

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTH CARE BENEFIT PLAN**

**Report on Financial Statements
For the Year Ended June 30, 2017**

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTH CARE BENEFIT PLAN**

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

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Fiduciary Net Position	3
Statement of Changes in Fiduciary Net Position	4
Notes to Financial Statements	5
Required Supplementary Information	
Schedule of Changes in the Plan's Net OPEB Liability and Related Ratios	11
Schedule of Plan Contributions	12
Schedule of Investment Returns	13



SMITH
SAPP

Trusted Advisors For Over 60 Years

MYRTLE BEACH

4728 Jenn Drive
Suite 100
Myrtle Beach, SC 29577

Phone (843) 448-8334
Fax (843) 626-7363
www.sccpa.com

CONWAY

1109 Main Street
Suite A
Conway, SC 29526

Phone (843) 248-5284
Fax (843) 381-0027
www.sccpa.com

PAWLEYS ISLAND

245 Business Center Drive
Suite 4A
Pawleys Island, SC 29585

Phone (843) 237-3453
Fax (843) 237-4809
www.sccpa.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Grand Strand Water & Sewer Authority Retiree Health Care Benefit Plan (the "Plan"), administered by the Grand Strand Water & Sewer Authority Board, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in 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 net position held in trust for the beneficiaries of the Plan, administered by the Grand Strand Water & Sewer Authority Board as of June 30, 2017, and its changes in net position held in trust for the beneficiaries of the Plan for the period then ended, in accordance with accounting principles generally accepted in the United States of America.

Smith Sapp Bookhout Crumpler & Calliham
A Professional Association of Certified Public Accountants & Consultants

- 1 -

South Carolina Association of Certified Public Accountants
American Institute of Certified Public Accountants - Private Companies Practice Section

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require the Schedule of Funding Progress and the Schedule of Employer Contributions 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 the financial reporting for placing the basic statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Schedule of Funding Progress, the Schedule of Employer Contributions and the Schedule of Investment Returns in accordance with audit standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


SMITH SAPP BOOKHOUT CRUMPLER & CALLIHAM
Professional Association of Certified Public Accountants and Consultants

Myrtle Beach, South Carolina
August 31, 2017

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

**STATEMENT OF FIDUCIARY NET POSITION
As of June 30, 2017**

Assets

Cash and Cash Equivalents	\$ <u>1,200,671</u>
Investments, at Fair Value	
US Government Agency Bonds/Notes	\$ 1,832,186
US Government Notes	925,568
US Government Bonds	807,301
US Government Inflation Bonds	<u>53,290</u>
Total Investments	<u>\$ 3,618,345</u>
Receivables	
Employee Contributions	\$ <u>4,537</u>
Total Receivables	<u>\$ 4,537</u>
Total Assets	<u><u>\$ 4,823,553</u></u>
 Net Position - Restricted for Other Post Employment Benefits	
Held in Trust for Other Post Employment Benefits	<u><u>\$ 4,823,553</u></u>

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
As of June 30, 2017**

Additions

Investment Income (Loss)	
Net Depreciation in Fair Value of Investments	\$ (130,361)
Interest Income	97,308
Total Investment Income (Loss)	<u>\$ (33,053)</u>

Contributions

Employer	\$ 1,053,624
Plan Members	80,152
Total Contributions	<u>\$ 1,133,776</u>
Total Additions	<u>\$ 1,100,723</u>

Deductions

Benefits Paid	<u>\$ 266,440</u>
Net Increase in Net Position	\$ 834,283

Net Position - Restricted for Other Post Employment Benefits,

Beginning of Year	<u>\$ 3,989,270</u>
End of Year	<u><u>\$ 4,823,553</u></u>

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 1 - Plan Description

Grand Strand Water and Sewer Authority (GSWSA), the Plan sponsor, administers a defined benefit postemployment healthcare plan, the Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan (the Plan). Assets of the Plan may be used only for the payment of administrative costs incurred by the Plan and benefits of the members of the Plan, in accordance with the terms of the Plan.

Management of the Plan is vested in the GSWSA Board of Directors, which consists of nine members who are resident electors of Horry County, South Carolina, appointed by the Governor, upon the recommendation of the resident members of the Horry County Legislative Delegation including the resident Senator.

The membership of the Plan consisted of the following at July 1, 2015, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	19
Active plan members	<u>290</u>
Total	<u><u>309</u></u>
Number of participating employers	1

The Plan is a single-employer defined benefit postemployment healthcare plan that covers retired employees of GSWSA. The Plan provides health and dental insurance benefits to eligible retirees and their spouses. The Plan Agreement and Declaration of Trust assigns the authority to establish and amend the benefit provisions of the Plan to GSWSA.

Eligibility:

Eligible employees will include employees retiring from the South Carolina Retirement System and meeting any of the various conditions described below.

1. If the retiring employee has 28 or more years of continuous full-time service with the Authority on the date of retirement, the Authority will pay 75% of the premium for the employee's health insurance coverage through the Authority's insurance company. The employee is responsible for the balance and is solely responsible for 100% of dependent coverage if coverage is available.
2. If the retiring employee is age 65 or older on the date of retirement with a minimum of 5 years of continuous full-time service with the Authority, the employee may purchase health insurance coverage through the Authority's insurance company. The employee is responsible for 100% of the health insurance premium and is responsible for 100% of dependent coverage if coverage is available.
3. If the retiring employee has 25 or more years of continuous full-time service with the Authority and is age 55 or older on the date of retirement, the percentage of the employer paid portion will decrease by 4% for every year of service less than 28 years. The employee is responsible for the balance and the employee is solely responsible for 100% of dependent coverage if coverage is available.
 - a. Age 55 or older with 25 years of experience = 63% employer paid portion
 - b. Age 55 or older with 26 years of experience = 67% employer paid portion
 - c. Age 55 or older with 27 years of experience = 71% employer paid portion

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

Page 2 of 6

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 1 - Plan Description (continued)

Employees who were hired prior to *July 1, 1999* can also become eligible through the following guidelines:

1. If, the retiring employee has 20 years of full-time (meaning 30 or more hours each week during the year) continuous service with the Authority and is retiring from the Authority after age 60, the Authority will pay 75% of the premium for the employee's medical/dental insurance coverage through the Authority's insurance company. The employee is responsible for the balance and the employee is solely responsible for 100% of dependent coverage if coverage is available.
2. If, the employee has a minimum of 5 years of full-time continuous service with the Authority at age 60, the employee may purchase insurance coverage through the Authority's insurance company (if permitted by the insurance company) and the Employee pays 100% of the premium of the employee's medical/dental insurance. The employee is also responsible for 100% of dependent coverage if coverage is available.

Disability Retirement:

Employees must have received approval for Social Security disability benefits prior to receiving evaluation and approval of disability through the South Carolina Retirement System.

1. If the retiring employee is a Class Two Member, has 5 years of continuous full-time service with the Authority and becomes medically disabled, the Authority will pay 75% of the premium for the employee's health insurance coverage through the Authority's insurance company. The employee is responsible for the balance and the employee is solely responsible for 100% of dependent coverage if coverage is available.
2. If the retiring employee is a Class Three Member, has 8 years of continuous full-time service with the Authority and becomes medically disabled, the Authority will pay 75% of the premium for the employee's health insurance coverage through the Authority's insurance company. The employee is responsible for the balance and the employee is solely responsible for 100% of dependent coverage if coverage is available.

Contributions:

The contribution requirements of plan members and GSWSA are established and may be amended by the Board of Directors. GSWSA has been contributing at a rate that is based on an actuarial valuation that is prepared in accordance with certain parameters. Premiums may be adjusted annually based on a contract between GSWSA and the insurance carrier. The monthly contribution for retirees to opt into the medical plan is based on plan and tier election, date of hire, age at retirement and service at retirement. For the year ended June 30, 2017 the Plan's average contribution rate was 6.47% of covered-employee payroll. Following is a chart detailing premiums and contribution amounts for coverage as of January 1, 2017.

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

Page 3 of 6

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 1 - Plan Description (continued)

2017 Monthly Insurance Premiums - Copay Plan

	Medical	Vision	Dental	Total
Single	\$ 683.01	\$ 4.08	\$ 28.20	\$ 715.29
Retiree/Children	\$ 1,319.48	\$ 8.31	\$ 59.96	\$ 1,387.75
Retiree/Spouse	\$ 1,602.38	\$ 7.90	\$ 57.69	\$ 1,667.97
Family	\$ 1,955.96	\$ 12.22	\$ 95.38	\$ 2,063.56

Note 2 - Summary of Significant Accounting Policies

Basis of accounting:

The financial statements of the Plan are prepared using the economic resources measurement focus and accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due, and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of the Plan.

Method used to value investments:

Investments are reported at fair value, 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.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires the Plan to make estimates and assumptions that affect the reported amounts of assets, liabilities and net position. Estimates also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period.

Contributions:

The GSWSA Board of Directors approves the amount of funding to provide the Plan each year. It is their intent to make contributions at a rate equivalent to the annual required contribution (ARC) as determined by actuarial valuation. Plan member contributions consist of the retiree portion of premium payments. Administrative costs are paid by the Plan sponsor but may, in the future, be paid by the trustee from the assets of the Plan.

Subsequent events:

In preparing these financial statements, the Plan has evaluated events and transactions for potential recognition or disclosure through August 31, 2017, the date the financial statements were available for issue.

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

Page 4 of 6

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 3 – Net OPEB Liability of the Plan

The components of the net OPEB liability of the Plan at June 30, 2017 as follows:

Total OPEB Liability	\$ 17,456,242
Plan Fiduciary Net Position	<u>(4,823,553)</u>
Plan's Net OPEB Liability	<u>\$ 12,632,689</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	27.63%

Actuarial Assumptions:

The total OPEB liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	2.50% Annually
Investment Rate of Return	5.00%
Healthcare Cost Trend Rates	Pre-Medicare: 7.50%, Medicare Eligible: 5.50%

Mortality Rates were based on the RP-2000 Mortality Table adjusted by multipliers from the 2011 SCRS Experience Study.

Since the asset allocation for the OPEB trust is subject to South Carolina's investment policy, which places restrictions on investing in equities, the expected rate of return on OPEB plan investment has remained at 5.00% to match the rate used in the prior valuation. The projection of cash flows used to determine the discount rates assumed that Plan contributions will be made at rates equal to the actuarially determined contribution rates.

Note 4 - Cash and Cash Equivalents

At June 30, 2017, the Plan's assets consisted of \$1,200,671 in a money market account maintained by a regional bank. Using a daily sweep, available cash balances in the money market account are deposited by the bank into multiple FDIC-insured deposit accounts at one or more other financial institutions.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Duration (period of time to maturity or redemption) is the primary measure of the sensitivity to changes in interest rates. The Plan's money market account is not subject to significant interest rate risk.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Plan's arrangement regarding its money market account allows for Plan assets to be substantially covered by FDIC insurance.

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

Page 5 of 6

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 4 - Cash and Cash Equivalents (continued)

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's arrangement regarding its money market account allows for deposits to effectively be distributed among multiple financial institutions.

Note 5 – Investments

Investment Policy:

The mix or percentage of the Plan assets to be allocated between short, intermediate and long-term investments is fluid and will change contingent upon current cash flow needs and market conditions.

Note 5 – Investments (continued)

At time of purchase, a maximum of 10% of the Investment Portfolio may be held in any single security, exclusive of U.S. Treasuries, and a maximum of 20% of the Investment Portfolio, on a per agency or per instrumentality basis may be held in securities issued by agencies or instrumentalities of the United States government. In no case shall the total percentage of the Investment Portfolio invested in U.S. agency or instrumentality securities exceed 80% at time of purchase.

At no time shall cash balances or non-collateralized investments exceed the amount covered by FDIC insurance. In the event a *de minimis* amount of not to exceed \$1,000, is held for not more than 24 hours in a non-collateralized investment account which is not FDIC insured, the Plan shall not declare a default to have occurred in an investment or custodial agreement.

Rate of Return:

For the year ended June 30, 2017, the annual money weighted rate of return on investments, net of investment expense, was -0.74%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

Note 6 – Fair Value Measurement

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Plan does not have any investments that are measured using Level 3 inputs.

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 6 – Fair Value Measurement (continued)

Fair value measurements of GSWSA’s investments are as follows at June 30, 2017.

	<u>Fair Value Measurements Using</u>			
	<u>Quoted</u>	<u>Prices in Active</u>	<u>Significant</u>	<u>Significant</u>
<u>Investments</u>	<u>Markets for</u>	<u>Other</u>	<u>Observable</u>	<u>Unobservable</u>
<u>Debt Securities</u>	<u>Identical</u>	<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</u>
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>(Level 3)</u>
US Government Agency Bonds/Notes	\$ 1,832,186	\$	\$ 1,832,186	\$
US Government Notes	925,568	925,568		
US Government Bonds	807,301	807,301		
US Government Inflation Bonds	53,290	53,290		
Total Debt Securities	<u>\$ 3,618,345</u>	<u>\$ 1,786,159</u>	<u>\$ 1,832,186</u>	<u>\$</u>

REQUIRED SUPPLEMENTARY INFORMATION

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

**SCHEDULE OF CHANGES IN THE PLAN'S NET OPEB LIABILITY
AND RELATED RATIOS**

As of June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total OPEB Liability			
Service Cost	\$ 1,053,624	\$ 1,053,624	\$ 413,066
Differences Between Expected and Actual Experience			
Changes in Benefit Terms			8,494,608
Benefit Payment	<u>(266,440)</u>	<u>(195,412)</u>	<u>(115,416)</u>
Net Change in Total OPEB Liability	\$ 787,184	\$ 858,212	\$ 8,792,258
Total OPEB Liability - Beginning	<u>\$ 16,669,058</u>	<u>\$ 15,810,846</u>	<u>\$ 7,018,588</u>
Total OPEB Liability - Ending	<u><u>\$ 17,456,242</u></u>	<u><u>\$ 16,669,058</u></u>	<u><u>\$ 15,810,846</u></u>
Plan Fiduciary Net Position			
Contributions			
Employer	\$ 1,053,624	\$ 1,053,624	\$ 406,496
Employee	<u>80,152</u>	<u>58,613</u>	<u>27,328</u>
	\$ 1,133,776	\$ 1,112,237	\$ 433,824
Net Investment Income	\$ (33,053)	\$ 118,512	\$ 42,573
Benefits Payments	<u>(266,440)</u>	<u>(195,412)</u>	<u>(115,416)</u>
Net Change in Plan Fiduciary Net Position	\$ 834,283	\$ 1,035,337	\$ 360,981
Plan Fiduciary Net Position - Beginning	\$ 3,989,270	\$ 2,953,933	\$ 2,592,952
Plan Fiduciary Net Position - Ending	\$ 4,823,553	\$ 3,989,270	\$ 2,953,933
Plan's Net OPEB Liability - Ending	\$ 12,632,689	\$ 12,679,788	\$ 12,856,913
Plan's Fiduciary Net Position as a Percentage of the Total OPEB Liability	27.63%	23.93%	18.68%
Covered-Employee Payroll	\$ 16,292,273	\$ 16,124,868	\$ 14,799,940
Plan's Net OPEB Liability as a Percentage of Covered-Employee Payroll	77.54%	78.63%	86.87%

Notes to Schedule

Benefit Changes. In 2015, benefit terms were modified to increase participants enrolling into the Plan.

Presentation of 10 Year Trend. The schedule is intended to illustrate various trends over a ten year period, however, data prior to 2015 is unavailable.

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

SCHEDULE OF PLAN CONTRIBUTIONS

As of June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 1,053,624	\$ 1,053,624	\$ 413,066
Contributions in Relation to the Actuarially Determined Contribution	<u>\$ 1,053,624</u>	<u>\$ 1,053,624</u>	<u>\$ 406,496</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,570</u>
Covered-Employee Payroll	\$ 16,292,273	\$ 16,124,868	\$ 14,799,940
Contributions as a Percentage of Covered-Employee Payroll	6.47%	6.53%	2.75%

Notes to Schedule

Valuation Date:

Actuarially determined contributions rates are calculated as July 1, 2015, the date of the most recent Actuarial Report.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level Percent of Pay, Open
Amortization Period	30 Years
Asset Value Method	Market Value of Assets
Healthcare Cost Trend Rates	Pre-Medicare: 7.50%, Medicare Eligible: 5.50%
Salary Increases	2.50% Annually
Investment Rate of Return	5.00% Investment Return Assumption
Mortality	In the 2015 actuarial valuation, the mortality rates utilized are based on the RP-2000 Mortality Table adjusted by multipliers from the 2011 SCRS Experience Study

Other Information.

Benefit Changes. In 2015, benefit terms were modified to increase participants enrolling into the Plan.

Presentation of 10 Year Trend. The schedule is intended to illustrate various trends over a ten year period, however, data prior to 2015 is unavailable.

**GRAND STRAND WATER AND SEWER AUTHORITY
RETIREE HEALTHCARE BENEFIT PLAN**

SCHEDULE OF INVESTMENT RETURNS

As of June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	-0.74%	5.06%	1.56%

Presentation of 10 Year Trend. The schedule is intended to illustrate various trends over a ten year period, however, data prior to 2015 is unavailable.