2) pump stations, one was constructed in 1974, the other in 2010, to aid in treated water distribution.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### *Sewer*

The Authority operates and maintains three independent wastewater treatment plants in the Town of Edgefield (the "Brooks St. Plant"), the Town of Johnston (the "Johnston Plant") and the Town of Trenton (the "Trenton Plant") along with gravity collection lines, force mains and 36 pump stations located in the Town of Edgefield, the Town of Johnston, the Town of Trenton and in portions of Edgefield County. The Authority also operates and maintains over 34 miles of sewer force mains and 3 lift stations that are part of the Regional Sewer System. This system conveys wastewater to the Horse Creek WWTF (not owned by ECWSA) for treatment.

The Authority's Regional Sewer System comprises approximately 37,900 linear feet of 12-inch sewer force main from pump station #3 on Riegel Road in Johnston to pump station #2 on Star Road. From this pump station, a 16-inch force main runs parallel with U.S. Highway 25 for approximately 20,700 linear feet to the Pine House pump station in Trenton. From the Pine House pump station, approximately 63,500 linear feet of 18-inch sewer force main runs parallel with U.S. Highway 25, then reduces to a 12-inch sewer force main for approximately 8,800 linear feet and ties into North Augusta's metering site on Austin Graybill. The force main continues under I-20 and along Ascauga Lake Road in North Augusta, as part of the Mims Branch Project. North Augusta transports the wastewater flow from the Authority's Regional Sewer System to Aiken County Public Service Authority's ("Aiken County PSA") system for treatment at the Horse Creek wastewater plant. The Authority has 2.3 MGD of capacity in this sewer main. The Authority acquired from North Augusta 1.8 MGD of treatment capacity at Aiken County PSA's Horse Creek. The Horse Creek wastewater treatment plant has a treatment capacity of 26 MGD and is currently treating approximately 13 MGD. Saluda County funded the cost of constructing a pump station at the Johnston Plant that interconnects a 16-inch sewer force main that runs from Saluda County to the Johnston Plant, then parallel with S.C. Highway 121 to the Pine House pump station in Trenton.

The Edgefield Plant (Brooks St.) was last upgraded in 2009 and currently has a treatment capacity of 725,000 gallons per day and treats an average flow of 198,000 gallons per day. The Edgefield Plant utilizes the sequencing batch reactor process, a form of activated sludge treatment, and the treated effluent from the plant is discharged to Beaverdam Creek.

The Johnston Plant uses a multi-cell aerated lagoon treatment process preceded by coarse solids and grit removal and followed by disinfection and flow monitoring. It provides secondary treatment of combined domestic and light commercial process wastewater. The plant has a design treatment capacity of 968,000 gallons per day and treats an average flow of 250,000 gallons per day. The treated effluent from this wastewater treatment plant is discharged into the South Fork Edisto River. The Johnston Plant is also connected to a Regional Sewer System pump station located on site as a backup. This connection enables the Authority to pump wastewater received at the Johnston Plant into the Regional Sewer System in lieu of treatment and discharge if operational problems are encountered at the plant. This plant was upgraded in 2014.

The Trenton Plant uses an aerated lagoon treatment process. The plant has a design treatment capacity of 73,000 gallons per day. The plant normally has no discharge, due to wastewater being pumped into the Regional System.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Major projects either in the planning stages or with construction in progress will significantly impact the Authority's ability to reliably supply water and sewer to current customers as well as expand our capabilities for future customers. These developments and Authority-initiated projects include:

**Expansion of Highway 25** – SCDOT has initiated a project to expand a portion of Highway 25 S from two lanes to four lanes. This will require the relocation of a portion of the Authority's 18" water transmission line and 18" Regional Sewer force main line. Since these lines are located on private easements, SCDOT will be responsible for the costs involved in relocation. Construction of the water and sewer line was completed in June 2017.

**Meter Replacement Program** – In an effort to reduce water loss in the system, ECWSA has installed over 5,000 ¾" fixed based radio read meters in the system to replace old water meters that had exceeded their useful lifespan.

**Brooks St. WWTF Upgrade** – The Authority is in the completed a project to upgrade to the Brooks St. WWTF to maintain compliance with SCDHEC in May 2019. Approval from SCDHEC is pending.

### Overview of the Financial Statements

**Net Position:** The following table reflects the overall financial condition of the Authority as of the last three fiscal years.

	2019	2018	2017
Current assets	\$ 4,197,635	\$ 3,889,712	\$ 3,442,740
Restricted assets	4,084,525	3,726,519	3,635,781
Capital assets	31,509,309	30,928,884	31,786,907
<b>Total assets</b>	<b>39,791,469</b>	<b>38,545,115</b>	<b>38,865,428</b>
Deferred outflows of resources	599,694	730,707	752,271
Current liabilities	2,622,839	2,338,506	2,220,479
Long-term liabilities	12,404,719	13,741,222	14,906,181
<b>Total liabilities</b>	<b>15,027,558</b>	<b>16,079,728</b>	<b>17,126,660</b>
Deferred inflows of resources	339,690	363,431	181,341
Net investment in capital assets	22,127,002	20,238,353	20,072,505
Restricted for Debt Service	874,279	795,020	546,840
Restricted for system improvements	3,210,246	2,996,156	2,992,156
Unrestricted	(1,187,612)	(1,196,866)	(1,301,803)
<b>Total net position</b>	<b>\$ 25,023,915</b>	<b>\$ 22,832,663</b>	<b>\$ 22,309,698</b>

The increase in current assets is largely attributable to an increase in accounts and other receivables of \$315,705. Restricted assets consist of restricted cash which increased by approximately \$358,000 which is primarily attributable to interest earned on these deposits. Capital assets increased by approximately \$580,000, which is the result of current year capital asset additions of \$2,518,501 partially offset by depreciation expense of \$1,936,889.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Total liabilities decreased by approximately \$1,052,000 due to the following:

- The Authority paid \$1,205,000 in principal and \$374,985 in interest expense on its outstanding Series 2007, 2010, and 2016 Revenue Bonds during the fiscal year ended June 30, 2019.
- The Authority's net pension liability decreased by approximately \$79,000
- The Authority's other postemployment benefits obligation decreased approximately \$20,000

**Revenues, Expenses and Changes in Net Position:** The following table illustrates the history of revenues, expenses, and changes in net position for the past three years.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues:			
Charges for services:			
Water sales	\$ 5,038,147	\$ 4,803,906	\$ 4,985,529
Sewer sales	4,201,925	3,942,927	3,599,379
Other fees and charges	242,731	153,317	106,310
Total operating revenues	<u>9,482,803</u>	<u>8,900,150</u>	<u>8,691,218</u>
Operating expenses:			
Distribution operations	744,156	754,909	724,670
Water operations	1,117,143	1,154,198	1,196,087
Sewer operations	495,429	459,505	474,199
Wastewater operations	2,536,205	2,265,194	2,061,878
General and administrative	1,548,875	1,471,717	1,874,532
Depreciation expense	1,936,889	1,924,473	1,700,709
Total operating expenses	<u>8,378,697</u>	<u>8,029,996</u>	<u>8,032,075</u>
Operating income	<u>1,104,106</u>	<u>870,154</u>	<u>659,143</u>
Non-operating revenues (expenses)			
Intergovernmental revenues - federal	949,358	-	-
Intergovernmental revenues - state	250,000	-	-
Interest income	100,161	53,528	24,186
Other non-operating income	66,301	37,019	56,728
Interest expense and fiscal charges	(374,674)	(419,732)	(421,733)
Total non-operating revenues (expenses), net	<u>991,146</u>	<u>(329,185)</u>	<u>(340,819)</u>
Income before contributions	2,095,252	540,969	318,324
Capital Contributions	<u>96,000</u>	<u>264,128</u>	<u>794,352</u>
Change in net position	<u>2,191,252</u>	<u>805,097</u>	<u>1,112,676</u>
Total net position, beginning, as previously reported	22,832,663	22,309,698	21,197,022
Prior period adjustment	-	(282,132)	-
Total net position, beginning, as restated	<u>22,832,663</u>	<u>22,027,566</u>	<u>21,197,022</u>
Total net position ending	<u>\$ 25,023,915</u>	<u>\$ 22,832,663</u>	<u>\$ 22,309,698</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Revenues from operations fall into three general categories: water service, wastewater service and other revenues. The Authority has three classes of water and wastewater customers: Residential, Commercial and Industrial.

The Authority had a 5.0% across the board increase July 2018 on all water rates. There was a 7.2% increase on sewer rates effective January 2018 due to an increase in rates from the City of North Augusta.

Ordinarily, fees are paid by new customers and represent, on a residential equivalent unit basis, the cost of the water and/or wastewater capacity purchased by the new account. Most of these fees were paid for blocks of capacity purchased by residential and commercial Real Estate Developers. In 2007, residential Impact Fees were eliminated by the Authority. In 2010, Commercial and Industrial Impact Fees were eliminated by the Authority. The Authority only charges impact fees to customers outside of Edgefield and/or Aiken County.

The Authority also receives additions to its collections and distribution systems from developers. Such additions are reported in the Statement of Revenues, Expenses, and Changes in Net Position as capital contributions.

Overall operating revenues increased in fiscal year 2019 by approximately \$583,000, which was primarily attributable to an increase in water and sewer rates in June 2018 as well as an increase in overall water consumption and customers.

Operating expenses increased from \$8,029,996 in 2018 to \$8,378,697 in 2019 for a total increase of \$348,701.

Net non-operating revenues (expenses) increased from (\$329,185) in 2018 to \$991,146, which is primarily attributable to grant activity that did not occur in previous years.

The Authority reported capital contributions from developer in the amount of \$96,000, a decrease of \$168,128 from 2018.

Overall, the Authority recognized an increase in net position of \$2,191,252 for the fiscal year ended June 30, 2019.

### **Capital Asset and Debt Administration**

#### **Capital Assets:**

The Authority's investment in capital assets as of June 30, 2019, amounts to \$31,509,309 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, wastewater treatment plants, system improvements, vehicles, machinery, equipment, furniture and fixtures. A summary of the major infrastructure is as follows:

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Edgefield County Water & Sewer Authority's Capital Assets (net of depreciation)

	2019	2018	2017
Land	\$ 150,407	\$ 146,859	\$ 146,859
Construction in progress	4,060,465	2,451,657	2,312,317
Buildings	1,008,251	1,069,434	1,132,254
Infrastructure and other improvements	25,516,697	26,799,639	27,869,745
Machinery, equipment, and vehicles	741,127	410,391	143,193
Furniture and fixtures	32,362	50,904	182,539
	\$ 31,509,309	\$ 30,928,884	\$ 31,786,907

#### Debt Administration:

As an entity created by Act No. 571 of the legislature of the State of South Carolina, long-term borrowing by the Authority is provided through Revenue Bonds issued by the Authority.

During 2007, the Authority issued \$4,000,000 in Series 2007 Revenue Bonds. The proceeds from these bonds were used for expansion of the water treatment plant, various water distribution improvements, and the expansion of the administration building. During 2010, the Authority issued \$10,135,000 in Series 2010 Revenue Bonds. The proceeds from these bonds were used for advanced refunding of the Series 1998 bonds, to pay costs and expenses related to the issuance of the Series, and to defray a portion of the cost of design, construction, and installation of an approximately 0.75 million gallon (MG) elevated storage tank and related appurtenances, and the purchase of electrical generators and other equipment. During 2016, the Authority issued \$2,340,000 in Series 2016 Revenue Bonds. The proceeds from these bonds were used to make improvement to the waterworks and sewer system, to pay costs and expenses related to the issuance of the Series.

In the Bond Resolutions, the Authority covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Authority, together with other income, that will yield annual Net Earnings in the fiscal year equal to at least one hundred ten percent (110%) of the maximum annual principal and interest requirement on all bonds outstanding and on such proposed series of bonds of the current fiscal year for all bonds outstanding in such fiscal year plus one hundred percent (100%) of the amount necessary to make payment of any amounts owing in such fiscal year under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit plus one hundred percent (100%) of the principal and interest on junior lien bonds or capital costs pursuant to the provisions of long-term contracts which the Authority has entered into in order to provide water or sewer services to the area included within its service area, due in such fiscal year plus one hundred percent (100%) of any required payment into the Debt Service Reserve Fund. Net earnings for debt service are defined as the sum, which remain from the entire revenues after deduction of the cost of operating and maintaining the systems. No account is taken of the principal and interest on long-term indebtedness or of depreciation. The rate covenant in the Bond Resolution obligates the Authority to levy, maintain, revise and collect such fees and charges at all times sufficient to maintain the required 120% coverage. The covenant was met in fiscal years 2019, 2018 and 2017.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Currently Known Conditions Affecting Future Operations

According to U.S. Census Bureau data, Edgefield County's population as of July 1, 2018, was 27,052, an increase of 2.9% from 2010.

The volume of water sold in fiscal year 2019 was 1,117,867,000 gallons; while in 2018, 1,087,256,000 gallons were sold, resulting in an increase of 30,611,000 gallons for 2019. The total finish water pumped for Fiscal Year 2019 is 1,504,000,567 gallons. This resulted in a loss of 386,133,567 gallons. A large portion of this is classified (by EPA, AWWA and SCDHEC), as unbilled, accounted for water. This is water that is used in firefighting, flushing, and other unmetered uses. The Authority is changing old meters to correct the water loss, and is constantly investigating any potential sources of unbilled, unaccounted for water.

	<u>2019</u>	<u>2018</u>	<u>Change Amount</u>	<u>Change Percentage</u>
Employees at year end	41	38	3	7.89%
Active customers at year end - Water	10,249	10,082	167	1.66%
Active customers at year end - Sewer	2,545	2,546	(1)	-0.04%
Water & wastewater residential equivalent units at year end				
Water R.E.U.'s	200	200	-	0.00%
Wastewater R.E.U.'s	240	240	-	0.00%
Water sales for fiscal year (thousand gallons)	1,117,867	1,082,460	35,407	3.27%
Wastewater sales for fiscal year (thousand gallons)	929,100	875,596	53,504	6.11%
	<u>2018</u>	<u>2017</u>	<u>Change Amount</u>	<u>Change Percentage</u>
Employees at year end	38	37	1	2.70%
Active customers at year end - Water	10,082	9,956	126	1.27%
Active customers at year end - Sewer	2,546	2,556	(10)	-0.39%
Water & wastewater residential equivalent units at year end				
Water R.E.U.'s	200	200	-	0.00%
Wastewater R.E.U.'s	240	240	-	0.00%
Water sales for fiscal year (thousand gallons)	1,082,460	1,165,472	(83,012)	-7.12%
Wastewater sales for fiscal year (thousand gallons)	875,596	816,114	59,482	7.29%

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Currently Known Conditions Affecting Future Operations**

There are no known current conditions that would be immediately detrimental to the Authority's operational or financial health. Several trends to monitor in the coming years will be fluctuations in water consumption due to changing weather patterns, replacement of aging infrastructure, and recruitment and retention of qualified employees.

### **Further Information**

This financial overview is designed to provide readers with a general overview of the Authority's finances, and to show accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrator, John W. Hare, P.O. Box 416, Edgefield, South Carolina, 29824-0416 ([ecwsajwh@bellsouth.net](mailto:ecwsajwh@bellsouth.net)).

**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2019 AND 2018**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,930,361	\$ 2,936,984
Accounts receivable	1,075,558	878,078
Other receivables	130,232	12,007
Inventory	22,100	18,803
Prepaid expenses	39,384	43,840
Restricted cash and cash equivalents	4,084,525	3,726,519
Total current assets	<u>8,282,160</u>	<u>7,616,231</u>
<b>Non-current assets</b>		
Capital assets:		
Nondepreciable assets	4,210,872	2,598,516
Depreciable assets	65,261,370	64,412,772
Less accumulated depreciation	(37,962,933)	(36,082,404)
Total capital assets, net of accumulated depreciation	<u>31,509,309</u>	<u>30,928,884</u>
Total non-current assets	<u>31,509,309</u>	<u>30,928,884</u>
Total assets	<u>39,791,469</u>	<u>38,545,115</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Deferred outflows of resources</b>		
Pension	470,302	591,154
Other postemployment benefits	21,935	20,156
Deferred charge on refunding	107,457	119,397
Total deferred outflows of resources	<u>599,694</u>	<u>730,707</u>

See Notes to Financial Statements.



<b>LIABILITIES</b>	<b>2019</b>	<b>2018</b>
<b>Current liabilities</b>		
Payable from current assets:		
Accounts payable	\$ 495,374	\$ 257,262
Compensated absences payable	118,099	124,600
Accrued salaries and related expenses	71,893	54,511
Total current liabilities payable from current assets	<u>685,366</u>	<u>436,373</u>
Payable from restricted assets:		
Accrued interest payable	171,009	187,493
Customer deposits payable	525,464	509,640
Current portion of revenue bonds payable	1,241,000	1,205,000
Total current liabilities payable from restricted assets	<u>1,937,473</u>	<u>1,902,133</u>
Total current liabilities	<u>2,622,839</u>	<u>2,338,506</u>
<b>Long-term liabilities</b>		
Revenue bonds payable, net	8,248,764	9,485,531
Total other postemployment benefits liability	496,715	516,963
Net pension liability	3,659,240	3,738,728
Total long-term liabilities	<u>12,404,719</u>	<u>13,741,222</u>
Total liabilities	<u>15,027,558</u>	<u>16,079,728</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
<b>Deferred inflows of resources</b>		
Pension	302,743	361,312
Other postemployment benefits	36,947	2,119
Total deferred inflows of resources	<u>339,690</u>	<u>363,431</u>
<b>NET POSITION</b>		
Net investment in capital assets	22,127,002	20,238,353
Restricted for debt service	874,279	795,020
Restricted for system improvements and customer deposits	3,210,246	2,996,156
Unrestricted	<u>(1,187,612)</u>	<u>(1,196,866)</u>
Total net position	<u>\$ 25,023,915</u>	<u>\$ 22,832,663</u>

**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
<b>Operating revenues:</b>		
Charges for services:		
Water sales	\$ 5,038,147	\$ 4,803,906
Sewer sales	4,201,925	3,942,927
Connection fees	196,785	149,442
Other fees and charges	45,946	3,875
Total operating revenues	<u>9,482,803</u>	<u>8,900,150</u>
<b>Operating expenses:</b>		
Distribution operations	744,156	754,909
Water operations	1,117,143	1,154,198
Sewer operations	495,429	459,505
Wastewater operations	2,536,205	2,265,194
General and administrative	1,548,875	1,471,717
Depreciation expense	1,936,889	1,924,473
Total operating expenses	<u>8,378,697</u>	<u>8,029,996</u>
Operating income	<u>1,104,106</u>	870,154
<b>Non-operating revenues (expenses):</b>		
Intergovernmental revenues - federal	949,358	-
Intergovernmental revenues - state	250,000	-
Interest income	100,161	53,528
Other non-operating income	66,301	37,019
Interest expense and fiscal charges	(374,674)	(419,732)
Total non-operating revenues (expenses), net	<u>991,146</u>	<u>(329,185)</u>
Income before contributions	<u>2,095,252</u>	540,969
<b>Capital contributions</b>	<u>96,000</u>	264,128
Change in net position	<u>2,191,252</u>	805,097
<b>Total net position, beginning of year</b>	<u>22,832,663</u>	22,309,698
<b>Restatement for change in accounting principle</b>	<u>-</u>	(282,132)
<b>Total net position, beginning of year, as restated</b>	<u>22,832,663</u>	22,027,566
<b>Total net position, end of year</b>	<u>\$ 25,023,915</u>	<u>\$ 22,832,663</u>

See Notes to Financial Statements.

**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 9,285,323	\$ 8,804,005
Payments to suppliers	(3,549,461)	(3,631,115)
Payments to employees	(2,630,775)	(2,425,463)
Other receipts	66,301	37,019
Net cash provided by operating activities	<u>3,171,388</u>	<u>2,784,446</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Interest income	100,161	53,528
Net cash provided by noncapital financing activities	<u>100,161</u>	<u>53,528</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(2,422,501)	(805,426)
Proceeds from sale of capital assets	1,187	3,104
Principal payments on long-term borrowings	(1,205,000)	(1,172,000)
Interest paid on long-term borrowings	(374,985)	(413,159)
Intergovernmental receipts	1,081,133	-
Net cash used in capital and related financing activities	<u>(2,920,166)</u>	<u>(2,387,481)</u>
Net increase in cash and cash equivalents	351,383	450,493
Cash and cash equivalents, beginning of year	<u>6,663,503</u>	<u>6,213,010</u>
Cash and cash equivalents, end of year	<u>\$ 7,014,886</u>	<u>\$ 6,663,503</u>
<b>Classified as:</b>		
Cash and cash equivalents	\$ 2,930,361	\$ 2,936,984
Restricted cash and cash equivalents	4,084,525	3,726,519
	<u>\$ 7,014,886</u>	<u>\$ 6,663,503</u>

See Notes to Financial Statements.

**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 1,104,106	\$ 870,154
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,936,889	1,924,473
Other receipts	66,301	37,019
Changes in assets and liabilities:		
Increase in accounts receivable	(197,480)	(94,283)
Decrease in other receivables	-	(1,862)
Increase (decrease) in inventory	(3,297)	1,852
Decrease in prepaid expenses	4,456	7,076
Decrease in deferred outflows of resources	119,073	159,641
Increase (decrease) in accounts payable and accrued expenses	255,494	(33,276)
Increase in customer deposits payable	15,824	15,862
Decrease in accrued compensated absences	(6,501)	(6,611)
Decrease in net pension liability	(79,488)	(293,799)
(Increase) decrease in total OPEB liability	(20,248)	16,110
(Increase) decrease in deferred inflows of resources	(23,741)	182,090
Net cash provided by operating activities	<u>\$ 3,171,388</u>	<u>\$ 2,784,446</u>
 <b>SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions - capital assets	<u>\$ 96,000</u>	<u>\$ 264,128</u>

See Notes to Financial Statements.

# EDGEFIELD COUNTY WATER AND SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Edgefield County Water and Sewer Authority (the Authority) is a political subdivision of the State of South Carolina created by Act No. 571 of the legislature on July 12, 1967. This enabling legislation authorized the Authority to provide water and sewer services to all areas of Edgefield County and a small portion of Aiken County. The Authority is governed by a seven-member board appointed by the Governor based upon recommendations from the Edgefield County legislative delegation. The Authority provides and accounts for the provision of water and sewer services to the residents of Edgefield County and a small area in the southwestern corner of Aiken County.

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity* as amended by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement 61, *The Financial Reporting Entity: Omnibus*, which defines a primary government as an entity with a governing body elected in a general election, and which is legally separate and fiscally independent. Any entity that does not meet the above criteria is potentially a component unit of a primary government.

A component unit is a legally separate entity for which a primary government is financially accountable by virtue of the fact that it both appoints the governing board and is able to impose its will on the component unit, or the fact that it provides financial benefits or imposes a financial burden on the primary government.

Based on the above requirements, there are no entities, which meet the criteria detailed above for inclusion with the Authority's financial statements as component units, nor is the Authority considered a component unit.

#### Fund Accounting

The Authority uses one fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The fund presented in this report is a Proprietary Fund Type - *Enterprise Fund*. Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the statement of net position. Net position is segregated into net investment in capital assets and restricted and unrestricted net position components. Proprietary fund operating statements present increases (revenues) and decreases (expenses) in total net position. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority exclusively follows the standards set forth by the GASB for its proprietary operations.

#### **Management Estimates**

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Cash and Cash Equivalents and Investments**

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Authority.

For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with an original maturity date of three months or less, and customer deposits to be cash equivalents.

#### **Customer Accounts Receivable**

Customer accounts receivable include billed, but uncollected amounts and unbilled receivables based upon a pro rata amount of subsequent monthly billings. Management considers all accounts receivable to be fully collectible as of June 30, 2019.

#### **Inventories**

Inventories of materials and supplies are stated at cost, which approximates market, using the first-in, first-out (FIFO) method. The Authority uses the consumption method of accounting for inventory, in that as materials are purchased, they are coded to inventory and then as subsequently used, they are expensed.

#### **Restricted Assets**

Restricted cash and cash equivalents consist of four (4) restricted fund types. Amounts recorded in this category include funds received in payment of customer deposits and refunds of customer deposits, funds received for water system improvements, certain proceeds from the issuance of the Authority's revenue bonds, as well as certain resources set aside for their repayment, and certain reserves established depreciation and contingency, and are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Capital Assets

Capital assets are carried at cost. Donated capital assets are recorded at acquisition value at the date of donation. These assets are depreciated over the estimated useful life using the straight-line method. The Authority defines its capitalization policy as assets costing \$5,000 and having an estimated useful life of greater than four years.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Asset Classification	Years
Buildings	40
Infrastructure and other improvements	20-40
Machinery, equipment, and vehicles	4-10
Furniture and fixtures	5

#### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority's deferred loss on refunding qualifies for reporting in this category and results from the difference in carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In addition, five (5) items related to its pension plan and one (1) item related to its OPEB plan qualify for reporting in this category and are combined in the Statement of Net Position under the headings "pension" and "other postemployment benefits", respectively. The first item, relating only to the Authority's pension plan, experience losses result from periodic studies by the Authority's actuary, which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience losses are recorded as deferred outflows of resources and are amortized into pension expense over the expected remaining service lives of the plan members. The second item, changes in actuarial assumptions, relates only to the Authority's pension plan, and is recorded as a deferred outflow of resources and is amortized into pension expense over the expected remaining service lives of the plan members.



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Deferred Outflows/Inflows of Resources (Continued)**

The third item, relating only to the Authority's pension plan, the difference between projected and actual earnings on pension plan investments, is deferred and amortized against pension expense over a five-year period, resulting in recognition as a deferred outflow of resources. The fourth item, relating only to the Authority's pension plan, results from the changes in the proportionate share and difference between employer contributions and the proportionate share of total plan employer contributions. These changes are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in future years. Additionally, any contributions made by the Authority to the pension plan and to the OPEB plan before year end, but subsequent to the measurement date of the Authority's net pension liability and total OPEB liability, respectively, are reported as deferred outflows of resources and will be recognized as a reduction of the respective liability during the year ended June 30, 2020.

In addition to liabilities, the Statement of Net Position reports a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority reported two (2) items related to its pension plan and two (2) items related to its OPEB plan that qualify for reporting in this category and are combined in the Statement of Net Position under the headings "pension" and "other postemployment benefits", respectively. The first item, experience gains relating to the Authority's pension plan and the Authority's OPEB plan qualified for reporting in this category. Experience gains result from periodic studies by the respective actuaries of the pension and OPEB plan, which adjust the net pension liability and total OPEB liability for actual experience for certain trend information that was previously assumed. These gains are recorded as deferred inflows of resources and are amortized into pension and OPEB expense over the expected remaining lives of the plan members. The second item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions relating the Authority's pension plan. These changes are reported as deferred inflows of resources and will be recognized as pension expense in future years. The third item, changes in the actuarial assumptions, adjust the total OPEB liability and are amortized into OPEB expense over the expected remaining service lives of plan members.

#### **Compensated Absences**

The liability for compensated absences has been accrued and reported in the Statement of Net Position. The Authority permits employees to accumulate earned but unused vacation and sick pay benefits. Accumulated vacation benefits will be liquidated in future years as employees elect to use them or will be paid upon termination of employment. Accumulated sick pay benefits are not payable upon termination of employment. In the normal course of business, all payments of accumulated benefits will be funded by revenues of the year in which the benefits are paid. All compensated absences are accrued when earned by employees.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Long-term Obligations

Long-term debt and other obligations financed by the Authority are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Deferred charges from the refunding of bonds are amortized over the shorter of the life of the refunded or refunding debt using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed in the year incurred.

#### Net Position

Net position is classified and displayed in three (3) components within the Statements of Net Position. These three (3) classifications are as follows:

- a) Net investment in capital assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b) Restricted net position consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets".

It is the policy of the Authority to apply restricted resources first when both restricted and unrestricted resources are available to finance expenses.

Total deposits as of June 30, 2019 and 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
As reported in the <i>Statement of Net Position</i> :		
Cash and cash equivalents and restricted cash	<u>\$ 7,014,886</u>	<u>\$ 6,663,503</u>
Cash deposited with financial institutions	<u>2,809,100</u>	2,632,878
South Carolina state investment pool	<u>4,205,786</u>	4,030,625
	<u>\$ 7,014,886</u>	<u>\$ 6,663,503</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2. DEPOSITS

The Authority's investment in the State Treasurer's Local Government Investment Pool (LGIP) is an investment mechanism authorized by the South Carolina State Legislature and is not registered with the Securities and Exchange Commission (SEC) as an investment company. There is no regulatory oversight of the pool. The pool's primary objective is to acquire maximum returns on investments by pooling available funds with funds from other political subdivisions. The total fair value of the investment pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1. Investments in the pool are stated at fair value, which approximates cost. The LGIP is not rated, but generally, investments in this pool are collateralized by debt securities in corporate obligations, state or political subdivision obligations of investment grade or higher quality and in federal agency securities. Given the liquid nature of the LGIP, the Authority has classified its investment in the LGIP as cash and cash equivalents and restricted cash and cash equivalents in the Statement of Net Position.

#### Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2019 and 2018, the Authority did not have any deposits which were uninsured or under collateralized as defined by GASB pronouncements.

The Authority's restricted cash and cash equivalents were comprised of the following as of June 30, 2019 and June 30, 2018:

	<u>2019</u>	<u>2018</u>
Restricted cash and cash equivalents:		
Debt service	\$ 874,279	\$ 795,020
Depreciation and contingency	2,376,016	2,318,712
Customer deposits	589,465	550,582
Water system improvements	244,765	62,205
	<u>\$ 4,084,525</u>	<u>\$ 3,726,519</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$ 146,859	\$ 3,548	\$ -	\$ -	\$ 150,407
Construction in progress	2,451,657	1,608,808	-	-	4,060,465
Total	<u>2,598,516</u>	<u>1,612,356</u>	<u>-</u>	<u>-</u>	<u>4,210,872</u>
Capital assets, being depreciated:					
Buildings	4,382,087	-	-	-	4,382,087
Infrastructure and other improvements	56,091,821	353,959	-	-	56,445,780
Machinery, equipment and vehicles	3,523,717	552,186	-	(57,547)	4,018,356
Furniture and fixtures	415,147	-	-	-	415,147
Total	<u>64,412,772</u>	<u>906,145</u>	<u>-</u>	<u>(57,547)</u>	<u>65,261,370</u>
Less accumulated depreciation for:					
Buildings	(3,312,653)	(61,183)	-	-	(3,373,836)
Infrastructure and other improvements	(29,292,182)	(1,636,901)	-	-	(30,929,083)
Machinery, equipment and vehicles	(3,113,326)	(220,263)	-	56,360	(3,277,229)
Furniture and fixtures	(364,243)	(18,542)	-	-	(382,785)
Total	<u>(36,082,404)</u>	<u>(1,936,889)</u>	<u>-</u>	<u>56,360</u>	<u>(37,962,933)</u>
Total capital assets, being depreciated, net	<u>28,330,368</u>	<u>(1,030,744)</u>	<u>-</u>	<u>(1,187)</u>	<u>27,298,437</u>
Total capital assets, net	<u>\$ 30,928,884</u>	<u>\$ 581,612</u>	<u>\$ -</u>	<u>\$ (1,187)</u>	<u>\$ 31,509,309</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. CAPITAL ASSETS (CONTINUED)

Capital assets activity for the year ended June 30, 2018, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$ 146,859	\$ -	\$ -	\$ -	\$ 146,859
Construction in progress	2,312,317	139,340	-	-	2,451,657
Total	<u>2,459,176</u>	<u>139,340</u>	<u>-</u>	<u>-</u>	<u>2,598,516</u>
Capital assets, being depreciated:					
Buildings	4,382,087	-	-	-	4,382,087
Infrastructure and other improvements	55,731,235	384,628	-	(24,042)	56,091,821
Machinery, equipment and vehicles	3,036,361	517,051	-	(29,695)	3,523,717
Furniture and fixtures	386,612	28,535	-	-	415,147
Total	<u>63,536,295</u>	<u>930,214</u>	<u>-</u>	<u>(53,737)</u>	<u>64,412,772</u>
Less accumulated depreciation for:					
Buildings	(3,249,833)	(62,820)	-	-	(3,312,653)
Infrastructure and other improvements	(27,861,490)	(1,453,860)	-	23,168	(29,292,182)
Machinery, equipment and vehicles	(2,893,168)	(247,623)	-	27,465	(3,113,326)
Furniture and fixtures	(204,073)	(160,170)	-	-	(364,243)
Total	<u>(34,208,564)</u>	<u>(1,924,473)</u>	<u>-</u>	<u>50,633</u>	<u>(36,082,404)</u>
Total capital assets, being depreciated, net	<u>29,327,731</u>	<u>(994,259)</u>	<u>-</u>	<u>(3,104)</u>	<u>28,330,368</u>
Total capital assets, net	<u>\$ 31,786,907</u>	<u>\$ (854,919)</u>	<u>\$ -</u>	<u>\$ (3,104)</u>	<u>\$ 30,928,884</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt activity for the year ended June 30, 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 10,715,000	\$ -	\$ (1,205,000)	\$ 9,510,000	\$ 1,241,000
Discount on revenue bonds	(24,469)	-	4,233	(20,236)	-
Total bonds payable	<u>10,690,531</u>	<u>-</u>	<u>(1,200,767)</u>	<u>9,489,764</u>	<u>1,241,000</u>
Compensated absences	<u>124,600</u>	<u>91,804</u>	<u>(98,305)</u>	<u>118,099</u>	<u>118,099</u>
Net pension liability	<u>3,738,728</u>	<u>299,442</u>	<u>(378,930)</u>	<u>3,659,240</u>	<u>-</u>
Total OPEB liability	<u>516,963</u>	<u>38,751</u>	<u>(58,999)</u>	<u>496,715</u>	<u>-</u>
Total long-term liabilities	<u>\$ 15,070,822</u>	<u>\$ 429,997</u>	<u>\$ (1,737,001)</u>	<u>\$ 13,763,818</u>	<u>\$ 1,359,099</u>

The following is a summary of long-term debt activity for the year ended June 30, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 11,887,000	\$ -	\$ (1,172,000)	\$ 10,715,000	\$ 1,205,000
Discount on revenue bonds	(41,262)	-	16,793	(24,469)	-
Total bonds payable	<u>11,845,738</u>	<u>-</u>	<u>(1,155,207)</u>	<u>10,690,531</u>	<u>1,205,000</u>
Compensated absences	<u>131,211</u>	<u>80,038</u>	<u>(86,649)</u>	<u>124,600</u>	<u>124,600</u>
Net pension liability	<u>4,032,527</u>	<u>495,632</u>	<u>(789,431)</u>	<u>3,738,728</u>	<u>-</u>
Total OPEB liability	<u>200,041</u>	<u>337,957</u>	<u>(21,035)</u>	<u>516,963</u>	<u>-</u>
Total long-term liabilities	<u>\$ 16,209,517</u>	<u>\$ 913,627</u>	<u>\$ (2,052,322)</u>	<u>\$ 15,070,822</u>	<u>\$ 1,329,600</u>

#### Revenue Bonds

Revenue bonds payable consist of bonded indebtedness secured by statutory liens on the pledged revenues.

During 2007, the Authority issued \$4,000,000 in Series 2007 Revenue Bonds. The proceeds from these bonds were used for expansion of the water treatment plant, various water distribution improvements, and the expansion of the administration building. The serial bonds are due in annual installments of \$125,000 to \$ 297,000 through January 1, 2028. Interest is payable semiannually on January 1 and July 1 at a rate of 4.59%.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

#### Revenue Bonds (Continued)

During 2010, the Authority issued \$10,135,000 in Series 2010 Revenue Bonds. The proceeds from these bonds were used for advanced refunding of the Series 1998 bonds, to pay costs and expenses related to the issuance of the Series, and to defray a portion of the cost of design, construction, and installation of an approximately 0.75 million gallon (MG) elevated storage tank and related appurtenances, and the purchase of electrical generators and other equipment. The serial bonds are due in annual installments of \$320,000 to \$750,000 through January 1, 2028. Interest is payable semiannually on January 1 and July 1 at a rate of 2.00% - 4.00%.

During 2016, the Authority issued \$2,340,000 in Series 2016 Revenue Bonds. The proceeds from these bonds were used to make improvement to the waterworks and sewer system, to pay costs and expenses related to the issuance of the Series. The serial bonds are due in annual installments of \$448,000 to \$484,500 through January 1, 2022. Interest is payable semiannually on January 1 and July 1 at a rate of 1.63%.

Debt service requirements to maturity on the revenue bonds are as follows:

<u>Fiscal Year Payable</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,241,000	\$ 342,017	\$ 1,583,017
2021	1,278,500	307,921	1,586,421
2022	1,311,500	271,181	1,582,681
2023	857,000	231,865	1,088,865
2024	887,000	199,286	1,086,286
2025-2028	3,935,000	418,510	4,353,510
Total	<u>\$ 9,510,000</u>	<u>\$ 1,770,780</u>	<u>\$ 11,280,780</u>

### NOTE 5. NET INVESTMENT IN CAPITAL ASSETS AND RESTRICTED NET POSITION

**Net Investment in Capital Assets** - The balances that make up the Authority's net investment in capital assets at June 30, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Net Capital Assets	\$ 31,509,309	\$ 30,928,884
Less: Capital related debt, net original issue discount	<u>(9,382,307)</u>	<u>(10,690,531)</u>
Net investment in capital assets	<u>\$ 22,127,002</u>	<u>\$ 20,238,353</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 5. NET INVESTMENT IN CAPITAL ASSETS AND RESTRICTED NET POSITION (CONTINUED)

**Restricted for Debt Service** – These funds are set aside by the Authority for the retirement of future debt payments in accordance with bond requirements.

**Restricted for System Improvements** – These funds are formally restricted for the improvement of the water and sewer system infrastructure.

### NOTE 6. RETIREMENT SYSTEM

#### Overview

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the systems and serves as a co-trustee of the systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (RSIC) as co-trustees of the Retirement Trust Funds. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

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



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6. RETIREMENT SYSTEM (CONTINUED)

#### Plan Description

The Authority contributes to the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan that was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts and political subdivisions.

#### Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. Generally, all employees of covered employers are required to participate in and contribute to the SCRS as a condition of employment. This plan covers general employees, teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

#### Benefits

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6. RETIREMENT SYSTEM (CONTINUED)

#### Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. If the scheduled employee and employer contributions provided in statute, or the rates last adopted by the board, are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rates as necessary.

After June 30, 2027, if the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than eighty-five percent, then the board, effective on the following July 1, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than eighty-five percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than eighty-five percent, then effective on the following July 1, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than eighty-five percent.

The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9 percent for SCRS. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS. The amortization period is scheduled to be reduced one year for each of the next ten years to a twenty year amortization period. For the years ended June 30, 2019 and 2018, respectively, the Authority contributed \$257,324 and \$229,481 to the SCRS plan.

Required employee contribution rates for the fiscal year ended June 30, 2019, are as follows:

<b>South Carolina Retirement System</b>	
Employee class two	9.00%
Employee class three	9.00%

Required employer contribution rates for the fiscal year ended June 30, 2019, are as follows:

<b>South Carolina Retirement System</b>	
Employer class two	14.41%
Employer class three	14.41%
Employer incidental death benefit	0.15%

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6. RETIREMENT SYSTEM (CONTINUED)

#### Contributions (Continued)

Required employee contribution rates for the fiscal years ended June 30, 2018, are as follows:

<b>South Carolina Retirement System</b>	
Employee class two	9.00%
Employee class three	9.00%

Required employer contribution rates for the fiscal years ended June 30, 2018, are as follows:

<b>South Carolina Retirement System</b>	
Employer class two	13.41%
Employer class three	13.41%
Employer incidental death benefit	0.15%

#### Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2015, and the next experience study is scheduled to be conducted after the June 30, 2020 annual valuation is complete.

The June 30, 2018, (the measurement date), total pension liability, net pension liability, and sensitivity information were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (GRS), and are based on the July 1, 2017, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board, which utilized membership data as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2018, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6. RETIREMENT SYSTEM (CONTINUED)

#### Actuarial Assumptions and Methods (Continued)

Assumptions and methods used in the July 1, 2017, valuation for the System are as follows:

	<b>SCRS</b>
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.0% to 12.5% (varies by service)
Includes inflation at	2.25%
Benefit adjustments	lesser of 1% or \$500

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

Assumptions used in the July 1, 2017 valuations for SCRS are as follows:

<b>Former Job Class</b>	<b>Males</b>	<b>Females</b>
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30-year capital market assumptions. The actuarial 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.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. RETIREMENT SYSTEM (CONTINUED)

#### Actuarial Assumptions and Methods (Continued)

The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year of the Systems. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation, which is summarized in the table below.

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Expected Arithmetic Real Rate of Return</b>	<b>Long-Term Expected Portfolio Real Rate of Return</b>
<b>Global Equity</b>	<b>47.0%</b>		
Global public equity	33.0%	6.99%	2.31%
Private equity	9.0%	8.73%	0.79%
Equity options securities	5.0%	5.52%	0.28%
<b>Real assets</b>	<b>10.0%</b>		
Real estate (private)	6.0%	3.54%	0.21%
Real estate (REITs)	2.0%	5.46%	0.11%
Infrastructure	2.0%	5.09%	0.10%
<b>Opportunistic</b>	<b>13.0%</b>		
GTAA/Risk parity	8.0%	3.75%	0.30%
Hedge funds (non-PA)	2.0%	3.45%	0.07%
Other opportunistic strategies	3.0%	3.75%	0.11%
<b>Diversified credit</b>	<b>18.0%</b>		
Mixed credit	6.0%	3.05%	0.18%
Emerging markets	5.0%	3.94%	0.20%
Private debt	7.0%	3.89%	0.27%
<b>Conservative fixed income</b>	<b>12.0%</b>		
Core fixed income	10.0%	0.94%	0.09%
Cash and short duration (net)	2.0%	0.34%	0.01%
	100%		
		Total expected real return	5.03%
		Inflation for actuarial purposes	2.25%
		Total expected nominal return	7.28%

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 6. RETIREMENT SYSTEM (CONTINUED)**

**Discount Rate**

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

The following table presents the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2019.

<u>South Carolina Retirement System</u>			
<u>Sensitivity of the Net Position Liability to Changes in the Discount Rate</u>			
<u>Fiscal</u>	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
<u>Year</u>	<u>(6.25%)</u>	<u>Discount Rate</u>	<u>(8.25%)</u>
		<u>(7.25%)</u>	
<b>2019</b>	<b>\$ 4,675,830</b>	<b>\$ 3,659,240</b>	<b>\$ 2,932,476</b>

The following table presents the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2018.

<u>South Carolina Retirement System</u>			
<u>Sensitivity of the Net Position Liability to Changes in the Discount Rate</u>			
<u>Fiscal</u>	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
<u>Year</u>	<u>(6.25%)</u>	<u>Discount Rate</u>	<u>(8.25%)</u>
		<u>(7.25%)</u>	
<b>2018</b>	<b>\$ 4,818,707</b>	<b>\$ 3,738,728</b>	<b>\$ 3,083,435</b>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6. RETIREMENT SYSTEM (CONTINUED)

#### Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. The Authority's proportionate share of the collective NPL total, as of the June 30, 2018 and 2017 measurement dates, for SCRS is presented below.

For the Authority's fiscal year ending June 30, 2019, the Authority's proportionate share of the collective net pension liability for the South Carolina Retirement System is as follows:

Total pension liability	\$	7,973,077
Plan fiduciary net position		<u>4,313,837</u>
Employers' net pension liability	\$	<u><u>3,659,240</u></u>
Plan fiduciary net position as a percentage of the total pension liability		54.1%
Authority's proportionate share of the collective net pension liability		0.0163310%

For the Authority's fiscal year ending June 30, 2018, the Authority's proportionate share of the collective net pension liability for the South Carolina Retirement System is as follows:

Total pension liability	\$	8,012,436
Plan fiduciary net position		<u>4,273,708</u>
Employers' net pension liability	\$	<u><u>3,738,728</u></u>
Plan fiduciary net position as a percentage of the total pension liability		53.3%
Authority's proportionate share of the collective net pension liability		0.0166080%

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. RETIREMENT SYSTEM (CONTINUED)

#### Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2019, the Authority recognized pension expense of \$240,119. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>South Carolina Retirement System</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
	<u>                    </u>	<u>                    </u>
Differences between expected and actual experience	\$ 6,605	\$ 21,534
Changes of assumptions	145,178	-
Net difference between projected and actual earnings on pension plan investments	58,127	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,068	281,209
Employer contributions subsequent to the measurement date	<u>257,324</u>	<u>-</u>
Total	<u>\$ 470,302</u>	<u>\$ 302,743</u>

For the fiscal year ended June 30, 2018, the Authority recognized pension expense of \$276,700. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>South Carolina Retirement System</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
	<u>                    </u>	<u>                    </u>
Differences between expected and actual experience	\$ 16,667	\$ 2,072
Changes of assumptions	218,862	-
Net difference between projected and actual earnings on pension plan investments	104,368	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	21,776	359,240
Employer contributions subsequent to the measurement date	<u>229,481</u>	<u>-</u>
Total	<u>\$ 591,154</u>	<u>\$ 361,312</u>



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6. RETIREMENT SYSTEM (CONTINUED)

#### **Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

For the year ended June 30, 2019, Authority contributions subsequent to the measurement date of \$257,324 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability during the year ended June 30, 2020. For the year ended June 30, 2018, Authority contributions subsequent to the measurement date of \$229,481 were reported as deferred outflows of resources and were recognized as a reduction of the net pension liability during the year ended June 30, 2019.

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 June 30:	<u>South Carolina Retirement System</u>	
	<u>2019</u>	<u>2018</u>
2019	\$ -	\$ 55
2020	11,370	40,330
2021	(31,345)	(3,429)
2022	(62,615)	(36,595)
2023	(7,175)	-

#### **Pension Plan Fiduciary Net Position**

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

#### Plan Description

The Authority, authorized by the Board of Directors, administers a single-employer postemployment defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides healthcare insurance for eligible retirees through the Authority’s group health insurance plan, which covers both active and retired members for a three-year period from the date of retirement. After three years, the retiree may continue coverage at his/her own expense. Medical, prescription drug, dental, dental plus, and vision coverage benefits are offered through the Authority’s participation in the fully insured, State’s Public Employee Benefit Authority. Once a retiree becomes eligible for Medicare, coverage moves to the State’s Medicare Supplement Plan. The Authority’s Board of Directors established and may amend the benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 and a separate report was not issued for the Retiree Health Plan. Active employees who retire from the Authority that have met the eligibility conditions are eligible to continue health, dental, and vision benefits for themselves and their dependents. The eligibility conditions are as follows:

1. Retire under a state retirement system (SCRS) under either a service retirement or a disabled retirement;
2. Are eligible for medical coverage under the South Carolina Public Employee Benefit Authority’s (PEBA) health insurance plan; and
3. Have completed at least 20 years of service with the Authority.

Employees not meeting the requirements listed above may remain on the Authority’s plan at their own expense.

#### Plan Membership

Membership of the Retiree Health Plan consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Active participants	36
Retirees and beneficiaries currently receiving benefits	5
Total	<u>41</u>

#### Contributions

The Board of Directors has elected to fund the Retiree Health plan on a “pay as you go” basis. Current employees and non-Medicare eligible retirees on the standard plan pay the same rates for coverage. Rates are set based on the tier of elected coverage. The Authority is required to contribute the current year benefit costs of the Plan, which are not paid by the retiree. For the years ended June 30, 2019 and 2018, the Authority contributed \$21,935 and \$20,156 for the pay as you go benefits for the Retiree Health Plan, respectively. This includes an actuarially determined implicit rate subsidy of \$8,000 for the year ended June 30, 2019 and \$7,900 for the year ended June 30, 2018.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

#### Total OPEB Liability

The Authority's total OPEB liability was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2017.

**Actuarial assumptions.** The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate:	3.56% - prior measurement date 3.87% - current measurement date
Healthcare cost trend rate:	7.50% - 5.00%, Ultimate Trend by 2023 (Pre-Medicare) 5.50% - 5.00%, Ultimate Trend by 2020 (Medicare)
Inflation rate:	2.25%
Salary increase:	0.75% to 3.00%, including inflation
Participation rate:	20.00% with less than 25 years of service at retirement 100.00% with 25 years of service of more at retirement 20.00% for spouse coverage

Mortality rates were based on the RP-2014 Mortality Table for Employees with a 95% multiplier to better reflect the anticipated experience and provide margin for future improvements.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2017, valuation were based on the results of an actuarial experience adopted by the South Carolina Retirement System (SCRS) and South Carolina Police Officers' Retirement System (PORS). The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

**Discount rate.** The discount rate used to measure the total OPEB liability was 3.87% at the June 30, 2018 measurement date and 3.56% at the June 30, 2017 prior measurement date. This rate was determined using an index rate of 20-year, tax-exempt general obligation municipal bonds with an average rating of AA or higher – which was 3.87% as determined by the Bond Buyer 20-Bond GO Index Rate as of June 30, 2018 and 3.56% at June 30, 2017.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

#### Total OPEB Liability (Continued)

*Changes in the Total OPEB Liability of the Authority.* The changes in the total OPEB liability of the Authority for the year ended June 30, 2019 and 2018, were as follows:

	Total OPEB Liability	
	2019	2018
<b>Beginning Balance</b>	\$ 516,963	\$ 500,853
<b>Changes for the year:</b>		
Service cost	20,701	22,348
Interest	18,050	14,797
Difference between actual and expected experience	(2,513)	(2,355)
Assumption changes	(36,456)	-
Benefit payments and implicit subsidy	(20,030)	(18,680)
<b>Net changes</b>	<b>(20,248)</b>	<b>16,110</b>
<b>Ending Balance</b>	<b>\$ 496,715</b>	<b>\$ 516,963</b>

The required schedule of changes in the Authority's total OPEB liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about the total OPEB liability.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current discount rate:

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate			
Fiscal Year	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
2019	\$ 538,765	\$ 496,715	\$ 457,597
Fiscal Year	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
2018	\$ 560,798	\$ 516,963	\$ 475,960

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

#### Total OPEB Liability (Continued)

**Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.** The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5% decreasing to 4%) or 1-percentage-point higher (8.5% decreasing to 6%) than the current healthcare cost trend rates:

	<b>Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate</b>		
Fiscal Year	1% Decrease (6.50% decreasing to 4.00%)	Current Healthcare Cost Trend Rates (7.50% decreasing to 5.00%)	1% Increase (8.50% decreasing to 6.00%)
2019	\$ 439,307	\$ 496,715	\$ 564,163
2018	459,100	516,963	584,939

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of June 30, 2018 (the measurement date), and the current sharing pattern of costs between employer and inactive employees.

#### OPEB Expense

For the year ended June 30, 2019, the Authority recognized OPEB expense of \$34,610. The components of OPEB expense are detailed in the table below.

Description	2019	2018
Service cost (annual cost of current service)	\$ 20,701	\$ 22,348
Interest on the total pension liability	18,050	14,797
Recognition of current year amortization - difference between expected and actual experience & assumption changes	(3,905)	(236)
Recognition of beginning Deferred Outflows of Resources as OPEB Expense	(236)	-
Total aggregate OPEB expense	<b>\$ 34,610</b>	<b>\$ 36,909</b>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 4,144
Changes of assumptions	-	32,803
Employer contributions subsequent to the measurement date	21,935	-
Total	<u>\$ 21,935</u>	<u>\$ 36,947</u>

Authority contributions subsequent to the measurement date of \$21,935 for the Retiree Health plan are reported as deferred outflows of resources and will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020.

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 2,119
Employer contributions subsequent to the measurement date	20,156	-
Total	<u>\$ 20,156</u>	<u>\$ 2,119</u>

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)**

Authority contributions subsequent to the measurement date of \$20,156 for the Retiree Health plan are reported as deferred outflows of resources and was recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

As of June 30, 2019, other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>Retiree Health Insurance Plan</u>	
Year ended June 30:	<u>2019</u>	<u>2018</u>
2019	\$ -	\$ (236)
2020	(4,141)	(236)
2021	(4,141)	(236)
2022	(4,141)	(236)
2023	(4,141)	(236)
Thereafter	(20,383)	(939)

**NOTE 8. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to: torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a participant in the South Carolina Insurance Reserve Fund, which is a cooperative group of governmental entities joining together to finance insurance exposure, liability, and risk. The Authority's risks covered are property (both building and personal), data processing equipment, business interruption, builder's risk, inland marine, torts, and automobile.

The South Carolina Insurance Reserve Fund does not cover risks associated with a whistle-blower action, breaches of contract, debt guarantee of others, property tax appeals, automobile/aircraft/watercraft in excess of 26 feet in length, liability from pre-arranged speed contest, pollution liability (except sudden and accidental), war, workers' compensation, bodily injury to fellow employees, and professional liability of medical practitioners and architects.

Expenses for coverage through the South Carolina Insurance Reserve Fund for the years ended June 30, 2019 and 2018, totaled \$78,350 and \$93,013, respectively.

For all covered risks, the transfer of risk culminates upon filing a claim. Consequently, for items not covered, the members separately purchase policies to bear the risk up to policy premiums. For the years ended June 30, 2019 and 2018, there were no liabilities, which exceeded the coverage available through the South Carolina Insurance Reserve Fund and separate purchased carriers.

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 9. COMMITMENTS AND CONTINGENCIES**

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



**REQUIRED SUPPLEMENTARY INFORMATION**

# EDGEFIELD COUNTY WATER & SEWER AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

FOR THE PLAN YEAR ENDED JUNE 30,

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<b>South Carolina Retirement System</b>					
Plan Year Ended June 30,	Authority's proportion of the net pension liability	Authority's proportionate share of the net pension liability	Authority's covered employee payroll	Authority's share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.016331%	\$ 3,659,240	\$ 1,692,338	216.2%	54.1%
2017	0.016608%	3,738,728	1,675,657	223.1%	53.3%
2016	0.018879%	4,032,527	1,796,631	224.4%	52.9%
2015	0.019162%	3,634,166	1,700,711	213.7%	57.0%
2014	0.018733%	3,225,202	1,725,772	186.9%	59.9%

**Notes to the Schedule:**

The schedule will present 10 years of information once it is accumulated.

# EDGEFIELD COUNTY WATER & SEWER AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF AUTHORITY PENSION CONTRIBUTIONS

FOR THE FISCAL YEAR ENDED JUNE 30,

South Carolina Retirement System						
Fiscal Year Ended June 30,	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Authority's covered payroll	Contributions as a percentage of covered payroll	
2019	\$ 257,324	\$ 257,324	\$ -	\$ 1,767,337	14.56%	
2018	229,481	229,481	-	1,692,338	13.56%	
2017	193,706	193,706	-	1,675,657	11.56%	
2016	195,833	195,833	-	1,796,631	10.90%	
2015	180,275	180,275	-	1,700,711	10.60%	

**Notes to the Schedule:**

The schedule will present 10 years of information once it is accumulated.

Actuarial assumptions used in determining the statutorily required contribution are as follows:

System	SCRS
Calculation date	July 1, 2016
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year Smoothed
Amortization method	Level % of pay
Amortization period	30 years variable, but not to exceed 30 years
Investment return	7.50%
Inflation	2.25%
Salary increases	3.00% plus step-rate increases for members with less than 21 years of service
Mortality	2016 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale AA from the year 2016. Male rates are multiplied by 100% for non-educators and 92% for educators. Female rates multiplied by 111% for non-educators and 98% for educators.

# EDGEFIELD COUNTY WATER & SEWER AUTHORITY

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF CHANGES IN THE AUTHORITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS

	2019	2018
<b>Total OPEB liability</b>		
Service cost	\$ 20,701	\$ 22,348
Interest on total OPEB liability	18,050	14,797
Difference between actual and expected experience	(2,513)	(2,355)
Assumption Changes	(36,456)	-
Benefit payments	(20,030)	(18,680)
<b>Net change in total OPEB liability</b>	<b>(20,248)</b>	<b>16,110</b>
<b>Total OPEB liability - beginning</b>	<b>516,963</b>	<b>500,853</b>
<b>Total OPEB liability - ending</b>	<b>\$ 496,715</b>	<b>\$ 516,963</b>
<b>Covered-employee payroll</b>	<b>\$ 1,630,350</b>	<b>\$ 1,630,350</b>
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	<b>30.47%</b>	<b>31.7%</b>

**Notes to the Schedule:**

The schedule will present 10 years of information once it is accumulated.

The discount rate changed from 3.56% at the June 30, 2017, measurement date to 3.87% at the June 30, 2018 measurement date.

The Authority is not accumulating assets in a trust fund that meets the criteria in paragraph 4 of GASB Statement No. 75 for payment of future OPEB benefits.

## **SUPPLEMENTARY INFORMATION**

**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY  
SCHEDULE OF OUTSTANDING BONDS  
FOR FISCAL YEAR ENDED JUNE 30, 2019**

Fiscal Year Ending June 30	2007 Revenue Bond			2010 Revenue Bond		
	Principal	Interest	Payment	Principal	Interest	Payment
2020	\$ 207,000	\$ 103,046	\$ 310,046	\$ 565,000	\$ 215,663	\$ 780,663
2021	217,000	93,544	310,544	585,000	198,713	783,713
2022	227,000	83,584	310,584	600,000	179,700	779,700
2023	237,000	73,164	310,164	620,000	158,700	778,700
2024	247,000	62,286	309,286	640,000	137,000	777,000
2025	259,000	50,950	309,950	665,000	113,000	778,000
2026	270,000	39,060	309,060	690,000	86,400	776,400
2027	284,000	26,668	310,668	720,000	58,800	778,800
2028	297,000	13,632	310,632	750,000	30,000	780,000
<b>Totals</b>	<b>\$ 2,245,000</b>	<b>\$ 545,934</b>	<b>\$ 2,790,934</b>	<b>\$ 5,835,000</b>	<b>\$ 1,177,976</b>	<b>\$ 7,012,976</b>

Fiscal Year Ending June 30	2016 Revenue Bond			Total		
	Principal	Interest	Payment	Principal	Interest	Payment
2020	\$ 469,000	\$ 23,309	\$ 492,309	\$ 1,241,000	\$ 342,018	\$ 1,583,018
2021	476,500	15,664	492,164	1,278,500	307,921	1,586,421
2022	484,500	7,897	492,397	1,311,500	271,181	1,582,681
2023	-	-	-	857,000	231,864	1,088,864
2024	-	-	-	887,000	199,286	1,086,286
2025	-	-	-	924,000	163,950	1,087,950
2026	-	-	-	960,000	125,460	1,085,460
2027	-	-	-	1,004,000	85,468	1,089,468
2028	-	-	-	1,047,000	43,632	1,090,632
<b>Totals</b>	<b>\$ 1,430,000</b>	<b>\$ 46,870</b>	<b>\$ 1,476,870</b>	<b>\$ 9,510,000</b>	<b>\$ 1,770,780</b>	<b>\$ 11,280,780</b>

Note: This schedule is not a financial statement prepared in accordance with generally accepted accounting principles.

**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY**  
**SCHEDULE OF NET EARNINGS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Increase in net position	<u>\$ 2,191,252</u>	<u>\$ 805,097</u>
Add:		
Depreciation	1,936,889	1,924,473
Interest on bonds	374,985	413,158
Gain on sale of capital assets	1,187	7,330
Pension	(17,205)	47,289
Other postemployment benefits	12,801	16,753
Subtotal	<u>2,308,657</u>	<u>2,409,003</u>
Deduct:		
Contributed systems	96,000	264,128
Subtotal	<u>96,000</u>	<u>264,128</u>
Net earnings per bond ordinance	<u>\$ 4,403,909</u>	<u>\$ 2,949,972</u>
Net Earnings Coverage of 2019 Debt Service Requirement of \$1,579,986		<u>187%</u>
Net Earnings Coverage of 2020 Debt Service Requirement of \$1,583,017	<u>278%</u>	
Net Earnings Coverage of maximum Debt Service Requirement of \$1,586,421	<u>278%</u>	<u>186%</u>

Note: This schedule is not a financial statement prepared in accordance with generally accepted accounting principles.

## **COMPLIANCE SECTION**





**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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**To the Board of Directors of the  
Edgefield County Water and Sewer Authority  
Edgefield, South Carolina**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Edgefield County Water and Sewer Authority (the "Authority") as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 30, 2019.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

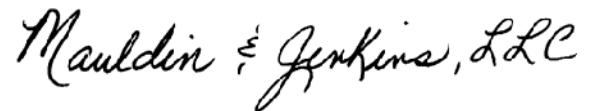
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**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina  
September 30, 2019



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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To the Board of Directors of the  
Edgefield County Water and Sewer Authority  
Edgefield, South Carolina

### **Report on Compliance For Each Major Federal Program**

We have audited the Edgefield County Water and Sewer Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2019. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis of our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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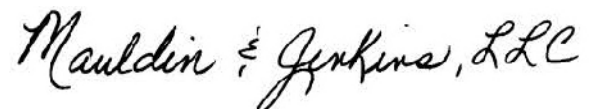
### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Columbia, South Carolina  
September 30, 2019

**EDGEFIELD COUNTY WATER & SEWER AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Expenditures	Passed Through to Subrecipients
<b><u>U.S. Department of Housing and Urban Development</u></b>				
<b>(Passed through the Town of Edgefield, South Carolina)</b>				
Community Development Block Grant	14.228	4-CI-16-006	\$ 949,539	\$ -
<b>Total U.S. Department of Housing and Urban Development</b>			<u>949,539</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 949,539</u>	<u>\$ -</u>

# EDGEFIELD COUNTY WATER AND SEWER AUTHORITY

## NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting.

#### **Measurement Focus**

The determination of when an award is expended is based on when the activity related to the award occurred.

#### **Program Type Determination**

Type A programs are defined as federal programs with federal expenditures exceeding \$750,000. The threshold of \$750,000 was used in distinguishing between Type A and Type B programs.

#### **Method of Major Program Selection**

The risk based approach was used in the selection of federal programs to be tested as major programs. The Authority did not qualify as a low-risk auditee for the fiscal year ended June 30, 2019.

#### **De-Minimis Indirect Cost Rate**

During the year ended June 30, 2019, the Authority did not use the de-minimis indirect cost rate.

# EDGEFIELD COUNTY WATER AND SEWER AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019

### SECTION I SUMMARY OF AUDIT RESULTS

#### **Financial Statements**

Type of auditor's report issued Unmodified

Internal control over financial reporting:  
Material weaknesses identified?  Yes  No

Significant deficiencies identified not considered  
to be material weaknesses?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

#### **Federal Awards**

Internal control over major programs:  
Material weaknesses identified?  Yes  No

Significant deficiencies identified not considered  
to be material weaknesses?  Yes  None Reported

Type of auditor's report issued on compliance for  
major programs Unmodified

Any audit findings disclosed that are required to  
be reported in accordance with the Uniform  
Guidance?  Yes  No

Identification of major programs:

CFDA Number  
14.228

Name of Federal Program or Cluster  
U.S. Department of Housing and Urban  
Development  
Community Development Block Grant

Dollar threshold used to distinguish between  
Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  Yes  No

**EDGEFIELD COUNTY WATER AND SEWER AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None reported.

**SECTION III  
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None reported.

**SECTION IV  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

None reported.



**SUPPLEMENTAL INFORMATION REGARDING  
EDGEFIELD COUNTY**

**Description of the County**

The Waterworks and Sewer System (the “System”) of the Edgefield County Water and Sewer Authority (the “Authority”) provides services to most of Edgefield County, South Carolina (the “County”).

The County is in the southwestern part of the State and has an area of 502 square miles, according to the South Carolina Department of Transportation. It is bordered on the west by McCormick County, on the north by Greenwood and Saluda Counties, on the east by Aiken County, and on the south by the Savannah River and the State of Georgia. The county seat is the Town of Edgefield, located about 25 miles northwest of Aiken, South Carolina, 30 miles north of Augusta, Georgia, 68 miles southwest of Columbia, South Carolina, and 169 miles east of Atlanta, Georgia.

According to the 2017 Census of Agriculture produced by the National Agricultural Statistics Service of the United States Department of Agriculture, approximately 24% of the County’s land is used for agriculture (including woodlands). In 2017, the County ranked 2<sup>nd</sup> in the State in production of fruits, tree nuts and berries and 3<sup>rd</sup> in the State in production of nursery, greenhouse, floriculture and sod. Sales for crops, livestock, poultry and related products in the County in 2017, the latest year for which information is available, amounted to \$37,703,000, including crops at \$25,108,000 and livestock, poultry and related products at \$12,594,000.

About 77% of the County’s land is forested, and the County ranks 11<sup>th</sup> among the State’s 46 counties in delivered value of timber. The delivered value of harvested timber sold in 2015, the latest year for which information is available, was \$32,274,507.

**Major Employers**

The largest employers in the County, their type of business and approximate number of employees as of June 30, 2020 are shown below:

<u>Name</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Titan Farms	Farm	814
School District of Edgefield County	Education	535
Milliken & Co. – Johnston Mill	Fabric formation (weave)	245
National Wild Turkey Federation	Non-profit	220
Dominion Energy	Energy	188*
Edgefield County	Government	186
Southern Felt Co. Inc.	Nonwoven felt products	176
US Fibers	Recycled PET materials	156
Trantech Radiator Products, Inc.	Radiators	125
Menardi-Filters	Air and liquid filters	63

\*Includes the Aiken/Edgefield/McCormick/Saluda regional territory.

Source: Economic Development Partnership of South Carolina.

## Population

The following table illustrates the population growth of the County. Population statistics for the State and the United States are included for comparison purposes.

	<u>Edgefield County</u>		<u>South Carolina</u>		<u>United States</u>	
	<u>Population</u>	<u>% change</u>	<u>Population</u>	<u>% change</u>	<u>Population</u>	<u>% change</u>
1970	15,692	-	2,590,516	-	203,302,031	-
1980	17,528	12%	3,121,820	21%	226,545,805	11%
1990	18,375	5	3,486,703	12	248,709,873	10
2000	24,595	34	4,012,012	15	281,421,960	13
2010	26,985	10	4,625,364	15	308,745,538	10
2019*	27,260	1	5,148,714	11	328,239,523	6

\*Estimated

Source: U.S. Department of Commerce, Bureau of the Census

## Capital Investment

The following table sets forth the total announced capital investment for new and expanded industry within the County for the years for which information is available.

<u>Year</u>	<u>New Investment</u>	<u>New Employment</u>
2014		
2015		
2016	\$11,500,000	17
2017	13,000,000	20
2018		
2019		21

Note: This table only includes those projects which the Department of Commerce was instrumental in bringing to the County.

Source: South Carolina Department of Commerce.

## Labor Force

The labor force participation rates of residents of the County (regardless of place of employment) for the five calendar years shown are as follows:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Civilian Labor Force	10,660	10,537	10,565	10,538	10,712
Employment	9,981	9,937	10,083	10,172	252
Unemployment	679	600	482	366	10,460

Source: U.S. Department of Labor, Bureau of Labor Statistics.

## Retail Sales

The following table shows retail sales for businesses located in the County for each of the last five years:

<u>Year</u>	<u>Retail Sales</u>
2015	\$324,965,124
2016	312,087,356
2017	319,280,967
2018	314,386,633
2019	324,428,661

---

Source: South Carolina Department of Revenue.

## Construction Activity

The following table shows the number of building permits issued by the County for new, privately-owned, residential units, and for new non-residential construction, and the approximate cost of new construction represented by those permits in each of the years indicated:

<u>Year</u>	<u>Residential Permits</u>	<u>Residential Construction Cost</u>	<u>Commercial Permits</u>	<u>Commercial Construction Cost</u>	<u>Total Permits</u>	<u>Total Construction Cost</u>
2014	356	\$16,961,778	112	\$ 9,746,761	468	\$26,708,539
2015	388	19,224,877	93	9,781,537	481	29,006,414
2016	509	27,219,269	87	6,313,245	596	33,532,514
2017	477	24,308,360	74	10,517,003	551	34,825,363
2018	453	31,722,017	61	3,273,234	514	34,995,251
2019						

---

Note: Permits for single-family, multi-family, and additions or alterations to existing structures are included in the residential permit figures above.

Source: Edgefield County Building & Codes Officials.

## Per Capita Personal Income

The per capita income in the County for each of the last five years for which information is available is shown below.

<u>Year</u>	<u>County</u>	<u>State</u>	<u>United States</u>
2015	\$31,792	\$39,424	\$48,940
2016	33,600	40,312	49,831
2017	35,426	41,633	51,640
2018	36,436	43,702	54,526
2019	N/A	45,314	56,663

---

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Unemployment Rate

The average unemployment rate in the County, State, and United States for each of the last six years is shown below.

<u>Year</u>	<u>County</u>	<u>State</u>	<u>U.S.</u>
2014	6.7%	6.5%	6.2%
2015	6.4	6.0	5.3
2016	5.7	5.0	4.9
2017	4.6	4.3	4.4
2018	3.5	3.4	3.9
2019	2.4	2.8	3.9

---

Source: U.S. Department of Labor, Bureau of Labor Statistics.

The average unemployment rate in the County for each of the last 12 months for which data is available is shown below.

<u>Month</u>	<u>Unemployment Rate</u>
June 2020	7.1%
May 2020	10.2*
April 2020	10.4*
March 2020	3.0
February 2020	3.0
January 2020	3.0
December 2019	2.3
November 2019	2.1
October 2019	2.1
September 2019	1.8
August 2019	2.9
July 2019	3.2

---

Source: South Carolina Employment Security Commission, Labor Market Information Division.

\*Many employers were closed during April and May 2020 pursuant to the Governor's Executive Orders in response to the COVID-19 pandemic.

## Transportation

The County's ground transportation advantages include two U.S. highways and several state roads crisscrossing the County, and access to I-20 very near the County's southernmost tip. The County has access to a variety of motor freight carriers, and Norfolk Southern rail. The County owns a civil airport, Edgefield County Airport, which is located in the Town of Trenton. The Ports of Charleston and Savannah and commercial airports such as Augusta Regional, Columbia Metropolitan, and Atlanta International link the County to global markets.

## Healthcare Services

Edgefield County is served by Edgefield County Healthcare, a critical access hospital with 25 acute care beds. The current hospital is certified by the Centers for Medicare & Medicaid Services through the South Carolina Department of Health & Environmental Control Bureau of Certifications. It offers a full range of services, including 24-hour emergency services, surgery, radiology, imaging, rehabilitation, pharmacy, respiratory therapy and laboratory.

## **Higher Education**

Higher education in Edgefield County consists of the Edgefield Campus of Piedmont Technical College, located in the Town of Edgefield. Piedmont Technical College, founded in 1966, is a two-year public college with seven additional campuses in nearby counties. Total enrollment at all campuses in Fall 2018 was 4,491 students, according to the South Carolina Commission on Higher Education. Piedmont Technical College is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award the associate degrees.

## **Recreation**

The Long Cane Ranger District of Sumter National Forest is a 119,076-acre woodland in the County and surrounding counties. Its borders provide many recreation opportunities. Lick Fork Lake is a 12-acre, artificial lake in the national forest. Lick Fork Lake Recreation Area offers campsites, swimming, picnic areas, an accessible fishing pier, a boat ramp, and two trails. Parsons Mountain Lake Recreation Area offers a 28-acre, man-made lake, campsites, swimming, picnic areas and two trails.

## **Financial Institutions**

According to the Federal Deposit Insurance Corporation, as of June 30, 2019, there were three branches of commercial banks in the County, with total deposits of approximately \$119 million. The continuing reorganization of the banking system in the United States, with its attendant mergers and consolidations, is likely to affect the total number of branch offices in the County.

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A RESOLUTION

PROVIDING FOR THE ISSUANCE AND SALE OF WATERWORKS AND SEWER SYSTEM REVENUE BONDS OF EDGEFIELD COUNTY WATER AND SEWER AUTHORITY, SOUTH CAROLINA, AND OTHER MATTERS RELATING THERETO.

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ADOPTED FEBRUARY 24, 1998

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(This Table of Contents is not a part of the Bond Resolution  
and is for convenience of reference only.)

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**BE IT RESOLVED BY THE MEMBERS OF EDGEFIELD COUNTY WATER AND SEWER AUTHORITY, SOUTH CAROLINA, IN MEETING DULY ASSEMBLED:**

**ARTICLE I  
FINDINGS OF FACT**

Section 1.01. Recitals and Statement of Purpose. Incident to the adoption of this resolution, and the issuance of the bonds provided for herein, the members of Edgefield County Water and Sewer Authority, South Carolina (the "Authority") find, as a fact, that each of the statements hereinafter set forth is in all respects true and correct.

(A) The Authority was created pursuant to Act No. 571 of the 1967 Regular Session of the General Assembly of the State of South Carolina ("Act 571"), which authorized and empowered the Authority to acquire, construct and operate a water system within a service area consisting of all of Edgefield County, South Carolina ("Edgefield County"), excluding any area within an incorporated municipality. The Authority is charged by Act No. 571 with the duty to not unduly compete with the existing publicly operated water systems in Edgefield County and to not sell water to be used within the corporate limits of municipalities which own and operate therein a municipal waterworks system or areas served by such municipalities without the consent of such municipality.

(B) Pursuant to Act No. 1192 of the 1970 Regular Session of the General Assembly of the State of South Carolina ("Act 1192"), which amended Act 571, the Authority was further empowered to acquire, construct and operate a sewer system. Act 1192 redefined the service area of the Authority, with respect to the operation of its water and sewer systems, to include (i) all of Edgefield County, excluding any area within an incorporated municipality which owns and operates a municipal waterworks system, and (ii) a small area in the southwestern corner of Aiken County, South Carolina, bounded on the east by the eastern right-of-way of U.S. Highway 25 and on the south by the southern right-of-way of U.S. Interstate 20.

(C) In order to perform its statutory function, the Authority is authorized to issue bonds payable from the revenues derived from the operation of its waterworks and sewer system (the "System"). As of March 2, 1998, the Authority expects to have outstanding the following bond issues payable from the revenues of the System:

(i) \$735,000 of the Waterworks and Sewer System Revenue Bond, Series A, of the Authority, dated July 1, 1974, issued in the original principal amount of \$1,000,000;

(ii) \$165,816 of the Waterworks and Sewer System Revenue Bond of 1987 (Fourth Lien) of the Authority, dated September 29, 1987, issued in the original principal amount of \$225,000;

(iii) \$878,129.93 of the Waterworks and Sewer System Revenue Bond, Series 1989B (Third Lien), of the Authority, dated July 6, 1989, issued in the original principal amount of \$962,000;

(iv) \$1,636,000 of the Waterworks and Sewer System Refunding Revenue Bonds, Series 1989A, of the Authority, dated May 8, 1989, issued in the original principal amount of \$1,848,000;

(v) \$1,070,000 of the Waterworks and Sewer System Revenue Bonds, Series 1990, of the Authority, dated June 1, 1990, issued in the original principal amount of \$1,165,000;

(vi) \$730,770.90 of the Waterworks and Sewer System Revenue Bond of 1994 (Sixth Lien), of the Authority, dated August 15, 1994, issued in the original principal amount of \$757,000; and

(vii) \$2,442,926.54 of the Waterworks and Sewer System Revenue Bond of 1996 (Parity Sixth Lien) of the Authority, dated April 11, 1996, issued in the original principal amount of \$2,517,000;

(the series of bonds referred to in (i) through (vii) above are hereinafter, collectively, the "Prior Bonds").

(D) The Authority has been notified by the United States Department of Agriculture, Rural Development ("USDA-RD"), that, pursuant to the rules and regulations of USDA-RD, the Authority must refinance the various series of Prior Bonds currently held by USDA-RD (namely, the series referred in clauses (ii), (iii), (vi) and (vii) of paragraph.(C) above).

(E) The Authority is informed by its advisors that, in order to obtain the lowest effective interest rates available in the public markets with respect to a refinancing of the series of Prior Bonds referred to in paragraph (D) above, it would be advisable for the Authority to refinance all of the Prior Bonds such that the refinancing indebtedness issued by the Authority will constitute a first and prior lien on the revenues of the System. In this connection, a refinancing of all Prior Bonds would afford the Authority with the opportunity to (i) provide greater flexibility with respect to its financing covenants than is presently available under the authorizing resolutions with respect to the various series of Prior Bonds and (ii) under current market conditions, realize an overall debt service savings with respect to the indebtedness of the Authority payable from revenues of the System.

(F) At the present time, the Authority has determined that certain sums should be raised by the issuance of additional indebtedness in order to defray the cost of certain capital improvements to the System.

(G) The members of the Authority are therefore adopting this resolution to authorize the issuance of bonds for the purposes of refunding the Prior Bonds, to provide funds to defray the cost of the Authority's presently planned capital improvements, to provide for the issuance from time to time of additional bonds payable from revenues of the System in order to finance enlargements and improvements to the System and to refund other bonds issued pursuant to this resolution, and to provide a mechanism for the ordering of pledges and liens created to secure such bonds.

[End of Article I]

**ARTICLE II  
DEFINITIONS, CONSTRUCTION AND INTERPRETATIONS**

Section 2.01. Definition of Resolution. This resolution may be hereafter cited and is hereinafter sometimes referred to as the Bond Resolution. Such term shall include all resolutions supplemental to, or amendatory of, this resolution.

Section 2.02. Defined Terms. In this Bond Resolution, terms defined in Article I shall have the meaning assigned therein with respect to the provisions of that Article, and unless a different meaning clearly appears from the context, the following terms shall have the following respective meanings:

**"Accountants"** shall mean an independent firm of certified public accountants of suitable standing who audit the books, records, and accounts of the Authority or as may otherwise be selected by the Authority.

**"Accreted Value"** shall mean the amounts set forth in or the amounts determined in the manner set forth in, a Series Resolution authorizing the issuance of Bonds in the form of Capital Appreciation Bonds.

**"Annual Budget"** shall mean the annual budget or amended budget of the Authority in effect as provided in or adopted pursuant to the provisions of this Bond Resolution.

**"Annual Principal and Interest Requirement"** shall mean, with respect to any particular Fiscal Year and to a Series of Bonds Outstanding, an amount (other than amounts paid from proceeds of Bonds) equal to the sum of (i) all interest payable on such Series of Bonds during such Fiscal Year plus (ii) any Principal Installments of such Series of Bonds during such Fiscal Year. For purposes of computing "Annual Principal and Interest Requirement," the rate of interest used to determine (i) above shall be a rate per annum equal to (a) with respect to any Series of Bonds which bear interest at a fixed rate, the rate of interest borne or to be borne by such Bonds, and (b) with respect to any Series of Variable Rate Bonds, the interest rate shall be assumed to be the highest of:

(1) the actual rate on the date of calculation, or if the Variable Rate Bonds are not yet Outstanding, the initial rate (if established and binding),

(2) if the Variable Rate Bonds have been Outstanding for at least twelve (12) months, the average rate over the twelve (12) months immediately preceding the date of calculation, and

(3) (A) if interest on the Variable Rate Bonds is intended by the Authority to be excludable from gross income under the applicable provisions of the Code, The Bond Buyer 25 Revenue Bond Index (or comparable index if such is no longer published) published not earlier than two (2) weeks prior to the sale date, or (B) if interest is not intended to be so excludable, the interest rate on Government Obligations with comparable maturities; provided, however, that for purposes of any rate covenant measuring actual debt service coverage during a test period, Variable Rate Bonds shall be deemed to bear interest at the actual rate per annum applicable during the test period.

**"Authority"** shall mean the Edgefield County Water and Sewer Authority, South Carolina.

**"Authority Representative"** shall mean the individual to whom the members of the Authority have delegated the responsibility of supervising and maintaining records and accounts relating to the collection and disbursement of the revenues derived by the Authority from the operation and maintenance of the System.

**"Authorized Investments"** shall mean, within the limitations set forth herein and as the same may be further limited pursuant to the provisions of a Series Resolution, any investments now or hereafter permitted under Section 6-5-10 of the South Carolina Code, or any successor statute, and shall also include the South Carolina Investment Fund established at Sections 6-6-10 to 6-6-40 of the South Carolina Code or any successor statute.

**"Bond Counsel"** shall mean an attorney or firm of attorneys of recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Authority and satisfactory to the Trustee.

**"Bond Payment Date"** shall mean the date or dates on which the principal of or interest on any of the Bonds shall be payable or on which both principal and interest shall be payable on any of the Bonds, all as set forth in the Series Resolutions authorizing the issuance of the respective Series of Bonds.

**"Bondholder"** and **"Holder"**, and any similar term, when used with reference to a registered Bond or Bonds, shall mean any person who shall be the registered owner of any Outstanding Bond, in the case of Bonds issued in bearer form, the holder of any such Bond, and in the case of Bonds consisting of contractual obligations not in the form of an instrument, the party entitled to enforce the Authority's payment obligation thereunder.

**"Bonds"** shall mean any indebtedness or obligations including those entered into under the provisions of long-term contracts payable from the revenues of the System, issued in accordance with the provisions of the Enabling Act, this Bond Resolution and a Series Resolution, excluding indebtedness incurred in accordance with Article VI hereof.

**"Business Day"** shall mean, except as set forth in a Series Resolution with respect to the Series of Bonds issued thereunder, any day other than a Saturday, a Sunday or a day on which banking institutions in the State or in the State of New York are required or authorized by law (including executive orders) to close.

**"Capital Appreciation Bonds"** shall mean Bonds that bear interest payable only at maturity or payable prior to maturity only on the redemption dates set forth in, and in the amounts determined by reference to the Accreted Value established in accordance with the provisions of the Series Resolution authorizing the issuance of such Capital Appreciation Bonds.

**"Chairman"** shall mean the Chairman of the Authority. The term shall include the Vice-Chairman whenever, by reason of absence, illness or other reason, the person who is the Chairman is unable to act.

**"Code"** shall mean the Internal Revenue Code of 1986, as amended, and applicable Treasury Regulations from time to time in effect.

"**Consulting Engineers**" shall mean any independent firm of consulting engineers having skill and experience in utility financing and rate design, and the design and operation of, as may be dictated under the circumstances, water and sewer facilities.

"**Date of Issue**" shall mean that date established in any Series Resolution from which interest shall accrue on the Bonds of the applicable Series.

"**Debt Service Fund**" shall mean, with respect to any Series of Bonds, the fund herein so designated and designed to provide for the payment of the principal of and interest on the Bonds of such Series issued pursuant to this Bond Resolution, as the same respectively fall due, and as established by the provisions of Section 7.03 hereof.

"**Debt Service Reserve Fund**" shall mean, with respect to any Series of Bonds, any fund so designated and established for such Series of Bonds by the authorizing Series Resolution, and designed to insure the timely payment of the principal of and interest on the Bonds of such Series and to provide for the redemption of such Bonds prior to their stated maturity, as set forth more fully in Section 7.04 hereof.

"**Defeasance Obligations**", unless otherwise provided in a Series Resolution for a particular Series of Bonds, shall mean non-callable (i) Government Obligations or (ii) evidences of ownership of a proportionate interest in specified Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian.

"**Depreciation and Contingent Fund**" shall mean the fund herein so designated and to be maintained by the Authority to provide for contingencies, for the replacement of depreciated or obsolete parts of the System and for improvements, betterments and extensions of the System, as established by the provisions of Section 7.06 hereof.

Insert 5A

"**Enabling Act**" shall mean Chapter 17 of Title 6 and Chapter 21 of Title 11 of the South Carolina Code and all other statutory authorizations, authorizing and enabling the adoption of this Bond Resolution.

"**Events of Default**" shall mean those events set forth in Section 13.01 of this Bond Resolution.

"**Fiduciary**" or "**Fiduciaries**" shall mean the Trustee and any Registrar and any other agent of the Authority appointed pursuant to the authorizations of this Bond Resolution or any Series Resolution or any or all of them, as may be appropriate.

"**Fiscal Year**" shall mean the period of twelve (12) calendar months, beginning on July 1 of each year, and ending on June 30 of the next year, unless the same shall have been changed by the Authority pursuant to the authorization contained in Section 3.01 hereof.

"**General Revenue Fund**" shall mean the account or accounts which shall be established and maintained by the Authority in such fashion as to reflect adequately all of the receipts and revenues



derived from the operation of the System and all interest and other income earned by the Authority in connection with the operation of the System, as established by the provisions of Section 7.02 hereof.

**"Government Obligations"** shall mean:

- (i) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America are pledged; and
- (ii) obligations, specifically including interest payment strips, including without limitation Refcorp interest strips, the payment of the principal (if any), the premium (if any) and the interest (if any) on which is fully guaranteed as a full faith and credit obligation of the United States of America.

**"Gross Revenues"** and **"Gross Revenues of the System"** shall mean for the period in question:

- (a) all receipts and revenues (except customers' deposits) derived from the operation of the System, except for those allocable to the operation of Special Facilities to the extent the same have been pledged to the payment of Special Facilities Bonds, including all service fees (which shall include, but are not limited to, tap-in fees, connection fees, availability fees (but not including impact fees), administration fees and meter purchases),
- (b) all proceeds from the sale or other disposition of any property owned directly or beneficially by the Authority in connection with the operation of the System,
- (c) all interest and other income received by the Authority, directly or indirectly from the investment of any moneys or accounts relating to the System; excluding, however, investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service, and specifically excluding (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of borrowing by the Authority, and
- (d) all other unencumbered money to which the Authority may become entitled from any source whatsoever, but specifically excluding any amounts received by way of government grants or aids-to-construction.

**"Insurer"**, with respect to any Series of Bonds, shall mean an insurance company that has written a Municipal Bond Insurance Policy with respect to such Series of Bonds.

**"Junior Lien Bonds"** shall mean any revenue bonds issued by the Authority or other obligations entered into by the Authority including such obligations under the provisions of long-term contracts which are secured by pledges of and liens on the revenues of the System which are junior and subordinate in all respects to the pledges and liens made to secure Bonds and to the payment by the Authority of all Operation and Maintenance Expenses.

**"Moody's"** shall mean Moody's Investors Service, Inc. and its successors.

**"Municipal Bond Insurance Policy"** shall mean any municipal bond insurance policy insuring the payment, when due, of the principal of and interest on a Series of Bonds.

"Net Earnings" shall mean for the period in question the net income of the Authority, determined accordance with generally accepted accounting principles, but whether or not generally accepted counting principles so require, the same shall be adjusted as follows:

(a) revenue derived from service fees (including, without implied limitation, tap-in fees, connection fees, availability fees, administration fees and meter purchases) shall be included in income;

(b) investment income not restricted to a purpose inconsistent with the payment of operating expenses or debt service shall be included in income;

(c) any act of making a deposit or other disposition to the various Funds required to be made pursuant to Article VIII hereof shall not, by itself, result in a required adjustment to income;

(d) there shall be excluded from net income for purposes of the calculation made to determine Net Earnings:

(i) gains on the sale or other disposition of investments or fixed or capital assets, not resulting from the ordinary course of business,

(ii) investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service including (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of any borrowing of the Authority,

(iii) any amounts received by way of government grants or aids-to-construction,

(iv) impact fees, and

(v) revenues derived from the operation of Special Facilities to the extent the same have been pledged to secure the payment of Special Facilities Bonds; and

(e) there shall be added to net income for purposes of calculating Net Earnings:

(i) losses on the sale or other disposition of investments or fixed or capital assets, not resulting from the ordinary course of business,

(ii) interest paid on the Bonds,

(iii) depreciation expense for such period,

(iv) the amortization of financing expenses, underwriting discounts, call premiums, gains or losses on the extinguishment of debt due to refinancing of the same, and other related and non-recurring expenses resulting from the issuance or refinancing of Bonds, and

(v) expenses resulting directly from the operation of Special Facilities to the extent that the revenues derived therefrom have been pledged to secure, and are used for, the payment of debt service on Special Facilities Bonds.

"**Operation and Maintenance Expenses**" shall mean for the period in question all expenses incurred in connection with the administration and the operation of the System, including, without limiting the generality of the foregoing, such expenses as may be reasonably necessary to preserve the System in good repair and working order, the fees and charges of the Trustee, the Registrar and any Paying Agent and the custodian or trustee of any fund, the costs of audits required hereunder, the costs of computation and payment of any arbitrage rebate, and the premiums for all insurance and fidelity bonds required by this Bond Resolution; provided, however, Operation and Maintenance Expenses shall not include:

- (a) depreciation allowances;
- (b) amounts paid as interest on Bonds;
- (c) amounts expended for extraordinary repairs to the System;
- (d) the amortization of financing expenses, underwriting discounts, call premiums, gains or losses on the extinguishment of debt due to the refinancing of the same, and other related or incidental non-recurring expenses resulting from the issuance or refinancing of Bonds; and
- (e) amounts paid as capital costs pursuant to the provisions of long-term contracts which the Authority has entered into in order to provide water or sewer services to the areas included within its service area, such obligations being specifically included within the definitions of Bonds or Junior Lien Bonds depending upon the priority of pledge given to secure the same.

"**Operation and Maintenance Fund**" shall mean the fund established by the provisions of Section 7.05 hereof and which is designed to provide for the payment of all Operation and Maintenance Expenses.

"**Outstanding**", when used with reference to any Bonds and subject to the provisions of Section 17.01 hereof and except as may be modified for any Series of Bonds pursuant to the provisions of a Series Resolution, shall mean, as of any date, all such Bonds theretofore or then being authenticated and delivered except:

- (a) Bonds cancelled at or prior to such date;
- (b) Bonds in lieu of or in substitution for which other Bonds shall have been executed and delivered;
- (c) Bonds deemed to have been paid as provided in Article XVI hereof; and
- (d) for purposes of any consent or other action to be taken by the Holders of a specified percentage of Bonds, Bonds held by, or for the account of, the Authority, or by any person controlling, controlled by, or under common control with the Authority, unless all Bonds are so held.

**"Paying Agent"** shall mean the financial institution which is authorized by the Authority to pay the principal of or interest and redemption premium, if any, on any Bonds and having the duties, responsibilities and rights provided for in this Bond Resolution and any Series Resolution, and its successor or successors and any other corporation or association which at any time may be substituted in its place pursuant to the Bond Resolution. Pursuant to the provisions of Section 15.02 of this Bond Resolution, the Trustee serves as the Paying Agent.

**"Principal Installment"** shall mean, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds stated to mature on a certain date, reduced by the aggregate principal amount of such Bonds which will be retired by reason of any mandatory sinking fund payment payable before such date, plus (ii) any mandatory sinking fund payment due on such certain date, together with the aggregate amount of the premiums, if any, applicable to such mandatory sinking fund payments, plus (iii) with respect to any Capital Appreciation Bonds required to be paid on such certain date, the Accreted Value as of such certain date of such Capital Appreciation Bonds; and in this latter respect, any reference to "principal" of Bonds in this Bond Resolution shall mean, with respect to Capital Appreciation Bonds, the Accreted Value of such Capital Appreciation Bonds.

**"Record Date"** shall mean the fifteenth (15th) day of the month immediately preceding each Bond Payment Date (or such other time or times as shall be prescribed for any Series by the applicable Series Resolution).

**"Registrar"** shall mean the Trustee or any bank, trust company, or national banking association which is authorized by the Authority to maintain an accurate list of those who from time to time shall be the Holders of Bonds of a particular Series and to effect the transfer of such Bonds in accordance with the provisions of the Bond Resolution and having the duties, responsibilities, and rights provided for in this Bond Resolution and any Series Resolution, and its successor or successors and any other corporation or association which at any time may be substituted in its place pursuant to this Bond Resolution.

**"Reserve Requirement"** shall mean, as of any date of calculation, the debt service reserve fund requirement, if any, established by a Series Resolution authorizing a Series of Bonds.

**"S&P"** shall mean Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., and its successors.

**"Secretary"** shall mean the Secretary of the Authority. The term shall include the Acting Secretary or the Assistant Secretary whenever, by reason of absence, illness or other reason, the person who is the Secretary is unable to act.

**"Securities Depository"** shall mean The Depository Trust Company, New York, New York, or other recognized securities depository selected by the Authority, which securities depository maintains a book-entry system in respect of the Bonds of any Series, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

**"Securities Depository Nominee"** shall mean, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the registration books maintained by any Registrar, the Bond certificates to be delivered to and immobilized at such Securities Depository during the continuation with such Securities Depository of participation in its book-entry system.

"**Serial Bonds**" shall mean the Bonds of any Series which are stated to mature in installments and for which there are no mandatory sinking fund provisions.

"**Series**" shall mean all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction and designated as a single Series by the authorizing Series Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as herein provided, regardless of variations in maturity, interest rate or other provisions.

"**Series Resolution**" shall mean a Resolution of the members of the Authority authorizing the issuance of a Series of Bonds by the Authority pursuant to this Bond Resolution in accordance with the terms and provisions hereof, adopted by said members in accordance with Article IV hereof.

"**South Carolina Code**" shall mean the Code of Laws of South Carolina of 1976, as amended.

"**Special Facilities**" shall mean those facilities financed with the proceeds of Special Facilities Bonds as described in Section 6.02 hereof.

"**Special Facilities Bonds**" shall mean those obligations issued in accordance with Section 6.02 hereof.

"**State**" shall mean the State of South Carolina.

"**System**" shall mean the Waterworks and Sewer System of the Authority as the same is now or may hereafter be constituted, including all property real and personal, used and useful therefor, all apparatus and equipment used in connection therewith, and all acquisitions, replacements, enlargements, improvements, extensions, additions and betterments that may be made thereto at any time hereafter; provided, that during such time as any Special Facilities Bonds issued to finance Special Facilities are outstanding, the term "System" shall not include such Special Facilities.

"**Term Bonds**" shall mean the Bonds of any Series which are stated to mature in a single year and which are subject to mandatory sinking fund redemption prior to the stated maturity date.

"**Trustee**" shall mean the financial institution serving as Trustee pursuant to this Bond Resolution and which shall have such other duties, privileges and functions as are set forth herein. Such term shall include any successor and any corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party.

"**Variable Rate Bonds**" shall mean, for any period of time, any Bonds which during such period bear interest at a variable rate; provided that Bonds the interest rate on which has been fixed for the remainder of the term thereof shall no longer be Variable Rate Bonds.

Section 2.03. Interpretations. In this Bond Resolution, unless the context otherwise requires:

(A) Articles, Sections and paragraphs referred to by number shall mean the corresponding Articles, Sections and paragraphs of this Bond Resolution.

(B) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Words importing the singular number shall include the plural number

and vice versa, and words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations, or other legal entities, including public bodies, as well as natural persons.

(C) The terms "hereby", "hereof", "hereto", "herein", "hereunder", and any similar terms, as used in this Bond Resolution refer to the Bond Resolution or Sections or paragraphs of this Bond Resolution and the term "hereafter" shall mean any date after the date of adoption of this Bond Resolution.

(D) References to the payment of principal of Bonds shall be deemed to include payment of principal both at maturity and by mandatory redemption pursuant to any sinking fund payment obligations.

(E) Any Fiduciary shall be deemed to hold an Authorized Investment in which money is invested pursuant to the provisions of this Bond Resolution, even though such Authorized Investment is evidenced only by a book entry or similar record of investment.

[End of Article II]

**ARTICLE III  
FISCAL YEAR**

Section 3.01. Establishment and Modification of Fiscal Year. The System shall continue to be operated on a Fiscal Year basis, which, until changed, shall commence on the first (1st) day of July of each year and shall end on the thirtieth (30th) day of June of the next year. The Authority, in its sole discretion, may from time to time, change the Fiscal Year from that then existing to a different twelve (12) month period.

[End of Article III]

**ARTICLE IV  
THE BONDS**

Section 4.01. Authorization for Bonds in Series.

(A) From time to time and for the purposes of:

(1) Obtaining funds for the expansion and improvement of the System, including the recoupment of funds already so expended;

(2) Providing funds for the payment of any bond anticipation note or notes issued in order to defray the cost of expansions and improvements to the System and that were issued in anticipation of the issuance and sale of Bonds;

(3) Refunding bonds or other obligations issued to provide land or facilities which are or are to become a part of the System or which are or were payable in whole or in part from revenues of the System;

(4) Providing funds for the payment of interest due on such Bonds;

(5) Funding the Debt Service Reserve Funds or restoring the value of the cash and securities in the Debt Service Reserve Funds to the amounts equal to their Reserve Requirements, and reimbursing amounts owed to any providers of a surety bond, line of credit, insurance policy or letter of credit established pursuant to Section 7.04(D) hereof; and

(6) Paying the costs of issuance of Bonds, including any credit enhancement therefor,

but subject to the terms, limitations and conditions herein, the Authority may authorize the issuance of a Series of Bonds by the adoption of a Series Resolution, and the Bonds of any such Series may be issued and delivered upon compliance with the provisions of this Article. The Bonds of each Series shall be issued in fully registered form, without coupons, and may be issued in the form of book-entry Bonds. The Bonds shall, in addition to the title Edgefield County Water and Sewer Authority, South Carolina, Waterworks and Sewer System Revenue Bonds, bear a letter or number Series designation as may be necessary to distinguish them from the Bonds of every other Series and shall designate the year in which the Series is issued. Bonds of any Series may be authorized to be issued in the form of Serial Bonds, Term Bonds or Capital Appreciation Bonds, or a combination of any of them, and may bear interest in whatever manner and payable at whatever frequency as shall be prescribed by the applicable Series Resolution.

(B) Each Series Resolution shall include a determination by the Authority to the effect that the issuance of such Series of Bonds is necessary to provide funds to be used and expended for one or more of the purposes set out in Section 4.01(A) hereof. Each Series Resolution shall specify and determine:

(1) The then period of usefulness of the System;

(2) The Date of Issue of such Series of Bonds;



- (3) The maximum authorized principal amount of such Series of Bonds, and the manner of determining the precise principal amount and the officials authorized to make such determination;
- (4) The Bond Payment Dates for the Bonds in such Series and the Record Dates, and the date or dates of maturity and the amounts thereof, or the manner of determining such dates and amounts and the officials authorized to make such determinations, provided that the Series Resolution shall specify a date beyond which the final maturity of such Series shall not extend which date shall not be longer than forty (40) years from the date of such Series of Bonds as prescribed by Section 6-17-60 of the Enabling Act;
- (5) The specific purposes for which such Series of Bonds is being issued;
- (6) The title and designation of the Bonds of such Series;
- (7) The manner in which Bonds of such Series are to be sold and provisions for the sale thereof;
- (8) The interest rate or rates, or the manner of determining such rate or rates, of the Bonds of such Series, including whether and on what terms there shall be entered by the Authority an agreement for any form of interest rate hedge or similar transaction with respect to such Series;
- (9) The portion of such Series that are Serial Bonds and that are Term Bonds and that are Capital Appreciation Bonds, if any, including the amount and date of each mandatory redemption or sinking fund installment, if any, required by such Series Resolution to be paid for the retirement of any such Bonds, or the manner of making such designations and the officials authorized to make such designations;
- (10) The redemption price or redemption prices and the redemption date or redemption dates and other terms of redemption (if any) applicable to any of the Bonds of such Series for such payments, or the manner of determining such dates and prices and the officials authorized to make such determinations;
- (11) The Trustee and the Paying Agent for such Bonds, and the Registrar for such Bonds if it is determined that an institution other than the Trustee shall act in such capacity, and the escrow agent if such Bonds are advance refunding Bonds;
- (12) The form or forms of the Bonds of such Series;
- (13) The manner of numbering and lettering, and the denomination or denominations of the Bonds of such Series;
- (14) Whether the Bonds of such Series shall be issued in book-entry form pursuant to Section 4.19 hereof;
- (15) That the then applicable Reserve Requirements for all Series of Bonds Outstanding has been or will be met;

(16) The disposition or application of the proceeds of the sale of such Series of Bonds;

(17) That a Debt Service Fund be established for the Series of Bonds, and that a construction fund be established if the proceeds of the Bonds of any Series are intended to be used for the expansion or improvement of the System, and that a capitalized interest account be established within any such construction fund if interest for any period is to be paid from proceeds of such Series of Bonds; and

(18) Whether such Series of Bonds will be subject to a Reserve Requirement and if subject to one, that such Reserve Requirement has been or will be met; and, in the event the Authority determines to satisfy the Reserve Requirement by obtaining a qualified line of credit, surety bond, insurance policy or letter of credit, all as permitted pursuant to Section 7.04(D) hereof, then any conditions as to the credit worthiness of any company which provides such line of credit, surety bond, insurance policy or letter of credit, or, in lieu thereof, of the guarantor of such company's obligations under such line of credit, surety bond, insurance policy or letter of credit.

Section 4.02. Conditions to Issuance of Bonds of a Series. All Bonds shall be issued in compliance with the following provisions of this Section 4.02:

(1) Bonds shall be stated to mature and/or have mandatory or sinking fund redemptions on the dates and in the amounts prescribed or approved by the Series Resolution.

(2) Bonds shall bear interest at the rates and on the occasions prescribed by the Series Resolution.

(3) Bonds shall be issued for a purpose or purposes set forth in Section 4.01(A) hereof.

(4) There shall exist, on the occasion of the issuance of the Bonds, no default in the payment of the principal of or interest on any Bonds or Junior Lien Bonds then Outstanding.

(5) The Authority shall obtain an opinion of Bond Counsel to the effect that (a) this Bond Resolution and the Series Resolution have been duly and lawfully adopted and are in full force and effect; (b) the Bonds have been duly and lawfully authorized, executed and issued by the Authority and are valid and binding upon, and enforceable against, the Authority (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); and (c) with respect to such Bonds, this Bond Resolution creates the valid pledge of the Gross Revenues subject to the application thereof to the purposes and on the conditions permitted by this Bond Resolution.

(6) Unless on the date of delivery of such Series of Bonds there shall be on deposit in each Debt Service Reserve Fund an amount equal to the applicable Reserve Requirement, if any, immediately following the issuance of such Series of Bonds, or a qualified line of credit, surety bond, insurance policy or letter of credit shall be in effect in lieu thereof in accordance with Section 7.04(D) hereof, there shall be deposited in each Debt Service Reserve Fund such amount, or a qualified substitute in accordance with Section 7.04 hereof shall be provided, as is necessary

to make the value of the moneys and securities in each Debt Service Reserve Fund, including any such qualified substitute, equal to the respective Reserve Requirement, unless:

(a) the Series Resolution and any previous Series Resolutions shall have provided for successive monthly payments beginning in the first month following the date of the issuance of the Bonds of any such Series in substantially equal monthly amounts (the "Monthly Series Payments") so that by the end of twelve (12) months from the date of issuance of such Series of Bonds there shall be in the applicable Debt Service Reserve Fund an amount equal to the applicable Reserve Requirement with respect to such Bonds; and

(b) there shall be no unremedied defaults of any Monthly Series Payments required to have been made.

(7) Except in the case of the first Series of Bonds issued hereunder, or in the case of Bonds issued for the purpose of refunding any Bonds and which meet the test prescribed in Section 4.02(8) hereof:

(a) Net Earnings during the most recent Fiscal Year for which audited financial statements of the System are completed shall be certified by the Accountants or by the Consulting Engineers on the basis of such audited financial statements to be not less than one hundred twenty percent (120%) of the maximum Annual Principal and Interest Requirement on all Bonds Outstanding and on such proposed Series of Bonds; provided that for purposes of this Section 4.02(7)(a), such Net Earnings shall be adjusted to reflect (1) any rate increases currently adopted and to be in effect prior to or coincident with the issuance of such proposed Series of Bonds and determined pro forma as though such rate increases had been in continuous effect during such recent Fiscal Year; (2) in the event a utility, system or enterprise that is in existence and operating and whose current customers have become customers of the System prior to the issuance of the proposed Series of Bonds or will become customers of the System concurrently with the issuance of such proposed Series of Bonds, one hundred percent (100%) of the Net Earnings that the Accountants or Consulting Engineers estimate would have been received during such Fiscal Year if the utility, system or enterprise had been a part of the System throughout such recent Fiscal Year, taking into account, for the estimation of such Net Earnings in this subparagraph (2) only, the then-existing customer base and population of the acquired utility, system or enterprise; (3) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire a newly-constructed utility, system, enterprise, or component of the System which will serve an existing customer base and currently-populated area, one hundred percent (100%) of the Net Earnings, estimated by the Consulting Engineers, to be received by the System during the first Fiscal Year beginning after the earlier of (a) the date on which such project constructed or acquired with the proceeds of the proposed Series of Bonds is placed in service and (b) the third anniversary of the date of delivery of the proposed Series of Bonds, from the newly-constructed or to-be-constructed utility, system, enterprise, or component of the System, taking into account for the estimation of such Net Earnings in this subparagraph (3) only the then-existing customer base and population; (4) in the event proceeds of such proposed Series of Bonds will be used to pay interest on such proposed Series, one hundred percent (100%) of the interest that will accrue on such Series of Bonds during

the first twelve (12) full months following the date of delivery of the proposed Series and that will be paid from such proceeds, provided however that any such interest accruing in such twelve month period that is to be paid on a date within the Fiscal Year of maximum Annual Principal and Interest Requirement shall not be so added into such Net Earnings; and (5) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire improvements to or an expansion of the System and to the extent not included by sub-paragraph (3), one hundred percent (100%) of estimated Net Earnings to be received by the System in the first Fiscal Year following the completion of such project, certified by the Consulting Engineers, from customers under long-term contracts which extend for the life of such proposed Series of Bonds; or

(b) (i) Net Earnings during the most recent Fiscal Year for which audited financial statements of the System are completed shall be certified by the Accountants or by the Consulting Engineers on the basis of such audited financial statements to be not less than one hundred twenty percent (120%) of the Annual Principal and Interest Requirement during such Fiscal Year on all Bonds Outstanding; provided that for purposes of this Section 4.02(7)(b)(i), such Net Earnings shall be adjusted to reflect (1) any rate increases currently adopted and to be in effect prior to or coincident with the issuance of such proposed Series of Bonds and determined pro forma as though such rate increases had been in continuous effect during such recent Fiscal Year; and (2) in the event a utility, system or enterprise has been or is being acquired by the System other than from the proceeds of the proposed Series of Bonds and whose current customers have become customers of the System prior to the issuance of the proposed Series of Bonds or will become customers of the System concurrently with the issuance of such proposed Series of Bonds, one hundred percent (100%) of the Net Earnings estimated by the Accountants or Consulting Engineers that would have been received by the System during such Fiscal Year if the utility, system or enterprise had been a part of the System during such recent Fiscal Year, taking into account for the estimation of such Net Earnings in this clause (2) only the then-existing customer base and population of the acquired utility, system or enterprise; and

(ii) For each of the five (5) Fiscal Years following the later of the date of the delivery of the Bonds of such Series, or the period (if any) for which interest is funded from the proceeds of such Bonds, Net Earnings, as shall have been forecasted by Consulting Engineers, will be not less than one hundred twenty percent (120%) of the Annual Principal and Interest Requirement on all Bonds then proposed to be Outstanding in each of such five (5) Fiscal Years.

Whenever subsections (a) or (b) above require a certification for the most recent Fiscal Year for which audited financial statements are available, the Authority may, in its discretion, provide for a special audit and a certification based upon such special audit, in lieu of the audit for such Fiscal Year, provided such special audit covers twelve (12) consecutive calendar months of the eighteen (18) full consecutive calendar months preceding the date of issuance of the proposed Series of Bonds.

In addition, in the event the aggregate principal amount of the proposed Series of Bonds to be issued shall not exceed \$1,000,000, any certifications, estimates or forecasts otherwise

required to be made pursuant to this paragraph (7) by the Accountants or the Consulting Engineers may be made instead by the chief operating officer of the Authority.

(8) In lieu of compliance with Section 4.02(7) hereof, in the case of a Series or a portion of a Series of Bonds issued for the purpose of refunding any Bonds, the Annual Principal and Interest Requirements of the refunding Bonds shall not exceed the Annual Principal and Interest Requirements of the refunded Bonds for any Fiscal Year until a time subsequent to the last maturity of Bonds issued prior to the issuance of such refunding Bonds which are not refunded and which remain Outstanding following the issuance of the refunding Bonds.

(9) If any Series of Bonds shall contain Variable Rate Bonds:

(a) The Series Resolution shall provide for and specify a maximum interest rate on (i) such Bonds and (ii) any reimbursement obligation to a liquidity provider for such Bonds;

(b) Any liquidity provider for such Bonds shall be rated in at least the second-highest short-term rating category by either Moody's or S&P; and

(c) Any accelerated principal payments or any interest computed at a rate in excess of that on such Bonds due to the liquidity provider for such Bonds pursuant to any reimbursement agreement with such liquidity provider shall be subordinate to the payment of debt service on all Bonds; provided, however, if the tests referred to in Section 4.02(7) or 4.02(8), as the case may be, of this Bond Resolution are calculated (and met) assuming such accelerated principal payment and such excess interest amount to the liquidity provider, then such accelerated principal payment and excess interest amount may be on a parity with the payment of debt service on all Bonds.

(10) All amounts then due under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 7.04(D) hereof shall have been paid.

Section 4.03. Reliance Upon Certificates. The Authority, the Trustee and any purchaser of any Bonds shall be entitled to rely in good faith upon reports of Accountants or certificates of the Consulting Engineers, made pursuant to any provision of this Article.

Section 4.04. Execution of Bonds.

(A) Unless otherwise prescribed by any Series Resolution, the Bonds shall be executed in the name of and on behalf of the Authority by the Chairman, the corporate seal of the Authority shall be impressed or reproduced thereon and the same shall be attested by the Secretary. Such officers may employ facsimiles of their signatures.

(B) In case any officer whose signature or facsimile signature shall appear on the Bonds shall cease to be such officer before the delivery of any Bond, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office.

Section 4.05. Authentication. Only such Bonds as shall have endorsed thereon a certificate of authentication duly executed by the Trustee or the Registrar shall be entitled to any right or benefit under this Bond Resolution. No such Bond shall be valid or obligatory for any purpose unless and until such certificate of authentication shall have been duly executed by the Trustee or Registrar, and such executed certificate of the Trustee or Registrar upon any such Bond shall be conclusive evidence that such Bond has been authenticated and delivered under this Bond Resolution. The Trustee's certificate of authentication on any such Bond shall be deemed to have been duly executed by it if signed by any authorized officer of the Trustee or by any authorized officer of the Registrar.

Section 4.06. Medium of Payment. The Bonds shall be payable with respect to principal, interest, and premium, if any, in lawful money of the United States of America.

Section 4.07. Mutilated, Lost, Stolen or Destroyed Bonds. In the event any Bond is mutilated, lost, stolen or destroyed, the Authority may execute and the Trustee may authenticate a new Bond of the same Series of like date, maturity and denomination as that mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee, and in the case of any lost, stolen or destroyed Bond, there shall be first furnished to the Authority and to the Trustee evidence of such loss, theft or destruction satisfactory to the Authority and the Trustee together with indemnity satisfactory to them. In the event any such Bond shall have matured, instead of issuing a duplicate Bond, the Authority may pay the same. The Authority and the Trustee may charge the Holder or owner of such Bond with their reasonable fees and expenses in this connection.

Section 4.08. Transfer and Registry; Persons Treated as Owners.

(A) As long as any Bonds in registered form shall be Outstanding, the Authority shall cause books for the registration and for the transfer of such Bonds to be kept. Such books shall be kept by the Trustee unless there shall have been appointed a Registrar other than the Trustee to keep the books of registration for any particular Series of Bonds. The transfer of each such Bond may be registered only upon the registration books of the Authority kept for that purpose by the registered owner thereof in person or by his duly authorized attorney upon surrender thereof and an assignment with a written instrument of transfer satisfactory to the Trustee or the Registrar, as the case may be, duly executed by the registered owner or his duly authorized attorney. Upon the registration or transfer of any registered Bond, the Authority shall cause to be issued, subject to the provisions of Section 4.11 hereof, in the name of the transferee a new Bond or Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered Bond.

(B) The Authority, the Trustee, and any Registrar may deem and treat the person in whose name any registered Bond shall be registered upon the registration books of the Authority as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of, premium (if any) and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or, upon his order, shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid; and none of the Authority, the Trustee and any Registrar shall be affected by any notice to the contrary.

(C) Notwithstanding anything in paragraphs (A) and (B) of this Section 4.08 to the contrary, Bonds may be issued in the form of contractual obligations which are not instruments and which may be transferred as provided in such contracts.

Section 4.09. Date and Payment Provisions. Unless otherwise provided in any Series Resolution with respect to Bonds issued thereunder, each Bond of a Series shall be authenticated on such dates as it shall, in each case, be delivered. Each Bond shall bear interest from the Date of Issue if no interest has yet been paid; otherwise from the last date to which interest has been paid and which date is on or prior to the date of such Bond's authentication.

Owners of at least \$1,000,000 principal amount of Bonds may, by written notice containing wiring instructions filed with the Trustee at least twenty (20) days prior to any Bond Payment Date, provide for the payment of the interest on such Bonds by wire transfer to an account at a bank located in the continental United States.

Section 4.10. Transferability of Bonds. Bonds of a Series, upon surrender thereof at the office of the Trustee or the Registrar, as the case may be, for the Bonds of such Series with a written instrument of transfer satisfactory to the Trustee or the Registrar, duly executed by the Holder or his duly authorized attorney, may, at the option of the Holder and upon payment by such Holder of any charges made pursuant to Section 4.11 hereof, be exchanged for an equal aggregate principal amount of Bonds of such Series of like maturity and interest rate of any other authorized denominations.

Section 4.11. Regulations With Respect to Exchanges and Transfer. In all cases in which the privilege of exchanging or transferring Bonds is exercised, the Authority shall execute and the Trustee or the Registrar, as the case may be, shall authenticate and deliver Bonds in accordance with the provisions of this Bond Resolution. All Bonds surrendered in any such exchanges or transfers shall forthwith be cancelled and destroyed and shall not be reissued, and a counterpart of the certificate of destruction evidencing such destruction shall be furnished by the Trustee or the Registrar, as the case may be, to the Authority. All Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of this Bond Resolution. There shall be no charge to the Holder for such exchange or transfer of Bonds except that the Trustee or the Registrar, as the case may be, may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Authority nor the Trustee or the Registrar, as the case may be, shall be required to register, transfer or exchange Bonds of a Series during the period between a Record Date and its related Bond Payment Date, or during the period beginning fifteen (15) days prior to any selection of Bonds for redemption and ending upon the mailing of any notice of redemption; nor shall either be required to register, transfer or exchange any Bonds called for redemption.

Section 4.12. Cancellation and Destruction of Mutilated, Paid or Surrendered Bonds. Upon the surrender of mutilated Bonds pursuant to Section 4.07 hereof, or Bonds paid or surrendered, the same shall be cancelled and destroyed and shall not be reissued, and a counterpart of the certificate evidencing such destruction shall be furnished by the Trustee or the Registrar, as the case may be, to the Authority. All Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of this Bond Resolution.

Section 4.13. Notice of Redemption. If any of the Bonds, or portions thereof, are called for redemption, the Trustee shall give notice to the Holders of any Bonds to be redeemed, in the name of the Authority, of the redemption of such Bonds, or portions thereof. Notice of each redemption of bonds is required to be mailed by the Trustee by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to each Holder of Bonds to be redeemed, at the address of such Holder recorded on the registration books and to be otherwise given in accordance with, among others, the following requirements:

(1) notices must contain, at a minimum, the complete official name of the Bonds, CUSIP number (if less than all Bonds of a Series are to be redeemed), Bond numbers, principal amount of each Bond to be redeemed (if less than all), publication or mailing date, redemption date, redemption price, redemption agent's name and address, Trustee's name and address, date of the Bonds, interest rate, maturity date, the place or places where amounts due will be payable, and any other descriptive information deemed necessary by the Trustee;

(2) notices must be sent to Bondholders of \$1,000,000 or more, to at least two national information services, and any Securities Depository by certified mail--return receipt requested or through the facilities of an Electronic Dissemination Service; notices sent to any Securities Depository must be sent so that such notice is received by such Securities Depository at least two (2) days prior to the mailing of such notices to Bondholders, in addition, any Bondholder holding in excess of \$1,000,000 principal amount of Bonds may request the Trustee to send notices to any reasonable additional addressee specified;

(3) a second notice to registered owners of the Bonds must be mailed by the means specified above to any registered owner of Bonds who has not presented Bonds for redemption sixty (60) days after the redemption date;

(4) notice of redemptions effected by advance refundings must also be given in accordance with the above requirements at least thirty (30) days but no more than sixty (60) days prior to the actual redemption date; and

(5) except with respect to mandatory sinking fund redemptions, no notice of redemption shall be sent unless sufficient funds have previously been deposited with the Trustee to pay the redemption price of the Bonds to be redeemed.

The failure of the Trustee to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any other Bonds for which notice is properly given. Any Bondholder may waive notice of redemption by delivery of a written waiver to the Trustee.

Any Series Resolution providing for the issuance of Bonds consisting of contractual obligations not in the form of an instrument may provide alternative methods for delivery of notice of redemption.

Provided sufficient funds for such redemption are on deposit with the Trustee, all Bonds so called for redemption shall cease to bear interest on the specified redemption date and shall no longer be deemed to be Outstanding hereunder. If said money shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Section 4.14. Cancellation of Bonds That Have Been Redeemed. All Bonds that have been redeemed shall be cancelled and destroyed by the Trustee and shall not be reissued, and a counterpart of the certificate of destruction evidencing such destruction shall be furnished by the Trustee to the Authority. All Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of this Bond Resolution.



Section 4.15. Selection of Bonds To Be Redeemed. In the event that less than all of the Bonds of any Series are to be redeemed at the option of the Authority, Bonds to be redeemed shall be in such order of maturity as selected by the Authority. In the event of redemption of less than all of the Bonds of a Series of any maturity, the Bonds or portions of Bonds to be redeemed, shall be selected by lot by the Trustee. The portion of any Bond of a denomination which is larger than the minimum denomination for the Bonds of such Series shall be in the principal amount of such minimum denomination or a multiple thereof, and that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of minimum denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by the amount of the minimum denomination; provided further that, if less than all of the beneficial interests in a Bond of a single maturity registered in the name of a Securities Depository or a Securities Depository Nominee are to be redeemed, the beneficial interests to be redeemed shall be selected by lot or in such manner as may be directed by the Securities Depository. If there shall be drawn for redemption less than all of a Bond, the Authority shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, Bonds of the same Series in any authorized denomination.

Section 4.16. Restriction on Optional Redemption. Notwithstanding anything in this Bond Resolution to the contrary, no optional redemption of Bonds may occur unless all amounts payable by the Authority owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 7.04(D) hereof shall have been paid in full, unless notified to the contrary by such provider.

Section 4.17. Purchase of Bonds. The Trustee shall, if and to the extent practicable, purchase Bonds at the written direction of the Authority at such time, in such manner and at such price as may be specified by the Authority. The Trustee may so purchase Bonds for cancellation with any money then held by the Trustee which is available for the redemption or purchase of Bonds and in excess of that set aside for the payment of Bonds called for redemption; provided, that the Trustee is provided with an opinion of Bond Counsel to the effect that such redemption or purchase complies with any limitations or restrictions on such redemption or purchase contained in this Bond Resolution.

Section 4.18. Security for Payment of Bonds; Priority of Lien. The Bonds shall be payable solely from and shall be secured by a pledge of and a lien upon the Gross Revenues of the System. Such pledge and lien securing the Bonds at all times and in all respects shall be and remain superior to pledges and liens made to secure any other bonds or other obligations payable from the revenues of the System. The Bonds shall not constitute an indebtedness of the Authority within the meaning of any provision, limitation or restriction of the Constitution or the laws of the State, other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license; and the faith, credit and taxing power of the Authority are expressly not pledged therefor. The Authority is not obligated to pay any of the Bonds or the interest thereon except from the Gross Revenues of the System.

Section 4.19. Bonds in Book-Entry Form. Notwithstanding any other provision of this Bond Resolution with respect to the form of Bonds to the contrary, the Authority is hereby authorized to provide by Series Resolution for the issuance of one or more Series of Bonds solely in fully registered form registrable to a Securities Depository, a Securities Depository Nominee or the beneficial owner of the Bonds. The Authority is further authorized to provide by Series Resolution that such Series of Bonds shall be evidenced by one or more certificates or by a system of book entries in form satisfactory to the

Authority Representative and to provide for payment, redemption, notices and like provisions in a manner consistent with such system of registration.

Section 4.20. Waiver of Certain Provisions. Notwithstanding anything in this Bond Resolution to the contrary, whenever all of the debt issued or all of the obligations incurred by the Authority under a Series Resolution are acquired by and are held by a single entity, that single entity, at its sole option, may waive any provision or requirement of this Bond Resolution that relates separately to the governance of such Series and is for the protection and benefit of such single entity only and not for the protection or benefit of any other Holder or Holders of Bonds; provided that if such Series of Bonds is insured by an Insurer, then any such waiver shall require the prior written approval of such Insurer.

Section 4.21. Bonds not in the Form of an Instrument. In the event that the Authority issues any Series of Bonds which are contractual obligations not in the form of an instrument, the provisions regarding redemption or prepayment of such Bonds, notices to Bondholders and transfers of such Bonds contained herein may be altered or supplemented by the provisions of the Series Resolution pursuant to which such Bonds are issued or the contract pursuant to which such obligations are created.

Section 4.22. Bonds Issued as Taxable Obligations. Notwithstanding anything in this Bond Resolution to the contrary, the Authority may from time to time, pursuant to one or more Series Resolution, provide for the issuance of Bonds the interest on which may be includable in gross income of the Holders of such Bonds for federal income taxation purposes. In such event, such Bonds may, at the option of the Authority, be issued as coupon bonds, payable to bearer, as provided in the applicable Series Resolution. Such Series Resolution shall provide such rules and regulations with respect to the ownership, transfer and substitution of such Bonds as are not inconsistent with the other provisions of this Bond Resolution.

[End of Article IV]

ARTICLE V  
RATES AND CHARGES

Section 5.01. Rate Covenant.

(A) It is hereby determined that the rates for services and facilities furnished by the System shall, until otherwise revised pursuant to the provisions of this Bond Resolution, be as now established. Said rates and charges are determined to be sufficient to meet the requirements of this Bond Resolution but they shall be revised whenever necessary in order that they shall at all times be maintained on a basis sufficient to meet the requirements of this Bond Resolution, and the Authority specifically covenants and agrees to maintain rates and charges for all services furnished by the System which shall at all times be sufficient:

(1) To provide for the punctual payment of the principal of and interest on all Bonds and all Junior Lien Bonds that may from time to time hereafter be Outstanding;

(2) To maintain the Debt Service Funds and thus provide for the punctual payment of the principal of and interest on the Bonds;

(3) To maintain the Debt Service Reserve Funds in the manner herein prescribed;

(4) To provide for the payment of the Operation and Maintenance Expenses;

(5) To build and maintain a reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions to the System other than those necessary to maintain the same in good repair and working order;

(6) To pay all amounts owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 7.04(D) hereof; and

(7) To discharge all obligations imposed by the Enabling Act and by this Bond Resolution.

(B) The Authority covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the System which, together with other income, are reasonably expected to yield annual Net Earnings in the current Fiscal Year equal to at least the sum of (i) one hundred ten percent (110%) of the Annual Principal and Interest Requirement for all Series of Bonds Outstanding in such Fiscal Year plus (ii) one hundred percent (100%) of the amount necessary to make payment of any amounts owing in such Fiscal Year under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 7.04(D) hereof plus (iii) one hundred percent (100%) of the principal and interest on Junior Lien Bonds, or the capital costs pursuant to the provisions of long-term contracts which the Authority has entered into in order to provide water or sewer services to the areas included within its service area, due in such Fiscal Year plus (iv) one hundred percent (100%) of any required payment into a Debt Service Reserve Fund due in such Fiscal Year; and, promptly upon any material change in the circumstances which were contemplated at the time such rates and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, shall review the rates and charges for its services

and shall promptly revise such rates and charges as necessary to comply with the foregoing requirements. Prior to the beginning of each Fiscal Year, the Authority shall adopt an Annual Budget including amended rate schedules for such Fiscal Year which shall set forth in reasonable detail the estimated revenues and operating expenses and other expenditures of the System for such Fiscal Year which shall include the amount to be deposited during such Fiscal Year in the Depreciation and Contingent Fund. The Authority may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.

[End of Article V]

ARTICLE VI  
JUNIOR LIEN BONDS  
AND SPECIAL FACILITIES BONDS

Section 6.01. Right to Issue Junior Lien Bonds; Accession Thereof to Status of Bonds. Notwithstanding that Bonds may be Outstanding, the Authority may at any time, and without limitation and free of all conditions issue Junior Lien Bonds, in such amount as it may from time to time determine, payable from the revenues of the System, provided that the pledge of revenues and any lien upon the revenues of the System granted for the protection of said Junior Lien Bonds, shall at all times be and remain subordinate and inferior in all respects to the pledges of revenues and liens upon such revenues made or authorized for the Bonds and to the payment of all Operation and Maintenance Expenses; and provided, further, that the maturity of Junior Lien Bonds may not be accelerated and paid in full unless all of the Bonds shall have been paid or provision therefor has been made pursuant to Article XVI hereof.

By proceedings authorizing the issuance of Junior Lien Bonds, the Authority may provide for the accession of such Junior Lien Bonds to the status of Bonds provided all of the following conditions are met:

(1) The Junior Lien Bonds were issued for a purpose or purposes set forth in Section 4.01(A) hereof.

(2) There shall exist on the date of accession (a) no default in the payment of the principal of or interest on any Bonds or any Junior Lien Bonds then Outstanding, (b) no default in the performance of any duties required under the provisions of this Bond Resolution and (c) no amount owed by the Authority with respect to the full funding of a Debt Service Reserve Fund, either by way of cash or reimbursement of any other funding mechanism, except in accordance with Section 4.02(6)(a) hereof.

(3) The Authority shall obtain an opinion of Bond Counsel to the effect that (a) this Bond Resolution and the proceedings authorizing such Junior Lien Bonds have been duly adopted and are in full force and effect; (b) the Junior Lien Bonds have been duly and lawfully authorized and executed by the Authority and are valid and binding upon, and enforceable against, the Authority (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); and (c) this Bond Resolution creates the valid pledge which it purports to create of the revenues and of moneys and securities on deposit in any of the funds established hereunder subject to the application thereof to the purposes and on the conditions permitted by this Bond Resolution.

(4) There shall be deposited in the Debt Service Fund for such Series of newly-acceded Bonds the amounts which would have been required under the provisions of Section 8.02 hereof to be accumulated therein on the date of accession if said Junior Lien Bonds had originally been issued as Bonds.

(5) In the event such proceedings require a Reserve Requirement to be maintained for such Series of newly-acceded Bonds, then in such event, there shall be on deposit on the date of accession in a Debt Service Reserve Fund an amount equal to the Reserve Requirement for such Junior Lien Bonds which are being acceded to the status of Bonds.

(6) On the date of accession, the earnings tests prescribed by subparagraphs 7(a) or 7(b) of Section 4.02 shall have been met.

(7) In the event such Junior Lien Bonds were issued with variable rates, the provisions of subparagraph (9) of Section 4.02 shall have been met.

Section 6.02. Right to Issue Special Facilities Bonds. The Authority shall have at all times the right to enter into contracts, leases or other agreements pursuant to which it will agree to construct, operate and pay the costs of Special Facilities to be financed by its issuance of Special Facilities Bonds, subject to the following conditions:

(A) It shall have been determined to the satisfaction of the Authority that the rents, revenues or receipts to be derived from the Special Facilities shall be at least equal to the principal, interest and any reserve requirements contained in the resolution authorizing such Special Facilities Bonds and to pay all operation, maintenance and other costs and expenses applicable to such Special Facilities; and

(B) The revenues derived from Special Facilities need not be deposited in the General Revenue Fund, and may be pledged to secure Special Facilities Bonds; but no debt service or other costs or expense related to any Special Facilities may be paid from System revenues deposited in the General Revenue Fund except pursuant to Section 8.08 hereof.

For purposes of this Section 6.02, the term "Special Facilities" shall include all or a portion of water or sewer (or those enterprises, if any referred to in Section 11.02 hereof) facilities and rights to all or a portion of the use of, or the capacity available from, any such facilities.

Section 6.03. Lease Financing Agreements. The Authority shall have at all times the right to enter into capital leases or other lease financing agreements secured by a lien on the property, plant and equipment comprising a part of the System; provided, however, that the aggregate principal amount of such obligations outstanding at any time shall not exceed ten percent (10%) of the property, plant and equipment of the System less accumulated depreciation as shown on the audited balance sheet of the System for the most recent Fiscal Year for which audited financial statements are available.

[End of Article VI]

ARTICLE VII  
ESTABLISHMENT OF FUNDS

Section 7.01. Requirement for Special Funds. For so long a time as any sum remains due and payable by way of principal or interest on Bonds, the following funds or accounts relating to the Gross Revenues of the System shall be established and maintained, and deposits shall be made therein in the manner herein required.

Section 7.02. The General Revenue Fund.

(A) There shall be established and maintained by the Authority a fund or account designated as the General Revenue Fund. This account shall be so maintained as to reflect accurately:

- (1) the Gross Revenues of the System; and
- (2) the Net Earnings.

(B) Except as otherwise specifically directed or permitted herein, all Gross Revenues of the System shall be deposited in accordance with and in the manner prescribed by Article VIII hereof into the General Revenue Fund. Money in the General Revenue Fund shall be withdrawn and made use of only in the manner and in the order of priority specified in Article VIII hereof. So long as the Authority establishes, from an accounting standpoint, proper records of receipts and disbursements for the General Revenue Fund, the General Revenue Fund may be used for the purposes of the Operation and Maintenance Fund and for purposes of the Depreciation and Contingent Fund.

Section 7.03. The Debt Service Funds.

(A) There shall be established and maintained by the Trustee a Debt Service Fund for each Series of Bonds Outstanding. The respective Debt Service Funds are intended to provide for the ratable payment of the principal of, redemption premium, if any, and interest on the respective Series of Bonds as the same respectively fall due. Payments into such Funds shall be made in the manner prescribed by this Bond Resolution, including the applicable provisions of Article VIII, and, except as herein provided, all money in the respective Debt Service Funds shall be used solely to pay the principal of, redemption premium, if any, and interest on the respective Series of Bonds, and for no other purpose. Each Debt Service Fund shall bear a number Series designation as may be necessary to distinguish each Debt Service Fund.

(B) The Debt Service Funds shall be kept in the complete custody and control of the Trustee and withdrawals from the Debt Service Funds shall be made only by such Trustee who shall transmit to each Bondholder, at such times as may be appropriate, the sums required to pay the principal of, redemption premium, if any, and interest on the respective Series of Bonds to the extent such sums are on deposit therein. Amounts held by the Trustee due to non-presentment of Bonds on any redemption date must be retained by the Trustee for a period of at least one year after the final maturity of such Bonds.

(C) Money in the Debt Service Funds shall be invested and reinvested by the Trustee at the written direction of the Authority Representative in Authorized Investments, maturing not later than the date on which such money is required to pay the principal of, premium, if any, and interest next maturing.

All earnings from such investments shall be added to and become a part of the Debt Service Fund in which such investments are held, but shall be credited against payments that would otherwise be made to such Debt Service Fund pursuant to the provisions of Section 8.02 hereof.

Section 7.04. The Debt Service Reserve Funds.

(A) Each Series Resolution may create a Debt Service Reserve Fund for the Series of Bonds authorized thereby. Any such Debt Service Reserve Fund shall be for the equal and ratable benefit only of Bonds of that Series. Each such Debt Service Reserve Fund is intended to insure the timely payment of the principal of, and premium, if any, and interest on, that Series of Bonds, and to provide for the redemption of such Bonds prior to their stated maturities. Any Debt Service Reserve Fund shall be maintained in an amount equal to the Reserve Requirement established by the Series Resolution for such Series of Bonds. Money in a Debt Service Reserve Fund shall be used for the following purposes, and for no other:

(1) To prevent a default in the payment of the principal of or interest on that Series of Bonds, by reason of the fact that money in its Debt Service Fund is insufficient for such purposes;

(2) To pay the principal of, interest on, and redemption premium of the Bonds of that Series in the event that all Outstanding Bonds of that Series be redeemed as a whole; or

(3) To effect partial redemption of the Bonds of that Series; but subject to the restrictions of Section 4.15 hereof and provided that subsequent to said partial redemption, the market value of the cash and securities in the Debt Service Reserve Fund shall be not less than the Reserve Requirement therefor.

The requirements for and provisions governing any Debt Service Reserve Fund in the remainder of this Bond Resolution shall, in references to "the Debt Service Reserve Fund", "the Reserve Requirement", the "Debt Service Fund(s)" and "the Bonds", be deemed to refer to each such Debt Service Reserve Fund created by a Series Resolution and in each case to the respective Reserve Requirement and Debt Service Fund for the respective Series of Bonds, and to Bonds only of that respective Series and not to any other Bonds.

(B) Each Debt Service Reserve Fund shall be kept in the complete custody and control of the Trustee. Withdrawals therefrom shall be made only by the Trustee who shall transmit to the Bondholders, at such times as may be appropriate, the sums required to pay the principal of, redemption premium, if any, and interest on the Bonds to the extent such sums are on deposit therein.

(C) Money in a Debt Service Reserve Fund shall be invested and reinvested by the Trustee at the written direction of the Authority Representative or his designee in Authorized Investments. Subject to the remaining provisions of this paragraph (C), the earnings from such investments shall be added to and become a part of the Debt Service Reserve Fund. If as of any date of calculation, the market value of the securities and money in a Debt Service Reserve Fund shall exceed its Reserve Requirement, such excess shall either be used to effect partial redemption of Bonds of that Series, or shall be removed from such Debt Service Reserve Fund and transferred into the applicable Debt Service Fund, as directed in writing to the Trustee by the Authority Representative.



(D) Notwithstanding anything in this Bond Resolution to the contrary, the Authority, in lieu of the deposit of moneys into a Debt Service Reserve Fund, may satisfy the Reserve Requirement by causing to be so credited an irrevocable and unconditional surety bond or insurance policy payable to the Trustee for the benefit of the Holders of the Bonds of a Series or an irrevocable and unconditional line of credit or letter of credit in an amount which together with other moneys on deposit in such Debt Service Reserve Fund is equal to the Reserve Requirement therefor.

Section 7.05. The Operation and Maintenance Fund. There shall be established and maintained by the Authority an Operation and Maintenance Fund. The Operation and Maintenance Fund is intended to provide for the payment of the Operation and Maintenance Expenses. Withdrawals from the Operation and Maintenance Fund shall be made by or on the order of the Authority Representative in accordance, as nearly as may be practicable, with the Annual Budget then in effect.

Section 7.06. The Depreciation and Contingent Fund.

(A) There shall be established and maintained by the Authority a Depreciation and Contingent Fund. This Fund shall be maintained in an amount to be established by budget not less frequently than annually (and as such budget may be amended or modified during the course of any Fiscal Year) by the Authority in order to provide a reasonable reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions of the System.

(B) Money in this fund shall be used solely:

- (1) For the purpose of restoring depreciated or obsolete items of the System;
- (2) For improvements, betterments and extensions to the System, other than for those things which are reasonably necessary to maintain the System in good repair and working order;
- (3) To defray the cost of unforeseen contingencies and extraordinary repairs;
- (4) To prevent defaults of Bonds and Junior Lien Bonds; and
- (5) For optional redemption of Bonds or Junior Lien Bonds.

(C) Withdrawals from this Fund shall be made by or on order of the Authority.

Section 7.07. Capitalized Interest Accounts. There may be established with the Trustee a capitalized interest account to provide for the payment of interest on the Bonds of a particular Series. Any such account shall be created by the Series Resolution relating to the issuance of the Bonds of such Series. The Series Resolution shall provide for the disposition of any earnings from the investment of the funds in any such capitalized interest account.

Section 7.08. Investments of Funds. Whenever, in the opinion of the Authority, it becomes desirable to invest money in any of the funds established by this Article (other than the Debt Service Reserve Funds and the Debt Service Funds for which provisions are made above) the Authority may make Authorized Investments. In the event the Authority directs the Trustee in writing to so invest, the Trustee shall act in compliance with such directions, subject to the provisions of this Bond Resolution. Earnings resulting from the investment of money in a particular fund shall be deposited into the General Revenue

Fund (i) except as provided in Sections 7.03, 7.04 and 7.07 hereof and (ii) unless the Authority shall have determined pursuant to the Annual Budget that any such earnings on amounts in the Depreciation and Contingent Fund shall remain therein.

[End of Article VII]

ARTICLE VIII  
DISPOSITION OF REVENUES

Section 8.01. Deposits to General Revenue Fund; Dispositions Therefrom. The Gross Revenues of the System excluding that money the disposition of which is controlled by other provisions of this Bond Resolution, are declared to be a part of the General Revenue Fund and shall be, as received, deposited into the General Revenue Fund. The dispositions from the General Revenue Fund required by the remaining Sections of this Article shall be made on or before the tenth (10th) Business Day of each month following the delivery of the first Series of Bonds issued pursuant to this Bond Resolution and in the order of priority established by the sequence of the remaining Sections of this Article.

Section 8.02. Payments for Bonds. Provision shall be made for the payment of the principal of and interest on all Bonds then Outstanding, all without priority of any Bonds over others but ratably as to each Series of Bonds. To that end:

(1) There shall be deposited into the respective Debt Service Funds the monthly fraction of the aggregate amount of interest to become due on the respective Series of Bonds on the next ensuing interest payment date; provided, however, that if provision has been made for the payment of all or part of the next installment of interest to become due on any particular Series of Bonds, pursuant to any other provision of this Bond Resolution, or any Series Resolution, or by reason of investment earnings, then, in such event, the deposits required by this paragraph may be omitted, or reduced accordingly.

(2) There shall be deposited into the respective Debt Service Funds the monthly fraction of the aggregate amount of principal of the respective Series of Bonds becoming due and payable on the next ensuing principal maturity date (whether at stated maturity or by sinking fund installments), so that on each principal maturity date, the amount of principal to be paid shall have been accumulated and be on hand; provided, however, that if provision has been made for the payment of all or part of the next installment of principal to become due on a Series of Bonds, pursuant to any other provision of this Bond Resolution, or any Series Resolution, or by reason of investment earnings, then, in such event, the deposits required by this paragraph may be omitted, or reduced accordingly.

(3) If, on the occasion when the deposits required by paragraphs (1) and (2) of this Section are to be made, the sum total of the deposits required thereby plus previous monthly deposits and the remaining deposits to be made prior to the next succeeding principal and interest payment dates, will be less than the sum required to effect the payment of the next succeeding installment of either principal or interest, or both, as the case may be, a sum equal to such deficiency shall be added to the deposits so to be made.

Section 8.03. Deposits for the Debt Service Reserve Funds; Valuation.

(A) Deposits shall next be made in the amounts required by this Section 8.03 into the respective Debt Service Reserve Funds. The market value of the cash and securities in each Debt Service Reserve Fund shall be calculated by the Trustee as of each Bond Payment Date (such calculation to be made within forty-five (45) days after such Bond Payment Date), in order to determine if the Debt Service Reserve Fund contains the Reserve Requirement therefor, and the extent to which payments therefor or withdrawals therefrom must be made, and the timing thereof, pursuant to this Bond Resolution and the respective Series Resolutions. Unless a Debt Service Reserve Fund then contains in cash and securities (or a surety bond, insurance policy, line of credit or letter of credit as provided in Section 7.04 hereof)

an amount at least equal to its Reserve Requirement, there shall be paid into such Debt Service Reserve Fund on the last Business Day of each of the twelve (12) months following a determination of a deficiency in such Debt Service Reserve Fund one-twelfth (1/12) of the amount necessary to re-establish in such Debt Service Reserve Fund its Reserve Requirement; provided, however, nothing herein shall preclude the Authority from fully re-establishing such Reserve Requirement in a more timely fashion than as so prescribed. Any surety bond, line of credit, insurance policy or letter of credit being used to meet the Reserve Requirement of a Debt Service Reserve Fund shall be valued at the amount still remaining to be drawn thereon; and in the event that any such surety bond, line of credit, insurance policy or letter of credit has been drawn upon, the amount necessary to restore the stated amount thereof (including without limitation amounts necessary to pay any interest thereon and related costs of the provider payable under any reimbursement agreement between the Authority and the provider) shall be paid by the Authority in the same manner and on a parity with the payments described in this Section 8.03.

(B) The market value of any Authorized Investments in a Debt Service Reserve Fund shall be calculated by the Trustee as follows:

(i) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not published therein, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to the time of determination;

(ii) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at the time of determination for such investments by any two (2) nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(iii) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(iv) as to any investment not specified above: the value thereof established by prior agreement between the Authority and the Trustee and, with respect to any insured Series of Bonds, the Insurer.

Section 8.04. Deposits for Operation and Maintenance Fund. There shall be deposited in the Operation and Maintenance Fund the amount necessary for the ensuing month for the payment of all Operation and Maintenance Expenses. Such payments shall be made by or on the order of the Authority in accordance, as nearly as may be practicable, with the Annual Budget then in effect.

Section 8.05. Payments for Junior Lien Bonds. Provision shall then be made for the payment of any other indebtedness which is junior and subordinate to the Bonds in the order of priority contemplated by the proceedings authorizing their issuance.

Section 8.06. Deposits for the Depreciation and Contingent Fund. There shall be transferred by the Authority into the Depreciation and Contingent Fund that sum which is one-twelfth (1/12) of the sum which has been currently determined by the Authority to be the budgeted requirements therefor for the then current Fiscal Year.

Section 8.07. Use of Surplus Money. All money remaining after making the payments required by Sections 8.01 to 8.06 hereof, shall be used for the maintenance or improvement, or payment of debt payable from the revenues, of the System or for the payment of Special Facilities Bonds, as determined from time to time by the Authority.

[End of Article VIII]

**ARTICLE IX  
AGREEMENT TO FURNISH  
INFORMATION WITH RESPECT TO SYSTEM**

Section 9.01. Keeping Records. The Authority recognizes that those who may from time to time hereafter be Bondholders will, throughout the life of the Bonds, require full information with respect to the System, the fiscal affairs of the System, and all matters incident to each. To that end the Authority hereby covenants and agrees that it will install and thereafter at all times maintain proper books of records and accounts, separate and distinct from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the System, and all revenues and receipts derived therefrom, directly or indirectly. Such books and records shall be kept in such fashion as to reveal in detail:

- (A) The number of customers who may from time to time make use of the System;
- (B) The Gross Revenues of the System and the source from whence derived;
- (C) All expenses incurred in the operation of the System suitably identified as to purpose;
- (D) The Net Earnings of the System;
- (E) All expenditures made from the several funds and accounts established by this Bond Resolution, and Series Resolutions authorizing the issuance of the Bonds; and
- (F) The rate schedules that may from time to time be in force.

Section 9.02. Audit Required. The Authority further covenants and agrees that so long as any Bonds are Outstanding, it will, not later than one hundred and eighty (180) days after the close of each Fiscal Year, cause to be made and completed by the Accountants, an audit of the records, books and accounts pertaining to the System, made in accordance with recognized accounting practices, showing, among other things, Gross Revenues and Net Earnings; and that, within thirty (30) days after receipt of such audit, it will furnish a copy of such audit to the Trustee. Such audit shall contain comment upon any violation of any provision of any resolution authorizing the issuance of any Bonds or Junior Lien Bonds and any violation of any provision of this Bond Resolution noted by the auditing accountants, and such other matters as to them seem pertinent.

[End of Article IX]

ARTICLE X  
INSURANCE

Section 10.01. Requirement of Insurance. The Authority covenants and agrees that so long as any Bonds are Outstanding:

(A) That it will insure and at all times keep the System insured against physical loss or damage with a responsible insurance company or companies, authorized and qualified under the laws of the State, to assume the risks insured against, in such amount as private corporations engaged in similar endeavors would customarily insure for;

(B) That it will secure adequate fidelity bonds (blanket or individual) of a surety company doing business in the State, indemnifying the Authority against defalcation of all persons handling money derived from the System or signing checks on any bank accounts relating to the System, other than the Trustee or the Registrar;

(C) That all premiums on all bonds or insurance policies shall be deemed a part of the cost of operating and maintaining the System;

(D) That all insurance policies shall be open to the inspection of any Bondholder at any reasonable time;

(E) That all money received by the Authority as a consequence of any defalcation, covered by any fidelity bond, shall be used to restore the fund depleted by the defalcation. All sums received by the Authority from insurance policies covering the System may, to the extent necessary, be applied to the repair and replacement of the damaged or destroyed property, but, in the event that such money is not used for such purposes, then the same shall be deposited in the Depreciation and Contingent Fund; and

(F) That it will comply with the requirements of State law regarding the mandatory purchase of liability insurance contained in Section 15-78-140(b) of the South Carolina Code or any successor statute.

[End of Article X]

ARTICLE XI  
ADDITIONAL COVENANTS

Section 11.01. Additional Covenants to Secure Bonds. The Authority further covenants and agrees that:

(A) It will operate and maintain the System in good condition and will collect and charge such rates for the services and facilities of the System, so that the income and revenues of the System will be sufficient at all times to meet the requirements of this Bond Resolution.

(B) Neither the System, nor any part thereof, nor any of the revenues derived from the System, have been or will be hypothecated, mortgaged, otherwise pledged or encumbered, save and except in accordance with the provisions hereof;

(C) It will permit no free service to be rendered, or use to be made of the services and facilities of the System, and for the services and facilities of the System used by the Authority, the reasonable cost and value of such services and facilities shall be paid as such services accrue. The revenue so received from the Authority shall be deemed revenue derived from the operation of the System, and shall be accounted for in the same manner as other revenues of the System;

(D) It will permit no customer to be connected to the System, or to receive any service afforded by the System, unless a proper meter shall be installed or account otherwise established, and such customer shall become obligated to pay for the service rendered at the appropriate rate according to the rate schedule then in force;

(E) So long as there are any Bonds Outstanding and unpaid, it will perform all duties with reference to the System required by the Constitution and statutes of the State;

(F) It will permit, so long as there are any Bonds Outstanding, any Bondholder to inspect the System and all records and accounts thereof under reasonable terms and conditions and after reasonable notice has been given;

(G) It will not make any use, and it shall direct the Trustee and each Fiduciary not to make any use of the proceeds of any Series of Bonds which Bonds were intended upon the issuance thereof to be exempt from federal income taxation, which, if such use had been reasonably expected on the date of the issuance of the Bonds of such Series would have caused such Bonds or any other Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and will observe and not violate the requirements of Section 148 of the Code;

(H) As to any Series of Bonds that was intended at the time of their issuance to be exempt from federal income taxation, it will take all actions required of it under the Code that are necessary to preserve the tax-exempt status of such Series of Bonds, including without limitation, actions necessary to comply with all information reporting requirements and any obligation to rebate arbitrage earnings on the proceeds of such Bonds to the United States Government; and

(I) It will make all payments or deposits required under Articles VII and VIII of this Bond Resolution in a timely manner.



Section 11.02. Acquisition of Additional Utilities or Enterprises. No provision of this Bond Resolution shall prevent the combining of the System with any other utility system or enterprise of whatever type if such combination then be permitted or authorized by the provisions of the South Carolina Code and if the requirements set forth below are met; but no such combination shall impair the validity or priority of the pledge of revenues and the lien thereon created by this Bond Resolution, or otherwise enlarge the provisions of this Bond Resolution relating to the issuance of and securing of Bonds. The Authority shall have the right from time to time to add other utilities, enterprises, activities and facilities (which at the date of adoption of this Bond Resolution were not included in the definition of System hereunder) to the definition of System hereunder, provided that:

(A) the members of the Authority shall have determined by appropriate resolution that such utilities, enterprises, activities or facilities are of a similar public utility nature as are the utilities now constituting the System;

(B) the members of the Authority shall have adopted an appropriate amendatory resolution to this Bond Resolution;

(C) the Authority shall have received an opinion of Bond Counsel to the effect that such action to be taken under this Section is authorized under this Bond Resolution and the laws of the State and will not adversely affect the excludability of interest on the Bonds which were intended upon their issuance to be exempt from federal income taxation; and

(D) for each of the five (5) Fiscal Years following the date of the additions to the System, Net Earnings, as shall have been forecasted either by Consulting Engineers with a reputation for expertise in the type of enterprise being added to the System or by Accountants, will be not less than one hundred twenty percent (120%) of the Annual Principal and Interest Requirements on all Bonds then proposed to be Outstanding in each of such five (5) Fiscal Years; provided, however, that in the event that Bonds are being issued to acquire or improve the acquired utility or enterprise, this paragraph (D) shall not apply and the Authority shall meet the requirements of Article IV hereof before issuing such Bonds and acquiring such utility or enterprise.

Section 11.03. Removal of Component or Enterprise from the System. The Authority may at any time remove an entire component or enterprise from the System provided the following conditions are met:

(a) a resolution of the members of the Authority shall be adopted describing, in reasonable detail, the component or enterprise of the System to be removed from the System and the rationale for its removal and providing that such component or enterprise will no longer be part of the System;

(b)(1) a certificate by the Accountants or Consulting Engineers shall be delivered stating that the Authority would have been in compliance with the rate covenant set forth in Section 5.01(B) hereof for the last Fiscal Year for which audited financial statements are available exclusive of that portion of the Net Earnings derived from the component or enterprise to be removed from the System or (2) a report by the Consulting Engineers stating that, in the best judgment of such Consulting Engineers, the removal of such component or enterprise would not materially adversely affect the ability of the Authority to comply with the rate covenant set forth in Section 5.01(B) hereof for the current and next succeeding Fiscal Year;

(c) an opinion of Bond Counsel shall be delivered to the effect that the removal of an enterprise or component of the System from the System has been effected in accordance with the terms of this Bond Resolution; and

(d) there shall be provided evidence (in the form of a letter or certificate) from any rating agency then rating any Series of Bonds that the removal of such component or enterprise from the System would not result in the ratings on any Series of Bonds being suspended or downgraded below "investment grade" by the rating agency then rating such Series of Bonds.

If any component or enterprise of the System to be removed from the System will be sold, exchanged or disposed of by the Authority in connection with such removal from the System, the proceeds, if any, of such sale or other disposition may be applied, at the discretion of the Authority, as follows:

(1) to the payment or satisfaction, in whole or in part, of (1) Bonds associated with or related to such component or enterprise and (2) any other type of indebtedness of the Authority associated with or related to such component or enterprise; or

(2) to the payment or satisfaction, in whole or in part, of the amount due under any type of contractual obligations of the Authority associated with or related to such enterprise or component; or

(3) to the payment of the construction or purchase of additional improvements or expansions to the System.

[End of Article XI]

ARTICLE XII  
MODIFICATION OF RESOLUTION

Section 12.01. Modification Without Bondholder Approval.

(A) Provided always that the security of the Bonds shall not be lessened, or in any manner impaired, the Authority may for any one or more of the following purposes at any time, or from time to time, adopt a resolution, supplementing this Bond Resolution, which supplemental resolution shall be fully effective in accordance with its terms:

(1) To provide for the issuance of a Series of Bonds in accordance with Article IV of this Bond Resolution;

(2) To add to the covenants and agreements of the Authority in this Bond Resolution, other covenants and agreements thereafter to be observed;

(3) To surrender any right, power or privilege reserved to or conferred upon the Authority by this Bond Resolution;

(4) To implement an addition to the System pursuant to Section 11.02 hereof; and

(5) To cure, correct and remove any ambiguity or inconsistent provisions contained in this Bond Resolution.

(B) It is further provided that such supplemental resolution shall not become effective until (1) a copy thereof, duly certified, shall have been filed in the office of the Clerks of Court for Edgefield County and Aiken County and (2) the Authority shall have received an opinion of Bond Counsel to the effect that such supplemental resolution has been lawfully adopted in accordance with the provisions hereof and is in full force and effect. After receipt by the Trustee of written notification from the Authority and of a copy of such opinion of Bond Counsel, the Trustee will promptly give notice of adoption and a copy of any modification made hereunder to any Insurer.

Section 12.02. Modification with Bondholder Approval. The rights and duties of the Authority and the Bondholders and the terms and provisions of this Bond Resolution may be modified or altered in any respect by a resolution adopted by the Authority with the consent of the Holders of sixty-six and two-thirds percent (66-2/3%) in principal amount of all Bonds of each Series which would be affected by such modification or alteration then Outstanding and the prior written consent of the Insurer, if any, of each such Series of Bonds, such consent to be evidenced in such manner as may be acceptable to the Trustee, but no such modification or alteration shall, without the consent of the Holders of all Bonds affected by such change or modification:

(A) Extend the maturity of any payment of principal or interest due upon any Bond;

(B) Effect a reduction in the amount which the Authority is required to pay by way of principal, interest or redemption premium on any Bond;

(C) Effect a change as to the type of currency in which the Authority is obligated to effect payment of the principal, interest and redemption premium of any Bond;

(D) Permit the creation of a pledge of or lien upon the revenues of the System prior to or equal to the Bonds except as may be permitted under the provisions of this Bond Resolution;

(E) Permit preference or priority of any Bonds to others;

(F) Alter or modify the provisions of Section 4.02 hereof or of Articles V, VII, and VIII hereof; or

(G) Reduce the percentage required for the written consent to the modification or alteration of the provisions of this Bond Resolution.

Section 12.03. Procedure for Procuring Bondholder Approval. The Authority and the Trustee may rely upon the registry books maintained by the Registrar to determine who are the Holders of the Bonds. Any and all modifications made pursuant to Section 12.02 hereof shall not become effective until (1) there has been filed with the Clerks of Court for Edgefield County and Aiken County and with the Trustee a copy of such amendatory resolution hereinabove provided for, duly certified, (2) there has been filed with the Trustee an opinion of Bond Counsel stating that such amendatory resolution has been duly and lawfully adopted by the Authority in accordance with the provisions of this Bond Resolution and is valid and binding upon the Authority and (3) proof of consent to such modification by the Holders of sixty-six and two-thirds percent (66-2/3%) in principal amount of the Bonds of each Series then Outstanding shall be filed with the Trustee. In the event that any Series of Bonds are held under a book-entry system pursuant to Section 4.19, the approvals of Bondholders may be obtained in the manner provided in the agreement with the Securities Depository.

Section 12.04. Notice to Rating Agencies. The Authority shall provide any rating agency rating a Series of Bonds with notice and a copy of any proposed amendment to this Bond Resolution or to any Series Resolution at least fifteen (15) days in advance of its execution or adoption.

[End of Article XII]

**ARTICLE XIII  
EVENTS OF DEFAULT**

Section 13.01. Events of Default.

(A) Each of the following events is hereby declared to be an "Event of Default:"

(1) Payment of the principal of any of the Bonds shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption;

(2) Payment of any installment of interest on any Bonds shall not be made when the same becomes due and payable;

(3) An order or decree shall be entered with the consent or acquiescence of the Authority appointing a receiver, or receivers, of the System, or of the revenues thereof, or any proceedings shall be instituted with the consent or acquiescence of the Authority for the purpose of effecting a composition between the Authority and its creditors whose claims relate to the System, or for the purpose of adjusting claims of such creditors, pursuant to any federal or State statute now or hereafter enacted, or if such order or decree, having been entered without the consent or acquiescence of the Authority, shall not be vacated or discharged or stayed on appeal within sixty (60) days after entry thereof, or if such proceeding having been instituted without the consent or acquiescence of the Authority, shall not be withdrawn or any orders entered shall not be vacated, discharged, or stayed on appeal within sixty (60) days after the institution of such proceedings, or the entry of such orders;

(4) The Authority shall fail to operate the System in an efficient and businesslike fashion so as to materially impair the operations of the System or shall default in the due and punctual performance of any other of the covenants, conditions, agreements or provisions contained in the Bonds or in any Series Resolution or in this Bond Resolution and such default as to efficient operation or otherwise shall continue for thirty (30) days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the Authority by any Bondholder, provided that in the case of default specified in this paragraph (4), if the default be such that it cannot be corrected within the said thirty (30) day period, it shall not constitute an event of default if corrective action is instituted by the Authority within said thirty (30) day period and diligently pursued until the default is corrected; and

(5) The occurrence of an event of default on the part of the Authority under any reimbursement agreement between the Authority and a provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 7.04(D) hereof; and

(6) Such other events of default as may be specified in a Series Resolution.

In determining whether a default in payment has occurred under paragraphs (1) or (2) of this subsection (A) and in determining whether a payment on Bonds has been made under any other provision of this Resolution, no effect shall be given to payments made under a Municipal Bond Insurance Policy.

In determining whether a default pertaining to the material impairment of the operations of the System due to the failure of the Authority to operate the System in an efficient and businesslike fashion

has occurred under paragraph (4) of this subsection (A), the Trustee may seek, at the expense of the Authority, and shall be entitled to rely upon the written opinion of a firm of Consulting Engineers, or of a firm of independent certified public accounts having a recognized reputation in the field, to that effect.

(B) The foregoing provisions of paragraph (4) of the preceding subsection (A) are subject to the following limitations: If by reason of force majeure the Authority is unable in whole or in part to carry out its agreements herein contained (other than the obligations on the part of the Authority contained in any of Section 4.02 hereof or Articles V, VII and VIII hereof as to which this paragraph shall have no application), the Authority shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of South Carolina or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, tunnels or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Authority, it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Authority, and the Authority shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Authority unfavorable to the Authority.

[End of Article XIII]

**ARTICLE XIV  
REMEDIES**

Section 14.01. Acceleration; Annulment of Acceleration.

(A) Upon the occurrence of an Event of Default, the Trustee, subject to the provisions of Section 17.01(a) hereof, may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds Outstanding shall, by notice in writing to the Authority, declare all Bonds Outstanding immediately due and payable; and such Bonds shall become and be immediately due and payable, anything in the Bonds or in this Bond Resolution to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment.

(B) At any time after the principal of the Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under this Bond Resolution, the Trustee may, with the consent of each Insurer of any Series of Bonds Outstanding, annul such declaration and its consequences with respect to any Bonds not then due by their terms if:

(1) Moneys shall have been deposited in each Debt Service Fund sufficient to pay all matured installments of interest and principal (other than principal then due only because of such declaration) of all Outstanding Bonds;

(2) Moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee;

(3) All other amounts then payable by the Authority hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and

(4) Every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Section 14.02. Additional Remedies and Enforcement of Remedies.

(A) Upon the occurrence and continuance of any Event of Default, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, the Trustee shall proceed forthwith to protect and enforce its rights and the rights of the Bondholders under this Bond Resolution by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(1) Requiring the Authority to carry out its duties and obligations under the terms of the Bond Resolution and under the Enabling Act;

(2) Suit upon all or any part of the Bonds;

(3) Civil action to require the Authority to account as if it were the trustee of an express trust for the Holders of Bonds;

(4) Civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds; and

(5) Enforcement of any other right of the Bondholders conferred by law or by this Bond Resolution including the right to make application for the appointment of a receiver to administer and operate the System.

(B) Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall institute and maintain such suits and proceedings as it may be advised by counsel shall be necessary or expedient:

(1) To prevent any impairment of the security under this Bond Resolution by any acts which may be unlawful or in violation of this Bond Resolution; or

(2) To preserve or protect the interests of the Bondholders, provided that such request is in accordance with law and the provisions of this Bond Resolution and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders of Bonds not making such request.

Section 14.03. Application of Revenues and Other Moneys After Default.

(A) The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay or cause to be paid over to the Trustee:

(1) Forthwith, all moneys and securities then held by the Authority which are credited to any Fund under this Bond Resolution (specifically including any moneys and securities in any construction fund created with proceeds of Bonds if construction of the projects to be paid for thereby has been completed or terminated but exclusive of any amounts remaining in such construction fund that are in dispute between the Authority and any contractor); and

(2) As promptly as practicable after receipt thereof, all Gross Revenues.

(B) During the continuance of an Event of Default, the Trustee shall apply all moneys, securities, Gross Revenues, payments and receipts in its possession and the income therefrom as follows and in the following order:

(1) To the payment of the reasonable and proper charges of the Trustee and its reasonable counsel fees and other expenses;

(2) To the payment of the interest and principal (and redemption premium, if any) then due on the Bonds, as follows:

(a) Unless the principal of all of the Bonds shall have become or have been declared due and payable,



(i) First: To the payment of the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference;

(ii) Second: To the payment to the persons entitled thereto of the unpaid Principal Installments (and redemption premiums, if any) of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal (plus redemption premium, if any) due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any differences as to the respective rates of interest specified in the Bonds;

(3) To the payment of the amounts required by Sections 8.03 and 8.04, ratably, according to the amounts due thereon to the persons entitled thereto;

(4) To the payment of all other Operation and Maintenance Expenses;

(5) To the payment of the amounts required by Section 8.06, ratably, according to the amounts due thereon to the persons entitled thereto; and

(6) To the payment of the required deposits to the Depreciation and Contingent Fund under Section 8.07.

Section 14.04. Remedies Not Exclusive. No remedy by the terms of this Bond Resolution conferred upon or reserved to the Trustee or the Bondholders or any Insurer is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Bond Resolution or existing at law or in equity or by statute (including the Enabling Act) on or after the date hereof.

Section 14.05. Remedies Vested in Trustee. All rights of action (including the right to file proof of claims) under this Bond Resolution or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceedings instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds. Subject to the

provisions of Section 14.03 hereof, any recovery of judgment shall be for the equal benefit of the Holders of the Outstanding Bonds.

Section 14.06. Majority of Bondholders Control Proceedings. If an Event of Default shall have occurred and be continuing, notwithstanding anything in this Bond Resolution to the contrary, the Holders of at least a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of this Bond Resolution or for the appointment of a receiver or any other proceedings hereunder, provided that such direction is in accordance with law and the provisions of this Bond Resolution (including indemnity to the Trustee) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Bondholders not joining in such direction and provided further that nothing in this Section 14.06 shall impair the right of the Trustee in its discretion to take any other action under this Bond Resolution which it may deem proper and which is not inconsistent with such direction by Bondholders.

Section 14.07. Individual Bondholder Action Restricted.

(A) No Holder of any Bond shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of this Bond Resolution or for the execution of any trust hereunder or for any remedy under this Bond Resolution unless:

(1) An Event of Default has occurred:

- (a) under paragraph (1) or (2) of subsection (A) of Section 13.01 hereof;
- (b) as to which the Trustee has actual notice; or
- (c) as to which the Trustee has been notified in writing; and

(2) The Holders of at least twenty-five percent (25%) in aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee to proceed to exercise the powers granted in this Bond Resolution or to institute such action, suit or proceeding in its own name; and

(3) Such Bondholders shall have offered the Trustee reasonable indemnity; and

(4) The Trustee shall have failed or refused to exercise the powers herein granted or to institute such action, suit or proceedings in its own name for a period of sixty (60) days after receipt by it of such request and offer of indemnity.

(B) No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of this Bond Resolution or to enforce any right hereunder except in the manner herein provided and for the equal benefit of the Holders of all Bonds Outstanding.

(C) Nothing contained in this Bond Resolution shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond

- (1) To receive payment of the principal of or interest on such Bond on the due date thereof; or
- (2) To institute suit for the enforcement of any such payment on or after such due date.

Section 14.08. Termination of Proceedings. In case any proceeding taken by the Trustee or any Bondholder on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Trustee and the Bondholders shall continue as if no such proceeding had been taken.

Section 14.09. Waiver and Nonwaiver of Event of Default.

(A) No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article XIV to the Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

(B) The Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Bond Resolution, or before the completion of the enforcement of any other remedy under this Bond Resolution.

(C) Notwithstanding anything contained in this Bond Resolution to the contrary, but subject to the provisions of Section 17.01 hereof, the Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Bonds then Outstanding (including, if more than one Series of Bonds shall at the time be Outstanding, the Holders of a majority in principal amount of all Bonds then Outstanding of each such Series), shall waive any Event of Default hereunder and its consequences; provided, however, that except under the circumstances set forth in subsection (B) of Section 14.01 hereof or subsection (B) of this Section 14.09, a default in the payment of the principal of, premium, if any, or interest on, any Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Bonds at the time Outstanding.

(D) In case of any waiver by the Trustee of an Event of Default hereunder, the Authority, the Trustee, each Insurer and the Bondholders shall be restored to their former positions and rights under the Bond Resolution, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with this Section 14.09.

Section 14.10. Notice of Defaults.

- (A) Within thirty (30) days after:

(1) The receipt of notice of an Event of Default as provided in Section 14.07(A)(1)(b) or (c) hereof; or

(2) The occurrence of an Event of Default under paragraphs (1) or (2) of subsection (A) of Section 13.01 hereof, as to which the Trustee shall be deemed to have notice,

the Trustee shall, unless such Event of Default shall have theretofore been cured, give written notice thereof by first class mail to each Insurer of any Series of Bonds then Outstanding and to each Holder of Bonds then Outstanding, provided that, except in the case of a default in the payment of principal of, together with premium, if any and interest on any of the Bonds, the Trustee may withhold such notice if, in its sole judgment, it determines that the withholding of such notice is in the best interests of the Bondholders.

(B) The Trustee shall notify the Authority and each Insurer of any Series of Bonds then Outstanding of any Event of Default actually known to the Trustee, within five (5) business days of obtaining knowledge of the same.

[End of Article XIV]

**ARTICLE XV**  
**TRUSTEE AND ITS FUNCTIONS; OTHER FIDUCIARIES**

Section 15.01. Appointment and Vesting of Powers in Trustee; Limitation of Rights of Bondholders to Appoint Trustee. Prior to the delivery of any Bonds pursuant to this Bond Resolution, the Authority shall appoint the Trustee. The Trustee shall be and is hereby vested with all rights and powers necessary to enable it to discharge its duties hereunder but the right of the Bondholders to appoint a Trustee hereunder is limited to the circumstances contemplated by Section 15.10 hereof.

Section 15.02. Functions of Trustee. The Trustee shall have the following additional functions:

- (A) To authenticate the Bonds of all Series that may be issued;
- (B) To act as trustee of the Debt Service Funds;
- (C) To act as trustee of the Debt Service Reserve Funds;
- (D) To act as Paying Agent for the Bonds;
- (E) In the event Bonds are issued in registered form, and unless otherwise prescribed by a Series Resolution, to act as Registrar for the Bonds, and to maintain a set of registration books therefor, which shall at all times accurately reflect the names and addresses of all those who may be Holders of any Bonds;
- (F) To make reports to the Authority on a monthly or such other basis as may be requested by the Authority, but not less often than semi-annually:
  - (1) Establishing balances on hand;
  - (2) Listing investments made for any fund handled by the Trustee;
  - (3) Establishing pursuant to Section 8.03 hereof the market value of the Debt Service Reserve Funds and to maintain adequate records as to the amounts available to be drawn at any given time under any surety bond, insurance policy, line of credit or letter of credit, all as provided under Section 7.04(D) hereof, and as to the amounts paid and owing to the provider of any such surety bond, insurance policy, line of credit or letter of credit, and the Trustee shall verify all such records with any provider; and
  - (4) Listing all securities, if any, pledged pursuant to Section 15.13 hereof.

Section 15.03. Duty of Trustee with Respect to Deficits in Debt Service Funds. It shall be the further duty of the Trustee to give written notice to the Authority three (3) Business Days prior to each Bond Payment Date, if there is any deficiency in any Debt Service Fund which would result in a need for further moneys to meet the payment of interest and/or principal falling due on the next ensuing Bond Payment Date, and the extent, if any, to which resort must be had to the respective Debt Service Reserve Fund to meet such deficiency.

Section 15.04. Acceptance by Trustee Required. Prior to the delivery of any Bonds, the Trustee appointed pursuant to Section 15.01 hereof shall signify its acceptance of the powers, duties and obligations conferred and imposed upon it by this Bond Resolution, by executing and delivering to the Authority a written acceptance thereof.

Section 15.05. Liability as to Recitals in Bond Resolution and Bonds. The recitals of fact made in this Bond Resolution and in the Bonds shall be taken as statements of the Authority, and the Trustee shall not be deemed to have made any representation as to the correctness of the same, nor shall the Trustee be deemed to have made any representation whatsoever as to the validity or sufficiency of this Bond Resolution or of the Bonds issued hereunder except with respect to the authentication of any Bonds. Nor shall the Trustee be under responsibility or duty with respect to the issuance of said Bonds, or the application of the proceeds thereof, except to the extent provided for herein. Nor shall the Trustee be liable in connection with the performance of its duties hereunder, except for its own negligence or default.

Section 15.06. Trustee May Rely on Notices, etc. The Trustee shall at all times be protected in acting upon any notice, resolution, request, consent, order, certificate, statement, opinion, bond, or other paper or document believed by the Trustee to be genuine and to have been signed by the proper party or parties.

Section 15.07. Trustee Permitted to Resign. The Trustee may at any time resign and be discharged of its duties and obligations hereunder by giving to the Authority, the Bondholders and any Insurer written notice of such resignation, specifying a date (not less than sixty (60) days after such notice) when such resignation is intended to take effect. Such resignation shall take effect immediately upon but not before the appointment and qualification of such successor. In this regard, upon receipt of any written notice of resignation, the Authority shall promptly proceed, in good faith and with reasonable diligence, to secure a successor Trustee.

Section 15.08. Removal of Trustee.

(A) The Trustee may be removed at any time by the Holders of not less than fifty percent (50%) of the principal amount of Bonds at such time Outstanding, with not less than sixty (60) days notice of the same.

(B) Provided an Event of Default has not occurred and has not been remedied, the Trustee may be removed at any time by the Authority or, if a Series Resolution so provides, upon the request of any Insurer for a material breach of the trust set forth herein.

(C) Any such removal shall take effect immediately upon but not before the appointment and qualification of such successor.

Section 15.09. Appointment of Successor Trustee Upon Resignation or Removal of Trustee.

(A) In case at any time the Trustee shall resign, or be removed or become incapable of acting, or be adjudged a bankrupt or insolvent, or a receiver of its property shall be appointed, or any public officer shall take charge or control of its property or affairs, a successor thereto shall be promptly appointed by a resolution of the members of the Authority duly adopted. Such successor shall in all instances be a bank, trust company or national banking association, acceptable to each Insurer and duly

chartered pursuant to the laws of the United States or of any state and shall have a combined capital and surplus of not less than \$100,000,000.

(B) Immediately following such appointment the Authority shall give written notice of such appointment to the Bondholders and any Registrar other than the Trustee.

Section 15.10. When Bondholder May Seek Successor Trustee. If, in a proper case, no appointment of a successor Trustee shall be promptly made pursuant to Section 15.09, any Bondholder, the resigning or removed Trustee or any Insurer may make application to any court of competent jurisdiction for the appointment of a successor and said court may thereupon, after such notice, if any, as such court may prescribe, appoint a successor.

Section 15.11. Acceptance by Successor Trustee. Any successor Trustee appointed hereunder shall execute and deliver to its predecessor and to the Authority a written acceptance of such appointment, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of its predecessor hereunder with like effect as if originally named as such Trustee and its predecessor shall be obligated to pay over, transfer, assign and deliver all moneys, securities and other property held by it to its successor, and on the written request of the Authority, or the successor, shall execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may be reasonably required for the vesting and confirming in such successor all the right, title and interest of the predecessor in and to any property held by it.

Section 15.12. Effect of Trustee Merging With Another Bank, etc. Any bank, trust company or national banking association into which the Trustee may be merged, or with which it may be consolidated, or any bank, trust company or national banking association resulting from any merger or consolidation to which it shall be a party, or any bank, trust company or national banking association to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall become the successor without the execution or filing of any paper or the performance of any further act; provided, always, that if the Authority shall be dissatisfied with the institution resulting from the merger, consolidation or other action spoken of above, then the Authority may at any time within thirty (30) days after such action name a new Trustee (with the qualifications prescribed by Section 15.09 hereof) in lieu of the Trustee then acting.

Section 15.13. Trustee to Secure Funds and Securities Held in Trust.

(A) Unless the same be secured as trust funds in the manner provided by the regulations of the Comptroller of the Currency as from time to time in effect, all funds or securities in the custody of the Trustee, in excess of the amount of such deposit insured by the Federal Deposit Insurance Corporation, shall be secured and kept secured by direct obligations of the United States of a market value at least equal to the sum on deposit and not insured as aforesaid by the Federal Deposit Insurance Corporation.

(B) All securities which shall be given to secure any fund as required by the provisions of this Article, shall be placed in the custody of a duly chartered bank, other than the Trustee, which is a member of the Federal Deposit Insurance Corporation. Such other bank shall have a combined capital and surplus of not less than \$25,000,000.

Section 15.14. Disposition of Paid Bonds. It shall be the duty of the Trustee to cancel all Bonds which shall have been paid, whether upon their maturity or redemption prior to maturity; such cancellation shall be done in such fashion as to render such Bonds incapable of further negotiation or hypothecation. In any event it shall furnish appropriate certificates to the Authority indicating the disposition of such Bonds. Upon effecting such cancellation, the Trustee shall furnish appropriate certificates to the Authority setting forth the disposition made of the Bonds so cancelled.

Section 15.15. Appointment of Substitute Registrar. The Authority may, from time to time, appoint a Registrar or Registrars to act in the place and stead of the Trustee as Registrar of the Bonds of one or more Series. The Authority shall cause written notice of such appointment to be mailed to the Holders of all Bonds affected by such appointment thirty (30) days prior to the effective date of such appointment.

Section 15.16. Indemnity. Before taking any action under this Bond Resolution requested by the Holders (with the exception of any required acceleration of Bonds pursuant to Section 14.01(A) hereof and any action required to be taken pursuant to Section 14.10 hereof), the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or wilful default by reason of any action so taken.

[End of Article XV]



## ARTICLE XVI DEFEASANCE

Section 16.01. Defeasance Generally. Subject to the provisions of any Series Resolution, if all of the Bonds issued pursuant to this Bond Resolution and any other amounts required to be paid to a provider of a surety bond, line of credit, insurance policy or letter of credit hereunder shall have been paid and discharged, then the obligations of the Authority under this Bond Resolution, the pledge of Gross Revenues made hereby, and all other rights granted hereby shall cease and determine. Subject to the provisions of any Series Resolution, Bonds shall be deemed to have been paid and discharged within the meaning of this Article under each of the following circumstances:

(A) The Trustee shall hold, at the stated maturities of such Bonds, in trust and irrevocably appropriated thereto, sufficient money for the payment thereof.

(B) If default in the payment of the principal of such Bonds or the interest thereon shall have occurred and thereafter tender of such payment shall have been made, and the Trustee shall then hold in trust and irrevocably appropriated thereto, sufficient money for the payment thereof to the date of the tender of such payment.

(C) If the Authority shall have deposited with the Trustee, or any other bank, trust company or national banking association which would otherwise meet the chartering and capital and surplus requirements contained in Section 15.09(A) hereof, in an irrevocable trust money or Defeasance Obligations, the principal of and interest on which when due (without reinvestment thereof) will, as certified in a verification report provided by an independent nationally recognized certified public accountant, provide money which, together with the money, if any, deposited at the same time, shall be sufficient to pay, when due, the principal, interest and redemption premium, if any, due and to become due on and prior to the maturity, or, if the Authority has irrevocably elected to redeem Bonds, on and prior to the redemption date, of such Bonds.

Section 16.02. Money to be Held in Trust - When Returnable to the Authority. Any money which at any time shall be deposited with the Trustee or other escrow holder authorized under Section 16.01(C), by or on behalf of the Authority, for the purpose of paying and discharging any Bonds or the interest thereon, shall be and is hereby assigned, transferred and set over to the Trustee or such other escrow holder in trust for the respective Holders of the Bonds, and such money shall be and is hereby irrevocably appropriated to the payment and discharge thereof. But if, through lapse of time or otherwise, the Holders of said Bonds shall no longer be entitled to enforce payment of their obligations, then, in such event, it shall be the duty of the Trustee or such other escrow holder to forthwith return said funds to the Authority.

Section 16.03. Deposits With Trustee Subject to Conditions of Article XVI. The Authority covenants and agrees that any money which it shall deposit with the Trustee shall be deemed to be deposited in accordance with, and subject to, the applicable provisions of this Article, and that whenever it shall have elected to redeem Bonds it will irrevocably bind and obligate itself to give notice of defeasance and redemption thereof, and will further authorize and empower the Trustee to cause the publication of such notice of defeasance and redemption in its name and on its behalf.

Section 16.04. No Defeasance of Series of Bonds Paid by Insurer. In the event that the principal and/or interest due on a Series of Bonds shall be paid by an Insurer pursuant to a Municipal Bond

Insurance Policy, such Series of Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority until the Insurer has been reimbursed in full therefor in accordance with the terms of the Municipal Bond Insurance Policy, and the assignment and pledge of the Gross Revenues of the System and all covenants, agreements and other obligations of the Authority to the registered Holders shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered Holders.

[End of Article XVI]

ARTICLE XVII  
MISCELLANEOUS

Section 17.01. Miscellaneous Insurer Rights.

(A) Notwithstanding any provision of this Bond Resolution to the contrary, (i) each Insurer shall be deemed the exclusive Holder of all Bonds insured by that Insurer, for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies, and (ii) upon the occurrence of an Event of Default and with respect to all remedies provided herein, (a) a Series of Bonds may be accelerated only with the consent of the Insurer with respect to such Series and (b) any acceleration may be annulled only with the consent of each Insurer of a Series of Bonds.

(B) Any provision of this Bond Resolution expressly recognizing or granting rights in or to Insurers may not be amended in any manner which affects the rights of such Insurers hereunder without the prior written consent of each such Insurer.

(C) To the extent that an Insurer makes payment of the principal of or interest on any Bonds, it shall become the owner and Holder of such Bonds, appurtenant coupons or right to payment of such principal of or interest on such Bonds and shall be fully subrogated to all of the registered Holders' rights thereunder, including the registered Holders' rights to payment thereof. To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee or Registrar upon receipt of proof from the Insurer as to payment of interest thereon to the registered Holders of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee or Registrar upon surrender of the Bonds by the registered Holders thereof to the Insurer or its agent.

(D) In the event that the principal of and/or interest on any Bonds shall be paid by the Insurer pursuant to the terms of its Municipal Bond Insurance Policy, (i) such Bonds shall continue to be "Outstanding" under this Bond Resolution and (ii) the assignment and pledge of the Gross Revenues and all covenants, agreements and other obligations of the Authority to the registered Holders shall continue to exist, and the Insurer shall be fully subrogated to all of the rights of such registered Holders in accordance with the terms and conditions of subparagraph (C) above and the Insurer's Municipal Bond Insurance Policy.

(E) Notwithstanding anything in this Bond Resolution to the contrary, no rights granted to an Insurer by this Bond Resolution shall be effective at any time that such Insurer is in breach of its obligations under the Municipal Bond Insurance Policy or is subject to bankruptcy or receivership proceedings.

(F) The terms and provisions of this Bond Resolution or of any applicable Series Resolution may not be terminated as long as there are any moneys owed to an Insurer under such terms and provisions of this Bond Resolution or the applicable Series Resolution or any agreement between such Insurer and the Authority.

Section 17.02. Purpose of Covenants in Bond Resolution. Every covenant, undertaking and agreement made on behalf of the Authority, as set forth in this Bond Resolution is made, undertaken and agreed to, for the proper securing of the payment of the principal of and interest on the Bonds. Each shall

be deemed to partake of the obligation of the contract between the Authority and the Bondholders and shall be enforceable accordingly. In this connection, any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 7.04(D) hereof may enforce the terms, conditions and obligations under this Bond Resolution as a third party beneficiary hereunder. Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Authority, the Insurers, the Trustee, and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Resolution contained by and on behalf of the Issuer shall be for the sole and exclusive benefit of the Authority, the Insurers, the Trustee, and the registered owners of the Bonds.

Section 17.03. Effect of Invalidity of Provisions of Bond Resolution. If any Section, paragraph, clause or provision of this Bond Resolution shall be held invalid, the invalidity of such Section, paragraph, clause or provision shall not affect any of the remaining provisions of this Bond Resolution.


Section 17.04. Remedies Granted by Resolution Not Being Available to Holders of Other Bonds. If it shall be held by any court of competent jurisdiction that any right or remedy granted by the Bond Resolution or any Series Resolution to the Holders of any Bond is not available to the Holders of all other Bonds, then such rights and remedies are herewith conferred upon the Holders of such other Bonds.

Section 17.05. Repealing Clause. All resolutions, or parts thereof, inconsistent herewith shall be and the same are hereby repealed to the extent of such inconsistencies.

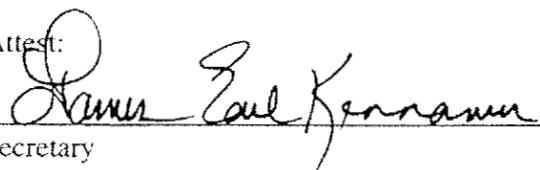
**DONE, RATIFIED AND ADOPTED** by the members of Edgefield County Water and Sewer Authority on February 24, 1998.

**EDGEFIELD COUNTY WATER AND  
SEWER AUTHORITY**

(SEAL)

  
Chairman

Attest:

  
Secretary

STATE OF SOUTH CAROLINA

COUNTY OF EDGEFIELD

I, the undersigned, Secretary of the Edgefield County Water and Sewer Authority (the "Authority"), DO HEREBY CERTIFY:

That the foregoing constitutes a true, correct and verbatim copy of the Bond Resolution adopted by the members of the Authority at a meeting duly called and held on February 24, 1998 at which meeting a quorum of the membership of the Authority was present. Voting in favor of the Bond Resolution were Mr. Curry, Mr. Day, Mr. Long, Mr. Timmerman and Mr. Sullivan. Voting against were none.

That the original of said Bond Resolution is duly entered in the permanent records of said Authority in my custody as Secretary.

WITNESS my hand this 10<sup>th</sup> day of March, 1998.

(SEAL)

  
Secretary, Edgefield County Water  
and Sewer Authority

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FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

Edgefield County Water and Sewer Authority  
Edgefield, South Carolina

Re: \$4,425,000 Edgefield County Water and Sewer Authority, South Carolina Waterworks and Sewer System Revenue Bonds, Series 2020

Ladies and Gentlemen:

We have acted as Bond Counsel to Edgefield County Water and Sewer Authority, South Carolina (the "Authority") in connection with the issuance by the Authority of its \$4,425,000 Waterworks and Sewer System Revenue Bonds, Series 2020 (the "Bonds"). We have examined a certified copy of the Transcript of Proceedings and other proofs submitted to us, including the Constitution and statutes of the State of South Carolina (the "State"), in connection with the issuance of the Bonds. The Bonds are issued by the Authority pursuant to a Bond Resolution adopted by the governing body of the Authority, on February 24, 1998 (the "Bond Resolution") and a Series Resolution adopted by the governing body of the Authority on May 18, 2020 (the "Series Resolution" and together with the Bond Resolution, the "Resolutions"), and under and in full compliance with the Constitution and statutes of the State, including particularly Title 6, Chapter 17, Code of Laws of South Carolina, 1976, as amended, in order to obtain funds which will be used to (i) defray a portion of the cost of the acquisition, installation and construction of various improvements to the Authority's waterworks and sewer system (the "System"), and (ii) pay certain costs and expenses relating to the issuance of the Bonds.

The Bonds mature in the respective principal amounts and bear interest, payable on January 1, 2021 and semiannually thereafter on the first days of January and July at the respective interest rates per annum, all as set forth in the Official Statement with respect to the Bonds dated July 28, 2020 (the "Official Statement").

The Bonds bear interest from August 13, 2020. The Bonds are issued in fully registered form, in the denomination of \$5,000 or any whole multiple thereof, not exceeding the principal amount of the Bonds maturing in each year.

The Bonds are numbered numerically in such fashion as to maintain a proper record thereof. Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Resolutions. Additional bonds on a parity with the Bonds may be issued under the conditions prescribed in the Bond Resolution.

As to questions of fact material to our opinion, we have relied upon the representations of the Authority contained in the Resolutions and in the certified Transcript of Proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are as of the date hereof of the opinion that, under existing law:

1. The Authority is a duly created and validly existing, body corporate and politic, and political subdivision of the State.
2. The Authority has the right and power to own and operate the System and is duly authorized to adopt the Resolutions. The Resolutions have been duly and lawfully adopted by the governing body of the Authority and are in full force and effect and are valid, binding and enforceable against the Authority in accordance with their

respective terms, except to the extent that the enforceability thereof may be limited by judicial discretion, the valid exercise of the sovereign police powers of the State and of the constitutional powers of the United States of America, and applicable bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights.

3. The Bonds have been duly and lawfully authorized, executed and delivered in accordance with the terms of the Resolutions, and constitute valid and binding special obligations of the Authority enforceable against the Authority in accordance with their terms, except to the extent that the enforceability of the Bonds may be limited by judicial discretion, the valid exercise of the sovereign police powers of the State and of the constitutional powers of the United States of America, and applicable bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights. The Bonds are secured in the manner and to the extent prescribed by the Resolutions and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements set forth in the Resolutions.

4. Both the principal of and interest on the Bonds are payable solely from the Gross Revenues of the System and are secured by a pledge of and lien upon the Gross Revenues, as provided in the Resolutions. The pledge of and lien upon the Gross Revenues granted under the Resolutions to secure the payment of the principal of and interest on the Bonds are on a parity in all respects with (a) the pledge and lien given by the Authority to secure its obligations under its outstanding Series 2007 Bond, Series 2016 Bond and Series 2019 Bonds and (b) the pledges and liens given to secure any series of additional parity bonds, if such additional parity bonds are issued in the manner and under the conditions prescribed by the Resolutions. Neither the principal of nor interest on the Bonds constitutes an indebtedness of the Authority within the meaning of any provision, limitation or restriction of the Constitution or statutes of the State (other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license), nor a charge, lien or encumbrance, legal or equitable, upon any property of the Authority or upon any income, receipts or revenues of the Authority save and except the pledge of and lien upon the Gross Revenues of the System, and neither the credit nor the taxing power of the Authority is pledged therefor.

5. Interest on the Bonds is excludable from gross income of the registered owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in the preceding sentence is subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal income tax purposes. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority has covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. In the Series Resolution, the Authority designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code and represented that neither it nor any entity subordinate to it, intends to issue, in the aggregate, more than \$10,000,000 in tax-exempt obligations (other than private activity bonds which are not qualified 501(c)(3) bonds as defined under Section 145 of the Code) in calendar year 2020.

7. The Bonds and the interest thereon are exempt from all State, county, school district, municipal and all other taxes or assessments of the State, except inheritance, estate, transfer or certain franchise taxes. It should be noted, however, that Section 12-11-20, Code of Laws of South Carolina, 1976, as amended, imposes upon every bank engaged in business in the State a fee or franchise tax computed on the entire net income of such bank which includes interest paid on the Bonds.

As Bond Counsel to the Authority, we have been retained solely for the purpose of examining the validity and legality of the Bonds and of rendering certain specific opinions herein stated and for no other purpose. We have not verified the accuracy, completeness or fairness of any representations or information concerning the business or financial condition of the Authority in connection with the sale of the Bonds, including any information set forth as to the same in the Official Statement, or appendices thereto, pertaining to the Bonds.



We express no opinion herein regarding the accuracy, adequacy or completeness of the Official Statement or regarding the perfection of the pledge of or lien upon the Gross Revenues or other funds created under the Resolutions (or any other document or instrument mentioned herein). This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. Our advice did not include financial or non-legal advice.

Very truly yours,

HAYNSWORTH SINKLER BOYD, P.A.

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**FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT**

This Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”), dated as of August 13, 2020, is executed and delivered by the Edgefield County Water and Sewer Authority, South Carolina (the “Issuer”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute “advice” within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer’s behalf regarding the “issuance of municipal securities” or any “municipal financial product” as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a “Municipal Advisor” as such term is defined in Section 15B of the Securities Exchange Act of 1931, as amended, and related rules.

**SECTION 1. Definitions.** Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f), by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“Audited Financial Statements” means the financial statements (if any) of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the obligations as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Disclosure Representative” means the Administrator of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the Issuer's failure to file an Annual Report on or before the Annual Filing Date.

“Financial Obligation” means (i) a debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of either (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent's reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (i) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (ii) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities) as shown on Exhibit A.

“Official Statement” means that Official Statement prepared by the Issuer in connection with the Bonds, as listed in Exhibit A.

“Trustee” means the institution, if any, identified as such in the document under which the Bonds were issued.

“Voluntary Event Disclosure” means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

“Voluntary Financial Disclosure” means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than seven months after the end of each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2020. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the 15<sup>th</sup> day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit B, accompanied by a cover sheet completed by the Disclosure Dissemination Agent Agreement in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B, without reference to the anticipated filing date for the Annual Report, accompanied by a cover sheet completed by the Disclosure Dissemination Agent Agreement in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

- (i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;
- (iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:
  1. “Principal and interest payment delinquencies;”
  2. “Non-Payment related defaults, if material;”

3. “Unscheduled draws on debt service reserves reflecting financial difficulties;”
4. “Unscheduled draws on credit enhancements reflecting financial difficulties;”
5. “Substitution of credit or liquidity providers, or their failure to perform;”
6. “Adverse tax opinions, IRS notices or events affecting the tax status of the security;”
7. “Modifications to rights of securities holders, if material;”
8. “Bond calls, if material;”
9. “Defeasances;”
10. “Release, substitution, or sale of property securing repayment of the securities, if material;”
11. “Rating changes;”
12. “Tender offers;”
13. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”
14. “Merger, consolidation, or acquisition of the obligated person, if material;”
15. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”
16. “Incurrence of a Financial Obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligated Person, any of which affect security holders, if material;” and
17. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Obligated Person, any of which reflect financial difficulties.

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. “amendment to continuing disclosure undertaking;”
2. “change in obligated person;”
3. “notice to investors pursuant to bond documents;”

4. “certain communications from the Internal Revenue Service;” other than those communications included in the Rule;
  5. “secondary market purchases;”
  6. “bid for auction rate or other securities;”
  7. “capital or other financing plan;”
  8. “litigation/enforcement action;”
  9. “change of tender agent, remarketing agent, or other on-going party;” and
  10. “other event-based disclosures;”
- (vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:
1. “quarterly/monthly financial information;”
  2. “Timing of annual disclosure (120 days);”
  2. “change in fiscal year/timing of annual disclosure;”
  3. “change in accounting standard;”
  4. “interim/additional financial information/operating data;”
  5. “budget;”
  6. “investment/debt/financial policy;”
  7. “information provided to rating agency, credit/liquidity provider or other third party;”
  8. “consultant reports;” and
  9. “other financial/operating data.”
- (viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the

Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

- (a) The Issuer's complete audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.
- (b) If generally accepted accounting principles have changed since the last Annual Report was submitted pursuant to this Disclosure Certificate and if such changes are material to the System, a narrative report describing the impact of such change in the System.
- (c) Financial and operating data for each fiscal year which shall consist of the operating data generally consistent with the information contained in the tables in the Official Statement under the caption "FINANCIAL FACTORS – Historical Debt Service Coverage of the System" and under the caption "THE AUTHORITY AND THE SYSTEM – Usage," "- Customers," "- Largest Customers" and "- Historical Rates."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the Repository or filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so included by reference.

SECTION 4. Reporting of Notice Events.

- (a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:
  - 1. Principal and interest payment delinquencies;
  - 2. Non-payment related defaults, if material;
  - 3. Unscheduled draws on debt service reserves reflecting financial difficulties;
  - 4. Unscheduled draws on credit enhancements reflecting financial difficulties;
  - 5. Substitution of credit or liquidity providers, or their failure to perform;
  - 6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
  - 7. Modifications to rights of Bond holders, if material;
  - 8. Bond calls, if material, and tender offers;
  - 9. Defeasances;



10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

**Note to subsection (a)(12) of this Section 4:** For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of an Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of an Obligated Person, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of an Obligated Person, any of which reflect financial difficulties.

The Issuer shall, in a timely manner not in excess of nine business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the

categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. The Issuer will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filings.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), and shall include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice will be filed with a cover sheet accompanied by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in

addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer are no longer Obligated Persons, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable to the Disclosure Dissemination Agent until payment in full, for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer nor the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days prior written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee of the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of South Carolina (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent, the Issuer has caused this Disclosure Dissemination Agent Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,  
as Disclosure Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EDGEFIELD COUNTY WATER AND SEWER  
AUTHORITY, SOUTH CAROLINA

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**NAME AND CUSIP NUMBERS OF BONDS**

Name of Issuer: Edgefield County Water and Sewer Authority, South Carolina  
Obligated Person(s): Edgefield County Water and Sewer Authority, South Carolina  
Name of Issue: \$4,425,000 Waterworks and Sewer System Revenue Bonds, Series 2020  
Date of Issuance: August 13, 2020  
Date of Official Statement: July 28, 2020

CUSIP Numbers:

<u>January 1</u>	<u>CUSIP</u>
2023	280038BW9
2024	280038BX7
2025	280038BY5
2026	280038BZ2
2027	280038CA6
2028	280038CB4
2029	280038CC2
2030	280038CD0

**EXHIBIT B**  
**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Edgefield County Water and Sewer Authority, South Carolina  
Obligated Person(s): Edgefield County Water and Sewer Authority, South Carolina  
Name of Issue: \$4,425,000 Waterworks and Sewer System Revenue Bonds, Series 2020  
Date of Issuance: August 13, 2020  
CUSIP Numbers:

<u>January 1</u>	<u>CUSIP</u>
2023	280038BW9
2024	280038BX7
2025	280038BY5
2026	280038BZ2
2027	280038CA6
2028	280038CB4
2029	280038CC2
2030	280038CD0

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above named Obligations as required by the Disclosure Dissemination Agent Agreement, dated as of August 13, 2020, between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

Digital Assurance Certification, L.L.C., as Disclosure  
Dissemination Agent, on behalf of the Edgefield County Water  
and Sewer Authority, South Carolina

cc: Issuer  
Obligated Person(s)

**EXHIBIT C-1  
EVENT NOTICE COVER SHEET**

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

---

Issuer's Six-Digit CUSIP Number:

---

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

---

Number of pages attached: \_\_\_\_\_

\_\_\_\_\_ Description of Notice Events (Check One):

1. \_\_\_\_\_ "Principal and interest payment delinquencies;"
2. \_\_\_\_\_ "Non-Payment related defaults, if material;"
3. \_\_\_\_\_ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. \_\_\_\_\_ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. \_\_\_\_\_ "Substitution of credit or liquidity providers, or their failure to perform;"
6. \_\_\_\_\_ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. \_\_\_\_\_ "Modifications to rights of securities holders, if material;"
8. \_\_\_\_\_ "Bond calls, if material;"
9. \_\_\_\_\_ "Defeasances;"
10. \_\_\_\_\_ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. \_\_\_\_\_ "Rating changes;"
12. \_\_\_\_\_ "Tender offers;"
13. \_\_\_\_\_ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14. \_\_\_\_\_ "Merger, consolidation, or acquisition of the obligated person, if material;"
15. \_\_\_\_\_ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"
16. \_\_\_\_\_ "Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material;" and
17. \_\_\_\_\_ "Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties."

\_\_\_\_\_ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

---

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street, Suite 300  
Orlando, FL 32801  
407-515-1100

Date:



**EXHIBIT C-2  
VOLUNTARY EVENT DISCLOSURE COVER SHEET**

This cover sheet and accompanying "voluntary event disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of August 13, 2020 between the Obligated Person and DAC.

Issuer's and/or Other Obligated Person's Name:

\_\_\_\_\_

Issuer's Six-Digit CUSIP Number:

\_\_\_\_\_

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_ Description of Voluntary Event Disclosure (Check One):

1. \_\_\_\_\_ "amendment to continuing disclosure undertaking;"
2. \_\_\_\_\_ "change in obligated person;"
3. \_\_\_\_\_ "notice to investors pursuant to bond documents;"
4. \_\_\_\_\_ "certain communications from the Internal Revenue Service;"
5. \_\_\_\_\_ "secondary market purchases;"
6. \_\_\_\_\_ "bid for auction rate or other securities;"
7. \_\_\_\_\_ "capital or other financing plan;"
8. \_\_\_\_\_ "litigation/enforcement action;"
9. \_\_\_\_\_ "change of tender agent, remarketing agent, or other on-going party;" and
10. \_\_\_\_\_ "other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street, Suite 300  
Orlando, FL 32801  
407-515-1100

Date:

**EXHIBIT C-3  
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET**

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of August 13, 2020 between the Obligated Person and DAC.

Issuer's and/or Other Obligated Person's Name:

\_\_\_\_\_

Issuer's Six-Digit CUSIP Number:

\_\_\_\_\_

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_\_ Description of Voluntary Financial Disclosure (Check One):

1. \_\_\_\_\_ "quarterly/monthly financial information;"
2. \_\_\_\_\_ "change in fiscal year/timing of annual disclosure;"
3. \_\_\_\_\_ "change in accounting standard;"
4. \_\_\_\_\_ "interim/additional financial information/operating data;"
5. \_\_\_\_\_ "budget;"
6. \_\_\_\_\_ "investment/debt/financial policy;"
7. \_\_\_\_\_ "information provided to rating agency, credit/liquidity provider or other third party;"
8. \_\_\_\_\_ "consultant reports;" and
9. \_\_\_\_\_ "other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street, Suite 300  
Orlando, FL 32801  
407-515-1100

Date:





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