



# 2013

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

For the year ended June 30, 2013





## Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2012 and 2013

with Independent Auditor's Report

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Conway, South Carolina

Prepared by Financial Services | Marguerite S. Carroll | Chief Financial Officer

# GRAND STRAND WATER AND SEWER AUTHORITY

Appointed Officials

June 30, 2013

## Board of Directors



From left to right: J. Liston Wells, Member; Wilbur M. James, Member; Richard G. Singleton, II, Member; Sidney F. Thompson, Chairman; Robert L. Rabon, Member; Benjy A. Hardee, Vice-Chairman; Robert M. Floyd, Jr., Member; John C. Griggs, Secretary; Arnold T. Johnson, Member



## Staff

Fred R. Richardson | Chief Executive Officer

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2013**

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# INTRODUCTORY SECTION

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September 23, 2013

Mr. Sidney F. Thompson, Chairman  
Board of Directors  
Mr. Fred R. Richardson, Chief Executive Officer  
Grand Strand Water and Sewer Authority  
Conway, South Carolina

Gentlemen:

The Comprehensive Annual Financial Report of Grand Strand Water and Sewer Authority (GSWSA) for the fiscal year ended June 30, 2013 is submitted for your review. This report was prepared by GSWSA's financial staff, and conforms to the guidelines of the Government Finance Officers Association and Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). State Statutes require an annual audit of the financial records, transactions, and an internal control evaluation by independent certified public accountants. The GSWSA's independent Certified Public Accountants, Elliott Davis, LLC, audited the accompanying financial statements. Their unqualified report on the financial statements is included in the financial section of this report.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Elliott Davis, LLC has audited the accompanying financial statements, and their unqualified opinion resulting from their audit is included in this Comprehensive Annual Financial Report. As part of their audit, Elliott Davis, LLC examined on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; and evaluated the overall financial statement presentation.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. GSWSA's MD&A can be found in the Financial Section of the audit immediately following the report of the independent auditors.

This Comprehensive Annual Financial Report is reflective of GSWSA's continued emphasis on professional financial planning and management.



## PROFILE OF GRAND STRAND WATER AND SEWER AUTHORITY

GSWSA is a Special Purpose District. It was created pursuant to provisions of Act 337 enacted during the 1971 Session of the General Assembly of the State of South Carolina as a body politic and corporate. The principal functions of GSWSA are to acquire supplies of fresh water capable of being used for industrial and domestic purposes, to distribute such water for industrial and domestic use within its service area and to build, acquire, construct, operate and maintain such sewerage treatment and collection facilities as GSWSA deems necessary. The service area of GSWSA includes all of the area in Horry County except those areas served by municipalities and/or private water and/or sewer companies. It is located in the northeastern portion of the State of South Carolina.

GSWSA also provides sewer service to the City of Marion, Town of Sellers, City of Mullins, Town of Lake View and Centenary area which are also located in South Carolina. GSWSA provides limited sewer service to Tabor City and Columbus County, North Carolina through contractual agreements it has reached with these entities.

The annual budget serves as the foundation for GSWSA's financial planning and control. The Board of Directors is required to hold two public hearings on the proposed budget and adopt a final budget no later than June 30 of each year. GSWSA implements a rolling two-year budget.

### LOCAL ECONOMY

Horry County continues to experience the effects of a recession with higher unemployment rates than normal and a downturn in the real estate market. However, prior to the recession the area was growing at a pace surpassed by only a few communities in the country. Horry County continues to be a major retirement area. Tourism continues to be the county's largest employer even though the local tourism industry has slowed because of the national economy. The county still ranks first among the 46 counties in the state in tourism. According to the 2007 Census of Agriculture, Horry County ranks first in the state in the production of tobacco, third in the sale of pork, and fourth in overall crop production.

The local economy served by GSWSA has continued to see moderate growth during fiscal year 2013, with the addition of 4,814 customers. The monthly average of submittals for new developer projects requiring water and sewer service was up from 4.3 projects in fiscal year 2012 to 5.0 projects in 2013. The projects submitted in 2013 will account for a monthly average of over 97 Residential Equivalent Units (REUs). This is a 136% increase from the monthly average of 41 REUs submitted in 2012. The number of new developer project submittals and REUs have significantly increased due to economic development. Assets contributed to GSWSA by developers during 2013 were \$4.0 million.

GSWSA's growth remains moderate, with economic indicators reinforcing continued residential and commercial development. The GSWSA service area remains strong in part due to its diversity, led by tourism and agriculture. In summary, GSWSA's financial stability is a direct reflection of the continued economic growth of the area and the Board of Director's commitment to provide quality service at the most affordable rates.

## MAJOR INITIATIVES FOR THE YEAR

GSWSA spent \$3,454,577 for the acquisition of the City of Mullins' water and wastewater systems, which added 2,220 customers. The Lake View water and wastewater systems were acquired for \$829,377 and added 431 customers. GSWSA spent almost \$4.2 million on its Rural Water and Sewer program to extend water and sewer lines to the rural communities of Horry County. More than \$6.3 million was spent on the construction of the Bucksport WWTP which will use rapid infiltration basins for the disposal of treated wastewater.

## LONG-TERM FINANCIAL PLANNING

The cooperation of surrounding governmental jurisdictions has enabled Grand Strand Water and Sewer Authority to continue its efforts as a regional provider of water and sewer services. GSWSA purchased the City of Myrtle Beach Water and Wastewater Treatment Plants, the City of Marion Water and Wastewater Systems, the Town of Nichols Water and Wastewater Systems, the City of Mullins water and wastewater systems and the Town of Lake View water and wastewater systems. GSWSA continues to look at various options to upgrade existing water and wastewater facilities over the next few years to meet growing customer needs.

GSWSA updated its 2030 Capital Improvement Plan in 2010 and plans to update it every 5 years. It also annually performs a comprehensive review of its rates, fees and charges to maintain a sufficient and equitable cost recovery system. GSWSA has a policy of rate stability with gradual adjustments over time.

During 2013, GSWSA continued several policies aimed at reducing and/or maintaining expenses at the same level as 2012. Departments were required to monitor expenses over time and reduce costs as appropriate. Chemical usage for water and wastewater departments was also closely monitored and rebid to reduce cost. Overall, expenses were up more than normal due to the acquisition of the City of Mullins' and Town of Lake View's water and wastewater treatment systems.

As a matter of organizational philosophy, GSWSA will continue to explore and implement innovative programs which will allow it to meet the area's water and wastewater needs in an efficient and environmentally safe manner. The challenge of meeting the utility needs of a 1,123 square mile service area of which only approximately 32% is developed requires continued pursuit of these objectives.

## INTERNAL CONTROL STRUCTURE

Management of GSWSA is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of GSWSA are protected from loss, theft, or misuses. It must also ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should ordinarily not exceed the benefits to be derived and (2) the valuation of the costs and benefits requires estimates and judgments by management.

As a part of GSWSA's single audit, tests are made to determine the adequacy of the internal control structure, including those controls related to federal financial assistance programs, as well as to determine that GSWSA has complied with applicable laws and regulations.

In addition, GSWSA maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by GSWSA's Board of Directors. GSWSA prepares a 2-year Operating & Capital Annual Budget document. The Operating Budget is adopted on a basis that approximates generally accepted accounting principles except for debt service payments and capital expenses that are budgeted on a cash basis and the recognition of contributed capital as operating revenues or capital budget funding sources depending on their nature. The budgets are managed by each Division Chief with overall control and management being exercised by the Chief Executive Officer (CEO). The Chief Financial Officer and staff monitor line item accounts within each department so that departments do not overspend.

The Capital Budget is prepared on the cash basis. Capital projects for water and wastewater plants and systems, and general, engineering and other support capital assets construction and improvements are funded from contributed capital (i.e. federal grants, developer system contributions, and certain impact fees), revenue bonds, state revolving loan and other debt proceeds, special fees, investment income, and depreciation and replacement reserve accounts funded via operating revenues. Capital projects are budgeted over the projected term of construction or improvement, thus such terms may exceed the budget period presented in the budget document.

The GSWSA also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end and are reinstated against the following year's appropriation.

The major budget policies of GSWSA are as follows:

- GSWSA will have a balanced budget.
- The CEO is authorized to transfer budgeted funds between departments and divisions in the current Operating Budget.
- The Board of Directors may authorize transfers of budgeted funds between capital projects in the Capital Budget by resolution.
- All unexpended and uncommitted budgeted funds in the current Operating Budget remaining at the end of the fiscal year lapse. No budgeted funds for a capital project in the Capital Budget may lapse until the project scope has been accomplished or abandoned.

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to GSWSA for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the 24th year that GSWSA applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, GSWSA had to publish an easily readable and efficiently organized comprehensive annual financial report. The report had to satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. It is believed that GSWSA's current comprehensive annual financial report, which is being submitted again for consideration, should continue to meet the Certificate of Achievement Program requirements.

Preparation of this report on a timely basis was accomplished through the dedicated efforts of the Accounting Department staff under the guidance of Keri Squires, Accounting Manager. I would like to express my appreciation to all members of the Financial Services Division, Chiefs, and other GSWSA employees. I would also like to express my appreciation to the Board Members and you two gentlemen for assistance through the year in matters pertaining to financial affairs of GSWSA.

Respectfully submitted,



Marguerite S. Carroll, CGFM  
Chief Financial Officer



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Grand Strand Water and Sewer  
Authority, South Carolina**

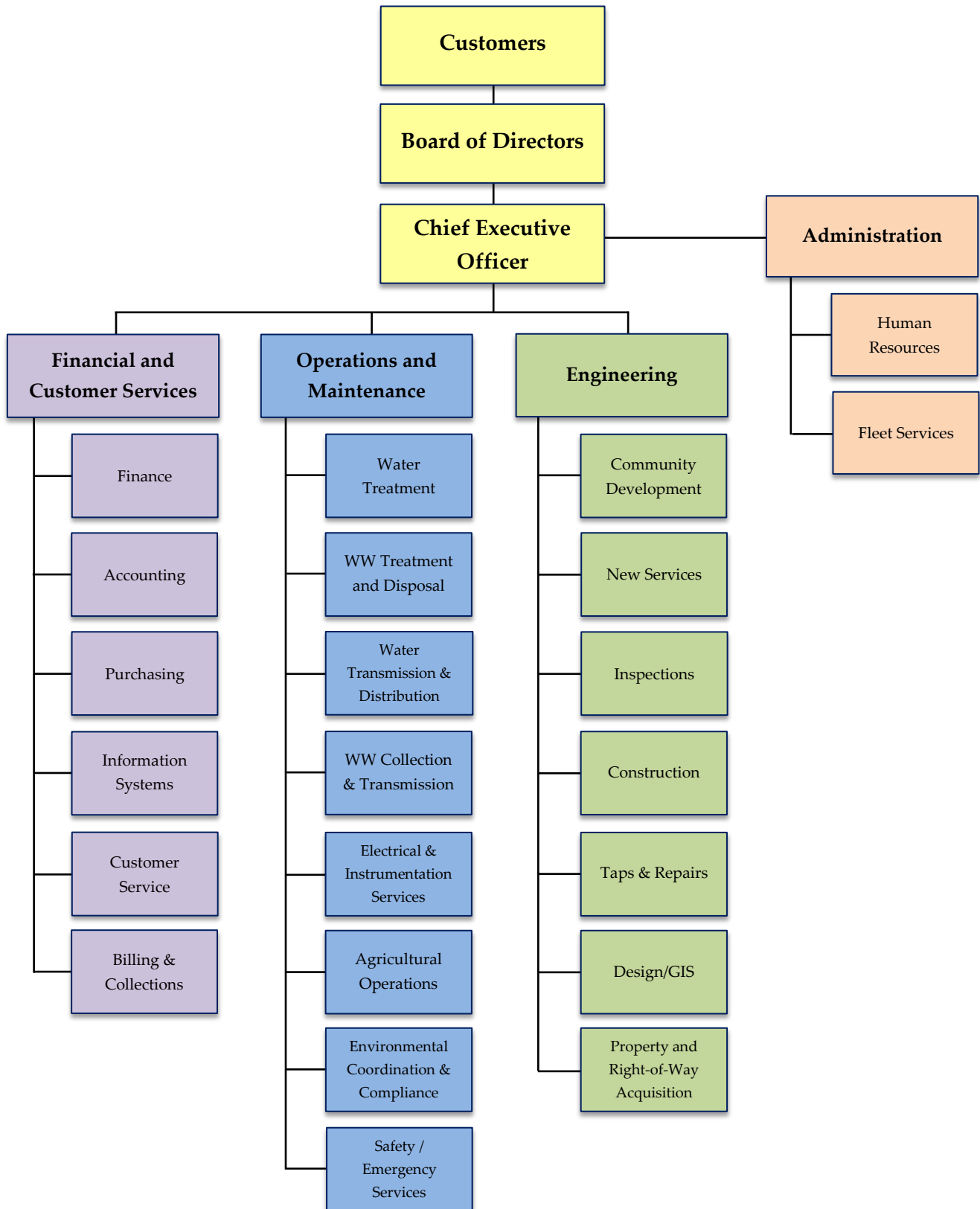
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director

# Grand Strand Water and Sewer Authority

## Organizational Chart



# GRAND STRAND WATER AND SEWER AUTHORITY



## 2013 | Board of Directors

Sidney F. Thompson  
Chairman  
Term Expires: 8-15-2017

Benjy A. Hardee  
Vice-Chairman  
Term Expires: 8-15-2015

John C. Griggs  
Secretary  
Term Expires: 8-15-2015



Robert M. Floyd, Jr.  
Member  
Term Expires: 8-15-2015

Arnold T. Johnson  
Member  
Term Expires: 8-15-2015

Wilbur M. James  
Member  
Term Expires: 8-15-2019

Richard G. Singleton, II  
Member  
Term Expires: 8-15-2019

Robert L. Rabon  
Member  
Term Expires: 8-15-2017

J. Liston Wells  
Member  
Term Expires: 8-15-2017

## Officers

Irvin D. Wooley, Chief of Utility Operations  
Christy S. Everett, Chief of Engineering and Construction  
Marguerite S. Carroll, Chief Financial Officer  
Fred R. Richardson, Chief Executive Officer



# FINANCIAL SECTION



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## Independent Auditor's Report

To the Board of Directors  
Grand Strand Water and Sewer Authority  
Conway, South Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of Grand Strand Water and Sewer Authority (the Authority) as of and for the year ended June 30, 2013 and 2012, 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 audits. 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Authority, as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof 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 3 to 12 and schedule of funding progress for postemployment benefit plan on page 57 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 audit standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide 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 the Authority's basic financial statements. The introductory section, statistical section, supplementary schedule of cash receipts and disbursements for restricted accounts and supplementary schedule of operating expenses by department are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedule of cash receipts and disbursements for restricted accounts and the supplementary schedule of operating expenses by department are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of cash receipts and disbursements for restricted accounts and the supplementary schedule of operating expenses by department are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Columbia, South Carolina  
September 12, 2013

MANAGEMENT'S DISCUSSION  
AND ANALYSIS

# GRAND STRAND WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis

For The Fiscal Year Ended June 30, 2013

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The Management's Discussion and Analysis (MD&A) of Grand Strand Water and Sewer Authority (GSWSA), provides an overview and analysis of the financial activities for the fiscal years ended June 30, 2013 and 2012. This information serves as an introduction to the accompanying financial statements. The MD&A should be read in conjunction with the audited financial statements.

### Financial Highlights

GSWSA's financial condition remained stable during fiscal year 2013. GSWSA is within debt covenants and the more stringent financial policies and guidelines set by the Board. The following are the financial highlights for the fiscal year.

- Total assets and deferred cash outflows of resources at June 30, 2013 were \$703 million and exceeded liabilities and deferred cash inflows by \$456.5 million (i.e. net position). Of total net position, approximately \$118.1 million were unrestricted. Total assets and deferred cash outflows decreased from fiscal year 2012 to 2013 by \$ 9.8 million and total liabilities and deferred cash inflow decreased by \$14.8 million.
- Operating revenues were approximately \$69.6 million in 2013, an increase of approximately \$3 million from 2012, or 4.6%. During 2013, the major increase in revenues was due to the increase in net billable customers, as well as the addition of customers through the acquisitions of the City of Mullins' and Town of Lake View's water and wastewater systems.
- In 2013, operating expenses before depreciation increased by \$5 million or 12.5%. The total operating expenses, including depreciation, increased \$5.2 million or 8.4%. The increase in operating expenses in 2013 is mainly attributed to the addition of 11 employees with the acquisition of the City of Mullins, a small merit increase for employees and an increase in costs expensed from the capital budget.
- The operating income for fiscal year 2013 was \$1.9 million, a 53.4% decrease from the previous fiscal year due to a greater increase in operating expenses than the increase in operating revenues.
- There was an decrease in net position, before capital contributions of \$6.3 million in fiscal year 2013. There was an increase in net position after capital contributions of \$5.0 million.
- The ratio of total operating revenues to total operating expenses was 1.03 for 2013 and 1.07 for 2012.
- Debt service coverage for 2013 decreased to 147% as compared to 206% in 2012 and 181% in 2011. Debt service coverage required by the bond covenants is 110%, which is within our current coverage.

## Financial Highlights, Continued

- In 2013, capital contributions from customer impact fees were \$4.6 million, an increase of 24.7% compared to fiscal year 2012. Developer contributions of facilities were \$4 million, an increase of 75.6% from 2012.
- GSWSA treated and distributed over 13.95 billion gallons of water and collected and treated over 9.84 billion gallons of wastewater, a decrease from fiscal year 2012 of 5.1% for water and a decrease of 1.1% for wastewater. Water consumption was down in all customer classes during 2013. Wastewater usage was up in wholesale and bulk and down in retail from 2012.
- In fiscal year 2013, GSWSA added 4,654 water and 4,381 wastewater net customers which resulted in a net of 4,924 water and 5,030 wastewater residential equivalent units. The net new customers and residential equivalent units added were a result of the Mullins and Lake View acquisitions as well as an improvement in the economy.

## Overview of the Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to and should be read in conjunction with the basic financial statements and supplementary information. The financial statements can be found on pages 13 to 62 of this report.

The financial statements report information about GSWSA using full accrual accounting methods; similar to those used by private sector utilities. However, GSWSA does not use rate-regulated accounting principles applicable to private sector utilities since it is a governmental utility. All activities of GSWSA are accounted for in a single proprietary (enterprise) fund. The financial statements include a statement of net position, a statement of activities, a statement of cash flows, and notes to the financial statements.

The *statement of net position* presents the financial position of GSWSA on the accrual basis. It presents information about GSWSA's assets and deferred outflows of resources as well as liabilities and deferred inflows of resources, with the difference being reported as net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The statement of net position provides information about GSWSA at year-end, while the *statement of activities* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed. This statement also provides certain information about GSWSA's recovery of its costs. GSWSA's rates are based on a cost of service rate study that was completed in 2011 and is updated annually. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The main objectives of the rate model are to provide equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for itself.

## Overview of the Financial Statements, Continued

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

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about GSWA's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. *Supplementary information* such as important debt coverage data is also provided.

## Financial Analysis

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

<b>Condensed Statements of Net Position</b>					
	2013	2012	2011	Change 2012-2013	% Change 2012-2013
<b>Assets</b>					
Current assets	\$ 119,648,368	\$ 110,482,310	\$ 98,552,512	\$ 9,166,058	8.3%
Restricted assets - current	10,149,879	26,318,811	2,841,232	(16,168,932)	-61.4%
Noncurrent assets	-	2,342,017	1,350,098	(2,342,017)	-100.0%
Restricted assets - noncurrent	20,833,568	20,774,086	29,100,976	59,482	0.3%
Capital assets	535,989,599	529,596,306	535,258,956	6,393,293	1.2%
Other assets	4,750	4,750	4,750	-	0.0%
<b>Total assets</b>	<b>\$ 686,626,164</b>	<b>\$ 689,518,280</b>	<b>\$ 667,108,524</b>	<b>\$ (2,892,116)</b>	<b>-0.4%</b>
<b>Deferred outflows of resources</b>					
Interest rate swap	\$ 12,646,032	\$ 19,169,725	\$ 7,583,158	\$ (6,523,693)	-34.0%
Deferred charge on refundings	3,771,678	4,146,962	1,229,719	(375,284)	-9.0%
<b>Total deferred outflows of resources</b>	<b>\$ 16,417,710</b>	<b>\$ 23,316,687</b>	<b>\$ 8,812,877</b>	<b>\$ (6,898,977)</b>	<b>-29.6%</b>
<b>Liabilities</b>					
Current liabilities	\$ 25,799,768	\$ 23,780,583	\$ 21,540,154	\$ 2,019,185	8.5%
Noncurrent liabilities	208,102,565	218,408,062	204,121,166	(10,305,497)	-4.7%
<b>Total liabilities</b>	<b>\$ 233,902,333</b>	<b>\$ 242,188,645</b>	<b>\$ 225,661,320</b>	<b>\$ (8,286,312)</b>	<b>-3.4%</b>
<b>Deferred inflows of resources</b>					
Interest rate swap	\$ 12,646,032	\$ 19,169,725	\$ 7,583,158	\$ (6,523,693)	-34.0%
<b>Total deferred inflows of resources</b>	<b>\$ 12,646,032</b>	<b>\$ 19,169,725</b>	<b>\$ 7,583,158</b>	<b>\$ (6,523,693)</b>	<b>-34.0%</b>
<b>Net Position</b>					
Net investment in capital assets	\$ 312,595,550	\$ 297,286,102	\$ 319,731,523	\$ 15,309,448	5.1%
Restricted for capital projects	23,726,036	39,494,069	14,759,824	(15,768,033)	-39.9%
Restricted for debt service	2,055,404	2,590,751	12,294,763	(535,347)	-20.7%
Unrestricted	118,118,519	112,105,675	95,890,813	6,012,844	5.4%
<b>Total Net Position</b>	<b>\$ 456,495,509</b>	<b>\$ 451,476,597</b>	<b>\$ 442,676,923</b>	<b>\$ 5,018,912</b>	<b>1.1%</b>

Note: For the years 2013, 2012, and 2011 each statement of net position was restated to show deferred inflows and outflows of resources.

## Financial Analysis, Continued

### Condensed Statements of Activities

	2013	2012	2011	Change 2012-2013	% Change 2012-2013
<b>Operating revenues</b>					
Water and sewer volume & availability fees	\$ 52,282,191	\$ 50,177,028	\$ 49,729,727	\$ 2,105,163	4.2%
Customer charges	5,883,160	5,354,967	5,110,985	528,193	9.9%
Surface water charges	6,773,344	6,324,150	6,428,952	449,194	7.1%
Surface water treatment plant contract revenue	3,127,607	3,228,297	3,308,715	(100,690)	-3.1%
Other revenue	1,529,675	1,480,715	1,282,049	48,960	3.3%
Total operating revenues	69,595,977	66,565,157	65,860,428	3,030,820	4.6%
<b>Operating expenses</b>					
Operating expenses before depreciation	44,629,568	39,661,443	39,359,172	4,968,125	12.5%
Depreciation	23,038,102	22,761,494	22,303,035	276,608	1.2%
Total operating expenses	67,667,670	62,422,937	61,662,207	5,244,733	8.4%
Operating income (loss)	1,928,307	4,142,220	4,198,221	(2,213,913)	-53.4%
<b>Nonoperating revenues (expenses)</b>					
Investment income (loss)	(368,606)	5,757,105	3,175,093	(6,125,711)	-106.4%
Loss on disposal of capital assets	(167,185)	(275,083)	(71)	107,898	39.2%
Interest expense	(7,671,851)	(7,698,469)	(9,679,174)	26,618	-0.3%
Total nonoperating expense	(8,207,642)	(2,216,447)	(6,504,152)	(5,991,195)	270.3%
<b>Income (loss) before capital contributions</b>	(6,279,335)	1,925,773	(2,305,931)	(8,205,108)	-426.1%
Capital contributions	11,298,247	8,223,999	10,952,833	3,074,248	37.4%
<b>Change in net position</b>	5,018,912	10,149,772	8,646,902	(5,130,860)	-50.6%
<b>Beginning net position</b>	451,476,597	442,676,923	434,030,021	8,799,674	2.0%
Restatement	-	(1,350,098)	-	1,350,098	-100.0%
<b>Beginning net position, as restated</b>	451,476,597	441,326,825	434,030,021	10,149,772	-98.0%
<b>Ending net position</b>	\$ 456,495,509	\$ 451,476,597	\$ 442,676,923	\$ 5,018,912	1.1%



## Financial Analysis, Continued

	Selected Data for Analysis			Change 2012-2013	% Change 2012-2013
	2013	2012	2011		
<i>Employees at Year End</i>	295	283	282	12	4.2%
<i>Active Customers at Year End:</i>					
Water Customers	72,304	67,650	66,112	4,654	6.9%
Wastewater Customers	68,391	64,010	62,429	4,381	6.8%
<i>Water Sales for Fiscal Year</i>					
(Billions of Gallons)	13.95	14.71	14.18	(0.76)	-5.2%
<i>Wastewater Sales for Fiscal Year</i>					
(Billions of Gallons)	9.84	9.95	10.05	(0.11)	-1.1%
<i>Total Operating Revenues</i>					
(Per Average Employees)	\$ 235,919	\$ 235,213	\$ 233,548	\$ 706	0.3%
<i>Total Operating Expenses</i>					
(Per Average Employees)	\$ 229,382	\$ 220,576	\$ 218,660	\$ 8,806	4.0%
<i>Ratio of Operating Revenues to:</i>					
Operating Expenses	1.028	1.066	1.068	(0.038)	-3.6%
Operating Expenses Net of Depreciation	1.559	1.678	1.673	(0.119)	-7.1%
Total Assets	0.101	0.094	0.098	0.007	7.4%
<i>Debt Related Ratios:</i>					
Debt to Net Assets	0.512	0.568	0.524	(0.056)	-9.9%
Debt to Capital Assets	0.436	0.486	0.433	(0.050)	-10.3%
Operating Coverage					
(Operating Cash Flow/Debt)	0.097	0.107	0.107	(0.010)	-9.3%
Debt Ratio					
(Total Debt/Total Assets)	0.341	0.362	0.344	(0.021)	-5.8%
Bond Coverage					
(Net Earnings/Debt Required)	1.47	2.06	1.81	(0.59)	-28.6%
<i>Liquidity Ratio</i>					
(Current Assets/Current Liabilities)	5.031	5.752	4.707	(0.721)	-12.5%
<i>Asset Management Ratios:</i>					
Days Sales Outstanding					
(Receivables/(Sales/360))	63	51	55	12	23.5%
Asset Turnover					
(Sales/Assets)	0.101	0.094	0.098	0.007	7.4%

## General Trends and Significant Events

While the economic environment over the last few years has caused customer growth and usage to decline, GSWSA's management has taken a proactive approach to planning for sustainability and preservation. Management of GSWSA has expanded its service area to include parts of Georgetown, Marion and Dillon Counties in South Carolina; as well as Columbus County, North Carolina. In addition, management and the rest of the staff at GSWSA have continued to closely monitor expenses, budget for lower revenues and defer capital expenditures as appropriate.

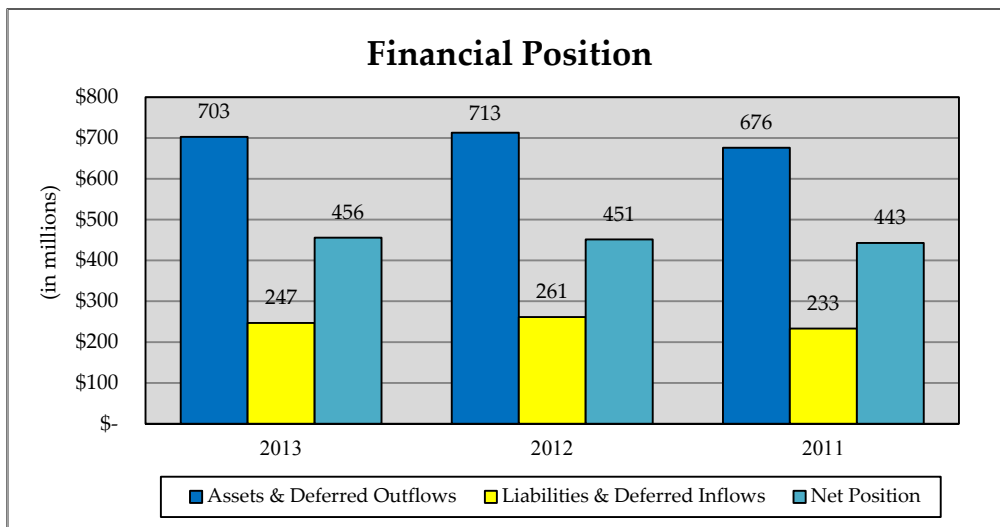
Weather temperatures during fiscal year 2013 were generally normal for all seasons. It also rained 6.52" inches or 17.8% more in 2013 than 2012. The increased rainfall in the area resulted in less water usage than 2012, even with the addition of customers from the acquisitions of the City of Mullins and Town of Lake View.

The volume of water sold in fiscal year 2013 was 13.95 billion gallons, a decrease of 5.2% from fiscal year 2012. Retail customers purchased 37% of the total water sold and the wholesale customers purchased 63%.

The volume of treated wastewater sold in fiscal year 2013 was 9.84 billion gallons, a decrease of 1.1% from fiscal year 2012. Even with the customers added from the acquisitions of the City of Mullins and Town of Lake View, GSWSA's total wastewater flows for 2013 were still less than in 2012 with the wholesale wastewater flows showing an increase over 2012. Retail customers purchased approximately 52% of the total treated wastewater and wholesale customers purchased 48%.

## Financial Condition

Even though the condition of the national and local economy affected growth, GSWSA's financial condition remained strong at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net assets. The current financial condition, operating and long-term plans and the capabilities of technical support staff are well balanced and enable GSWSA to meet customer needs now and well into the future. The following chart summarizes the statement of net position.



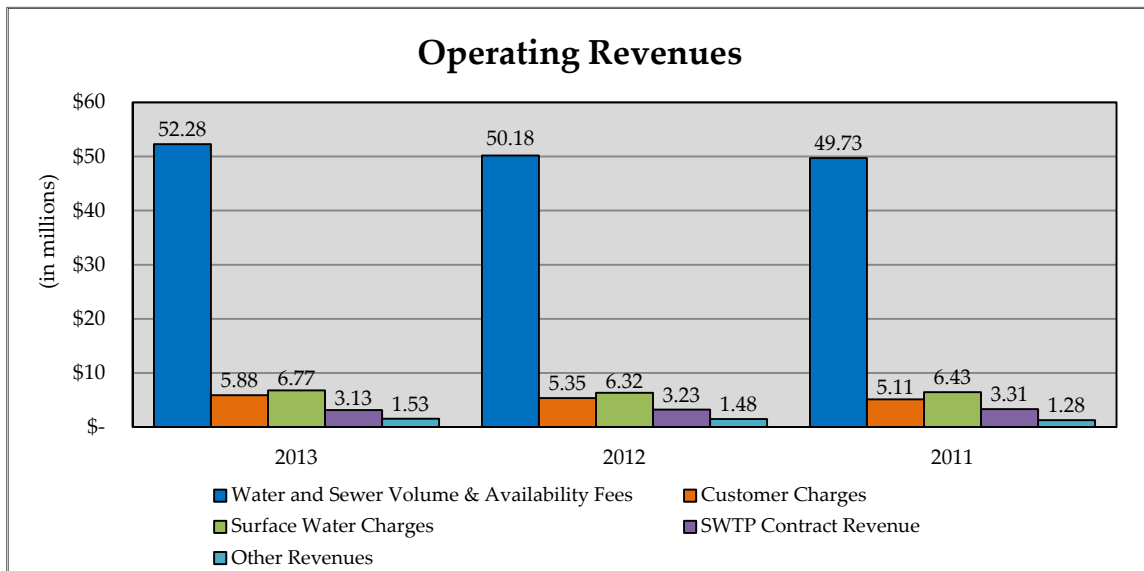
## Financial Condition, Continued

During fiscal year 2013, total assets and deferred outflows decreased by \$9.8 million or 1.4% with approximately \$6.9 million represented by a decrease in deferred cash outflows, which is largely due to the change in the fair value of the interest rate swap. Net position increased overall by \$5 million, with most of the change resulting from an increase in contributed capital. Unrestricted net assets increased \$6 million or 5.4%.

Accounts receivable for 2013 increased by more than \$2.7 million from 2012. The change is mainly due to the increase in the amount of the June 30<sup>th</sup> accrual of water and wastewater volume sales billed during fiscal year 2014.

## Results of Operations

**Operating Revenues:** Revenues from operations fall into two general categories: (1) charges for services, which includes: water and wastewater volume, availability fees, customer charges, surface water treatment plant charges, tap fees, sod sales and (2) other revenues, which includes: timber sales, engineering fees and miscellaneous fees. GSWSA has three classes of water and wastewater customers: wholesale, residential and commercial. The following chart depicts GSWSA revenues for the last three fiscal years.

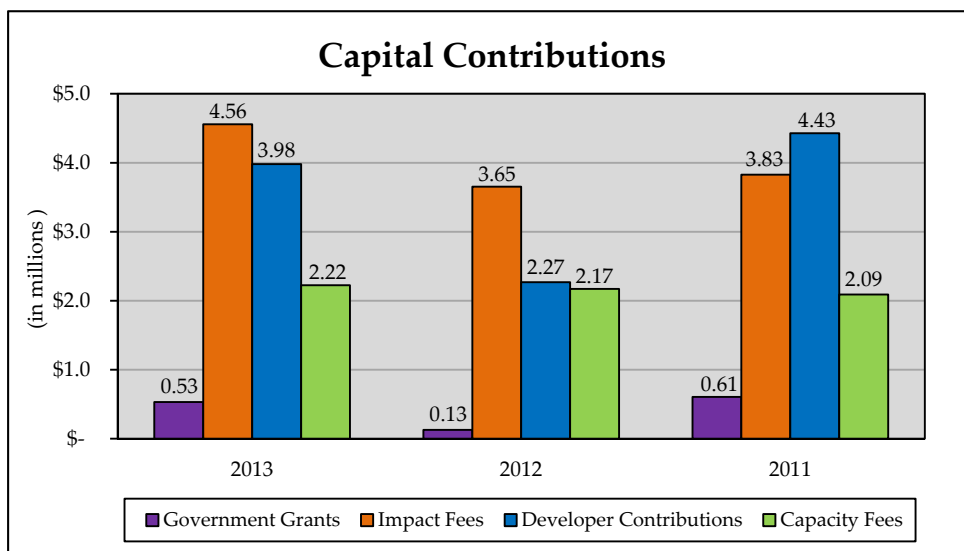


GSWSA did not increase retail water and wastewater rates in 2013. Wholesale and contract water and wastewater rates were increased by various percentages as specified by contract.

## Results of Operations, Continued

**Capital Contributions:** GSWSA collects water and wastewater capacity fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of water and/or wastewater capacity on the new account based on a residential equivalent unit. Most of these fees are paid in blocks of capacity purchased by residential and commercial real estate developers and wholesale customers. Prior to the implementation of GASB 34, the money and system assets received were recorded as direct contributions to equity. GASB 34 defines these fees as non-operating revenues and requires reporting the amounts on the Statement of Activities. GSWSA restricts the use of capacity fee revenue to capital investments in its system. GSWSA received the additions to its collection and distribution systems from developers.

The following chart depicts the capacity fee revenue activity.



Overall, capital contributions increased \$3.1 million, or 37.4% during fiscal year 2013. Developer contributions increased \$1.7 million from 2012. Due to an increase in the demand for single family homes and student housing at Coastal Carolina University there has been an increase in the development of the local area. Government grants increased \$402,928 from 2012. This increase is a result of the assets that were deeded to GSWSA from Columbus County, NC in relation to a funding agreement that expanded sewer services to Dothan Road in Columbus County. Impact fees were approximately \$4.6 million for 2013 compared to \$3.7 million for 2012. There was also a slight increase in capacity fees from 2012 to 2013.

**Expenses:** GSWSA operates and maintains both a potable water treatment and distribution system and a wastewater collection and treatment system. The water production occurs at its two 45 million gallons per day surface water treatment plants. GSWSA has backup wells to use for peak management. The wastewater system includes thirteen wastewater treatment plants that range in size from 10,000 gallons per day to 22.4 million gallons per day.

## Results of Operations, Continued

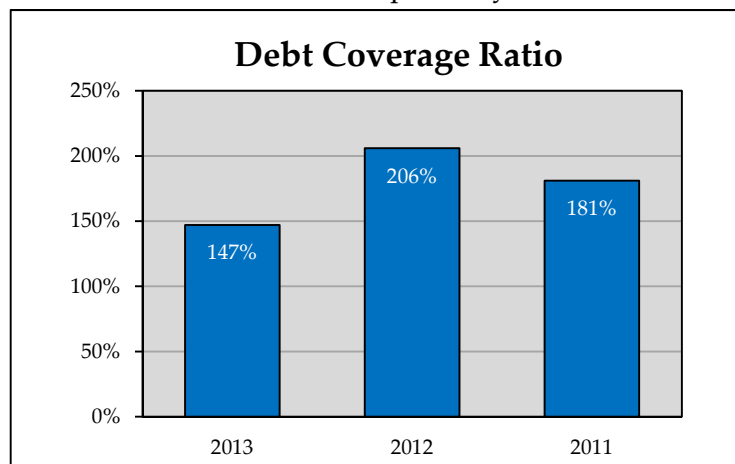
In 2013, total operating expenses increased \$5.2 million from fiscal year 2012, and operating revenues increased by \$3 million. Operating expenses for water and wastewater operations for the last three years are listed below:

	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>Variance</u>	<u>2011</u>	<u>%</u>
Personnel Services	\$ 18,418,252	27.2%	\$ 16,905,059	27.1%	\$ 1,513,193	\$ 16,553,131	26.8%
Contractual Services	13,721,247	20.3%	11,414,221	18.3%	2,307,026	11,776,220	19.1%
Supplies and Materials	10,408,212	15.4%	9,409,350	15.1%	998,862	9,083,240	14.7%
Business and Travel	202,446	0.3%	170,533	0.3%	31,913	196,369	0.3%
Depreciation	23,038,102	34.0%	22,761,494	36.4%	276,608	22,303,035	36.3%
Other Expenses	1,879,411	2.8%	1,762,280	2.8%	117,131	1,750,212	2.8%
Total Operating Expenses	<u>\$ 67,667,670</u>	<u>100.0%</u>	<u>\$ 62,422,937</u>	<u>100.0%</u>	<u>\$ 5,244,733</u>	<u>\$ 61,662,207</u>	<u>100.0%</u>

Personnel costs increased \$1,513,193 or 8.95% from 2012 to 2013. GSWSA granted an average 3% merit increase during 2013. The number of employees increased by twelve from fiscal year 2012 to 2013. The overall increase in personnel costs was mainly a result of an increase in the number of employees. Eleven of the additional employees were the result of the Mullins Acquisition. Contractual services increased \$2.3 million or 20.2%, primarily as a result of an increase in costs expensed from the capital budget. Supplies and materials increased \$998,862 or 10.6% mainly due to the repair and maintenance of water and wastewater facilities as well as higher treatment supply costs associated with the acquisition of the City of Mullins and Lake View. Depreciation was up \$276,608 or 1.2% due to the addition of assets during fiscal year 2013. Other expenses increased by \$149,044 or 7.7% in 2013 due to an increase in other costs.

## Rate Covenant

In the Bond Resolution, GSWSA 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 GSWSA, together with other income, that will yield annual net earnings in the fiscal year equal to at least 110% of the sum of the annual debt service payments. Net earnings for debt service are defined as gross revenue including customer impact fees, less operating expenses adjusted for depreciation. The rate covenant in the Bond Resolution obligates GSWSA to review rates at least once a year and to revise such rates and charges as necessary to meet the coverage test. Revenue bond debt service coverage for fiscal years 2013, 2012 and 2011 were 147%, 206% and 181%, respectively.



## Rate Covenant, Continued

**Bond Ratings:** GSWSA currently holds ratings of Aa2 from Moody's and AA from Standard & Poor's. Based on these ratings and the current financial position, management does not expect a change in bond ratings.

## Capital Assets And Long-Term Debt

Capital assets increased by \$6,393,293 during 2013. While all of these system acquisitions and improvements below added to the value of GSWSA's capital assets, the net additions to capital assets in FY 2013 was only approximately \$29.7 million and the depreciation of capital assets was \$23 million. Some of the largest additions to capital assets in 2013 included:

MB SWTP Expansion	\$	2,195,355
Rural Water		2,555,011
Mullins Acquisition		3,454,577
Rural Sewer		1,931,508
WWTP Renewal & Replacement		1,551,107
Lake View Acquisition		829,377

Developer contributions to capital assets were \$4.0 million. Disposals for 2013 were \$1,467,604.

During fiscal year 2013, GSWSA obtained a State Revolving Fund loan for the Bucksport WWTP Rapid Infiltration Basin project. As of June 30, 2013, the draws made on this loan and recorded debt was \$3.6 million.

Additional detailed information on GSWSA's capital assets and long-term debt activity can be found in Notes 3, 4, 5 and 6.

## Contacting GSWSA's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of GSWSA's finances and to demonstrate GSWSA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Grand Strand Water and Sewer Authority, Post Office Box 2368, Conway, South Carolina 29528-2368.

# BASIC FINANCIAL STATEMENTS

**GRAND STRAND WATER AND SEWER AUTHORITY**

Statements of Net Position

	As of June 30	
	2013	2012 As Restated
<b>Assets and Deferred Outflows of Resources</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,179,771	\$ 6,761,757
Investments	88,680,286	84,531,007
Investment in real estate	4,896,522	4,567,669
Receivables		
Customer accounts, net of allowance of \$246,442 in 2013 and \$250,544 in 2012	12,117,381	9,396,049
Assessments	2,892,750	2,923,971
Interest	568,186	535,062
Grant	188,125	-
Other	145,224	57,453
Total receivables	15,911,666	12,912,535
Inventories	1,398,767	1,174,957
Prepays	581,356	534,385
Restricted assets		
Cash and cash equivalents	9,760,383	25,929,434
Investments	389,496	389,377
Total current assets	129,798,247	136,801,121
<i>Noncurrent assets</i>		
Investments	-	2,342,017
Restricted investments	20,833,568	20,774,086
Container and security deposits	4,750	4,750
Capital assets		
Nondepreciable	61,499,984	55,194,762
Depreciable, net of depreciation	474,489,615	474,401,544
Total capital assets	535,989,599	529,596,306
Total noncurrent assets	556,827,917	552,717,159
Total assets	\$ 686,626,164	\$ 689,518,280
<i>Deferred outflows of resources</i>		
Interest rate swap	\$ 12,646,032	\$ 19,169,725
Deferred charge on refundings	3,771,678	4,146,962
Total deferred outflows of resources	\$ 16,417,710	\$ 23,316,687

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



**GRAND STRAND WATER AND SEWER AUTHORITY**

Statements of Net Position

	As of June 30	
	2013	2012 As Restated
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<i>Current liabilities</i>		
Accounts payable	\$ 2,479,554	\$ 2,134,666
Accrued salaries and benefits	632,955	580,997
Accrued compensated absences	532,484	490,359
Capital lease payable	121,883	112,186
Construction contracts payable	2,386,987	1,282,352
Revenue bonds payable	9,555,000	9,320,000
Notes payable	3,734,284	3,628,530
Companion instrument debt	392,147	382,407
Accrued interest on revenue bonds	581,767	602,016
Accrued interest on notes payable	180,701	194,302
Customer security and tap deposits	5,111,258	4,983,259
Unearned customer contributions	90,748	69,509
Total current liabilities	25,799,768	23,780,583
<i>Noncurrent liabilities</i>		
Revenue bonds payable	152,776,607	162,538,067
Notes payable	48,557,198	48,662,689
Companion instrument debt	5,312,189	5,704,336
Capital lease payable	557,754	679,637
Accrued compensated absences	898,817	823,333
Total noncurrent liabilities	208,102,565	218,408,062
Total liabilities	\$ 233,902,333	\$ 242,188,645
<i>Deferred inflows of resources</i>		
Interest rate swap	\$ 12,646,032	\$ 19,169,725
Total deferred inflows of resources	\$ 12,646,032	\$ 19,169,725
<i>Net position</i>		
Net investment in capital assets	\$ 312,595,550	\$ 297,286,102
Restricted for:		
Capital projects	23,726,036	39,494,069
Debt service	2,055,404	2,590,751
Unrestricted	118,118,519	112,105,675
Total net position	\$ 456,495,509	\$ 451,476,597

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

**GRAND STRAND WATER AND SEWER AUTHORITY**  
Statements of Activities

	For the years ended	
	June 30	
	2013	2012 As Restated
<i>Operating revenues</i>		
Water and sewer volume and availability fees	\$ 52,282,191	\$ 50,177,028
Customer charges	5,883,160	5,354,967
Surface water charges	6,773,344	6,324,150
Surface water treatment plant contract revenues	3,127,607	3,228,297
Other revenue	1,529,675	1,480,715
Total operating revenues	69,595,977	66,565,157
<i>Operating expenses</i>		
Personnel costs	18,418,252	16,905,059
Contractual services	13,721,247	11,414,221
Supplies and materials	10,408,212	9,409,350
Depreciation on assets acquired with:		
Authority funds	12,620,784	12,337,052
Contributed capital	10,417,318	10,424,442
Other expenses	2,081,857	1,932,813
Total operating expenses	67,667,670	62,422,937
Operating income	1,928,307	4,142,220
<i>Non-operating revenues (expenses)</i>		
Investment income (loss)	(368,606)	5,757,105
Loss on disposal of capital assets	(167,185)	(275,083)
Interest expense	(7,671,851)	(7,698,469)
Total non-operating expenses (net)	(8,207,642)	(2,216,447)
<i>Income/(Loss) before contributions</i>	(6,279,335)	1,925,773
<i>Capital contributions</i>		
Surface water treatment plant capacity fees	2,223,864	2,171,628
Government grants/contributions	532,307	129,379
Customer impact fees	4,557,327	3,653,858
Developer contributions	3,984,749	2,269,134
Total capital contributions	11,298,247	8,223,999
<i>Change in net position</i>	5,018,912	10,149,772
<i>Beginning net position, as previously reported</i>	451,476,597	442,676,923
Restatement	-	(1,350,098)
<i>Beginning net position, as restated</i>	451,476,597	441,326,825
<i>Net position, ending</i>	\$ 456,495,509	\$ 451,476,597

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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Statements of Cash Flows

	For the years ended	
	June 30	
	2013	2012
<i>Operating activities</i>		
Cash received from customers and users	\$ 67,033,865	\$ 67,371,545
Cash paid to suppliers	(26,137,209)	(23,122,475)
Cash paid to employees	(17,784,361)	(16,336,172)
Cash paid to OPEB trust	(464,324)	(504,436)
	22,647,971	27,408,462
<i>Capital and related financing activities</i>		
Acquisition and construction of capital assets	(24,551,918)	(14,595,816)
Capital contributions	6,990,555	5,924,853
Collections (increase) of receivables - grants and other	-	609,630
Interest paid on debt	(7,536,877)	(6,632,225)
Proceeds from issuance of debt	3,628,793	149,689,209
Principal paid on debt	(13,330,937)	(137,535,522)
Principal payments on capital lease obligations	(112,186)	(112,792)
Proceeds from sale of capital assets	111,008	68,530
	(34,801,562)	(2,584,133)
<i>Investing activities</i>		
Purchase of investments	(45,538,166)	(47,141,401)
Proceeds from sale of investments	40,276,832	33,226,107
Interest and investment income received	2,663,888	5,781,123
	(2,597,446)	(8,134,171)
Net cash and cash equivalents used for investing activities	(2,597,446)	(8,134,171)
Net increase (decrease) in cash and cash equivalents	(14,751,037)	16,690,158
Cash and cash equivalents - beginning	32,691,191	16,001,033
Cash and cash equivalents - ending	\$ 17,940,154	\$ 32,691,191

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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Statements of Cash Flows

	For the years ended	
	June 30	
	2013	2012
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 1,928,307	\$ 4,142,220
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities		
Depreciation	23,038,102	22,761,494
(Increase) decrease in operating assets		
Receivables - customers and assessments	(2,690,111)	660,726
Inventories	(223,810)	(41,857)
Prepays	(46,971)	(69,569)
Increase (decrease) in operating liabilities		
Accounts payable	344,888	(254,665)
Accrued salaries and compensated absences	169,567	114,676
Customer security and tap deposits	127,999	145,662
Net OPEB obligation	-	(50,225)
Net cash provided by operating activities	<b>\$ 22,647,971</b>	<b>\$ 27,408,462</b>
<i>Noncash capital and related financing activities</i>		
Developer contributions	\$ 3,984,749	\$ 2,269,134
Government contributions	344,182	-
Capitalized interest expense	509,930	-
Unrealized depreciation in fair value of investments	(1,308,151)	(409,860)
Total noncash capital and related financing activities	<b>\$ 3,530,710</b>	<b>\$ 1,859,274</b>
<i>Reconciliation of cash and cash equivalents</i>		
Unrestricted cash and investments - beginning	\$ 93,634,781	\$ 78,386,889
Restricted cash and investments - beginning	47,092,897	31,942,208
	140,727,678	110,329,097
Investments with original maturity dates over ninety days	(108,036,487)	(94,328,064)
Cash and cash equivalents - beginning	<b>\$ 32,691,191</b>	<b>\$ 16,001,033</b>
Unrestricted cash and investments - ending	\$ 96,860,057	\$ 93,634,781
Restricted cash and investments - ending	30,983,447	47,092,897
	127,843,504	140,727,678
Investments with original maturity dates over ninety days	(109,903,350)	(108,036,487)
Cash and cash equivalents - ending	<b>\$ 17,940,154</b>	<b>\$ 32,691,191</b>

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

**GRAND STRAND WATER AND SEWER AUTHORITY**  
Statement of Fiduciary Net Position  
Other Postemployment Benefit Pension Trust Fund  
June 30, 2013

<i>Assets</i>	
Cash in money market account	\$ 289,212
Investments	
US Government Agency Bonds/Notes	1,304,343
US Government Notes	356,963
US Government Bonds	212,344
US Government Inflation Bonds	45,064
Total investments	<u>1,918,714</u>
Total assets	<u>\$ 2,207,926</u>
 <i>Liabilities</i>	
Benefits payable	<u>\$ -</u>
 <i>Net Position</i>	
Held in trust for other postemployment benefits	<u><u>\$ 2,207,926</u></u>

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

**GRAND STRAND WATER AND SEWER AUTHORITY**  
Statement of Changes in Fiduciary Net Position  
Other Postemployment Benefit Pension Trust Fund  
June 30, 2013

*Additions*

Investment income	
Net depreciation in fair value of investments	\$ (68,158)
Interest income	61,895
Total investment loss	(6,263)
Contributions	
Employer	427,419
Plan members	36,905
Total contributions	464,324
Total additions	458,061

*Deductions*

Benefits paid	115,967
Change in net position	342,094

*Net position held in trust for other postemployment benefits,*

Beginning of year	1,865,832
End of year	\$ 2,207,926

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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### *Description of Government Unit*

The Grand Strand Water and Sewer Authority (GSWSA) was created pursuant to the provisions of Act No. 337 enacted during the 1971 Session of the General Assembly of the State of South Carolina as a body politic and corporate. The principal functions of GSWSA are to acquire supplies of fresh water, distribute the water for industrial and domestic use within its service area and to acquire, construct, operate and maintain sewage treatment and collection facilities as GSWSA deems necessary.

The direct service area of GSWSA is presently defined to include all of the geographic area of Horry County except for those areas included (1) within an incorporated municipality which owns and operates a water and/or sewer system, (2) within the service area of Little River Water and Sewerage Company, Inc. and (3) within the areas immediately adjacent to the Bucksport Water System, Inc., water service area. Pursuant to agreements entered into between the Authority and certain municipalities, such municipalities currently provide water and sewer service to limited unincorporated areas contiguous to such municipalities.

#### *Reporting Entity*

GSWSA has established criteria for determining the scope of the reporting entity for financial statement presentation, in accordance with certain accounting standards related to the financial reporting entity. GSWSA's Board is appointed by the Governor of the State of South Carolina based upon recommendation by local delegation. Accordingly, an accountability perspective has been the basis for defining the financial reporting entity. These financial statements present the government and all of its activities for which GSWSA's Board is accountable. There are no other political subdivisions or entities which should be included in the reporting entity of GSWSA.

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

GSWSA's financial statements are presented on the full accrual basis in accordance with generally accepted accounting principles. GSWSA applies all relevant Government Accounting Standards Board (GASB) pronouncements, as well as when applicable, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements. GSWSA has elected not to adopt the provisions of FASB which relate to accounting for the effects of certain types of regulation.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### *Basis of Presentation, Accounting and Measurement Focus, continued*

The accounting and financial reporting treatment applied is determined by its measurement focus. The transactions of GSWSA are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with operations are included on the balance sheet. Net position (i.e. total assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources) are segregated between net investment in capital assets; net position restricted for capital projects and for debt service; and unrestricted net position. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

All activities of GSWSA are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, and accountability.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* revenues and expenses. Operating revenues and expenses generally result from providing services and producing or delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of GSWSA are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the statement of net position date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results could differ from those estimates.

GSWSA also uses a fiduciary fund to report certain other post employment benefits (OPEB). The OPEB Pension Trust Fund accounts for the activities of a pension trust fund that accumulates resources for the OPEB plan and pays benefits to qualified employees.



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### *Budgets and Budgetary Accounting*

The Board of Directors adopts a current expense budget and a capital budget for GSWSA. The current expense budget details GSWSA's plans to receive and expend funds for charges incurred for operation, maintenance, interest and other charges for the ensuing fiscal year. The capital budget details the plan to receive and expend funds for capital projects. Prior to July 1, the budget is enacted by the passage of a resolution.

The Chief Executive Officer is authorized to transfer appropriations between departments and divisions in the current operating budget. Transfers of appropriations between capital projects in the capital budget may be authorized by the Board of Directors by resolution.

All unexpended and unencumbered appropriations in the current expense budget remaining at the end of the fiscal year will lapse. No appropriation for a capital project in the capital budget lapses until the purpose, for which the appropriation was made, has been accomplished or abandoned.

Budgets are adopted on a basis that approximates generally accepted accounting principles, except for debt service payments, capital expenditures and departmental transfers, which are budgeted on a cash basis.

#### *Deposits and Investments*

For purposes of reporting cash flows, GSWSA's policy is to include in cash and cash equivalents, all cash on hand, cash on deposit, and all investments with an original maturity of 90 days or less.

GSWSA invests through various investment advisors. It also invests in a pool managed by the South Carolina State Treasurer. Investments of GSWSA include certificates of deposit, repurchase agreements, guaranteed investment contracts and United States or State of South Carolina general obligations.

GSWSA has adopted the provisions of GASB Statement No. 31 entitled, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As required by GASB Statement No. 31, investments are reported at fair value in the financial statements. Related changes in the fair value of investments are included as an element of investment income.

GSWSA has funds invested in the South Carolina Local Government Investment Pool which is encouraged by the South Carolina State Treasurer. Funds deposited by legally defined entities into the pool are used to purchase investment securities as follows: direct obligations of U.S. Government securities; federal agency securities; repurchase agreements secured by the U.S. Government and/or federal agency securities; and A1/P1 commercial paper.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### Receivables

Customer accounts are reported net of allowance for doubtful accounts and represent various volume, availability and service fees earned but not yet collected. Cycle billings at year-end are estimated to record revenues earned through year-end. Receivables include approximately \$7,991,552 and \$4,158,154 in revenues earned through year-end but not yet billed as of June 30, 2013 and 2012, respectively. Recurring consumption and capacity fees from residential and commercial customers are recognized as operating revenues, whereas Bull Creek Surface Water Treatment Plant bulk consumption and capacity sales to other service providers (generally other local governments) are recognized as operating revenues and capital contributions.

#### Inventories

Materials and supply inventories are stated at the lower of average cost or market value.

#### Restricted Assets

Restricted asset accounts were established to account for assets reserved for specific purposes. Funds designated by certain revenue bond indentures and revolving loan agreements are recorded as restricted assets. The bond and loan agreements require the establishment of construction accounts, current debt service accounts, future debt service accounts, and depreciation and contingency accounts. Deposits are made to the restricted asset accounts in amounts determined by the bond indenture.

#### Capital Assets, Capacity Rights and Depreciation

Capital assets if acquired by purchase or constructed by GSWSA are recorded at cost. Assets acquired through contributions from developers or other entities are capitalized at their estimated fair market value, if available, or at the engineers' estimated fair market value or cost to construct at the date of the contribution. Acquired utility systems assets from other service providers (typically local governments) are recorded at the lower of the prior service provider's net book value or fair value, with the cost and accumulated depreciation recorded. GSWSA allocates overhead to construction projects based on the direct labor charges to each project. GSWSA's policy is to capitalize assets in excess of \$2,500. Assets are depreciated using the straight-line method. Depreciation is calculated using the following estimated useful lives:

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### *Capital Assets, Capacity Rights and Depreciation, continued*

	<u>Years</u>
Utility plant and equipment	7 - 45
Buildings and leaseholds	14 - 50
Vehicles	3 - 10
Machinery, equipment and furniture	5 - 10

Costs of studies that directly result in specific construction projects are capitalized. Significant costs applicable to long range projects and amounts not specifically chargeable to individual projects are charged to operations.

Interest cost is capitalized on the construction of qualified capital assets, except for small projects for which the construction cost is less than \$250,000 and the construction period is less than six months. Interest is not capitalized on assets acquired or constructed with gifts and grants (e.g. contributions, special assessments, impact fees) that are restricted by the donor or grantor to acquisition of those assets to the extent that funds are available from such grants and gifts.

GSWSA records the entire cost of water and wastewater systems which it owns, operates and controls. This includes the cost of certain capacity rights purchased from other utilities. The cost of these capacity rights are included in utility plant and are depreciated over a useful life of 7 - 45 years.

#### *Long-Term Obligations*

Long-term obligations are reported at face value. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are recorded net of applicable premiums and discounts.

#### *Accrued Compensated Absences*

It is GSWSA's policy to permit its employees to accumulate earned, but unused vacation benefits, which will be paid to the employees upon separation from service to GSWSA. These vacation benefits are accrued in the period earned. The current portion of compensation for future absences liability is an estimate based upon the average annual payments to employees for vacation benefits.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### *Deferred Outflows/Deferred Inflows of Resources*

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. GSWSA has two items that qualify for reporting in this category, the deferred charge on refunding reported in the statement of net position and the deferral of the interest rate swaps. A deferred charge on refunding 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 to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. GSWSA has only one item that qualifies for reporting in this category, the value of the interest rate swaps. GSWSA entered into the interest rate swap agreement to modify interest rates on outstanding debt. The fair value of the Swaps, fair value of the Embedded Instrument, the Companion Debt, and the Accrued Interest on the Companion Debt are reported in the financial statements.

#### *Non-exchange Transactions*

During the fiscal year ended June 30, 2001, GSWSA implemented the provisions of accounting standards related to accounting and financial reporting for non-exchange transactions. Non-exchange transactions involve financial or capital resources in which a government either gives value to another party without receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The standards established by the statement require that capital contributions, such as government grants, customer impact fees and developer contributions, be recorded in the financial statements as revenues.

#### *Revenues and the Rate Structure*

Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital costs related to nonreplacement oriented assets (utility plants), depreciation expense on capital replacement assets (vehicles, pumps, motors), and principal and interest expenditures.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### *Revenues and the Rate Structure, continued*

Availability Fees - This charge is related to the potential demand that each customer places on the system. The costs are allocated to non-bulk customers (residential and others) and bulk customers. Non-bulk customer's costs are divided by the appropriate number of resident equivalent units to arrive at a monthly availability charge. Net capital costs allocated to bulk customers are recovered through its volume charge. This is a monthly charge and provides no minimum usage allowance. The basic philosophy behind this charge is to equitably match cost with usage at lower consumption levels.

Surface Water Charges - During fiscal year 1988, GSWSA initiated the surface water charge to customers which represents a monthly fixed charge per residential equivalent unit to recover the cost of compliance with the Safe Drinking Water Act. The revenues are available for the construction and operation of the Bull Creek Surface Water Treatment Plant and maintenance of the system.

Surface Water Treatment Plant Contract Revenues and Capacity Fees - These sales represent water sales from GSWSA's Bull Creek Regional Water Treatment and Transmission System (referred to as the Surface Water Treatment Plant (SWTP) to other local government utilities who resell water to their customers. Sales based on water consumption are recorded as operating revenues. Sales based on capacity sold to participants are recorded as capital contributions. The revenues have not been reduced for certain water sold back to GSWSA under transmission and distribution arrangements. Such repurchased water is recorded in the expense accounts.

#### *Net Position*

Net position is comprised of various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified into the following three components: (1) net investment in capital assets; (2) restricted for capital projects and debt service; and, (3) unrestricted.

Net investment in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt and other liabilities that are attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds is excluded from the determination.

Net position restricted for capital projects and debt service consists of net assets for which constraints are placed thereon by external parties such as lenders, services for grantors, contributors, laws, regulations and enabling legislation.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### *Net Position, continued*

Unrestricted net position consists of all other net assets not included in the above two categories. The unrestricted net positions at June 30, 2013 and 2012 include \$3,215,062 and \$3,214,779, respectively, maintained in a rate stabilization account as designated by the Board of Directors. This fund consists of excess operating and maintenance revenues at year end which are not re-budgeted and may only be used or expended by the Board to provide for unanticipated emergencies (e.g. major natural disaster or loss of a major customer) which could otherwise result in spiked rate (i.e. revenue) increases. This fund is periodically reviewed to ensure that it is adequate.

#### *Comparative Data*

Some prior year amounts have been reclassified for comparative purposes.

#### *Subsequent Events*

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 12, 2013, the date the financial statements were available for issue.

### **NOTE 2 - DEPOSITS AND INVESTMENTS**

Cash and cash equivalents consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Petty cash	\$ 5,100	\$ 4,500
Cash deposits	15,128,622	29,008,206
Repurchase agreements	-	45,424
Money market deposits	2,784,824	3,611,505
Investment pool deposits	<u>21,608</u>	<u>21,556</u>
Total cash and cash equivalents	<u>\$ 17,940,154</u>	<u>\$ 32,691,191</u>

#### *Deposits*

At June 30, 2013 and 2012, the carrying amount of GSWSA's deposits in financial institutions was \$17,913,446 and \$32,619,711. The financial institutions' balances totaled \$18,778,644 and \$35,202,003, which were insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with securities, held by agents and/or by pledging financial institutions trust departments or agents, both in GSWSA's name. Petty cash on hand was \$5,100 and \$4,500 for fiscal years 2013 and 2012, respectively.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 2 - DEPOSITS AND INVESTMENTS, Continued**

#### *Deposits, continued*

Custodial credit risk is the risk that in the event of a bank failure GSWSA's deposits may not be returned. GSWSA's deposit policy for custodial credit risk is that no cash balances exceed the amount covered by FDIC insurance or collateralized with securities.

#### *Investments*

*Custodial credit risk* - For an investment, this is the risk that, in the event of the failure of the counterparty, GSWSA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. GSWSA's investment policy addresses custodial credit risk by requiring that investment balances are held by a third party custodian.

At June 30, 2013 and 2012, GSWSA had the following investments which were uninsured, unregistered and held by GSWSA's brokerage firm which is also the counterparty for those particular securities.

<u>Investment Type</u>	<u>2013 Fair Value</u>	<u>2012 Fair Value</u>
Federal Home Loan Mortgage	\$ 17,656,542	\$ 11,120,353
Federal National Mortgage	16,614,085	15,458,973
Federal Farm Credit Banks	3,623,036	2,202,515
Federal Home Loan Bank	6,705,287	9,603,017

*Credit Risk* – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GSWSA has adopted an investment policy which limits investments according to South Carolina State Statute 6-5-10 as may be amended from time to time, for investments by political subdivisions. According to the investment and securities schedule below, GSWSA had certain investments which were rated by Standard and Poor's.

*Concentration of Credit Risk* – The risk of overexposure to a single asset or market. GSWSA's investment policy is to instruct the Investment Managers to structure the portfolio based on principles of diversification. As presented in the schedule below, GSWSA had certain investments with issuers that were as much as 47.52% of their investment portfolio.

*Interest Rate Risk* – The risk that changes in interest rates will adversely affect the fair value of an investment. GSWSA's investment policy permits investment terms ranging from overnight to twelve years with the exception of mortgage pass through securities with normal maturities greater than ten years, if their average life is expected to be ten years or less.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

As of June 30, 2013, GSWSA had the following investments and maturities.

Investment Type	Investment Maturities (in years)					Credit Rating	As a % of Total Investments
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10		
U.S. Treasuries	\$ 52,224,941	\$ 6,088,873	\$26,977,546	\$ 19,158,522	\$ -	AA+	47.52%
Corporate Bonds	884,799	-	884,799	-	-	AA+	0.80%
Federal Farm Credit Bank	3,623,036	2,203,802	-	1,419,234	-	AA+	3.30%
Federal Home Loan Bank	6,705,287	2,071,472	4,153,515	480,300	-	AA+	6.10%
Federal Home Loan Mortgage Corporation	17,656,542	341,514	3,491,758	10,374,910	3,448,360	AA+	16.06%
Federal National Mortgage Association	16,614,085	903,236	9,740,590	1,325,871	4,644,388	AA+	15.12%
Government National Mortgage Association	11,634,584	-	2,567	-	11,632,017	AA+	10.59%
Municipal Bonds	560,076	560,076	-	-	-	AA+	0.51%
	<u>\$109,903,350</u>	<u>\$ 12,168,973</u>	<u>\$45,250,775</u>	<u>\$ 32,758,837</u>	<u>\$ 19,724,765</u>		<u>100.00%</u>

#### Investment in Real Estate

*Bucksport Marina* - On February 26, 2010, GSWSA acquired the Bucksport Marina for \$3,510,674 as an Investment in Real Estate. As of June 30, 2013, GSWSA had invested an additional \$1,385,848 to upgrade the facility. The investment is a joint effort with other local organizations to provide further economic development for the surrounding areas with a proposed Marine Park. The investment is recorded at acquisition cost plus the cost to upgrade.

Since GSWSA's core operations are primarily for water and wastewater, they have entered into an agreement with a company to operate and manage the marina.

Due to the ownership and operation of the marina being unrelated to the utility operations of GSWSA, the State of South Carolina Insurance Reserve Fund could not provide coverage on the marina. Therefore, GSWSA acquired insurance from People's Underwriters, Inc. to cover General Liability & Docks, Property, Pollution and Excess insurance coverage through an annual premium of approximately \$6,450.



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance <u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	Disposals/ <u>Transfers</u>	Balance <u>June 30, 2013</u>
Capital assets not being depreciated					
Land and easements	\$ 49,047,980	\$ 543,591	\$ (904)	\$ -	\$ 49,590,667
Construction-in-progress	<u>6,146,782</u>	<u>18,783,273</u>	<u>-</u>	<u>(13,020,738)</u>	<u>11,909,317</u>
	<u>55,194,762</u>	<u>19,326,864</u>	<u>(904)</u>	<u>(13,020,738)</u>	<u>61,499,984</u>
Capital assets being depreciated					
Utility plant	689,689,684	8,596,885	(825,936)	13,020,738	710,481,371
Buildings and leaseholds	9,467,341	7,955	-	-	9,475,296
Vehicles	7,619,740	516,417	(372,091)	-	7,764,066
Machinery, equipment and furniture	<u>14,016,869</u>	<u>1,261,467</u>	<u>(268,673)</u>	<u>-</u>	<u>15,009,663</u>
	<u>720,793,634</u>	<u>10,382,724</u>	<u>(1,466,700)</u>	<u>13,020,738</u>	<u>742,730,396</u>
Accumulated depreciation for:					
Utility plant	(227,382,854)	(21,050,411)	550,486	-	(247,882,779)
Buildings and leaseholds	(2,477,215)	(308,263)	-	-	(2,785,478)
Vehicles	(5,781,110)	(651,449)	372,091	-	(6,060,468)
Machinery, equipment and furniture	<u>(10,750,911)</u>	<u>(1,027,979)</u>	<u>266,834</u>	<u>-</u>	<u>(11,512,056)</u>
	<u>(246,392,090)</u>	<u>(23,038,102)</u>	<u>1,189,411</u>	<u>-</u>	<u>(268,240,781)</u>
	<u>\$ 529,596,306</u>	<u>\$ 6,671,486</u>	<u>\$ (278,193)</u>	<u>\$ -</u>	<u>\$ 535,989,599</u>

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 3 - CAPITAL ASSETS AND DEPRECIATION, Continued

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance <u>June 30, 2011</u>	Additions	Retirements	Disposals/ Transfers	Balance <u>June 30, 2012</u>
Capital assets not being depreciated					
Land and easements	\$ 49,008,559	\$ 42,421	\$ (3,000)	\$ -	\$ 49,047,980
Construction-in-progress	<u>6,060,642</u>	<u>12,785,470</u>	<u>-</u>	<u>(12,699,330)</u>	<u>6,146,782</u>
	<u>55,069,201</u>	<u>12,827,891</u>	<u>(3,000)</u>	<u>(12,699,330)</u>	<u>55,194,762</u>
Capital assets being depreciated					
Utility plant	675,469,413	2,254,134	(733,193)	12,699,330	689,689,684
Buildings and leaseholds	9,457,731	9,610	-	-	9,467,341
Vehicles	6,768,129	852,362	(751)	-	7,619,740
Machinery, equipment and furniture	<u>12,746,030</u>	<u>1,498,460</u>	<u>(227,621)</u>	<u>-</u>	<u>14,016,869</u>
	<u>704,441,303</u>	<u>4,614,566</u>	<u>(961,565)</u>	<u>12,699,330</u>	<u>720,793,634</u>
Accumulated depreciation for:					
Utility plant	(207,092,653)	(20,689,778)	399,577	-	(227,382,854)
Buildings and leaseholds	(2,164,700)	(312,515)	-	-	(2,477,215)
Vehicles	(5,114,969)	(666,892)	751	-	(5,781,110)
Machinery, equipment and furniture	<u>(9,879,226)</u>	<u>(1,092,309)</u>	<u>220,624</u>	<u>-</u>	<u>(10,750,911)</u>
	<u>(224,251,548)</u>	<u>(22,761,494)</u>	<u>620,952</u>	<u>-</u>	<u>(246,392,090)</u>
	<u>\$ 535,258,956</u>	<u>\$ (5,319,037)</u>	<u>\$ (343,613)</u>	<u>\$ -</u>	<u>\$ 529,596,306</u>

Direct and indirect costs of GSWSA's construction and engineering departments were capitalized in the amount of \$3,423,145 and \$3,308,745 during 2013 and 2012, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$509,930 and \$0 during 2013 and 2012, respectively.

Utility plant includes all of GSWSA's water and wastewater systems, including the following systems for which capacity rights or systems have been purchased or sold.

**Bucksport Composting Facility** - During 2010 and 2011, GSWSA constructed the Bucksport Composting Facility, a regional composting facility to eliminate the need to either landfill sludge or treat sludge in unlined lagoons. The regional sludge composting facility will accommodate the sludge processing needs of numerous GSWSA wastewater treatment facilities. As of June 30, 2013, \$4,108,170 had been spent on the construction of the new facility.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 3 - CAPITAL ASSETS AND DEPRECIATION, Continued**

**Mullins Systems** - During April 2012, GSWSA entered into a Grant of Franchise and Purchase Sale Agreement with the City of Mullins, whereby GSWSA acquired the Mullins Water and Wastewater Systems resulting in an increase in capital assets of approximately \$3,454,577. Customers in this service area pay rates based on GSWSA's contract with the City of Mullins. GSWSA initially served approximately 2,220 additional customers as a result of this arrangement. GSWSA began providing services to Mullins customers as of September 15, 2012.

**Lake View Systems** - On July 24, 2012, GSWSA entered into a Grant of Franchise and Purchase and Sale Agreement with the Town of Lakeview, whereby GSWSA acquired the Lake View Water and Sewer Systems resulting in an increase in capital assets of approximately \$829,377. Customers in this service area pay rates based on GSWSA's contract with the Town of Lake View. GSWSA initially served approximately 431 additional customers as a result of this arrangement. GSWSA began providing services to Lake View customers as of December 12, 2012.

### **NOTE 4 - CAPITAL LEASE**

GSWSA entered into a lease agreement as lessee for financing the acquisition of the Loris Wastewater Treatment Plant. The lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The capitalized cost of the asset was \$1,678,800. Related amortization of \$16,205 has been included with depreciation expense.

During fiscal year 2004, the City of Loris refinanced the revenue bond associated with the capital lease agreement. As a result, the terms of the lease were reduced by eleven years and the interest rate was lowered from 5.9% to 3.6%, saving GSWSA \$1,073,691.

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2013 are as follows:

2014	\$	144,352
2015		144,352
2016		144,352
2017		144,352
2018		144,352
2019		<u>24,058</u>
Total minimum lease payments		745,818
Less amount representing interest		<u>(66,181)</u>
Present value of minimum lease payments	\$	<u>679,637</u>

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT

The original issue amount of current outstanding debt as of June 30, 2013 was \$258,254,066. Bonds, notes and state revolving loans payable at June 30, 2013 and 2012 are composed of the following individual issues.

	<u>2013</u>	<u>2012</u>
<u>Series 2003</u> Waterworks and Sewer System Refunding Revenue Bonds. Secured by gross revenues from Utility System. Current interest paying serial bonds; due in annual principal installments beginning June 1, 2013, ranging from \$615,000 to \$920,000 through June 1, 2018; interest at 3.58% per annum; due June 1.	\$ 3,727,445	\$ 4,342,445
<u>Series 2007</u> Waterworks and Sewer System Improvement Revenue Bond. Secured by net revenues of the system. Current interest paying serial bond; due in annual principal installments beginning December 1, 2012, ranging from \$590,000 to \$850,000 through December 1, 2022; semiannual interest at 2.59%; due June 1 and December 1.	7,250,000	7,840,000
<u>Series 2008</u> Waterworks and Sewer System Improvement Revenue Bond. Secured by net revenues of the system. Current interest paying serial bond; due in twelve annual principal installments of \$715,000 until 2023; semiannual interest at 3.36%; due June 1 and December 1.	7,865,000	8,580,000
<u>Series 2011A</u> Bonds; due in annual principal installments beginning June 30, 2020 ranging from \$710,000 to \$1,680,000 during 2020 through 2041; interest at 3.0% to 5.0% per annum; due June 30.	24,325,000	24,325,000
<u>Series 2011B</u> Bonds; due in annual principal installments beginning June 30, 2013 ranging from \$610,000 to \$2,975,000 during 2013 through 2023; interest at 3.0% to 5.0% per annum; due June 30.	24,855,000	27,710,000

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

	2013	2012
<u>Series 2011C</u>		
Bonds; due in annual principal installments beginning June 30, 2013 ranging from \$3,870,000 to \$4,335,000 during 2013 through 2019; interest at 0.937% to 3.256% per annum; due June 30.	24,540,000	28,410,000
 <u>Series 2012</u>		
Bonds; due in annual principal installments beginning June 1, 2013 ranging from \$675,000 to \$6,340,000 during 2013 through 2031, principal payments due June 1; interest at a variable rate per month calculated as 75% of the sum of 1 month LIBOR and 108 basis points, due on the 1st.	66,035,000	66,710,000
Total bonds payable	158,597,445	167,917,445
 <u>Burgess Community Collection System SRF</u>		
Note payable, including accrued interest, of \$11,722 to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 4.25%. Quarterly principal and interest payments of \$11,849 began on October 1, 1992. Payments of \$11,733 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total loan is \$636,424 with a maturity date of July 1, 2012. All revenue from the applicable systems is pledged for debt service.	-	11,667
 <u>Highway 905 Force Main SRF</u>		
Note payable, including accrued interest of \$7,975, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 4.0%. Quarterly principal and interest payments of \$28,364 began June 1, 1999. Payments of \$26,585 began on December 1, 2011 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$1,556,830 with a March 1, 2019, maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	572,049	664,219

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

	<u>2013</u>	<u>2012</u>
<u>Aynor Sewer System SRF</u> Note payable, including accrued interest of \$2,182, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$27,579 began February 1, 2000. Payments of \$26,253 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$1,581,949 with a maturity date of November 1, 2019. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	633,348	722,845
<u>Wampee Sewer System SRF</u> Note payable, including accrued interest of \$5,896, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$20,044 began April 1, 2000. Payments of \$19,052 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$1,149,705. The maturity date is January 1, 2020. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	476,011	540,598
<u>Tip Top Land Application SRF</u> Note payable, including accrued interest of \$337,554, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$289,557 began May 1, 2001. Payments of \$273,672 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$16,608,978 with a February 1, 2021 maturity date.	7,765,348	8,672,522

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

	<u>2013</u>	<u>2012</u>
<u>Buist Tract North Force Main SRF</u> Note payable, including accrued interest of \$5,557, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$19,404 began August 1, 2001. Payments of \$18,314 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$1,113,023 with a May 1, 2021 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	534,952	595,319
<u>Schwartz WWTP Improvements SRF</u> Note payable, including accrued interest of \$3,124 to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$48,400 began January 1, 2002. Payments of \$45,552 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$2,776,238 with a maturity date of October 1, 2021. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	1,406,089	1,554,567
<u>Conway WWTP Upgrade and Expansion SRF</u> Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$88,096 began August 1, 2003. Payments of \$81,113 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$4,942,568 with a May 1, 2023 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	2,898,156	3,153,795

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

	<u>2013</u>	<u>2012</u>
<u>Vereen WWTP Upgrade and Expansion SRF</u> Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly payments of \$127,662 began August 1, 2003. Payments of \$117,543 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$7,162,425 with a May 1, 2023, maturity. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	4,199,806	4,570,261
<u>Highway 319 Force Main SRF</u> Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$4,057 began October 1, 2003. Payments of \$3,729 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$227,611 with a July 1, 2023 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	136,207	147,894
<u>Schwartz WWTP Expansion – Phase I SRF</u> Note payable, including accrued interest of \$103,237, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.0%. Quarterly principal and interest payments of \$98,060 began June 1, 2006. Payments of \$93,134 began on December 1, 2011 when the loan was renegotiated with a 2.25% interest rate. Total approved loan of \$5,883,070 will mature on March 1, 2026. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	4,119,257	4,395,217



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

	<u>2013</u>	<u>2012</u>
<u>Schwartz WWTP Expansion – Phase II SRF</u> Note payable, including accrued interest of \$243,934, to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.5%. Quarterly principal and interest payments of \$210,590 began April 1, 2008. Payments of \$191,582 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan of \$12,079,472 will mature January 1, 2028. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	9,596,320	10,139,077
<u>Myrtle Beach WWTP Upgrade and Expansion SRF</u> Note payable, including accrued interest of \$182,154, to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.25%. Quarterly payments of \$162,101 began March 1, 2010. Payments of \$148,989 began on December 1, 2011 when the loan was renegotiated with a 2.25% interest rate. Total approved loan of \$9,508,249 will mature December 1, 2029. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	8,195,349	8,601,187
<u>Conway WWTP Odor Control Upgrade SRF</u> Note payable, including accrued interest of \$3,936, to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.25%. Quarterly principal and interest payments of \$53,953 began May 1, 2009. Payments of \$49,796 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$3,164,707 with a February 1, 2029 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	2,635,367	2,773,311

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

	<u>2013</u>	<u>2012</u>
<u>Highway 501 to Highway 544 Force Main SRF</u> Note payable, including accrued interest of \$143, to South Carolina State Budget and Control Board for Clean Water State Revolving Fund at 1.54%. Quarterly principal and interest payments of \$21,711 began August 1, 2010. Total approved loan of \$1,492,111 with May 1, 2030 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	1,293,493	1,360,491
<u>Vereen WWTP Discharge Relocation SRF</u> Note payable, including accrued interest of \$3,803, to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.5%. Quarterly principal and interest payments of \$25,266 began July 1, 2011. Payments of \$20,120 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan of \$1,290,000 will mature April 1, 2031. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	1,188,454	1,241,445
<u>Bucksport Composting Facility SRF</u> Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.5%. Quarterly principal and interest payments of \$62,447 began November 1, 2011. Payments of \$50,999 began on February 1, 2011 when the loan was renegotiated with a 2.25% interest rate. Total approved loan of \$3,241,486 with May 1, 2031 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	3,012,483	3,146,804

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

	2013	2012
<u>Bucksport Rapid Infiltration WWTP SRF</u>		
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 2.25%. Quarterly principal and interest payments beginning April 1, 2014. Total approved loan of \$21,503,390 with January 1, 2034 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.		
	3,628,793	-
Total notes payable	52,291,482	52,291,219
<u>Companion Instrument Debt</u>		
Advances payable comprising companion instrument debt related to an interest rate swap. Payments of principal and interest ranging from \$30,020 to \$315,872 at a rate of 5.34% began December 1, 2012 with all unpaid principal and interest due in June 2031.		
	5,704,336	6,086,743
Total debt, before deferrals	216,593,263	226,295,407
Unamortized revenue bond discount/premium	3,734,162	3,940,622
Unamortized deferred charge on refunding (less portion attributable to capital lease)	(3,771,678)	(4,146,962)
Total debt, net	216,555,747	226,089,067
Less current portion	(13,681,431)	(13,330,937)
Total long - term portion of debt	<b>\$ 202,874,316</b>	<b>\$ 212,758,130</b>

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

Remaining debt service payments at June 30, 2013 are as follows:

Date	Revenue Bonds		Companion Instrument Debt		State Revolving Loans		Total Principal	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2014	\$ 9,555,000	\$ 6,971,141	\$ 392,147	\$ 233,205	\$ 3,734,284	\$ 1,074,747	\$ 13,681,431	\$ 21,960,524
2015	9,655,000	6,701,996	401,963	216,665	3,927,685	1,050,708	13,984,648	21,954,017
2016	10,140,000	6,379,124	411,861	199,711	4,016,137	962,256	14,567,998	22,109,089
2017	10,630,000	6,015,545	412,239	182,477	4,106,608	871,786	15,148,847	22,218,655
2018	11,187,445	5,610,879	410,953	165,249	4,199,143	779,250	15,797,541	22,352,919
2019-2023	42,375,000	22,203,493	1,964,965	573,091	18,403,213	2,538,726	62,743,178	88,058,488
2024-2028	30,115,000	13,629,867	1,380,041	208,881	10,671,925	957,722	42,166,966	56,963,436
2029-2033	23,500,000	5,487,705	330,167	18,802	3,065,011	134,509	26,895,178	32,536,194
2034-2038	6,635,000	2,184,400	-	-	167,476	1,888	6,802,476	8,988,764
2039-2043	4,805,000	488,250	-	-	-	-	4,805,000	5,293,250
	<u>\$ 158,597,445</u>	<u>\$75,672,400</u>	<u>\$ 5,704,336</u>	<u>\$ 1,798,081</u>	<u>\$52,291,482</u>	<u>\$ 8,371,592</u>	<u>\$ 216,593,263</u>	<u>\$ 302,435,336</u>

Remaining debt service payments at June 30, 2012 were as follows:

Date	Revenue Bonds		Companion Instrument Debt		State Revolving Loans		Total Principal	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2013	\$ 9,320,000	\$ 7,193,067	\$ 382,407	\$ 249,337	\$ 3,628,530	\$ 1,135,779	\$ 13,330,937	\$ 21,909,120
2014	9,555,000	6,971,141	392,147	233,205	3,698,242	1,054,335	13,645,389	21,904,070
2015	9,655,000	6,701,996	401,963	216,665	3,781,477	971,100	13,838,440	21,728,201
2016	10,140,000	6,379,124	411,861	199,711	3,866,612	885,965	14,418,473	21,883,273
2017	10,630,000	6,015,545	412,239	182,477	3,953,690	798,886	14,995,929	21,992,837
2018-2022	46,287,445	24,170,595	2,009,550	656,540	18,794,566	2,655,998	67,091,561	94,574,694
2023-2027	30,945,000	15,164,872	1,542,347	271,157	10,875,355	998,873	43,362,702	59,797,604
2028-2032	28,785,000	6,994,226	534,229	38,326	3,692,747	118,898	33,011,976	40,163,426
2033-2037	6,345,000	2,473,900	-	-	-	-	6,345,000	8,818,900
2038-2042	6,255,000	801,000	-	-	-	-	6,255,000	7,056,000
	<u>\$ 167,917,445</u>	<u>\$82,865,466</u>	<u>\$ 6,086,743</u>	<u>\$ 2,047,418</u>	<u>\$52,291,219</u>	<u>\$ 8,619,834</u>	<u>\$ 226,295,407</u>	<u>\$ 319,828,125</u>

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

Long term liability activity including capital leases for the year ended June 30, 2013, are as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Companion Instrument Debt	\$ 6,086,743	\$ -	\$ 382,407	\$ 5,704,336	\$ 392,147
Bonds payable	167,917,445	-	9,320,000	158,597,445	9,555,000
Notes payable	52,291,219	3,628,793	3,628,530	52,291,482	3,734,284
Capital lease payable	791,823	-	112,186	679,637	121,883
Compensated Absences	1,313,692	693,020	575,411	1,431,301	532,484
Total liabilities	228,400,922	4,321,813	14,018,534	218,704,201	14,335,798
Less deferred amounts:					
Issuance discounts/premiums	3,940,622	-	206,460	3,734,162	-
Charge on refunding	(4,146,962)	-	(375,284)	(3,771,678)	-
Total	\$ 228,194,582	\$ 4,321,813	\$ 13,849,710	\$ 218,666,685	\$ 14,335,798

Long term liability activity including capital leases for the year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Companion Instrument Debt	\$ 5,279,688	\$ 807,055	\$ -	\$ 6,086,743	\$ 382,407
Bonds payable	153,643,869	148,380,000	134,106,424	167,917,445	9,320,000
Notes payable	54,936,108	784,209	3,429,098	52,291,219	3,628,530
Capital lease payable	904,615	-	112,792	791,823	112,186
Compensated Absences	1,264,669	575,299	526,276	1,313,692	490,359
Total liabilities	216,028,949	150,546,563	138,174,590	228,400,922	13,933,482
Less deferred amounts:					
Issuance discounts/premiums	58,308	4,147,082	264,768	3,940,622	-
Charge on refunding	(1,229,719)	(3,292,526)	(375,283)	(4,146,962)	-
Total	\$ 214,857,538	\$ 151,401,119	\$ 138,064,075	\$ 228,194,582	\$ 13,933,482

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 5 - LONG-TERM DEBT, Continued**

Revenue bonds are collateralized by an irrevocable pledge of income and revenues derived from the operation of the systems and a mortgage lien on the water and sewer systems. The revenues derived from the operation of the respective systems are to be used for the expenses in connection with the administration and operation of the systems. The revenue bonds also require the establishment of the following restricted asset bank accounts:

- Construction Accounts.
- Current Debt Service Accounts - for payment of bond principal and interest.
- Future Debt Service Accounts – a reserve for future payment of principal and interest.
- Depreciation and Contingency Fund - for restoring depreciated or obsolete capital assets.
- Capitalized Interest Account - for payment of bond interest until the project is completed at which time the current debt service will be used to pay principal and interest.
- Rebate Account - for the estimated liability to the federal government for interest earnings in excess of interest expense on tax-free revenue bonds.

Prior to June 30, 2012, the State Revolving Loan Fund made an amendment to all prior SRF loan policies which eliminated the reserve requirements for debt service reserve funds established for SRF Loans. As a result of the amendment, the State Revolving Loan Fund released \$5,166,350 of reserve funds to Grand Strand Water and Sewer Authority during the month of July 2012. In addition, the State Budget and Control Board reduced the interest rates on all existing SRF loans to 2.25%, with the exception of any loan with a lower interest rate.

On September 10, 2012, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina State Water Pollution Control Revolving Fund for \$21,503,390 with a current interest rate of 2.25%. The loan will provide proceeds for the project to construct a new 5 MGD wastewater treatment plant. The wastewater treatment plant will use rapid infiltration basins for the disposal of the treated wastewater. As of June 30, 2013, GSWSA received \$3,628,793.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

#### Derivatives:

GSWSA is a party to certain interest rate swap agreements, which are recorded in the financial statements. Following is a disclosure of key aspects of the agreements.

#### **Interest Rate Swaps**

Objective of the interest rate swap – To protect against the potential of rising interest costs, GSWSA has entered into a fixed-to-variable interest rate for the Bonds of 2012 Swap and a floating-to-fixed interest rate swap for the Bonds of 2003 Swap.

Terms – The terms, fair value and credit ratings of the outstanding swaps as of June 30, 2013 were as follows. The notional amounts match the principal amounts of the outstanding debt.

<u>Associated Bond Issue</u>	<u>2012 Bonds</u>	<u>2003 Bonds</u>
Notional amounts	\$ 66,710,000	\$ 4,342,445
Up-front payment	\$ 4,388,000	\$ -
Effective date	June 1, 2012*	April 1, 2003
Fixed payer rate	4.717%	3.580%
Variable receiver rate	70.00% of LIBOR	61.75% of LIBOR+ 80 BP
Fair value of swap	(\$12,388,842)	(\$257,190)
Termination date	June 1, 2031	June 1, 2018
Counterparty credit rating	A	A

\* On June 1, 2012 the swap providers took the option to enter into the swap agreement and as a result GSWSA received \$525,000 in exercise fees.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

Fair value – Both of the swap agreements had negative fair values as of June 30, 2013. Due to the current low-interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceeded the variable receiver rates. These swaps are based on a different variable receiver rate, which is partially responsible for the difference in performance.

Swap payments and associated debt - Assuming that interest rates remain the same at June 30, 2013, the debt service requirements on the Bonds of 2012 interest rate swap would be as follows:

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2014	\$ 710,000	\$ 631,856	\$ 3,024,220	\$ 4,366,076
2015	745,000	625,062	2,991,846	4,361,908
2016	1,780,000	617,934	2,957,725	5,355,659
2017	1,955,000	600,902	2,876,202	5,432,104
2018	2,150,000	582,195	2,786,664	5,518,859
2019 - 2031	58,695,000	4,522,504	21,646,858	84,864,362

Assuming that interest rates remain the same at June 30, 2013, the debt service requirements on the Bonds of 2003 interest rate swap would be as follows:

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2014	\$ 640,000	\$ 78,905	\$ 61,698	\$ 780,603
2015	665,000	66,047	51,644	782,691
2016	695,000	52,687	41,197	788,884
2017	810,000	34,705	27,137	871,842
2018	917,445	18,432	14,412	950,289

Credit risk – As of June 30, 2013, the fair value of the swaps were negative, therefore GSWSA is not subject to credit risk. However, at times when the fair values of the swaps are positive, GSWSA is exposed to credit risk in the amount of the derivative's fair value.



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 5 - LONG-TERM DEBT, Continued

Basis risk – GSWSA is exposed to basis risk on the swaps because the variable rate payments received by GSWSA on the derivative instruments are based on rates or indexes other than the interest rates GSWSA pays.

- Bonds of 2012 Swap – Exposed to basis risk through the potential mismatch of 70.00% of LIBOR and the SIFMA rate. As a result, savings might not be realized. As of June 30, 2013, the one month LIBOR rate was 0.1958% which places the SIFMA at approximately 31% of one month LIBOR at that date.
- Bonds of 2003 Swap – Exposed to basis risk through the potential mismatch of 61.75% of LIBOR plus 80 basis points and the SIFMA rate. As a result, savings might not be realized. As of June 30, 2013, the one month LIBOR rate was 0.1958% which places the SIFMA at approximately 31% of one month LIBOR at that date.

Termination risk – The risk that an unscheduled end to a derivative contract will affect the Authority's hedging strategy or will require the Authority to pay potentially significant unscheduled termination payments to the counterparty. The swap agreements will be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. The swap can be terminated due to illegality, a credit event upon merger, or an event of default and illegality. The swap can also be terminated if credit ratings fall below established levels.

Methods of evaluating effectiveness – Both swaps are effective hedges as of June 30, 2013.

Bonds of 2012 Swap – Regression analysis, a quantitative method, was used to determine that the Bonds of 2012 Swap is effective. The regression analysis method evaluates effectiveness by considering the statistical relationship between the cash flows or fair values of the companion debt instrument. The changes in cash flows or fair values of the companion debt instrument met or exceeded all the following criteria:

	Value	Test	Result
R <sup>2</sup>	0.80	> 0.80	PASS
F-Statistic	232	> 4.01	PASS
Regression Coefficient	1.23	0.80 to 1.25	PASS

Bonds of 2003 Swap – Consistent critical terms method was used to determine the effectiveness of the Bonds of 2003 Swap. The consistent critical terms method evaluates effectiveness by qualitative consideration of critical terms of the hedgeable item and the potential hedging derivative instrument. Based on management's evaluation, the critical terms of the 2003 bonds are consistent with the critical terms of the interest rate swap.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 6 - DEBT DEFEASANCE

On February 1, 2002, Grand Strand Water and Sewer Authority issued Waterworks and Sewer System Refunding Revenue Bonds, Series 2002 in order to defease the 2003 through 2007 and 2013 through 2019 series of the 1992 Refunding Waterworks and Sewer System Revenue Bonds in the amount of \$36,680,000. U.S. Government Securities were purchased and placed in an irrevocable trust for the purpose of generating resources to fully service the defeased bonds until the debt is called or defeased. As a result the 1992 Refunding Waterworks and Sewer System Revenue Bonds series 2003 through 2007 and 2013 through 2019 are considered defeased and GSWSA has removed the liabilities from its accounts. The reacquisition cost exceeded the net carrying amount of the old debt by \$2,752,162. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. The un-matured and outstanding principal balance on the defeased bonds at June 30, 2013 and 2012 was \$23,675,000 and \$26,875,000, respectively.

On November 16, 2011, Grand Strand Water and Sewer Authority issued Taxable Waterworks and Sewer System Refunding Revenue Bonds, Series 2011C in the amount of \$28,410,000. These proceeds were issued in order to defease the Waterworks and Sewer System Refunding Revenue Bonds, Series 2002 dated November 1, 2002. The Series 2002 Bonds mature June 1 in the years 2013 through 2019, which included \$27,470,000 of outstanding principal. U.S. Government Securities were purchased and placed in an irrevocable trust for the purpose of generating resources to fully service the defeased bonds until the debt is called or defeased. As a result, the 2002 Waterworks and Sewer System Refunding Revenue Bonds years 2013 through 2019 are considered to be defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$69,170. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. The issuance of the Bonds of 2011C resulted in a net present value savings of \$2,453,820. The un-matured and outstanding principal balance on the defeased bonds at June 30, 2013 and 2012 was \$24,135,000 and \$27,470,000, respectively.

In addition, on May 31, 2012, Grand Strand Water and Sewer Authority issued Waterworks and Sewer System Refunding Revenue Bonds, Series 2012 in the amount of \$66,710,000. The proceeds were issued in order to defease the Waterworks and Sewer System Refunding Revenue Bonds, Series 2001, dated November 14, 2001. The Series 2001 Bonds mature on June 1 in the years 2013 through 2031, inclusive of the outstanding principal amount of \$67,180,000. U.S. Government Securities were purchased and placed in an irrevocable trust for the purpose of generating resources to fully service the defeased bonds until the debt is called or defeased. As a result, the 2001 Waterworks and Sewer System Refunding Revenue Bonds years 2013 through 2031 are considered to be defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$2,897,678. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. The issuance of the Bonds of 2012 resulted in a net present value savings of \$2,297,913. The un-matured and outstanding principal balance on the defeased bonds at June 30, 2013 and 2012 was \$66,035,000 and \$66,710,000, respectively.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 7 - NET POSITION

Net position represents assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources. Net position amounts were as follows at June 30:

	2013	2012
Net investment in capital assets:		
Capital assets, net of depreciation	\$ 535,989,599	\$ 529,596,306
Less:		
Revenue bonds payable, net	(162,331,607)	(171,858,067)
Companion instrument debt payable	(5,704,336)	(6,086,743)
Notes payable	(52,291,482)	(52,291,219)
Capital lease payable	(679,637)	(791,823)
Contractors payable	(2,386,987)	(1,282,352)
Total	312,595,550	297,286,102
Restricted for:		
Capital projects	23,726,036	39,494,069
Debt service		
Debt service fund	2,055,404	2,635,442
Less accrued interest	-	(44,691)
Total	2,055,404	2,590,751
Unrestricted	118,118,519	112,105,675
Total net position	\$ 456,495,509	\$ 451,476,597

### NOTE 8 - EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN

All permanent employees participate in the South Carolina Retirement System (SCRS), a cost-sharing, multiple-employer public employee retirement system. The SCRS was established, effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws. Benefit provisions and both employee and employer contribution rates are established and amended under authority of Title 9 of the South Carolina Code of Laws. Annual covered payroll for fiscal years 2013 and 2012 for active members covered by the SCRS was \$12,356,657 and \$11,857,520, respectively. Annual covered payroll for fiscal years 2013 and 2012 for retired members was \$1,414,465 and \$922,688, respectively. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29221-1960.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 8 - EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN, Continued**

Benefits of the SCRS are established by the state statutes. The required employer and employee obligations to contribute to the SCRS are 10.60% and 7.00%, respectively for fiscal year 2013 and 9.54% and 6.50%, respectively for fiscal year 2012. All full time employees are covered under the plan beginning with the effective date of employment unless specifically exempted by legislation.

Under current statutes, membership in the SCRS is required as a condition of employment. Members of SCRS who joined prior to July 1, 2012 (Class II Members), must have five years of earned service (paid employment as an employee during which regular contributions are paid to the system) to be eligible to receive service or disability retirement benefits, receive a supplemental minimum payment, or to qualify a survivor for a monthly benefit after an in-service death. Members who join on or after July 1, 2012 (Class III members), must have at least eight years of earned service credit to qualify for a monthly annuity. This requirement does not apply to disability retirement eligibility if the disability is the result of a job-related injury.

If a member terminates employment prior to eligibility to retire, he can choose to leave his contribution on deposit or request a refund of his contributions plus interest. Class II members with at least five years of earned service or Class III members with at least eight years of earned service have the option to leave fund on deposit and later apply for a retirement annuity.

Class II Members who retire at age 65 or older with five years of earned service or Class II Members who retire after 28 years of service, five years of which must be earned, are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.82% of the employee's average final compensation (member's 12 highest consecutive quarters of earnable compensation plus annual leave payout) for each year of credited service. Class III Members who retire at age 65 or older with eight years of earned service or who meet the rule of 90 (i.e., the total of the member's age and creditable service equals at least 90 years) with at least eight years of earned service, are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.82% of the employee's average final compensation (member's 20 highest consecutive quarters of earnable compensation) for each year of credited service.

Class II Members who are at least 60 years of age with at least five years of earned service may elect early retirement in which case the full service benefit is reduced by 5% for each year the member's age at retirement is less than 65. In addition, Class II members may elect early retirement if they are at least 55 years of age or older with at least 25 years of service, five years of which must be earned. Benefit is permanently reduced 4% for each year of service less than 28. Class III members may elect early retirement at a minimum of age 60 with at least eight years of earned service. Benefit is permanently reduced 5% for each year of age less than 65.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 8 - EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN, Continued**

Each July 1, eligible SCRS retirees should receive a benefit adjustment, formerly referred to as a "cost of living adjustment" equal to 1% of their annual annuity up to a maximum of \$500 per year.

If a member dies while actively employed or not more than 90 days from the last day he earned regular compensation and earned regular service credit, the following benefits may be available to the active member's designated beneficiary:

- Refund of contributions (member contributions and interest);
- Monthly annuity (survivor annuity);
- Incidental death benefit payment (equivalent to one year's salary)

State statutes determine the levels of contributions required. GSWSA is required to contribute at the actuarially determined rates. SCRS member employees are required to contribute 7.00% of all compensation. GSWSA is required to contribute 10.45% of each member employee's compensation. In addition to the above rates, GSWSA has elected to contribute 0.15% of each member employee's compensation to provide group life insurance benefits for their participants. The contributions to the SCRS for employer and employee portions for 2013 were \$1,459,739 and \$961,540. GSWSA's contributions to the SCRS for the last three years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual Employer Contribution</u>	<u>Percentage Contributed Current Year</u>
June 30, 2011	\$ 1,185,438	100%
June 30, 2012	1,218,593	100%
June 30, 2013	1,459,739	100%

GSWSA provides post-employment healthcare benefits mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by GSWSA. At June 30, 2013 no employees had elected coverage under the Act. In 2012 one employee had elected this coverage.

GSWSA offers a defined contribution plan to its employees under a plan administered by the South Carolina Deferred Compensation Commission and established in accordance with Internal Revenue Code Section 401K. Employees are permitted to defer portions of their salaries which are subject to annual IRS limitations until future years. Only upon termination, retirement, disability, death or an approved hardship is the deferred compensation available to an employee.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 8 - EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN, Continued**

GWSWA recognizes the value of long term employment and wishes to reward this loyalty by increasing the amount it matches to an employee's Deferred Compensation Program as the years of employment increase. Grand Strand Water and Sewer Authority's contributions to its employees' 401K for the last three years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual Employer Contribution</u>
June 30, 2011	\$ 519,928
June 30, 2012	538,557
June 30, 2013	588,999

GWSWA offers a deferred compensation plan to its employees under a plan administered by the South Carolina Deferred Compensation Commission and established in accordance with Internal Revenue Code Section 457. Employees are permitted to defer portions of their salaries which are subject to annual IRS limitations until future years. Only upon termination, retirement, disability, death or an approved hardship is the deferred compensation available to an employee.

In 1996, Congress passed new legislation to govern IRC Section 457 plans. Specifically, the new legislation concludes that a plan shall not be treated as an eligible deferred compensation plan unless all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The South Carolina Deferred Compensation Commission has modified their plan to comply with the new legislative requirements. GASB Statement No. 32 was issued to address the financial reporting ramifications of the new federal legislation and states that a fiduciary relationship must exist for a governmental entity to report the balances and transactions related to the plan in its financial statements. According to the provisions of the statement, it was determined that a fiduciary relationship did not exist for GWSWA's IRC Section 457 plan.

### **NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN**

**Plan Description** - The Grand Stand Water and Sewer Authority's health care plan is a single-employer defined benefit care plan administered by GWSWA. The plan provides medical, dental and vision insurance benefits to eligible retirees. Benefits provisions are established and may be amended by GWSWA's Board of Directors. There are no other participating employers in the plan. Grand Strand Water and Sewer Authority issues a publicly available financial report that includes financial statements and required supplementary information for the health care plan. The financial report may be obtained by writing the Chief Financial Officer, Grand Strand Water and Sewer Authority, P.O. Box 2368, Conway, South Carolina 29528-2368.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued

**Funding Policy** – The contribution requirements of plan members and GSWSA are established and may be amended by the Board of Directors. GSWSA employees receiving benefits contribute \$161 per month for retiree only, \$673 per month for retiree and spouse, \$587 for retiree and children and \$1,074 for family coverage to age 65, and thereafter. GSWSA has been contributing at a rate that is based on an actuarial valuation that is prepared in accordance with certain parameters.

**Annual OPEB Cost** - GSWSA's annual OPEB cost of \$427,419 is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of certain accounting standards related to accounting and financial reporting by employees for post employment benefits other than pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

GSWSA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net negative OPEB obligations for fiscal years 2011, 2012 and 2013 were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	562,000	79%	50,225
2012	427,607	112%	-
2013	427,419	100%	-

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued

The components of GSWSA's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation are as follows:

Annual required contribution	\$ 427,419
Interest on OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	427,419
Contributions made	<u>(427,419)</u>
Decrease in net OPEB obligation	-
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ -</u></u>

Funded Status and Funding Progress – The funded status of the plan as of July 1, 2011, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 5,902,477
Actuarial value of plan assets	<u>(1,437,355)</u>
Unfunded actuarial accrued liability	<u><u>\$ 4,465,122</u></u>
Funded ratio (actuarial value of plan assets (AAL))	24.4%
Covered payroll (active plan members)	\$ 11,844,331
UAAL as a percentage of covered payroll	37.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued**

On July 1, 2011 an updated actuarial valuation was completed which takes into account the change in insurance carriers to United Healthcare effective January 1, 2012. The change in insurance carriers resulted in lower premium rates. The entry age normal (level percent of pay) cost method was used for the valuation. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), and a Pre-Medicare medical trend rate of 10.5% and Medicare-eligible medical trend rate of 8.5% decreasing each year until an ultimate rate of 5.0% is reached. Also, the actuarial assumptions included a 2.5% annual salary rate increase and 2.5% for an annual inflation rate. The UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at June 30, 2013 was 30 years.

**Summary of Significant Accounting Policies** - The financial statements for the health care plan are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value in an irrevocable trust, which, for the Plan, is determined by the mean of the most recent bid and ask prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the GSWSA Board of Directors.

### **NOTE 10 - MAJOR CUSTOMER**

During fiscal year 2013, the following customers provided the indicated percentages of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 15.2%, City of Conway 4.8%, City of North Myrtle Beach 5.1%, and Little River Water and Sewerage Company 2.5%. No other customers provided more than 0.96%.

During fiscal year 2012, the following customers provided the indicated percentages of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 16.2%, City of Conway 5.0%, City of North Myrtle Beach 5.4%, and Little River Water and Sewerage Company 2.8%. No other customers provided more than 0.85%.

### **NOTE 11 - RISK MANAGEMENT**

GSWSA is exposed to various risks of loss relating to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters. To insure against casualty risks GSWSA is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments in South Carolina. GSWSA pays annual premiums to the State Insurance Reserve Fund for its general insurance. The State Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 11 - RISK MANAGEMENT, Continued**

GWSA acquires insurance from the State Accident Fund for job related injury and illness (Worker's Compensation) to its employees. Worker's Compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. Health insurance, from a private insurer, unlimited lifetime claims per employee, was in place. General blanket fidelity bond insurance in the amount of \$75,000 per employee was also maintained. There were no significant reductions in insurance coverage from the previous year and no settlements have exceeded insurance coverage for the past three fiscal years ended June 30, 2013, 2012 and 2011.

During 2013 and 2012, GWSA did not experience any material uninsured claims. Accordingly, there was no liability or expense recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

### **NOTE 12 - COMMITMENTS**

**Construction Contracts** - In the normal course of business, GWSA enters into agreements with contractors for the construction and expansion of the system. At June 30, 2013, open contracts for construction totaled approximately \$22,646,439 with \$8,553,689 having been incurred during the year. At June 30, 2012, open contracts for construction totaled approximately \$4,529,672 with \$3,288,275 having been incurred during the year. The remaining commitments at June 30, 2013 and 2012 were \$14,092,750 and \$1,241,397, respectively.

**State Revolving Loan** - On July 30, 2013, GWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina Water Quality Revolving Fund for \$4,747,694 with a current interest rate of 1.90%. The loan will provide proceeds for the project to increase flows and pressures to the northern portion of the Bull Creek system in preparation for the interconnection between the GWSA Bull Creek Water Supply System and the GWSA Myrtle Beach Water Supply System.

### **NOTE 13 - CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2013, GWSA implemented Governmental Accounting Standards Board (GASB) Statements Nos. 63 and 65. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption of net assets applicable to a future reporting period and an acquisition of net assets applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 13 – CHANGES IN ACCOUNTING PRINCIPLES, Continued**

Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements: Deferred outflows of resources; outflows of resources; deferred inflows of resources; and inflows of resources.

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

### **NOTE 14 – RESTATEMENT OF BEGINNING NET POSITION**

Due to the changes in accounting principles described above, beginning net position has been decreased by \$1,350,098, from \$442,676,923 to \$441,326,825. The difference represents a restatement for bond issue costs that were amortized under the prior standards but expensed in the period incurred under the new standards.

# SCHEDULES

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**GRAND STRAND WATER AND SEWER AUTHORITY**  
 Required Supplementary Information  
 Schedule of Funding Progress for Postemployment Health Care Plan  
 June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2007	\$ -	\$ 5,467,000	\$ 5,467,000	0.0%	\$ 10,548,000	51.8%
7/1/2009	577,000	6,838,000	6,261,000	8.4%	11,264,000	55.6%
7/1/2011	1,437,355	5,902,477	4,465,122	24.4%	11,844,331	37.7%

Please refer to the plan description in Note 9 to the financial statements for instructions on how to obtain a copy of the Plan's separately issued report

GRAND STRAND WATER AND SEWER AUTHORITY  
Schedule of Cash Receipts and Disbursements for Restricted Accounts  
Required by Revenue Bond and State Revolving Loan Provisions  
For the Year Ended June 30, 2013

	1991A SRF	1998 SRF	1999 State Revolving Loan		2000 SRF Loan	2001 SRF Loan		2001	2002 State Revolving Loan		
	Burgess	Loan Conway WWTP Upgrade	Aynor	Wampee	Tip Top	Buist NFM	Schwartz Imp.	Revenue	Conway	Vereen	319 FM
	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service
Cash and Investments, Beginning of year	\$ 11,732	\$ 8,862	\$ 17,502	\$ 19,052	\$ 182,453	\$ 12,209	\$ 45,553	\$ 2	\$ 54,077	\$ 78,364	\$ 3,730
Cash Receipts:											
Transfer from Operating Cash	-	106,339	105,009	76,208	1,094,676	73,255	182,206	-	324,449	470,168	14,917
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-
Interest Earned	-	1	1	2	17	1	3	-	4	8	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:											
Principal and Interest Payments	(11,732)	(106,340)	(105,010)	(76,209)	(1,094,688)	(73,255)	(182,208)	(2)	(324,452)	(470,174)	(14,917)
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	-	-	-	-	-	-	-	-
Transfers to Investments	-	-	-	-	-	-	-	-	-	-	-
Transfers to Capital Project Cash	-	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-
Cash and Investments, End of year	\$ -	\$ 8,862	\$ 17,502	\$ 19,053	\$ 182,458	\$ 12,210	\$ 45,554	\$ -	\$ 54,078	\$ 78,366	\$ 3,730

GRAND STRAND WATER AND SEWER AUTHORITY  
Schedule of Cash Receipts and Disbursements for Restricted Accounts  
Required by Revenue Bond and State Revolving Loan Provisions  
For the Year Ended June 30, 2013

	2004A - Schwartz WWTP Exp. - Phase 1	2006 Schwartz WWTP Expansion Phase 2	2008A MB WWTP SRF	2008 Conway WWTP Odor Control Upgrade	2008 Revenue Bonds	501 to 544 SRF	Vereen WWTP SRF Current Debt Service	Bucksport Composting Facility SRF	Bonds of 2011A	Bonds of 2011B
	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service
Cash and Investments, Beginning of year	\$ 31,050	\$ 191,588	\$ 49,669	\$ 33,197	\$ 441,107	\$ 14,475	\$ 20,121	\$ 34,000	\$ 87,787	\$ 338,609
Cash Receipts:										
Transfer from Operating Cash	372,528	766,319	595,967	199,185	989,274	86,844	80,477	203,994	1,053,306	4,065,521
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-
Interest Earned	4	11	10	1	11	2	-	3	32	210
Other Transfers	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:										
Principal and Interest Payments	(372,535)	(766,329)	(595,957)	(199,185)	(991,276)	(86,846)	(80,478)	(203,996)	(1,053,325)	(4,062,900)
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	-	-	-	-	-	-	(2)
Transfers to Investments	-	-	-	-	-	-	-	-	-	-
Transfers to Capital Project Cash	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-
Cash and Investments, End of year	\$ <u>31,047</u>	\$ <u>191,589</u>	\$ <u>49,689</u>	\$ <u>33,198</u>	\$ <u>439,116</u>	\$ <u>14,475</u>	\$ <u>20,120</u>	\$ <u>34,001</u>	\$ <u>87,800</u>	\$ <u>341,438</u>



GRAND STRAND WATER AND SEWER AUTHORITY  
Schedule of Cash Receipts and Disbursements for Restricted Accounts  
Required by Revenue Bond and State Revolving Loan Provisions  
For the Year Ended June 30, 2013

	<u>Bonds of 2011C</u>	<u>Bonds of 2012</u>	<u>Bonds of 2011A</u>	<u>Bull Creek</u>	
	Current Debt Service	Current Debt Service	Construction Fund	Depreciation & Contingency	Depreciation & Contingency
Cash and Investments, Beginning of year	\$ 390,542	\$ 43	\$ 23,772,751	\$ 3,240,207	\$ 12,481,111
Cash Receipts:					
Transfer from Operating Cash	4,365,104	-	-	340,889	4,327,123
Transfer from Capital Project	-	-	-	-	-
Interest Earned	113,855	-	96,246	-	-
Other Transfers	-	-	-	-	-
Cash Disbursements:					
Principal and Interest Payments	(4,478,382)	-	-	-	-
Renewals and Replacements	-	-	-	-	-
Transfers to Operating Cash	-	(11)	-	(439,472)	(4,318,296)
Transfers to Investments	-	-	-	-	-
Transfers to Capital Project Cash	-	-	(15,774,523)	-	-
Other Transfers	-	(32)	-	-	-
Cash and Investments, End of year	<u>\$ 391,119</u>	<u>\$ -</u>	<u>\$ 8,094,474</u>	<u>\$ 3,141,624</u>	<u>\$ 12,489,938</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule of Operating Expenses by Department

	<b>For the years ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Water plants</b>		
Personnel services	\$ 2,380,074	\$ 2,407,818
Contractual services	2,735,500	2,755,354
Supplies and materials	3,460,800	3,212,647
Business and travel expenses	4,051	5,985
Other expenses	1,229,683	1,194,349
Departmental transfers	1,294,462	1,004,891
Total water plants	<u>11,104,570</u>	<u>10,581,044</u>
<b>Water systems</b>		
Personnel services	3,055,521	2,618,457
Contractual services	1,515,427	1,050,784
Supplies and materials	1,994,283	1,608,395
Business and travel expenses	12,402	12,043
Other expenses	48,872	25,975
Total water systems	<u>6,626,505</u>	<u>5,315,654</u>
Total water	<u>17,731,075</u>	<u>15,896,698</u>
<b>Wastewater plants</b>		
Personnel services	4,983,088	4,555,779
Contractual services	4,165,545	3,941,610
Supplies and materials	2,448,146	2,247,464
Business and travel expenses	21,455	21,103
Other expenses	47,071	44,074
Departmental transfers	426,128	625,655
Total wastewater plants	<u>12,091,433</u>	<u>11,435,685</u>
<b>Wastewater systems</b>		
Personnel services	2,330,226	2,007,709
Contractual services	3,205,830	1,826,315
Supplies and materials	1,398,191	1,321,554
Other expenses	8,059	36,223
Total wastewater systems	<u>6,942,306</u>	<u>5,191,801</u>
Total wastewater	<u>19,033,739</u>	<u>16,627,486</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule of Operating Expenses by Department

	<b>For the years ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>General administration</b>		
Personnel services	545,706	638,965
Contractual services	557,937	482,586
Supplies and materials	35,020	77,545
Business and travel expenses	116,372	95,740
Other expenses	533,401	448,362
Total general administration	1,788,436	1,743,198
<b>Planning, engineering and construction</b>		
Personnel services	1,152,920	1,077,365
Contractual services	75,180	45,886
Supplies and materials	61,415	74,303
Business and travel expenses	11,302	6,537
Other expenses	-	250
Total planning, engineering and construction	1,300,817	1,204,341
<b>Financial services</b>		
Personnel services	2,238,481	2,055,367
Contractual services	1,195,111	1,050,890
Supplies and materials	174,648	142,715
Business and travel expenses	31,666	23,970
Other expenses	12,325	12,800
Total financial services	3,652,231	3,285,742
<b>High tech turf farm</b>		
Personnel services	1,732,236	1,543,599
Contractual services	270,717	260,796
Supplies and materials	835,709	724,727
Business and travel expenses	5,198	5,155
Other expenses	-	247
Departmental transfers	(1,720,590)	(1,630,546)
Total high tech turf farm	1,123,270	903,978
Depreciation	23,038,102	22,761,494
<b>Total operating expenses</b>	<b>\$ 67,667,670</b>	<b>\$ 62,422,937</b>

# STATISTICAL SECTION

## STATISTICAL SECTION (UNAUDITED)

This part of Grand Strand Water and Sewer Authority's (GSWSA) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and supplementary information says about its overall financial health. Except where noted, the information in these schedules is derived from GSWSA's comprehensive annual financial reports for the relevant year. GSWSA implemented GASB Statement 34 in 2002; schedules presenting information from the basic financial statements begin in that year.

**Financial Trends (*Schedules 1 through 6*)** - These schedules contain trend information to help the reader understand how GSWSA's financial performance and well-being have changed over time.

**Revenue Capacity (*Schedules 7 through 11*)** - These schedules contain information to help the reader assess the factors affecting GSWSA's ability to generate water and sewer charges.

**Debt Capacity (*Schedules 12 and 13*)** - These schedules present information to help the reader assess the affordability of GSWSA's current levels of outstanding debt and their ability to issue additional debt in the future.

**Demographic and Economic Information (*Schedule 14*)** - This schedule offers demographic and economic indicators to help the reader understand the environment within which GSWSA's financial activities take place and to help make comparisons over time and with other special districts.

**Operating Information (*Schedules 15 and 16*)** - These schedules contain information about GSWSA's operations and resources to help the reader understand how GSWSA's financial information relates to the services it provides and the activities it performs.

**GRAND STRAND WATER AND SEWER AUTHORITY**

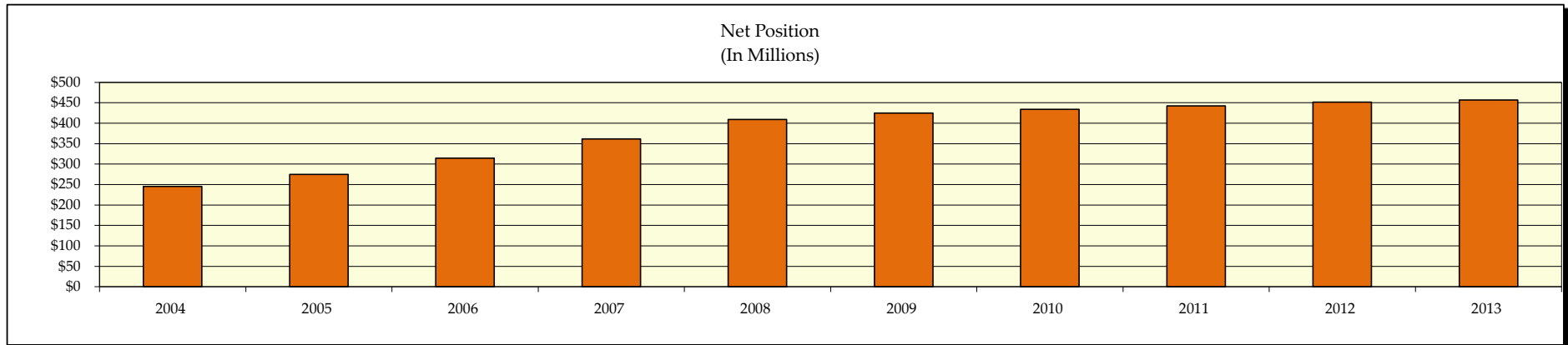
Schedule 1

Net Position By Component

Last Ten Fiscal Years

(Unaudited)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Primary government										
Net investment in capital assets	\$ 150,944,404	\$ 162,579,976	\$ 204,870,843	\$ 249,401,693	\$ 289,803,143	\$ 299,789,950	\$ 316,467,676	\$ 322,250,503	\$ 297,286,102	\$ 312,595,550
Restricted	29,089,789	27,535,216	25,980,196	30,231,725	30,716,584	24,275,266	28,327,674	27,054,587	42,084,820	25,781,440
Unrestricted	65,396,725	84,837,573	84,059,592	82,256,132	88,898,786	100,867,438	89,234,671	93,371,833	112,105,675	118,118,519
Total primary government net position	<u>\$ 245,430,918</u>	<u>\$ 274,952,765</u>	<u>\$ 314,910,631</u>	<u>\$ 361,889,550</u>	<u>\$ 409,418,513</u>	<u>\$ 424,932,654</u>	<u>\$ 434,030,021</u>	<u>\$ 442,676,923</u>	<u>\$ 451,476,597</u>	<u>\$ 456,495,509</u>

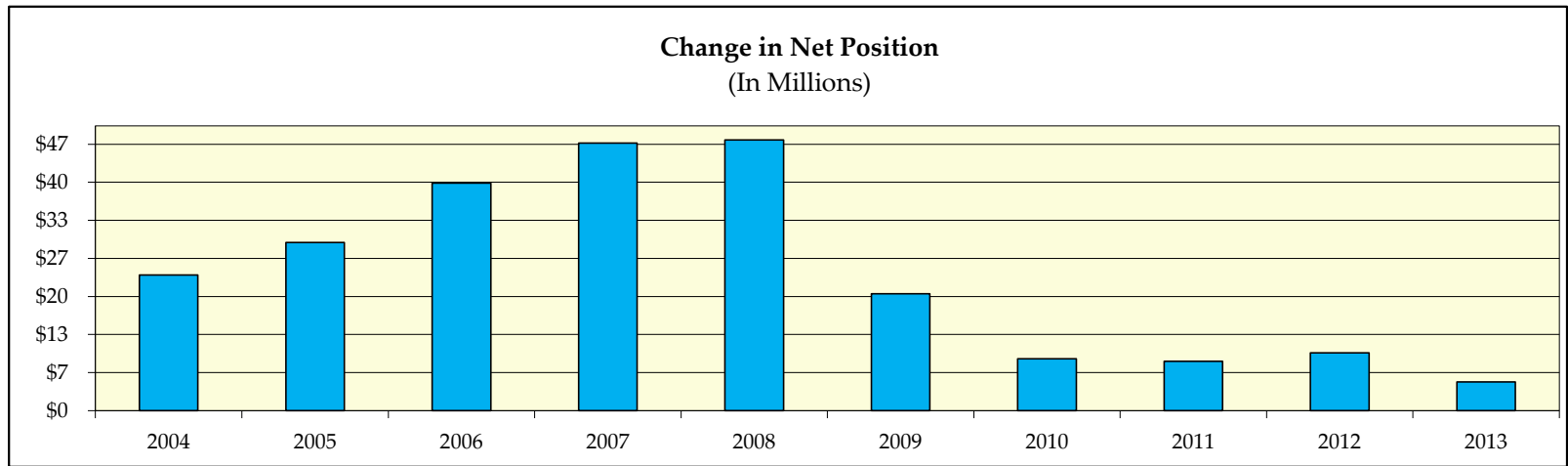


**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule 2

Changes in Net Position  
Last Ten Fiscal Years  
(Unaudited)

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income/(Loss)	Total Nonoperating Revenues/ (Expenses)	Income/(Loss) Before Capital Contributions	Capital Contributions	Change in Net Position
2004	\$ 32,275,269	\$ 31,759,362	\$ 515,907	\$ (4,376,695)	\$ (3,860,788)	\$ 27,660,094	\$ 23,799,306
2005	36,571,027	33,591,329	2,979,698	(2,758,266)	221,432	29,300,325	29,521,757
2006	42,668,707	39,729,593	2,939,114	(1,210,337)	1,728,777	38,229,179	39,957,956
2007	58,417,958	50,960,722	7,457,236	(2,823,384)	4,633,852	42,345,067	46,978,919
2008	62,262,174	54,556,193	7,705,981	(1,485,332)	6,220,649	41,308,314	47,528,963
2009	59,871,611	61,745,596	(1,873,985)	(2,797,844)	(4,671,829)	25,198,062	20,526,233
2010	61,640,883	58,526,944	3,113,939	(3,488,744)	(374,805)	9,472,172	9,097,367
2011	65,860,428	61,662,207	4,198,221	(6,504,152)	(2,305,931)	10,952,833	8,646,902
2012	66,565,157	62,422,937	4,142,220	(2,216,447)	1,925,773	8,223,999	10,149,772
2013	69,595,977	67,667,670	1,928,307	(8,207,642)	(6,279,335)	11,298,247	5,018,912



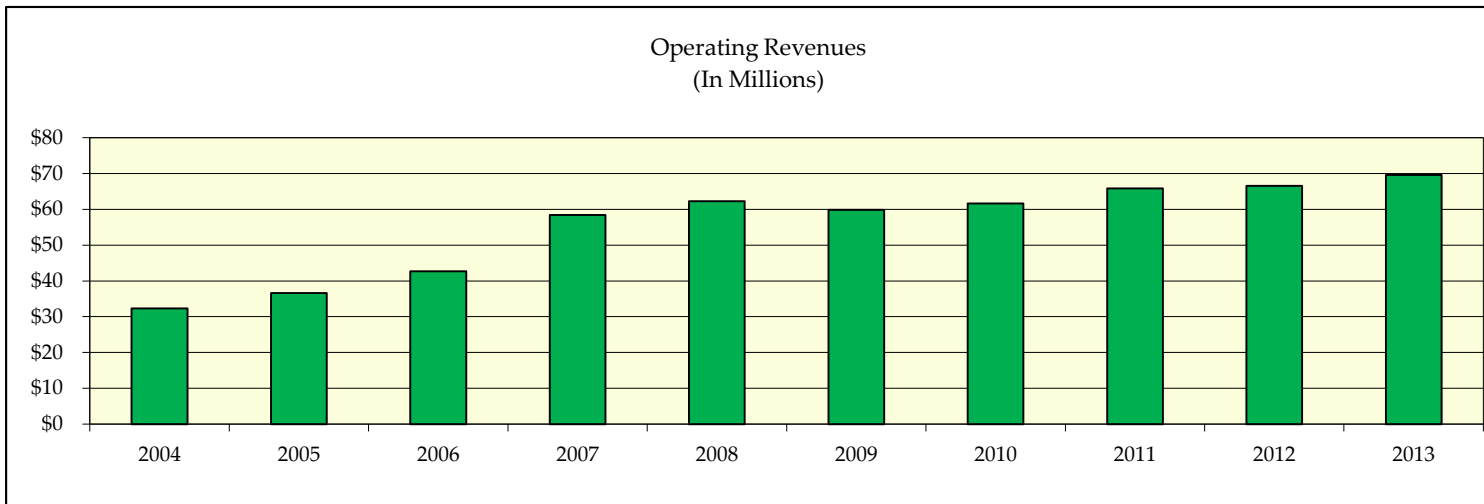
**GRAND STRAND WATER AND SEWER AUTHORITY**

Operating Revenues by Source

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Water & Sewer Volume & Availability Fees	Customer Charges	Surface Water Charges	SWTP Contract Water Consumption	Other Revenue	Total Operating Revenue
2004	\$ 19,593,043	\$ 3,761,764	\$ 4,531,216	\$ 1,945,376	\$ 2,443,870	\$ 32,275,269
2005	21,033,852	5,234,451	4,904,977	2,150,031	3,247,716	36,571,027
2006	24,318,246	6,332,314	5,389,236	2,330,268	4,298,643	42,668,707
2007	40,342,471	5,833,911	5,713,617	2,316,629	4,211,330	58,417,958
2008	44,731,026	5,030,195	6,021,758	2,453,313	4,025,882	62,262,174
2009	44,766,505	4,880,877	6,194,359	2,484,055	1,545,815	59,871,611
2010	45,921,594	5,117,627	6,275,812	2,956,888	1,368,962	61,640,883
2011	49,729,727	5,110,985	6,428,952	3,308,715	1,282,049	65,860,428
2012	50,177,028	5,354,967	6,324,150	3,228,297	1,480,715	66,565,157
2013	52,282,191	5,883,160	6,773,344	3,127,607	1,529,675	69,595,977



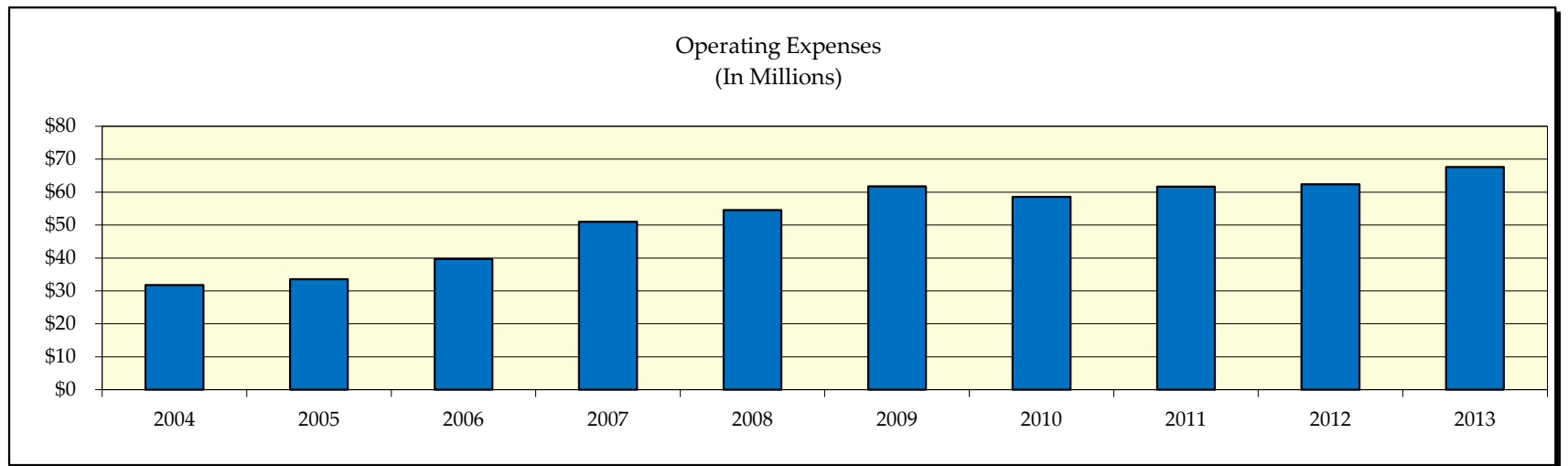


**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule 4

Operating Expenses  
Last Ten Fiscal Years  
(Unaudited)

Fiscal Year	Personnel Costs	Contractual Services	Supplies and Materials	Depreciation	Other Expenses	Total Operating Expenses
2004	\$ 7,512,449	\$ 5,944,673	\$ 4,624,503	\$ 11,895,849	\$ 1,781,888	\$ 31,759,362
2005	8,325,391	5,580,116	5,258,876	12,538,491	1,888,455	33,591,329
2006	8,958,676	8,545,559	7,021,438	13,323,239	1,880,681	39,729,593
2007	12,562,364	10,925,712	9,951,269	15,363,404	2,157,973	50,960,722
2008	14,443,846	10,885,255	9,785,172	17,400,238	2,041,682	54,556,193
2009	16,072,133	12,840,165	10,588,022	19,860,538	2,384,738	61,745,596
2010	15,270,542	12,150,141	8,033,877	20,843,152	2,229,232	58,526,944
2011	16,553,131	11,776,220	9,083,240	22,303,035	1,946,581	61,662,207
2012	16,905,059	11,414,221	9,409,350	22,761,494	1,932,813	62,422,937
2013	18,418,252	13,721,247	10,408,212	23,038,102	2,081,857	67,667,670



**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule 5

Nonoperating Revenues and Expenses

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Investment Income/(Loss)	Gain/(Loss) on Disposal of Capital Assets	Amortization of Deferred Bond Costs	Interest Expense	Total Nonoperating Revenues/ (Expenses)
2004	\$ 2,649,777	\$ 83,531	\$ (97,313)	\$ (7,012,690)	\$ (4,376,695)
2005	4,760,648	(142,859)	(102,251)	(7,273,804)	(2,758,266)
2006	3,311,395	(541,197)	(102,251)	(7,936,226)	(5,268,279)
2007	6,200,184	48,862	(111,962)	(8,960,468)	(2,823,384)
2008	8,128,067	(1,037)	(113,717)	(9,498,645)	(1,485,332)
2009	6,962,758	(51,610)	(122,554)	(9,586,438)	(2,797,844)
2010	6,470,394	129,662	(122,858)	(9,965,942)	(3,488,744)
2011	3,175,093	(71)	(132,575)	(9,546,599)	(6,504,152)
2012	5,757,105	(275,083)	-	(7,698,469)	(2,216,447)
2013	(368,606)	(167,185)	-	(7,671,851)	(8,207,642)

**GRAND STRAND WATER AND SEWER AUTHORITY**

Annual Capital Contributions by Source

Last Ten Fiscal Years

(Unaudited)

Schedule 6

Fiscal Year	SWTP Capacity Fees	Government Grants	Customer Impact Fees	Developer Contributions	Total
2004	\$ 2,029,308	\$ 1,571,037	\$ 13,615,301	\$ 10,444,448	\$ 27,660,094
2005	1,918,047	284,906	11,544,330	15,553,042	29,300,325
2006	1,970,844	-	13,912,826	22,345,509	38,229,179
2007	1,970,844	-	9,827,621	30,546,602	42,345,067
2008	1,961,592	-	6,953,139	32,393,583	41,308,314
2009	1,985,592	757,542	3,614,012	18,840,916	25,198,062
2010	2,078,076	89,046	3,088,548	4,216,502	9,472,172
2011	2,090,904	605,767	3,827,392	4,428,770	10,952,833
2012	2,171,628	129,379	3,653,858	2,269,134	8,223,999
2013	2,223,864	532,307	4,557,327	3,984,749	11,298,247

**GRAND STRAND WATER AND SEWER AUTHORITY**  
Water Produced and Consumed and Wastewater Treated  
Last Ten Fiscal Years  
(Unaudited)

Schedule 7

Fiscal Year	Gallons of Water Produced (In Millions)	Gallons of Water Consumed (In Millions)	Gallons of Water Unbilled (In Millions)	Average Percent Unbilled	Gallons of Wastewater Treated (In Millions)	Total Direct Rate			
						Water		Sewer	
						Base Rate	Usage Rate	Base Rate	Usage Rate
2004	7,569	7,019	550	7.27%	5,480	9.58	1.10	7.11	1.65
2005	7,524	6,705	819	10.89%	5,479	9.58	1.10	7.11	1.65
2006	8,632	7,815	817	9.46%	6,045	9.58	1.10	8.11	1.70
2007	15,536	14,214	1,322	8.51%	8,775	9.58	1.10	8.11	1.70
2008	16,140	15,625	515	3.19%	9,325	9.90	1.15	8.90	1.75
2009	14,909	14,478	431	2.89%	9,925	9.90	1.15	8.90	1.75
2010	14,904	13,823	1,081	7.25%	10,223	10.40	1.15	9.40	1.75
2011	15,305	14,178	1,127	7.36%	10,758	10.40	1.15	9.40	1.75
2012	14,968	14,705	263	1.76%	10,168	10.65	1.20	9.65	1.85
2013	14,394	13,948	446	3.10%	11,381	10.65	1.20	9.65	1.85

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule 8

Annual Taps Sold  
Last Ten Fiscal Years  
(Unaudited)

Fiscal Year	Taps Sold		
	Water Meter Taps	Sewer Taps	Total
2004	595	278	873
2005	705	257	962
2006	784	238	1022
2007	837	243	1080
2008	525	195	720
2009	314	162	476
2010	267	154	421
2011	285	144	429
2012	237	115	352
2013	257	147	404

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule 9

Number of Water and Sewer Customers By Type  
Last Ten Fiscal Years  
(Unaudited)

Fiscal Year	Water Only			Sewer Only			Water & Sewer			Total		
	Retail	Wholesale	Other	Retail	Wholesale	Other	Retail	Wholesale	Other	Water Only	Sewer Only	Water & Sewer
2004	6,528	8	22	3,426	8	26	38,116	0	1	6,558	3,460	38,117
2005	6,752	8	20	3,741	8	27	42,742	0	0	6,780	3,776	42,742
2006	7,041	8	19	4,137	8	27	47,654	0	0	7,068	4,172	47,654
2007	7,393	10	19	4,471	8	26	50,883	0	0	7,422	4,505	50,883
2008	7,937	10	19	4,752	7	27	52,223	0	0	7,966	4,786	52,223
2009	8,084	10	49	4,899	21	23	52,249	0	0	8,143	4,943	52,249
2010	8,649	11	44	5,067	15	22	56,197	0	0	8,704	5,104	56,197
2011	8,768	11	46	5,105	15	22	57,287	0	0	8,825	5,142	57,287
2012	8,980	11	41	5,355	15	22	58,618	0	0	9,032	5,392	58,618
2013	9,416	11	38	5,516	15	21	62,839	0	0	9,465	5,552	62,839

**GRAND STRAND WATER AND SEWER AUTHORITY**

Water and Sewer Rates

Last Ten Fiscal Years

(Unaudited)

Schedule 10

Fiscal Year	Water		Sewer	
	Base Rate	Usage Rate	Base Rate	Usage Rate
2004	9.58	1.10	7.11	1.65
2005	9.58	1.10	7.11	1.65
2006	9.58	1.10	8.11	1.70
2007	9.58	1.10	8.11	1.70
2008	9.90	1.15	8.90	1.75
2009	9.90	1.15	8.90	1.75
2010	10.40	1.15	9.40	1.75
2011	10.40	1.15	9.40	1.75
2012	10.65	1.20	9.65	1.85
2013	10.65	1.20	9.65	1.85

GRAND STRAND WATER AND SEWER AUTHORITY

Schedule 11

Ten Largest Customers  
Current Year and Nine Years Ago  
(Unaudited)

Customer	Fiscal Year 2013		
	Water Revenue	Sewer Revenue	Total
City of Myrtle Beach	\$ 6,586,225	\$ 5,683,566	\$ 12,269,791
City of North Myrtle Beach	3,622,589	477,103	4,099,692
City of Conway	2,651,686	1,225,884	3,877,570
Little River Water and Sewerage Company	1,119,262	868,450	1,987,712
City of Loris	267,036	507,615	774,651
Ocean Lakes Utilities	136,606	296,553	433,159
Georgetown County Water and Sewer Authority	235,871	113,142	349,013
Tabor City	13,535	305,553	319,088
Oceanside Village	148,069	124,688	272,757
Myrtle Beach Resort	130,010	141,324	271,334

Customer	Fiscal Year 2004		
	Water Revenue	Sewer Revenue	Total
City of Conway	\$ 1,997,345	\$ 681,571	\$ 2,678,916
Little River Water and Sewerage Company	756,183	441,915	1,198,098
City of Myrtle Beach	875,483	-	875,483
Ocean Lakes Campground	121,253	187,869	309,122
City of North Myrtle Beach	-	283,502	283,502
Georgetown County Water and Sewer Authority	158,789	81,258	240,047
Oceanside Village	137,220	89,454	226,674
Myrtle Beach Air Force Base	-	187,950	187,950
Springmaid Beach	71,962	108,709	180,671
Town of Loris	178,634	-	178,634



**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule 12

Ratios of Outstanding Debt By Type

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Capital Lease	Revenue Bonds	Notes	Companion Debt	Revolving Fund Loans	Total		
						Amount	As a % of Personal Income	Per Capita
2004	\$ 1,585,602	\$ 129,868,954	\$ 47,247	\$ -	\$ 27,086,587	\$ 158,588,390	2.98%	752
2005	1,503,026	127,404,847	32,971	-	38,030,781	166,971,625	2.93%	767
2006	1,411,971	125,024,902	17,268	-	55,644,921	182,099,062	2.99%	802
2007	1,317,609	141,587,770	-	-	61,696,450	204,601,829	3.08%	858
2008	1,219,819	146,951,664	-	-	61,639,865	209,811,348	2.97%	839
2009	1,118,476	151,559,700	-	4,751,909	68,890,697	226,320,782	2.99%	879
2010	1,013,453	145,882,320	-	5,008,853	68,638,660	220,543,286	2.87%	836
2011	904,615	153,643,869	-	5,279,688	54,936,108	214,764,280	2.77%	798
2012	791,823	167,917,445	-	6,086,743	52,291,219	227,087,230	2.82%	822
2013	679,637	158,597,445	-	5,704,336	52,291,482	217,272,900	NA	770

**GRAND STRAND WATER AND SEWER AUTHORITY**

Revenue Bond Coverage

Last Ten Fiscal Years

(in thousands)

(Unaudited)

Fiscal Year	Gross Revenues <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Earnings Available for Debt Service	Debt Service Requirements <sup>(3)</sup>			Coverage <sup>(4)</sup>
				Principal	Interest	Total	
2004	\$ 50,884	\$ 19,863	\$ 31,021	\$ 3,745	\$ 6,955	\$ 10,700	2.90
2005	54,650	21,052	33,598	4,079	7,204	11,283	2.98
2006	65,380	26,406	38,974	4,117	7,883	12,000	3.25
2007	76,465	35,597	40,868	6,105	8,910	15,015	2.72
2008	79,304	37,156	42,148	7,599	9,462	17,061	2.47
2009	72,434	41,885	30,549	8,705	9,572	18,277	1.67
2010	73,408	37,684	35,724	9,151	9,742	18,893	1.89
2011	74,954	39,349	35,605	10,562	9,084	19,646	1.81
2012	77,873	39,661	38,212	11,576	6,949	18,525	2.06
2013	75,841	44,630	31,211	12,949	8,327	21,276	1.47

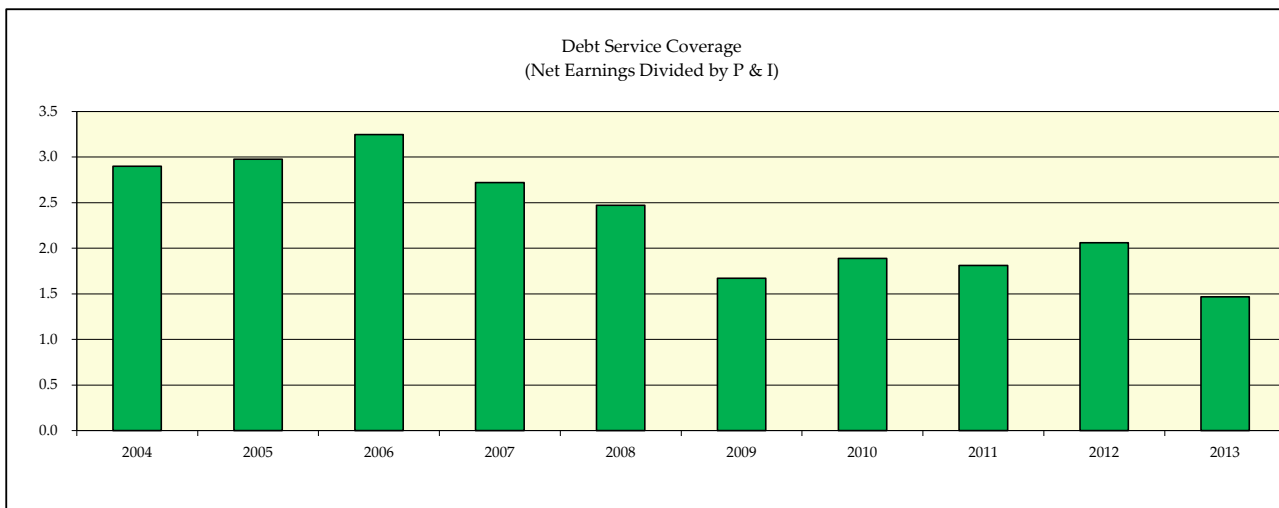
<sup>(1)</sup> Gross revenues include operating revenue, investment income, SWTP capacity fees and customer impact fees

<sup>(3)</sup> Includes Principal and Interest of Revenue bonds and State Revolving Loans Only.

Principal = Total Reductions for Bonds and Notes from Note 5-2

<sup>(2)</sup> Total Operating Expenses Excluding Depreciation and Certain Other Adjustments.

<sup>(4)</sup> Equals Net Earnings Divided by P&I. Bond Resolution was Adopted During 2002, Changing the Minimum Coverage From 1.2 to 1.1.



**GRAND STRAND WATER AND SEWER AUTHORITY**  
Demographic and Economic Statistics  
Last Ten Calendar Years  
(Unaudited)

Schedule 14

Calendar Year	Population	Personal Income (Thousands of Dollars)	Per Capita Personal Income	Median Age	Unemployment Rate
2003	210,757	\$ 5,324,986	\$ 25,266	38.3	5.7
2004	217,608	5,694,801	26,170	38.3	5.9
2005	226,992	6,080,889	26,789	38.3	5.8
2006	238,493	6,632,252	27,809	38.3	5.4
2007	249,925	7,074,627	28,307	37.1	5.0
2008	257,380	7,562,597	29,383	N/A	11.3
2009	263,868	7,678,701	29,101	41.0	14.5
2010	269,291	7,743,921	28,757	40.8	13.1
2011	276,340	8,054,854 <sup>(2)</sup>	29,148	41.3 <sup>(3)</sup>	12.0
2012	282,285 <sup>(1)</sup>	N/A	N/A	N/A	11.0 <sup>(4)</sup>

Data presented is Horry County statistics.

<sup>(1)</sup> Quick Facts from the US Census Bureau (<http://quickfacts.census.gov/qfd/states/45/45051.html>)

<sup>(2)</sup> Bureau of Economic Analysis (<http://www.bea.gov/regional/bearfacts/action.cfm?fips=45051&areatype=45051>)

<sup>(3)</sup> US Census Bureau Fact Finder ([http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_11\\_5YR\\_DP05](http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_11_5YR_DP05))

<sup>(4)</sup> As of 12/31/11 from Bureau of Labor Statistics (<http://www.bls.gov/lau/laucntycur14.txt>)

NA - Not Available

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule 15

Number of Employees by Identifiable Activity

Last Ten Fiscal Years

(Unaudited)

Full-Time Equivalent Employees as of June 30

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Water</b>										
Water Plant Operations	15	14	13	24	23	23	25	24	24	22
Water Plant Maintenance	1	2	2	8	6	6	6	5	6	6
Water Systems Maintenance	17	17	17	15	15	13	14	17	16	19
Water Systems Operations	11	12	13	13	25	27	29	34	34	38
<b>Sewer</b>										
Sewer Plant Operations	18	18	18	32	39	39	45	36	34	36
Sewer Plant Maintenance	1	2	4	11	12	13	11	13	17	18
Sewer Systems Maintenance	33	34	35	38	36	38	37	38	38	41
<b>Biosolid / Sludge Disposal</b>										
Operations	16	16	18	22	25	23	27	27	26	26
<b>Engineering / Inspection / Construction</b>										
Engineering	12	12	7	15	16	15	14	15	15	16
Inspections	4	5	6	7	7	7	7	6	6	5
Construction	16	16	16	17	19	23	22	22	22	21
<b>Administration</b>										
Billing / Customer Service	13	14	15	16	16	18	23	23	23	25
Meter Reading	13	13	8	9	-	-	-	-	-	-
Human Resources	2	2	2	2	2	2	2	2	2	2
Finance and Accounting	5	5	5	5	6	6	6	5	5	5
Purchasing	4	4	4	4	4	4	4	4	4	4
Information Systems	2	2	2	3	4	4	4	4	4	4
Executive Administration	7	7	14	6	5	3	3	3	3	3
Fleet / Facilities Management	-	-	-	-	-	5	3	4	4	4
<b>Total</b>	<b>190</b>	<b>195</b>	<b>199</b>	<b>247</b>	<b>260</b>	<b>269</b>	<b>282</b>	<b>282</b>	<b>283</b>	<b>295</b>

**GRAND STRAND WATER AND SEWER AUTHORITY**

Miscellaneous Statistical Data

June 30, 2013

(Unaudited)

Sewer System Facts

	<u>2013</u>	<u>2012</u>
<u>Use of Sewer</u>		
Sewer Customers, End of Period	68,391	64,010
Average Daily Consumption (Millions of Gallons)	26.95	27.25
Estimated Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	9.84	9.95

System Facilities

Total Miles of Sewer Lines *	1,676	1,585
Number of Treatment Plants	13	11
Number of Pumping Stations	657	657
Number of Residential Effluent Pumping Stations	400	313
Number of Residential Grinder Pumping Stations	4,245	4,092

\*Force Main            832

Gravity                 844

1,676

**GRAND STRAND WATER AND SEWER AUTHORITY**

Miscellaneous Statistical Data

June 30, 2013

(Unaudited)

Water System Facts

	2013	2012
<u>Use of Water</u>		
Water Customers, End of Period	72,304	67,650
Average Daily Consumption (Millions of Gallons)	38.21	40.29
Estimated Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons) *	13.95	14.71
 <u>System Facilities</u>		
Storage Tanks **	25	25
Storage Capacity (Millions of Gallons) **	29	29
Auxiliary Deep Water Wells	51	50
Total Miles of Distribution Lines	1,764	1,665
Fire Hydrants	7,002	6,568

\* Includes SWTP Participant Sales

\*\* Includes SWTP Storage Tanks (Ground & Elevated)

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INDEPENDENT AUDITOR'S OTHER  
REPORTS SECTION



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**Report on Internal Control Over Financial Reporting and On  
Compliance and Other Matters Based On An Audit of  
Financial Statements Performed In Accordance With  
*Government Auditing Standards***

To the Board of Directors  
Grand Strand Water and Sewer Authority  
Conway, South Carolina

We have audited, 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, the financial statements of the business-type activities and fiduciary activities of Grand Strand Water and Sewer Authority (GSWSA) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise GSWSA's basic financial statements, and have issued our report thereon dated September 12, 2013.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether GSWSA'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**

This report is intended 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 "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

Columbia, South Carolina  
September 12, 2013