



GRAND STRAND WATER & SEWER AUTHORITY  
COMPREHENSIVE  
ANNUAL FINANCIAL  
**REPORT**

For the Fiscal Years Ended  
June 30, 2018 & 2017

CONWAY, SOUTH CAROLINA

**GRAND STRAND**  
WATER & SEWER AUTHORITY





## Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

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, 2018

## 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, 2018

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## Comprehensive Annual Financial Report

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# INTRODUCTORY SECTION

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September 24, 2018

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, 2018 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, Smith Sapp Bookhout Crumpler & Calliham, P.A., audited the accompanying financial statements. Their unmodified 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.

Smith Sapp Bookhout Crumpler & Calliham, P.A. has audited the accompanying financial statements, and their unmodified opinion resulting from their audit is included in this Comprehensive Annual Financial Report. As part of their audit, Smith Sapp Bookhout Crumpler & Calliham, P.A. 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 direct service area of GSWSA is presently defined to include all of the geographic areas of Horry County except for those areas included within an incorporated municipality which owns and operates a water and/or sewer system, within the service area of Little River Water and Sewerage Company, Inc. and within the areas immediately adjacent to the Bucksport Water System, Inc. water service area. It is located in the northeastern portion of the State of South Carolina.

Currently the City of Conway, City of Myrtle Beach, City of North Myrtle Beach (supplemental wastewater), and the City of Loris are wholesale customers of GSWSA for water and wastewater services. GSWSA also provides wholesale water and wastewater services to Little River and supplements water and wastewater to Georgetown County Water and Sewer District. Pursuant to agreements with the City of Marion, City of Mullins, Town of Aynor, Town of Lake View, Town of Nichols, and Town of Surfside Beach the Authority now directly provides water and wastewater services to retail customers within those municipalities. GSWSA provides retail wastewater services to Centenary and Town of Sellers and back up wholesale water to Bucksport Water System.

In North Carolina, GSWSA serves Tabor City back up wholesale water along with limited retail wastewater and Columbus County limited retail wastewater through contractual agreements.

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's economy has shown continued growth in tourism, along with improvements in real estate and residential development. The county leads all 46 counties in the state in tourism, having the highest amount of visitor spending, lodging rentals and tourism related taxes and employment. Horry County has 31.3% of the total domestic traveler spending in the state. Strong growth in tourism-related jobs has allowed the county's unemployment rate to continue to improve. Retail sales for local businesses in Horry County had a historical high in 2016, reaching higher amounts than since before the economic slow-down in 2008. Horry County continues to be a major retirement area with more recent growth in real estate values and sales. Forty percent of the state's second homes are located within the county.

The local economy served by GSWSA has continued to see increased growth during fiscal year 2018, with the addition of 3,506 customers. The monthly average of submittals for new developer projects requiring water and sewer service remained consistent with 10 projects for fiscal year

2017 and 10 projects for fiscal year 2018. The monthly average Residential Equivalent Units (REUs) submitted saw an increase of 41% with 226 REUs submitted for fiscal year 2017 and 319 REUs in fiscal year 2018. The number of new developer project submittals and REUs continue to see a significant increase from recent years due to economic development. Assets contributed to GSWSA by developers during 2018 were \$15.7 million.

GSWSA's growth has continued to improve, 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. New data released by the U.S. Census Bureau shows the Myrtle Beach area is the second-fastest growing metro area in the country. 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 approximately \$4.5 million on the Rural Water and Sewer program to extend water and sewer lines to the rural communities of Horry County. In addition, approximately \$1.5 million was spent on the installation of 20" force main from the Conway WWTP to the force main on Highway 701 South to divert flows from Conway to Bucksport WWTP.

#### 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 2035 Capital Improvement Plan in 2016 and plans to update it every 5 years. During 2018, GSWSA also completed a 5 year budget for planning purposes. It 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.

GSWSA also continued several policies aimed at reducing and/or maintaining expenses at the same level as 2017. Departments were required to monitor expenses over time and reduce costs as appropriate. Chemical usage for water and wastewater departments were also closely monitored and rebid to reduce cost. Overall, expenses were up due to an increase in GSWSA's proportionate share of net pension expense and postemployment benefit expense.

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 68% 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.

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, 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, 2017. This was the 29th 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

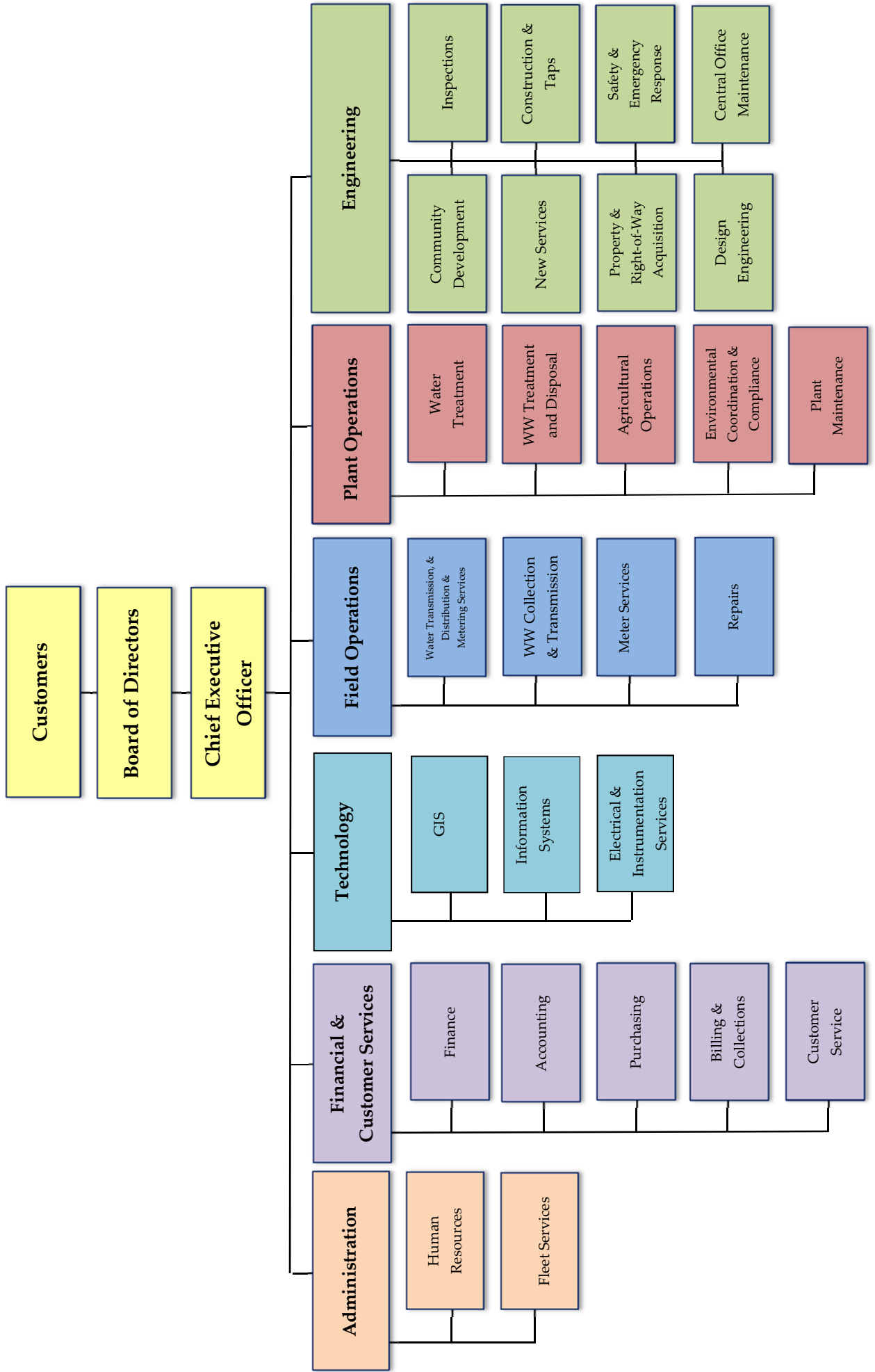
**June 30, 2017**

*Christopher P. Morill*

Executive Director/CEO

# Grand Strand Water and Sewer Authority

## Functional Organizational Chart



# GRAND STRAND WATER AND SEWER AUTHORITY



## 2018 | Board of Directors

Sidney F. Thompson  
Chairman  
Term Expires: 8-15-2023

Benjy A. Hardee  
Vice-Chairman  
Term Expires: 8-15-2021

John C. Griggs  
Secretary  
Term Expires: 8-15-2021



Robert M. Floyd, Jr.  
Member  
Term Expires: 8-15-2019

Arnold T. Johnson  
Member  
Term Expires: 8-15-2021

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: 8-15-2023

J. Liston Wells  
Member  
Term Expires: 8-15-2023

## Officers

Fred R. Richardson, Chief Executive Officer  
Marguerite S. Carroll, Chief Financial Officer  
Christy S. Everett, Chief Operations Officer  
Tim D. Brown, Chief of Plant Operations  
David T. Strickland, Chief of Field Operations  
Charles C. Hucks, Chief of Technology



# FINANCIAL SECTION

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**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 Auditors' Report**

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

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Grand Strand Water and Sewer Authority (the Authority) as of and for the years ended June 30, 2018 and June 30, 2017, 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Authority as of June 30, 2018 and June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principal**

As described in Note 1 to the financial statements, in 2018 the Authority adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

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

## 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 15, schedule of proportionate share of net pension liability on page 73, schedule of contributions – South Carolina Retirement System on page 74, schedule of changes in net OPEB liability on page 75, and schedule of plan contributions on page 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

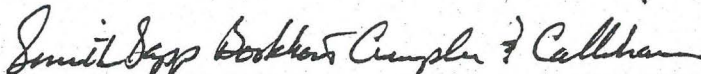
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, statistical section, supplementary schedule of cash receipts and disbursements for restricted accounts and supplementary 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the supplementary 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 10, 2018, 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 disclose 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.

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

Myrtle Beach, South Carolina  
September 10, 2018



MANAGEMENT'S DISCUSSION  
AND ANALYSIS

# GRAND STRAND WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis

For The Fiscal Year Ended June 30, 2018

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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, 2018 and 2017. 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 continued to improve during fiscal year 2018. 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.

- GSWSA advance refunded debt with a par value of \$13.7 million that provided a savings of \$1.3 million.
- Total assets and deferred outflows at June 30, 2018 were \$774 million and exceeded liabilities and deferred inflows by \$517 million (i.e. net position). Of total net position, approximately \$78.6 million was unrestricted. Total assets and deferred outflows increased from fiscal year 2017 to 2018 by \$16.5 million and total liabilities and deferred inflows increased by \$5.1 million.
- Total deferred outflows are up \$609,133 from 2017. This change is due to the net of a increase in the fair value of the interest rate swaps and the addition of deferred outflow from other postemployment benefit expense. This change is the result of GSWSA's implementation of GASB 75 during 2018. Deferred inflows of resources increased \$721,046 from 2017 due to the increase in the value of pensions.
- Operating revenues were approximately \$90.3 million in 2018, an increase of approximately \$4.7 million from 2017, or 5.5%. During 2018, the increase in revenues was primarily due to the increase in water and wastewater volume and availability charges.
- In 2018, operating expenses before depreciation increased by \$2.2 million or 4.1%. The total operating expenses, including depreciation, increased \$3.4 million or 4.2%. The increase in operating expenses in 2018 was mainly attributed to recognition of GSWSA's proportionate share of pension expense and postemployment benefit expense.
- Operating income for fiscal year 2018 was \$6.7 million, a 25.2% increase from the previous fiscal year as a result of an increase in retail and wholesale wastewater flows and customer charges. Customer charges are up due to the net increase of billable customers and associated tap fees.
- Net position increased \$2.7 million before capital contributions and \$11.4 million after capital contributions.

## Financial Highlights, Continued

- The ratio of total operating revenues to total operating expenses was 1.08 for 2018 and 1.07 for 2017.
- Debt service coverage for 2018 decreased to 190% as compared to 207% in 2017. The decrease is due to the adoption of GASB 75 previously discussed, as well as an increase in debt service and pension expense. Debt service coverage required by the bond covenants is 110%, which is within our current coverage.
- In 2018, capital contributions from customer impact fees were \$8.0 million, an increase of 3.6% compared to fiscal year 2017. Developer contributions of facilities were \$15.7 million, an increase of 53.4% from 2017.
- GSWSA treated and distributed over 15.27 billion gallons of water and collected and sold over 11.49 billion gallons of wastewater, an increase from fiscal year 2017 of 0.2% for water and an increase of 0.3% for wastewater. Water consumption was down in all customer classes with the exception of wholesale customers. Wastewater consumption was up in all classes with the exception of bulk customers during 2018.
- In fiscal year 2018, GSWSA added 3,038 water and 3,160 wastewater customers which resulted in a net of 3,400 water and 3,560 wastewater residential equivalent units. The net new customers and residential equivalent units added were a result of 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 and supplementary information can be found on pages 16 to 79 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.

## Overview of the Financial Statements, Continued

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 2018 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.

The *Statement of Cash Flows* provides information about cash receipts, cash payments and changes in cash resulting from operations, investments, and noncapital financing activities, as well as capital and related financing activities. From the statement of cash flows, the reader can obtain comparative information on the source and use of cash, and the change in cash balance for each of the last two fiscal years.

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 GSWSA'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.

### Condensed Statements of Net Position

	2018	2017	2016	Change 2017-2018	% Change 2017-2018
<b>Assets</b>					
Current assets	\$ 125,418,159	\$ 126,685,944	\$ 122,542,564	\$ (1,267,785)	-1.0%
Restricted assets - current	8,114,985	1,975,117	2,362,824	6,139,868	310.9%
Restricted assets - noncurrent	20,484,188	20,720,555	20,300,205	(236,367)	-1.1%
Capital assets	599,744,763	588,494,714	575,164,930	11,250,049	1.9%
Other assets	4,750	4,750	4,750	-	0.0%
Total assets	<u>\$ 753,766,845</u>	<u>\$ 737,881,080</u>	<u>\$ 720,375,273</u>	<u>\$ 15,885,765</u>	<u>2.2%</u>
<b>Deferred outflows of resources</b>					
Interest rate swap	\$ 7,411,258	\$ 11,008,596	\$ 16,574,681	\$ (3,597,338)	-32.7%
Deferred charge on refundings	3,017,166	2,293,299	2,473,058	723,867	31.6%
Pensions	6,430,184	6,439,916	2,555,542	(9,732)	-0.2%
Other Postemployment Benefits	3,492,336	-	-	3,492,336	100.0%
Total deferred outflows of resources	<u>\$ 20,350,944</u>	<u>\$ 19,741,811</u>	<u>\$ 21,603,281</u>	<u>\$ 609,133</u>	<u>3.1%</u>
<b>Liabilities</b>					
Current liabilities	\$ 31,608,387	\$ 32,866,638	\$ 31,201,517	\$ (1,258,251)	-3.8%
Noncurrent liabilities	224,522,042	218,899,170	227,750,365	5,622,872	2.6%
Total liabilities	<u>\$ 256,130,429</u>	<u>\$ 251,765,808</u>	<u>\$ 258,951,882</u>	<u>\$ 4,364,621</u>	<u>1.7%</u>
<b>Deferred inflows of resources</b>					
Pensions	\$ 759,673	\$ 38,627	\$ 53,646	\$ 721,046	1866.7%
Total deferred inflows of resources	<u>\$ 759,673</u>	<u>\$ 38,627</u>	<u>\$ 53,646</u>	<u>\$ 721,046</u>	<u>1866.7%</u>
<b>Net Position</b>					
Net investment in capital assets	\$ 423,279,940	\$ 398,919,173	\$ 377,470,987	\$ 24,360,767	6.1%
Restricted for capital projects	13,220,703	12,771,524	13,842,968	449,179	3.5%
Restricted for debt service	2,086,967	1,975,117	2,362,824	111,850	5.7%
Unrestricted	78,640,077	92,152,642	89,296,247	(13,512,565)	-14.7%
Total Net Position	<u>\$ 517,227,687</u>	<u>\$ 505,818,456</u>	<u>\$ 482,973,026</u>	<u>\$ 11,409,231</u>	<u>2.3%</u>

## Financial Analysis, Continued

### Condensed Statements of Activities

	2018	2017	2016	Change 2017-2018	% Change 2017-2018
<b>Operating revenues</b>					
Water and sewer volume & availability fees	\$ 66,900,002	\$ 64,410,537	\$ 63,432,455	\$ 2,489,465	3.9%
Customer charges	8,873,960	7,937,632	7,444,799	936,328	11.8%
Surface water charges	7,631,477	7,217,763	7,208,410	413,714	5.7%
Surface water treatment plant contract revenue	4,285,037	3,698,805	3,609,666	586,232	15.8%
Other revenue	2,568,357	2,279,270	2,413,100	289,087	12.7%
Total operating revenues	90,258,833	85,544,007	84,108,430	4,714,826	5.5%
<b>Operating expenses</b>					
Operating expenses before depreciation	55,776,586	53,601,284	49,533,015	2,175,302	4.1%
Depreciation	27,776,741	26,584,902	24,937,431	1,191,839	4.5%
Total operating expenses	83,553,327	80,186,186	74,470,446	3,367,141	4.2%
Operating income	6,705,506	5,357,821	9,637,984	1,347,685	25.2%
<b>Nonoperating revenues (expenses)</b>					
Investment income (loss)	589,074	(284,159)	4,593,832	873,233	307.3%
Loss on disposal of capital assets	19,708	(174,857)	(444,642)	194,565	111.3%
Interest expense	(6,447,544)	(6,746,504)	(7,300,013)	298,960	4.4%
Total nonoperating expense	(5,838,762)	(7,205,520)	(3,150,823)	1,366,758	19.0%
<b>Income (loss) before capital contributions</b>	866,744	(1,847,699)	6,487,161	2,714,443	146.9%
Capital contributions	25,229,405	24,693,129	16,184,118	536,276	2.2%
<b>Change in net position</b>	26,096,149	22,845,430	22,671,279	3,250,719	14.2%
<b>Beginning net position</b>	505,818,456	482,973,026	460,301,747	22,845,430	4.7%
Restatement	(14,686,918)	-	-	(14,686,918)	-100.0%
<b>Beginning net position, as restated</b>	491,131,538	482,973,026	460,301,747	8,158,512	1.7%
<b>Ending net position</b>	\$ 517,227,687	\$ 505,818,456	\$ 482,973,026	\$ 11,409,231	2.3%

## Financial Analysis, Continued

	Selected Data for Analysis				
	2018	2017	2016	Change 2017-2018	% Change 2017-2018
<i>Employees at Year End</i>	322	314	307	8	2.5%
<i>Active Customers at Year End:</i>					
Water Customers	85,986	82,948	79,819	3,038	3.7%
Wastewater Customers	81,890	78,730	75,738	3,160	4.0%
<i>Water Sales for Fiscal Year</i>					
(Billions of Gallons)	15.27	15.24	14.34	0.03	0.2%
<i>Wastewater Sales for Fiscal Year</i>					
(Billions of Gallons)	11.49	11.46	11.49	0.03	0.3%
<i>Total Operating Revenues</i>					
(Per Average Employees)	\$ 280,307	\$ 272,433	\$ 273,969	\$ 7,874	2.9%
<i>Total Operating Expenses</i>					
(Per Average Employees)	\$ 259,482	\$ 255,370	\$ 242,575	\$ 4,112	1.6%
<i>Ratio of Operating Revenues to:</i>					
Operating Expenses	1.080	1.067	1.129	0.013	1.2%
Operating Expenses Net of Depreciation	1.618	1.596	1.698	0.022	1.4%
Total Assets	0.12	0.116	0.117	0.004	3.4%
<i>Debt Related Ratios:</i>					
Debt to Net Assets	0.481	0.498	0.536	(0.017)	-3.4%
Debt to Capital Assets	0.415	0.428	0.45	(0.013)	-3.0%
Operating Coverage (Operating Cash Flow/Debt)	0.145	0.135	0.128	0.010	7.4%
Debt Ratio (Total Debt/Total Assets)	0.33	0.341	0.359	(0.011)	-3.3%
Bond Coverage (Net Earnings/Debt Required)	1.90	2.07	2.17	(0.17)	-8.2%
<i>Liquidity Ratio</i>					
(Current Assets/Current Liabilities)	4.225	3.915	4.003	0.310	7.9%
<i>Asset Management Ratios:</i>					
Days Sales Outstanding (Receivables/(Sales/360))	52	54	53	(2)	-3.7%
Asset Turnover (Sales/Assets)	0.12	0.116	0.117	0.004	3.5%

## General Trends and Significant Events

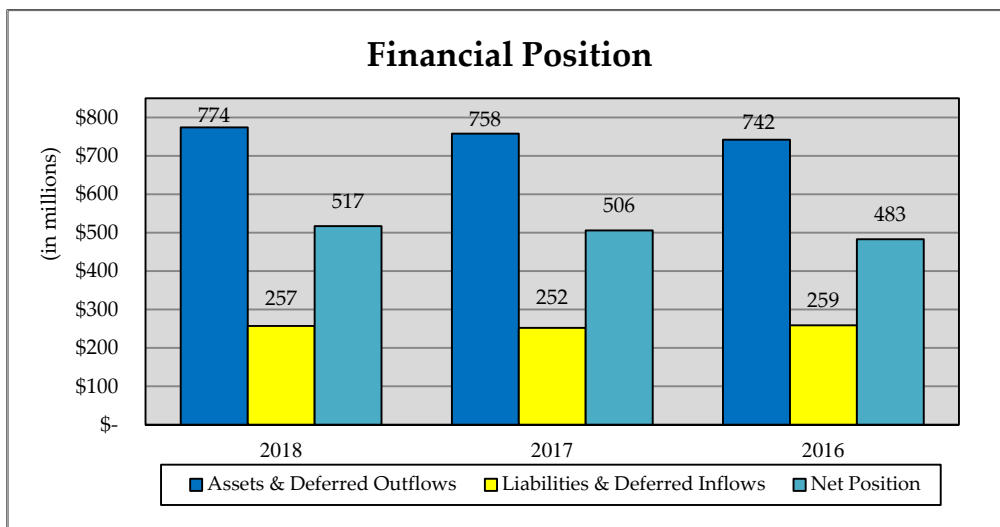
The local economy has continued to improve over the last year. Horry County has seen improvements in market values, sales in real estate and unemployment rates have continued to improve due to strong growth in tourism-related jobs. In more recent years, GSWSA's management has taken a proactive approach to planning for sustainability and preservation. GSWSA is positioned to manage the continued growth in our service area. In addition, management and the rest of the staff at GSWSA have continued to closely monitor expenses, budget conservatively, and manage our infrastructure with long-term master plans that address future growth.

The volume of water sold in fiscal year 2018 was 15.27 billion gallons, an increase of 0.2% from fiscal year 2017. Retail customers purchased 40% of the total water sold and the wholesale customers purchased 60%.

The volume of treated wastewater sold in fiscal year 2018 was 11.49 billion gallons, an increase of 0.3% from fiscal year 2017. All wastewater customer classes increased with the exception of bulk. Retail customers purchased approximately 52% of the total treated wastewater and wholesale customers purchased 48%.

## Financial Position

The improvement in the national and local economy has positively affected GSWSA's growth and its financial position. GSWSA has also continued to build financial strength and stability as a result of its conservative management. The current financial condition and operating and long-term plans have enabled 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 2018, total assets and deferred outflows increased by \$16.5 million or 2.2% with approximately \$11.3 million represented by an increase in capital assets, which is largely due to the increase in capital expenditures for facilities during 2018. Total liabilities increased by \$4.4 million or 1.7%, as a result of a decrease in revenue bonds payable from making annual debt payments for approximately \$10.2 million, a decrease of \$3.6 million in the value of the interest rate swaps, and the recognition of an increase in Net Postemployment Liability for \$18.8 million. Net position increased overall by \$11.4 million or 2.3% as a result of an increase in net investments in capital assets of \$24.4 million and a decrease in unrestricted of \$13.5 million in 2018. The unrestricted decreased due to implementation of GASB 75 other postemployment benefits. In addition, the net position restricted for capital assets increased \$449,179.

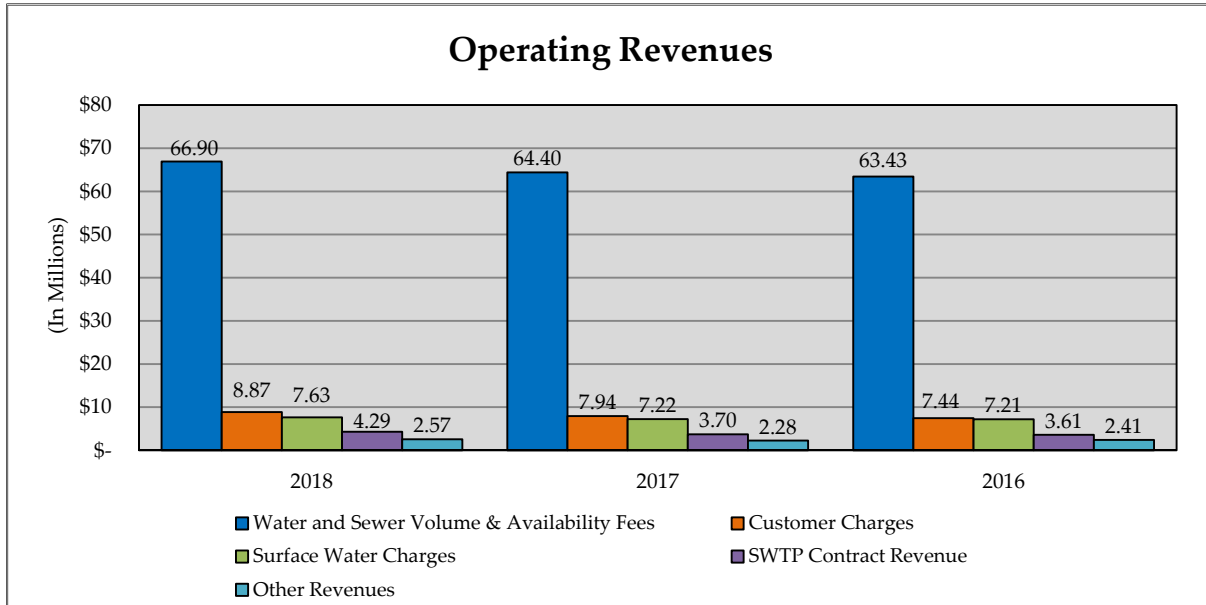
During fiscal year 2017, total assets and deferred outflows increased by \$15.6 million or 2.1% with approximately \$13.3 million represented by an increase in capital assets, which is largely due to the increase in capital expenditures for facilities during 2017. Total liabilities decreased by \$1.6 million or 0.7%, as a result of a decrease in revenue bonds payable from making annual debt payments for approximately \$7.4 million and the recognition of an increase in Net Pension Liability for approximately \$5.6 million. Net position increased overall by \$22.8 million or 4.7% in 2017. In addition, the net position restricted for capital assets increased \$161,737.

Accounts receivable, net of allowance, for 2018 increased by \$159,935 from 2017. Accounts receivable at June 30, 2017 were increased by approximately \$549,508 from 2016. These changes are mainly due to the timing of customer payments as of June 30<sup>th</sup>.

## 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.

## Results of Operations, Continued

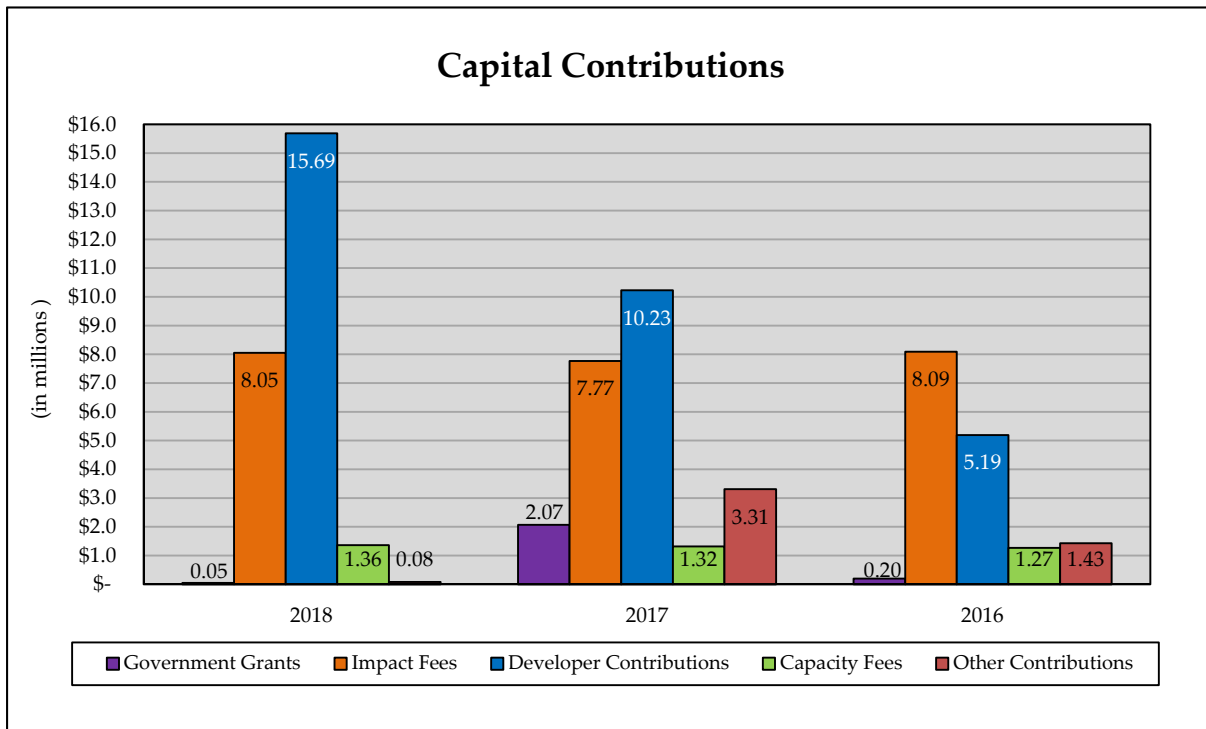


In 2018, GSWSA increased retail water and wastewater rates by 2.3% and 3.7%, respectively. Other rates that increased were the wholesale operating water rates by 2.2% and wholesale capital charges by various percentages as specified by contract. Wholesale wastewater rates also increased by various percentages as specified by contract. In 2017, GSWSA did not increase retail water and wastewater rates. However, wholesale and contract water and wastewater rates were increased by various percentages as specified by contract.

**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 also received some additions to its collection and distribution systems from developers.

The following chart depicts the capacity fee revenue activity.

## Results of Operations, Continued



Overall, capital contributions increased \$536,276, or 2.2% during fiscal year 2018. Developer contributions increased \$5.5 million from 2017. Development of the local area has grown as a result of the demand for single family homes and commercial development. Government grants were \$46,468 for 2018 as compared to \$2.1 million for 2017. The decrease in government grants was due to receiving funds in 2017 from the SC Emergency Management Division for public assistance associated with Hurricane Matthew. Impact fees were approximately \$8.1 million for 2018 compared to \$7.8 million for 2017. Other contributions decreased by \$3.2 million due to receiving insurance payments for Hurricane Matthew and SCDOT and Horry County reimbursements for large highway projects in 2017. Capacity fees also slightly increased \$37,968 from 2017.

During fiscal year 2017, capital contributions increased \$8.5 million, or 52.6%. Development of the local area has grown as a result of the demand for single family homes and commercial development. Government grants were \$2.1 million for 2017 as compared to \$200,960 million for 2016. The increase in government grants was due to receiving funds from the SC Emergency Management Division for public assistance associated with Hurricane Matthew, as well as an Economic Infrastructure Grant for the Mullins to Marion Wastewater Flow Division from the Rural Infrastructure Authority. Impact fees were approximately \$11.1 million for 2017 compared to \$9.5 million for 2016. Capacity fees also slightly increased \$49,908 from 2016.

**Operating 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 fourteen 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 2018, total operating expenses increased \$3.4 million from fiscal year 2017, and operating revenues increased by \$4.7 million. Operating expenses for water and wastewater operations for the last three years are listed below:

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>	<u>Variance</u>	<u>2016</u>	<u>%</u>
Personnel Services	\$ 28,293,175	33.9%	\$ 26,172,901	32.5%	\$ 2,120,274	\$ 23,502,702	31.6%
Contractual Services	16,945,277	20.3%	16,880,486	21.1%	64,791	15,359,308	20.6%
Supplies and Materials	9,365,521	11.2%	9,305,376	11.6%	60,145	9,632,549	12.9%
Depreciation	27,776,741	33.2%	26,584,902	33.2%	1,191,839	24,937,431	33.5%
Other Expenses	1,172,613	1.4%	1,242,521	1.5%	(69,908)	1,038,456	1.4%
Total Operating Expenses	<u>\$ 83,553,327</u>	<u>100.0%</u>	<u>\$ 80,186,186</u>	<u>100.0%</u>	<u>\$ 3,367,141</u>	<u>\$ 74,470,446</u>	<u>100.0%</u>

Personnel costs increased \$2,120,274 or 8.1% from 2017 to 2018. GSWSA granted an average 4.01% merit increase during 2018. The overall increase in personnel costs was mainly a result of the merit increase, an increase in insurance premiums, an increase in the employer retirement contribution rate to the South Carolina Retirement System, recognition of GSWSA's portion of the state's pension expense, as well as the recognition of GSWSA's portion of postemployment benefit expense for the year. Contractual services were up by \$64,791 due to an increase in water and wastewater facility maintenance costs. Supplies and materials increased by \$60,145 or 0.6% as the result of treatment supplies, as well as facility and vehicle maintenance. Depreciation was up \$1,191,839 or 4.5% due to the addition of assets during fiscal year 2018. Other expenses are down by \$69,908 due to an increase in costs associated with franchise fees and wastewater damage claims. Diligent monitoring of these expenses and sound management has continued to keep our expenses under budgeted projections.

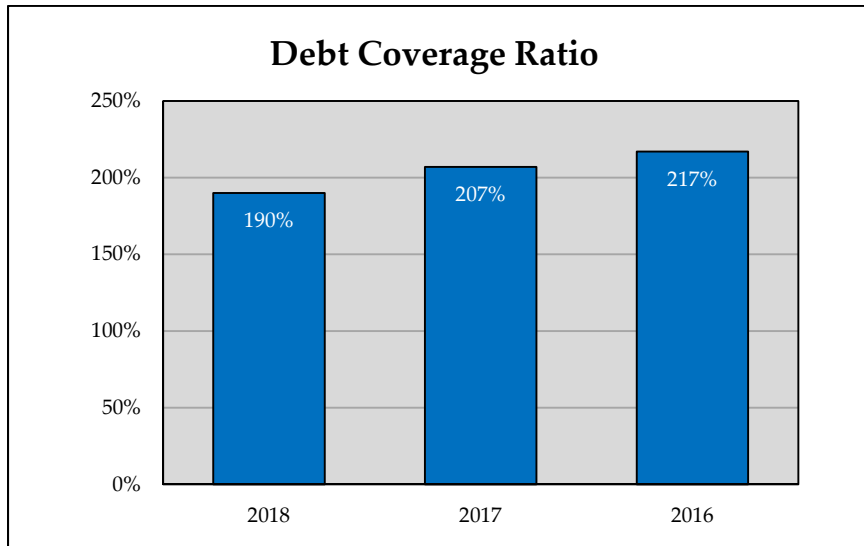
Personnel costs increased \$2,670,199 or 11.36% from 2016 to 2017. GSWSA granted an average 4.05% merit increase during 2017. The overall increase in personnel costs was mainly a result of the merit increase, an increase in insurance premiums, an increase in the annual required contribution to the Other Postemployment Benefit trust, as well as the recognition of GSWSA's portion of the state's pension expense for the year. Contractual services were up by \$1,521,178 due to an increase in water and wastewater facility maintenance costs. Supplies and materials decreased by \$327,173 or 3.4% as the result of treatment supplies, as well as facility and vehicle maintenance. Depreciation was up \$1,647,471 or 6.6% due to the addition of assets during fiscal year 2017. Other expenses are up by \$204,065 due to an increase in costs associated with franchise fees and wastewater damage claims.

## 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 2018, 2017 and 2016 were 190%, 207% and 217%, 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 \$11.3 million during 2018. 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 2018 was approximately \$39.3 million and the depreciation of capital assets was \$27.8 million. Some of the largest additions to capital assets in 2018 included:

Rural Sewer	\$	2,948,845
Water Taps		2,341,022
Transmission Renewal/Replacement		1,615,319
Rural Water		1,586,964
Conway to Bucksport Flow Diversion		1,499,932
WWTP Renewal/Replacement		1,008,470

Developer contributions to capital assets were \$15.7 million. Disposals for 2018 were \$1,895,801.

## Capital Assets and Long-Term Debt, Continued

Capital assets increased by \$13.3 million during 2017. 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 2017 was only approximately \$40.3 million and the depreciation of capital assets was \$26.6 million. Some of the largest additions to capital assets in 2017 included:

Bucksport Rapid Infiltration WWTP	\$ 21,697,022
SCDOT Highway 707 Widening	8,474,363
Bull Creek/Myrtle Beach Interconnect	5,176,702
Rural Sewer	3,655,880
Rural Water	1,419,815
Cool Springs/Aynor Elevated Tank	1,221,891

Developer contributions to capital assets were \$10.2 million. Disposals for 2017 were \$2,966,715.

During fiscal years 2016, 2017 and 2018, GSWSA obtained State Revolving Fund loans for the Bull Creek/Myrtle Beach Waterline Interconnect Phase 2 and MBSWTP Ozone System Improvements projects. Also, during 2018 GSWSA obtained a loan for the Bucksport Marine Park from Santee Cooper. As of June 30, 2018, the draws made on these loans and recorded debt was \$13.1 million.

In addition to the note payable discussed above, GSWSA also received an Intergovernmental Grant in the amount of \$1,000,000. The funds received from the grant are recorded as Unearned Grant income on the Statement of Net Position until the funds are spent in accordance with the grant terms.

GSWSA also issued the Bonds of 2017. The bond proceeds were used to partially refinance the Bonds of 2011A in the amount of \$15,010,000 for net present savings of \$1,305,253.

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

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# GRAND STRAND WATER AND SEWER AUTHORITY

## Statements of Net Position

	As of June 30	
	2018	2017
<b>Assets and Deferred Outflows of Resources</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 9,079,363	\$ 11,332,843
Investments	95,101,503	92,957,651
Receivables		
Customer accounts, net of allowance of \$233,551 in 2018 and \$231,989 in 2017	13,100,530	12,940,595
Assessments	3,348,601	3,281,065
Interest	908,445	766,919
Other	1,351,330	3,033,990
Total receivables	18,708,906	20,022,569
Inventories	1,283,827	1,216,655
Prepays	1,244,560	1,156,226
Restricted assets		
Cash and cash equivalents	1,702,703	1,588,192
Investments	6,412,282	386,925
Total current assets	133,533,144	128,661,061
<i>Noncurrent assets</i>		
Restricted investments	20,484,188	20,720,555
Container and security deposits	4,750	4,750
Capital assets		
Nondepreciable	74,611,976	72,224,002
Depreciable, net of depreciation	525,132,787	516,270,712
Total capital assets	599,744,763	588,494,714
Total noncurrent assets	620,233,701	609,220,019
Total assets	\$ 753,766,845	\$ 737,881,080
<i>Deferred outflows of resources</i>		
Interest rate swap	\$ 7,411,258	\$ 11,008,596
Deferred charges on refundings	3,017,166	2,293,299
Pensions	6,430,184	6,439,916
Other Postemployment Benefits	3,492,336	-
Total deferred outflows of resources	\$ 20,350,944	\$ 19,741,811

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	
	2018	2017
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<i>Current liabilities</i>		
Accounts payable	\$ 2,671,042	\$ 3,713,023
Accrued salaries and benefits	726,187	391,464
Accrued compensated absences	667,301	647,916
Capital lease payable	23,951	140,730
Construction contracts payable	1,880,478	3,556,669
Revenue bonds payable	13,430,000	13,745,000
Notes payable	3,031,028	2,843,806
Companion instrument debt	407,739	410,953
Accrued interest on revenue bonds	419,823	479,424
Accrued interest on notes payable	207,353	221,804
Customer security and tap deposits	6,931,071	6,530,070
Unearned customer contributions	212,414	185,779
Unearned grant income	1,000,000	-
Total current liabilities	31,608,387	32,866,638
<i>Noncurrent liabilities</i>		
Revenue bonds payable	107,528,775	120,092,174
Notes payable	49,912,583	47,380,383
Net Pension Liability	36,350,619	35,567,573
Net Other Postemployment Benefits Liability	18,803,920	-
Companion instrument debt	3,267,435	3,675,174
Capital lease payable	-	23,951
Accrued compensated absences	1,247,452	1,151,319
Interest rate swap	7,411,258	11,008,596
Total noncurrent liabilities	224,522,042	218,899,170
Total liabilities	\$ 256,130,429	\$ 251,765,808
<i>Deferred inflows of resources</i>		
Pensions	\$ 759,673	\$ 38,627
Total deferred inflows of resources	\$ 759,673	\$ 38,627
<i>Net position</i>		
Net investment in capital assets	\$ 423,279,940	\$ 398,919,173
Restricted for:		
Capital projects	13,220,703	12,771,524
Debt service	2,086,967	1,975,117
Unrestricted	78,640,077	92,152,642
Total net position	\$ 517,227,687	\$ 505,818,456

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

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the years ended</b>	
	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>
<b><i>Operating revenues</i></b>		
Water and sewer volume and availability fees	\$ 66,900,002	\$ 64,410,537
Customer charges	8,873,960	7,937,632
Surface water charges	7,631,477	7,217,763
Surface water treatment plant contract revenues	4,285,037	3,698,805
Other revenue	2,568,357	2,279,270
Total operating revenues	90,258,833	85,544,007
<b><i>Operating expenses</i></b>		
Personnel costs	28,293,175	26,172,901
Contractual services	16,945,277	16,880,486
Supplies and materials	9,365,521	9,305,376
Depreciation on assets acquired with:		
Authority funds	15,339,684	14,943,824
Contributed capital	12,437,057	11,641,078
Other expenses	1,172,613	1,242,521
Total operating expenses	83,553,327	80,186,186
Operating income	6,705,506	5,357,821
<b><i>Non-operating revenues (expenses)</i></b>		
Investment income	589,074	(284,159)
Gain (loss) on disposal of capital assets	19,708	(174,857)
Interest expense	(6,447,544)	(6,746,504)
Total non-operating expenses, net	(5,838,762)	(7,205,520)
<b><i>Income (loss) before contributions</i></b>	866,744	(1,847,699)
<b><i>Capital contributions</i></b>		
Surface water treatment plant capacity fees	1,359,528	1,321,560
Government grants/contributions	46,468	2,066,122
Customer impact fees	8,045,210	7,766,803
Developer contributions	15,693,863	10,231,796
Other contributions	84,336	3,306,848
Total capital contributions	25,229,405	24,693,129
<b><i>Change in net position</i></b>	26,096,149	22,845,430
<b><i>Beginning net position, as previously reported</i></b>	\$ 505,818,456	\$ 482,973,026
Restatement	(14,686,918)	-
<b><i>Beginning net position, as restated</i></b>	\$ 491,131,538	\$ 482,973,026
<b><i>Net position, ending</i></b>	\$ 517,227,687	\$ 505,818,456

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	
	2018	2017
<i>Operating activities</i>		
Cash received from customers and users	\$ 90,432,363	\$ 85,166,447
Cash paid to suppliers	(28,680,898)	(27,008,058)
Cash paid to employees	(25,061,422)	(23,070,270)
Cash paid to OPEB trust	(643,022)	(1,133,711)
Net cash provided by operating activities	36,047,021	33,954,408
<i>Capital and related financing activities</i>		
Acquisition and construction of capital assets	(23,495,785)	(33,313,060)
Capital contributions	10,477,841	14,443,382
Interest paid on debt	(7,618,831)	(6,936,384)
Proceeds from issuance of debt	20,679,734	23,253,321
Principal paid on debt	(30,881,265)	(30,743,969)
Principal payments on capital lease obligations	(135,761)	(135,761)
Proceeds from sale of capital assets	273,371	244,298
Net cash and cash equivalents used for capital and related financing activities	(30,700,696)	(33,188,173)
<i>Investing activities</i>		
Purchase of investments	(46,075,167)	(36,060,968)
Proceeds from sale of investments	38,142,325	37,261,593
Interest and investment income (loss)	447,548	(336,430)
Net cash and cash equivalents (used for) provided by investing activities	(7,485,294)	864,195
Net change in cash and cash equivalents	(2,138,969)	1,630,430
Cash and cash equivalents - beginning	12,921,035	11,290,605
Cash and cash equivalents - ending	\$ 10,782,066	\$ 12,921,035

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	
	2018	2017
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 6,705,506	\$ 5,357,821
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	27,776,741	26,584,902
(Increase) decrease in operating assets		
Receivables - customers and assessments	(227,471)	(654,123)
Inventories	(67,172)	(117,924)
Prepays	(88,334)	(72,948)
Increase (decrease) in operating liabilities		
Accounts payable	(1,041,981)	611,197
Accrued salaries and compensated absences	450,241	298,253
Net pension liability	1,513,824	1,670,667
Net postemployment liability	624,666	-
Customer security and tap deposits	401,001	276,563
Net cash provided by operating activities	\$ 36,047,021	\$ 33,954,408
<i>Noncash capital and related financing activities</i>		
Developer contributions	\$ 15,693,863	\$ 10,231,796
Other contributions	84,336	\$ 3,306,848
Government contributions	46,468	2,066,122
Capitalized interest expense	-	4,003
Unrealized increase/(decrease) in fair value of investments	(1,573,270)	(643,507)
Proceeds from bond refundings	15,010,000	14,205,000
Principal paid on debt	(13,735,000)	(14,205,000)
Total noncash capital and related financing activities	\$ 15,526,397	\$ 14,965,262
<i>Reconciliation of cash and cash equivalents</i>		
Unrestricted cash and investments - beginning	\$ 104,290,494	\$ 103,893,332
Restricted cash and investments - beginning	22,695,672	22,663,029
	126,986,166	126,556,361
Investments with original maturity dates over ninety days	(114,065,131)	(115,265,756)
Cash and cash equivalents - beginning	\$ 12,921,035	\$ 11,290,605
Unrestricted cash and investments - ending	\$ 104,180,866	\$ 104,290,494
Restricted cash and investments - ending	28,599,173	22,695,672
	132,780,039	126,986,166
Investments with original maturity dates over ninety days	(121,997,973)	(114,065,131)
Cash and cash equivalents - ending	\$ 10,782,066	\$ 12,921,035

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, 2018

<i>Assets</i>	
Cash in money market account	<u>\$ 573,783</u>
Investments	
US Government Agency Bonds/Notes	2,177,837
US Government Notes	2,693,814
US Government Bonds	286,176
US Government Inflation Bonds	<u>53,764</u>
Total investments	<u>5,211,591</u>
Receivables	
Employee contributions	<u>6,884</u>
Total assets	<u>\$ 5,792,258</u>
<i>Net Postion Restricted for Other Post Employment Benefits</i>	
Held in trust for other postemployment benefits	<u><u>\$ 5,792,258</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  
For the Year Ended June 30, 2018

***Additions***

Investment income (loss)	
Net depreciation in fair value of investments	\$ (129,680)
Interest income	110,552
Total investment income (loss)	(19,128)
Contributions	
Employer	1,190,970
Plan members	83,965
Total contributions	1,274,935
Total additions	1,255,807

***Deductions***

Benefits paid	287,102
Net increase in net position	968,705

***Net position Restricted for Other Post Employment Benefits***

Beginning of year	4,823,553
End of year	\$ 5,792,258

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 accounts for its activities similar to those found in private business enterprises. GSWSA's financial statements are presented on the full accrual basis in accordance with generally accepted accounting principles. Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# 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**

#### *Adoption of new accounting standards:*

Effective for the fiscal year ended June 30, 2018, GSWSA adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – a new accounting standard for public Other Post Employment Benefit (OPEB) plans which replaces GASB 45*. As a result of this implementation, GSWSA will now report its projected net OPEB liability. Since the information for the restatement of beginning balances of deferred inflows of resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as restatement to ending net position as of June 30, 2017. The effect of this implementation is discussed in Note 9.

#### *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.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### *Deposits and Investments, continued*

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.

#### *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 \$6,827,749 and \$6,933,643 in revenues earned through year-end but not yet billed as of June 30, 2018 and 2017, 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 average cost.

#### *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.

# 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

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 acquisition value, or at the engineers' estimated 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:

	<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.



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### 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.

#### Pensions

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

#### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Grand Strand Water and Sewer Authority Retiree Healthcare Benefit Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, The Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments.

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.

# 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 Net 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 three items that qualify for reporting in this category: deferred charges on refundings, deferral of the interest rate swap, and the net change in net pension liability not included in pension expense, net change in the other postemployment liability not included in other postemployment expense, including employer contributions subsequent to the measurement date. 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 Net Position includes 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 two items that qualify for reporting in this category, the value of the interest rate swap and the change in net pension liability not included in pension expense. GSWSA entered into the interest rate swap agreement to modify interest rates on outstanding debt. The fair value of the swap, 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.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### *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.

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 position 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**

Unrestricted net position consists of all other net position not included in the above two categories. The unrestricted net positions at June 30, 2018 and 2017 include \$3,283,351 and \$3,252,675, 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 10, 2018, the date the financial statements were available for issue.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 2 - DEPOSITS AND INVESTMENTS

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

	2018	2017
Petty cash	\$ 4,650	\$ 4,650
Cash deposits	5,616,340	8,833,661
Money market deposit	5,161,076	4,082,724
Total cash and cash equivalents	\$ 10,782,066	\$ 12,921,035

#### Deposits

At June 30, 2018 and 2017, the carrying amount of GSWSA's deposits in financial institutions were \$10,777,417 and \$12,916,385. The financial institutions' balances totaled \$12,400,522 and \$14,051,180, 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 \$4,650 and \$4,650 for fiscal years 2018 and 2017, respectively.

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, 2018 and 2017, 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.

	2018 Fair Value	2017 Fair Value
Federal Home Loan Mortgage	\$ 14,558,382	\$ 18,446,705
Federal National Mortgage	13,602,142	13,453,529
Federal Home Loan Bank	8,113,431	9,291,251
Government National Mortgage Association	2,224,499	2,946,904

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 2 - DEPOSITS AND INVESTMENTS, continued

*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 57.54% 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.

As of June 30, 2018, GSWSA had the following investments and maturities.

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					<u>Credit Rating</u>	<u>As a % of Total Investments</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>		
U.S. Treasuries	\$ 70,200,595	\$ 10,308,678	\$48,067,781	\$ 11,824,136	\$ -	AA+	57.54%
Federal Home Loan Bank	8,113,431	1,858,546	5,972,025	282,860	-	AA+	6.65%
Federal Home Loan Mortgage Corporation	14,558,383	758,108	9,626,467	161,997	4,011,811	AA+	11.93%
Federal National Mortgage Association	13,602,142	2,298,419	2,745,830	2,513,813	6,044,080	AA+	11.15%
Government National Mortgage Association	2,224,499	-	-	1,031,257	1,193,242	AA+	1.83%
Certificate of Deposit	120,000	-	120,000	-	-	A-	0.10%
Investment Pool	<u>13,178,923</u>	<u>13,178,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>N/R</u>	<u>10.80%</u>
	<u>\$ 121,997,973</u>	<u>\$ 28,402,674</u>	<u>\$66,532,103</u>	<u>\$ 15,814,063</u>	<u>\$ 11,249,133</u>		<u>100.00%</u>

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 2 - DEPOSITS AND INVESTMENTS, continued

As of June 30, 2017, 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	\$ 62,784,272	\$ 9,637,210	\$36,931,704	\$ 16,215,358	\$ -	-	55.04%
Corporate Bonds	3,095,604	-	-	3,095,604	-	AA+	2.71%
Federal Home Loan Bank	9,291,251	-	5,805,920	3,485,331	-	AA+	8.15%
Federal Home Loan							
Mortgage Corporation	18,446,705	4,827,419	10,436,611	213,576	2,969,099	AA+	16.17%
Federal National Mortgage Association	13,453,529	2,181,596	4,184,019	3,710,866	3,377,048	AA+	11.80%
Government National Mortgage Association	2,946,904	-	-	1,362,311	1,584,593	AA+	2.58%
Investment Pool	<u>4,046,866</u>	<u>4,046,866</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>N/R</u>	<u>3.55%</u>
	<u>\$ 114,065,131</u>	<u>\$ 20,693,091</u>	<u>\$57,358,254</u>	<u>\$ 28,083,046</u>	<u>\$ 7,930,740</u>		<u>100.00%</u>

### Investment Valuation

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. Grand Strand Water and Sewer Authority's investments measured and reported at fair value are classified according to the following hierarchy:

- Level 1 – Investments reflect prices quoted in active markets
- Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include input markets that are not considered to be active.
- Level 3 – Investments reflect prices based upon unobservable sources, however there are no level 3 inputs as of June 30, 2018 and 2017.

The categorization of investment within the hierarchy is based upon the pricing transparency of the instrumentation and should not be perceived as the particular investment's risk. Money market mutual funds classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 2 - DEPOSITS AND INVESTMENTS, continued

#### Investment Valuation, continued

Investments' fair value measurements are as follows at June 30, 2018:

Debt Securities	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Other Observable Inputs
		Level 1	Level 2	Level 3
Money Market Mutual Funds	\$ 5,161,076	\$ 2,821,606	\$ 2,339,470	-
U.S. Treasury Obligations	70,200,595	69,816,331	384,264	-
U.S. Gov't Agency Obligations	25,073,912	5,534,141	19,539,771	-
U.S. Gov't Agency Mortgage-Backed Pools	13,424,542	-	13,424,542	-
Certificates of Deposit	120,000	120,000	-	-
Investments Measured at Net Asset Value <sup>1</sup>	13,178,923	-	-	-
	<u>\$ 127,159,048</u>	<u>\$ 78,292,078</u>	<u>\$ 35,688,047</u>	<u>-</u>

<sup>1</sup> Certain investments in the South Carolina Local Government Investment Pool are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Investments' fair value measurements are as follows at June 30, 2017:

Debt Securities	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Other Observable Inputs
		Level 1	Level 2	Level 3
Money Market Mutual Funds	\$ 4,078,987	\$ 2,302,669	\$ 1,776,318	-
U.S. Treasury Obligations	62,784,272	62,784,272	-	-
U.S. Gov't Agency Obligations	36,041,497	7,657,159	28,384,338	-
U.S. Gov't Agency Mortgage-Backed Pools	11,192,497	-	11,192,497	-
Investments Measured at Net Asset Value <sup>1</sup>	4,046,866	-	-	-
	<u>\$ 118,144,119</u>	<u>\$ 72,744,100</u>	<u>\$ 41,353,153</u>	<u>-</u>

<sup>1</sup> Certain investments in the South Carolina Local Government Investment Pool are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.



# 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, 2018, was as follows:

	Balance June 30, 2017	Additions	Retirements	Disposals/ Transfers	Balance June 30, 2018
Capital assets not being depreciated					
Land and easements	\$ 54,531,851	\$ 80,743	\$ (35,755)	\$ -	\$ 54,576,839
Construction-in-progress	17,692,151	3,319,490	-	(976,504)	20,035,137
	72,224,002	3,400,233	(35,755)	(976,504)	74,611,976
Capital assets being depreciated					
Utility plant	831,276,038	31,991,011	(721,824)	976,504	863,521,729
Buildings and leaseholds	11,765,281	851,065	-	-	12,616,346
Site Improvements	2,017,824	-	-	-	2,017,824
Vehicles	11,863,038	1,355,431	(803,843)	-	12,414,626
Machinery, equipment and furniture	20,352,217	1,682,713	(334,379)	-	21,700,551
	877,274,398	35,880,220	(1,860,046)	976,504	912,271,076
Accumulated depreciation for:					
Utility plant	(334,149,659)	(24,490,900)	571,799	-	(358,068,760)
Buildings and leaseholds	(4,115,840)	(390,280)	-	-	(4,506,120)
Site Improvements	(412,574)	(137,654)	-	-	(550,228)
Vehicles	(7,512,451)	(1,350,721)	755,393	-	(8,107,779)
Machinery, equipment and furniture	(14,813,162)	(1,407,187)	314,947	-	(15,905,402)
	(361,003,686)	(27,776,742)	1,642,139	-	(387,138,289)
	\$ 588,494,714	\$ 11,503,711	\$ (253,662)	\$ -	\$ 599,744,763

# 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, 2017, was as follows:

	Balance June 30, 2016	Additions	Retirements	Disposals/ Transfers	Balance June 30, 2017
Capital assets not being depreciated					
Land and easements	\$ 52,753,063	\$ 1,778,788	\$ -	\$ -	\$ 54,531,851
Construction-in-progress	46,015,049	23,625,134	-	(51,948,032)	17,692,151
	<u>98,768,112</u>	<u>25,403,922</u>	-	<u>(51,948,032)</u>	<u>72,224,002</u>
Capital assets being depreciated					
Utility plant	770,598,062	10,201,795	(1,471,851)	51,948,032	831,276,038
Buildings and leaseholds	10,949,941	815,340	-	-	11,765,281
Site Improvements	2,017,824	-	-	-	2,017,824
Vehicles	11,759,174	1,405,728	(1,301,864)	-	11,863,038
Machinery, equipment and furniture	<u>18,038,161</u>	<u>2,507,056</u>	<u>(193,000)</u>	-	<u>20,352,217</u>
	<u>813,363,162</u>	<u>14,929,919</u>	<u>(2,966,715)</u>	<u>51,948,032</u>	<u>877,274,398</u>
Accumulated depreciation for:					
Utility plant	(311,512,813)	(23,712,762)	1,075,916	-	(334,149,659)
Buildings and leaseholds	(3,767,403)	(348,437)	-	-	(4,115,840)
Site Improvements	(274,922)	(137,652)	-	-	(412,574)
Vehicles	(7,611,655)	(1,199,427)	1,298,631	-	(7,512,451)
Machinery, equipment and furniture	<u>(13,799,551)</u>	<u>(1,186,624)</u>	<u>173,013</u>	-	<u>(14,813,162)</u>
	<u>(336,966,344)</u>	<u>(26,584,902)</u>	<u>2,547,560</u>	-	<u>(361,003,686)</u>
	<u>\$ 575,164,930</u>	<u>\$ 13,748,939</u>	<u>\$ (419,155)</u>	<u>\$ -</u>	<u>\$ 588,494,714</u>

Certain direct and indirect costs of GSWSA's construction and engineering departments were capitalized in the amount of \$3,978,074 and \$4,771,034 during 2018 and 2017, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$0 and \$4,003 during 2018 and 2017, respectively.

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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 4 - CAPITAL LEASE

GWSA 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 GWSA \$1,073,691.

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2018 were as follows:

2019	<u>\$ 24,059</u>
Total minimum lease payments	\$ 24,059
Less amount representing interest	<u>(108)</u>
Present value of minimum lease payments	<u>\$ 23,951</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, 2018 was \$271,901,309. Bonds, notes payable and state revolving loans at June 30, 2018 and 2017 are composed of the following individual issuances:

	<u>2018</u>	<u>2017</u>
<u>Series 2003</u> Waterworks and Sewer System Refunding Revenue Bonds. Secured by net revenues of the system. Current interest paying serial bonds; due in annual principal installments beginning June 1, 2017, ranging from \$810,000 to \$920,000 through June 1, 2018; interest at 3.58% per annum; due June 1.	\$ -	\$ 920,000
<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 six annual principal installments of \$715,000 until 2023; semiannual interest at 2.25%; due June 1 and December 1.	4,290,000	5,005,000
<u>Series 2011A</u> Bonds; due in annual principal installments beginning June 1, 2020 ranging from \$710,000 to \$1,680,000 during 2020 through 2041; interest at 3.0% to 5.0% per annum; due June 1.	10,590,000	24,325,000
<u>Series 2011B</u> Bonds; due in annual principal installments beginning June 1, 2018 ranging from \$610,000 to \$2,895,000 during 2017 through 2023; interest at 3.0% to 5.0% per annum; due June 1.	11,830,000	14,310,000
<u>Series 2011C</u> Bonds; due in annual principal installments beginning June 1, 2018 ranging from \$4,215,000 to \$4,335,000 during 2018 through 2019; interest at 2.862% to 3.256% per annum; due June 1.	4,335,000	8,550,000

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	2018	2017
<u>Series 2012</u>		
Bonds; due in annual principal installments beginning June 1, 2018 ranging from \$2,150,000 to \$6,340,000 during 2018 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.	58,695,000	60,845,000
<u>Series 2016</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, 2018, ranging from \$735,000 to \$850,000 through December 1, 2022; semiannual interest at 1.64%; due June 1 and December 1.	3,955,000	4,665,000
<u>Series 2016 D</u>		
Waterworks and Sewer System Refunding Revenue Bonds. Secured by net revenues of the system. Current interest paying serial bonds; due in semiannual principal installments beginning June 1, 2018, ranging from \$110,000 to \$1,280,000 through June 1, 2026; semiannual interest at 1.72%; due June 1 and December 1.	10,270,000	12,825,000
<u>Series 2017</u>		
Bonds; due in annual principal installments beginning June 1, 2018 ranging from \$40,000 to \$1,630,000 during 2018 through 2041; semiannual interest at 2.5% to 5.0%; due June 1 and December 1.	14,970,000	-
Total bonds payable	118,935,000	131,445,000

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	<u>2018</u>	<u>2017</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.	6,692,116	7,299,309
<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.	6,023,775	6,477,795
<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.	1,897,249	2,051,570

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	<u>2018</u>	<u>2017</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.	945,448	1,016,901
<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.	904,909	964,191
<u>Bucksport Composting Facility SRF</u> Note payable, including accrued interest of \$27,183 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, 2012 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.	2,293,755	2,444,022

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	<u>2018</u>	<u>2017</u>
<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 \$21,044,152 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.	17,326,393	18,233,318
<u>Highway 501 to International Drive Water SRF</u> Note payable to South Carolina State Budget and Control Board for South Carolina Drinking Water Revolving Fund at 1.90%. Quarterly principal and interest payments beginning October 1, 2014. Total approved loan of \$4,504,199 with July 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.	3,784,374	3,981,357
<u>Bull Creek to MB Water System Interconnect Phase 2</u> Note payable, including accrued interest of \$201 to South Carolina State Budget and Control Board for South Carolina Drinking Water Revolving Fund at 1.80%. Quarterly principal and interest payments beginning November 1, 2016. Total approved loan of \$5,467,048 with August 1, 2036 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	5,063,148	4,857,064



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Myrtle Beach SWTP Ozone System Improvements

Note payable, including accrued interest of \$3,802 to South Carolina State Budget and Control Board for South Carolina Drinking Water Revolving Fund at 1.80%. Quarterly principal and interest payments beginning June 1, 2017. Total approved loan of \$3,179,471 with March 1, 2037 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.

3,012,444                      2,898,662

#### Marine Industrial Park Loan

Note payable to South Carolina Public Service Authority. Annual principal and interest payments beginning April 1, 2022; interest at a variable rate set annually. Total approved loan of \$5,000,000 with April 1, 2028 maturity date. Collateralized by the property on which the Industrial park is being developed as well as a \$120,000 certificate of deposit.

5,000,000                      -

Total notes payable

52,943,611                      50,224,189

#### Companion Instrument Debt

Advances payable comprising companion instrument debt related to an interest rate swap. Payments of principal and interest ranging from \$30,020 to \$277,921 at a rate of 4.2% began December 1, 2017 with all unpaid principal and interest due in June 2031.

3,675,174                      4,086,127

Total debt, before deferrals

175,553,785                      185,755,316

Unamortized revenue bond discount/premium

2,023,775                      2,392,174

Total debt, net

177,577,559                      188,147,490

Less current portion

(16,868,767)                      (16,999,759)

Total long - term portion of debt

\$ 160,708,793                      \$ 171,147,731

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

Remaining debt service payments at June 30, 2018 are as follows:

Date	Revenue Bonds		Companion Instrument Debt		Notes Payable		Total Principal	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2019	\$ 13,430,000	\$ 5,237,934	\$ 407,739	\$ 148,103	\$ 3,031,028	\$ 998,316	\$ 16,868,767	\$ 23,253,120
2020	9,815,000	4,758,269	402,997	131,111	3,096,766	932,579	13,314,763	19,136,722
2021	9,895,000	4,423,841	398,726	114,312	3,163,963	865,381	13,457,689	18,861,223
2022	10,480,000	4,031,450	389,136	97,764	3,946,940	849,691	14,816,076	19,794,981
2023	8,430,000	3,567,266	366,367	81,801	4,017,157	771,902	12,813,524	17,234,493
2024-2028	31,290,000	13,076,148	1,380,041	208,881	21,003,327	2,797,528	53,673,368	69,755,925
2029-2033	23,935,000	4,693,801	330,168	18,802	11,665,493	887,718	35,930,661	41,530,982
2034-2038	6,925,000	1,497,906	-	-	3,018,937	73,336	9,943,937	11,515,179
2039-2043	4,735,000	321,075	-	-	-	-	4,735,000	5,056,075
	<u>\$ 118,935,000</u>	<u>\$ 41,607,690</u>	<u>\$ 3,675,174</u>	<u>\$ 800,774</u>	<u>\$ 52,943,611</u>	<u>\$ 8,176,451</u>	<u>\$ 175,553,785</u>	<u>\$ 226,138,700</u>

Remaining debt service payments at June 30, 2017 are as follows:

Date	Revenue Bonds		Companion Instrument Debt		Notes Payable		Total Principal	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2018	\$ 13,745,000	\$ 5,797,202	\$ 410,953	\$ 165,249	\$ 2,843,806	\$ 1,016,746	\$ 16,999,759	\$ 23,978,956
2019	13,385,000	5,371,804	407,739	148,103	2,987,739	988,469	16,780,478	23,288,854
2020	9,770,000	4,886,478	402,997	131,111	3,052,692	923,516	13,225,689	19,166,794
2021	9,845,000	4,547,902	398,726	114,312	3,119,091	857,117	13,362,817	18,882,148
2022	10,430,000	4,151,559	389,136	97,764	3,186,969	789,240	14,006,105	19,044,668
2023-2027	32,885,000	15,295,317	1,542,347	271,157	17,007,122	2,873,921	51,434,469	69,874,864
2028-2032	28,785,000	7,023,872	534,229	38,326	12,877,106	1,151,634	42,196,335	50,410,167
2033-2037	6,345,000	2,473,900	-	-	5,034,524	180,620	11,379,524	14,034,044
2038-2042	6,255,000	801,000	-	-	115,139	518	6,370,139	7,171,657
	<u>\$ 131,445,000</u>	<u>\$ 50,349,034</u>	<u>\$ 4,086,127</u>	<u>\$ 966,022</u>	<u>\$ 50,224,188</u>	<u>\$ 8,781,781</u>	<u>\$ 185,755,315</u>	<u>\$ 245,852,152</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, 2018, are as follows:

	Balance			Balance	Due Within
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>	<u>One Year</u>
Companion Instrument Debt	\$ 4,086,127	\$ -	\$ 410,953	\$ 3,675,174	\$ 407,739
Bonds payable	131,445,000	15,010,000	27,520,000	118,935,000	13,430,000
Notes payable	50,224,189	5,669,734	2,950,312	52,943,611	3,031,028
Capital lease payable	164,681	-	140,730	23,951	23,951
Compensated Absences	<u>1,799,235</u>	<u>834,876</u>	<u>719,358</u>	<u>1,914,753</u>	<u>667,301</u>
Total liabilities	187,719,232	21,514,610	31,741,353	177,492,489	17,560,019
Plus deferred amounts:					
Issuance premiums	<u>2,392,174</u>	<u>335,477</u>	<u>703,876</u>	<u>2,023,775</u>	<u>-</u>
Total	<u>\$ 190,111,406</u>	<u>\$ 21,850,087</u>	<u>\$ 32,445,229</u>	<u>\$ 179,516,264</u>	<u>\$ 17,560,019</u>

Long term liability activity including capital leases for the year ended June 30, 2017, are as follows:

	Balance			Balance	Due Within
	<u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>	<u>One Year</u>
Companion Instrument Debt	\$ 4,498,366	\$ -	\$ 412,239	\$ 4,086,127	\$ 410,953
Bonds payable	129,250,000	14,205,000	12,010,000	131,445,000	13,745,000
Notes payable	59,497,598	9,048,321	18,321,730	50,224,189	2,843,806
Capital lease payable	300,442	-	135,761	164,681	140,730
Compensated Absences	<u>1,611,353</u>	<u>801,567</u>	<u>613,685</u>	<u>1,799,235</u>	<u>647,916</u>
Total liabilities	195,157,759	24,054,888	31,493,415	187,719,232	17,788,405
Plus deferred amounts:					
Issuance premiums	<u>2,701,863</u>	<u>-</u>	<u>309,689</u>	<u>2,392,174</u>	<u>-</u>
Total	<u>\$ 197,859,622</u>	<u>\$ 24,054,888</u>	<u>\$ 31,803,104</u>	<u>\$ 190,111,406</u>	<u>\$ 17,788,405</u>

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

GSWSA has pledged future revenues derived from the operation of the water and wastewater systems, net of operating and maintenance expenses, to repay \$85,635,083 in water and wastewater bonds. Proceeds from the bonds provided financing for improvements to the water and wastewater systems, as well as refunding \$204,486,451 of water and wastewater revenue bonds. The bonds are payable solely from the net earnings of the Water and Wastewater Systems and are payable through 2041. The total principal and interest remaining to be paid on the bonds is \$160,542,690, with annual payments expected to require 42 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$19,464,483 and \$46,581,843, respectively.

The revenue bonds also require the establishment of the following restricted 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.

On August 26, 2016, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina State Drinking Water Revolving Fund for \$5,930,697 with an interest rate of 1.80%. The loan will provide proceeds which will be used to install a 36" water transmission main from International Drive to Highway 17 By-Pass to provide emergency back-up water supply to the City of Myrtle Beach. As of June 30, 2018, GSWSA received \$5,467,048.

On March 9, 2016, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina State Drinking Water Revolving Fund for \$3,354,144 with an interest rate of 1.80%. The loan will provide proceeds which will be used for the construction of a Liquid Oxygen system for the Ozone Generation system at the Myrtle Beach Water Treatment Plant. As of June 30, 2018, GSWSA received \$3,179,471.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

On March 30, 2018, the effective date, GSWSA entered into an agreement with the South Carolina Public Service Authority to develop the Marine Industrial Park located on the Waccamaw River. In conjunction with the execution of this agreement, the South Carolina Public Service Authority provided a note payable in the amount of \$5,000,000 to GSWSA for the construction of certain improvements to the Marine Industrial Park. Interest rates on the note payable are as follows, and reset every year on the anniversary of the effective date:

- The initial interest rate of the note will be zero percent through the third anniversary of the effective date.
- On the third anniversary of the effective date, the interest rate shall begin to accrue at one-half of the then current 10-year Insured General Obligation Municipal Market Data Index Rate ("MMDI").
- On the fourth anniversary of the effective date, the interest rate shall begin to accrue at one-half of the then current 10-year MMDI.
- On the fifth anniversary of the effective date and each anniversary of the effective date thereafter for the remainder term of the loan, the interest rate shall be reset to the rate of interest in effect for a ten-year U.S. Treasury Note.

In addition to the note payable discussed above, GSWSA also received a Municipal Site Readiness Fund Grant in the amount of \$1,000,000, which is recorded as Unearned Grant Income on the Statement of Net Position. The grant income will be earned as GSWSA expends the funds to develop the Industrial Marine Park.

On December 12, 2017, GSWSA issued the Bonds of 2017 in the amount of \$15,010,000. The proceeds of the Bonds of 2017 were used to advance refund the Bonds of 2011 in advance of the redemption date of June 1, 2021. As a result, GSWSA advance refunded \$13,735,000 of the outstanding bonds during the period ending June 30, 2018 and the liability has been removed from the Statement of Net Position. The refunding was undertaken to reduce total debt service payments by \$1,852,038 and resulted in a net present value savings of \$1,305,253.

# 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.

Terms – The terms, fair value and credit ratings of the outstanding swap as of June 30, 2018 were as follows. The notional amounts match the principal amounts of the outstanding debt.

Notional amount	\$ 58,695,000
Up-front payment	\$ 4,388,000
Effective date	June 1, 2012*
Fixed payer rate	4.717%
Variable receiver rate	70% of LIBOR
Fair value of swap	(\$ 7,411,258)
Termination date	June 1, 2031
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.

\*\* Bonds of 2012 have two counterparties. These ratings represent the Standard & Poor's Ratings.

Fair value – The swap agreement had a negative fair value as of June 30, 2018. Due to the current low-interest rate environment, as compared to the period when the swap were entered into, the fixed payer rate exceeded the variable receiver rate.

Swap payments and associated debt - Assuming that interest rates remain the same at June 30, 2018, 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
2019	\$ 2,295,000	\$ 1,390,110	\$ 1,913,504	\$ 5,598,614
2020	2,225,000	1,341,037	1,835,138	5,401,175
2021	2,760,000	1,288,133	1,762,741	5,810,874
2022	4,090,000	1,222,507	1,672,937	6,985,444
2023	4,295,000	1,125,258	1,539,856	6,960,114
2024 - 2031	43,030,000	4,865,658	6,658,393	54,554,051

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

Credit risk – As of June 30, 2018, the fair value of the swap was 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.

Basis risk – GSWSA is exposed to basis risk on the swap because the variable rate payments received by GSWSA on the derivative instrument is based on rates or indexes other than the interest rate 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, 2018, the one month LIBOR rate was 2.0903% which places the SIFMA at approximately 72% 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 agreement 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.

The Bonds of 2012 Swaps are evaluated for effectiveness using the "synthetic instrument" method, a quantitative method, to determine whether the Bonds of 2012 interest rate swaps are effective. The synthetic instrument method evaluates effectiveness by comparing the variable cash flows on the swaps with the variable cash flows on the bonds. Any difference between these variable cash flows is added to the fixed cash flows on the swaps and the actual synthetic rate on the swaps are calculated. If the actual synthetic rate falls in a range of 90 to 111% of the fixed rate on the swaps, they are considered effective hedges. The swaps meet this criteria and are considered to be effective hedges.

# 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, amortized over the remaining life of the refunded debt and presented as part of deferred outflows of resources on the Statement of Net Position. The issuance resulted in a net present value savings of \$3,073,727. The outstanding principal balance on the defeased bonds at June 30, 2018 and 2017 was \$4,540,000 and \$8,825,000, respectively.

On November 16, 2011, Grand Strand Water and Sewer Authority issued Taxable Waterworks and Sewer System Refunding Revenue Bonds, Series 2011B in the amount of \$28,935,000. These proceeds were issued in order to defease the following debts: bank qualified loan, Series 2000B dated June 30, 2000, Waterworks and Sewer System Refunding Revenue Bonds, Series 2006 dated November 30, 2006, bank qualified loan Series 2010 dated July 7, 2010. The Series 2000B Bonds matured June 1 in the years 2012 through 2015, which included \$3,290,124 of outstanding principal. The Series 2006 Bonds matured December 1 in the years 2011 through 2021, which included \$15,770,000 of outstanding principal. The Series 2010 Bonds matured December 1 and June 1 in the years 2011 through 2022, which included \$14,441,300 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 Series 2000B, 2006 and 2010 Bonds years 2011 through 2022 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 \$325,678. This amount is being netted against the new debt, amortized over the remaining life of the refunded debt and presented as part of deferred outflows of resources on the Statement of Net Position. The issuance of the Bonds of 2011B resulted in a net present value savings of \$1,465,205. The outstanding principal balance on the defeased bonds at June 30, 2018 and 2017 was \$12,390,300 and \$15,214,800, respectively.



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 6 - DEBT DEFEASANCE, continued**

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, amortized over the remaining life of the refunded debt and presented as part of deferred outflows of resources on the Statement of Net Position. The issuance of the Bonds of 2012 resulted in a net present value savings of \$2,297,913. The outstanding principal balance on the defeased bonds at June 30, 2018 and 2017 was \$58,695,000 and \$60,845,000, respectively.

On December 12, 2017, GSWSA issued \$15,010,000 in Refunding General Obligation Bonds, Series 2017 (2017 Bonds) with interest rates at 3.33%. GSWSA issued the 2017 Bonds to advance refund \$13,735,000 of the outstanding 2011A Bonds, with interest rates ranging from 3.50% to 5.00 %. Grand Strand Water and Sewer Authority used the net proceeds to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the 2011A Bonds. As a result, this portion of the 2011A Bonds are considered defeased and the Authority has removed the liabilities from the Statement of Net Position. The advance refunding reduced GSWSA's total debt service requirements by \$1,852,038. This results in an economic gain of \$1,305,253. At June 30, 2018, the outstanding principal balance on the defeased 2011A bonds was \$13,735,000.

# 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:

	<u>2018</u>	<u>2017</u>
Net investment in capital assets:		
Capital assets, net of depreciation	\$ 599,744,763	\$ 588,494,714
Less:		
Revenue bonds payable, net of amortization	(117,941,609)	(131,543,875)
Companion instrument debt payable	(3,675,174)	(4,086,127)
Notes payable	(52,943,611)	(50,224,189)
Capital lease payable	(23,951)	(164,681)
Contractors payable	<u>(1,880,478)</u>	<u>(3,556,669)</u>
Total	<u>423,279,940</u>	<u>398,919,173</u>
Restricted for:		
Capital projects	13,220,703	12,771,524
Debt service	<u>2,086,967</u>	<u>1,975,117</u>
Unrestricted	<u>78,640,077</u>	<u>92,152,642</u>
Total net position	<u>\$ 517,227,687</u>	<u>\$ 505,818,456</u>

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to South Carolina Public Employee Benefit Authority, Retirement Systems Finance, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

#### *Plan description*

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

GSWSA's annual covered payroll for fiscal years 2018 and 2017 for active members covered by the SCRS was \$15,426,487 and \$14,855,923, respectively. Annual covered payroll for fiscal years 2018 and 2017 for retired members was \$1,663,184 and \$1,436,350, respectively.

#### *Membership*

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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### *Benefits*

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current salary. A Class Two member who has separated from service with at least five years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight years of earned service is eligible for a monthly pension subject to the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five or eight year earned service requirement, respectively.

The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82% of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class Two members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days paid for unused annual leave. For Class Three members, AFC is the average annual earnable compensation during 20 consecutive quarters. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

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

**GRAND STRAND WATER AND SEWER AUTHORITY**

Notes to the Financial Statements

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

Contributions

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

The required employee contribution rate for both Class Two and Class Three members to the South Carolina Retirement System for fiscal year 2018 is 9.00% of earnable compensation.

The required employer contribution rate for both Class Two and Class Three members to the South Carolina Retirement System for fiscal year 2018 is 13.41% of earnable compensation. In addition, GSWSA has elected to contribute 0.15% of each member’s earnable compensation for the Employer Incidental Death Benefit to provide group life insurance benefits for their participants.

The contributions to the SCRS for employer and employee portions for 2018 and 2017 were \$2,317,359 and \$1,883,387, respectively. 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, 2016	\$ 1,783,410	100%
June 30, 2017	1,883,387	100%
June 30, 2018	2,317,359	100%

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the TERI Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible for disability retirement benefits. The TERI program ended effective June 30, 2018 and a member’s participation may not continue after this date.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Net pension liability

At June 30, 2018, the Authority reported liabilities of \$36,350,619 for its proportionate share of the SCRS net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, projected forward to June 30, 2017. The Authority's proportionate shares of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Authority's proportionate share of the SCRS plan was 0.161475%, which was the same as its proportionate share of the net pension liability measured as of June 30, 2017.

#### Pension expense

For the year ended June 30, 2018, GSWSA recognized pension expense for the SCRS plan of \$3,831,185.

#### Deferred inflows of resources and deferred outflows of resources

At June 30, 2018, GSWSA reported deferred outflows of resources and deferred inflows of resources related to its pension liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 4,112,826	\$ -
Changes of assumptions	-	-
Net difference between projected & actual earning on pension plan investments	-	759,673
Changes in proportion & differences between GSWSA contributions & proportionate share of contributions	-	-
Authority contributions subsequent to the measurement date	2,317,358	-
Total	\$ 6,430,184	\$ 759,673

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Deferred inflows of resources and deferred outflows of resources, continued

The \$2,317,359 reported as deferred outflows of resources resulting from GSWSA contributions paid subsequent to the measurement date for the SCRS plan, during the year ended June 30, 2018 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

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

Year ended June 30:	
2018	\$ 1,140,772
2019	1,674,275
2020	836,518
2021	<u>(298,412)</u>
Total	<u>\$ 3,353,153</u>

#### Actuarial assumptions and methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015.

While South Carolina State Code requires that an experience study be completed once every five years, the actuaries recommend that future experience studies be completed in four year intervals. Therefore, the next experience study is scheduled to be conducted after the June 30, 2019 annual valuation is complete.

The June 30, 2017, total pension liability, net pension liability, and sensitivity information shown in this report were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

*Actuarial assumptions and methods, continued*

The following table provides a summary of the actuarial assumptions and methods used to calculate total pension liability as of June 30, 2017.

Actuarial cost method	Entry age normal
Actual assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.0% to 12.5% (varies by service)
Includes inflation at	2.25%
Benefit adjustments	Lesser of 1% or \$500 annually

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

Assumptions used in the determination of the June 30, 2017, total pension liability are as follows.

Former Job Class	Males	Females
Educators & Judges	2016 PRSC males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees & Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

The long-term expected rate of return on pension plan investments is based upon 30 year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Actuarial assumptions and methods, continued

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity			
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets			
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
Opportunistic			
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit			
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income			
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	100.0%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

#### Discount rate

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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Sensitivity analysis

The following table presents GSWSA's proportionate share of the net pension liability of the SCRS plan calculated using the discount rate of 7.25%, as well as what GSWSA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.25%) or 1.00% higher (8.25%) than the current rate.

	Discount Rate Sensitivity		
	1% Decrease	Current	1% Increase
Net Pension Liability	\$ 46,850,955	\$ 36,350,619	\$ 29,979,383

#### Pension plan fiduciary net position

The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2017, net pension liability amounts for SCRS are as follows:

Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
\$48,244,437,494	\$25,732,829,268	\$22,511,608,226	53.3%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the System's notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plan's funding requirements.

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS which can be accessed via the contact information provided above.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Other employee benefits

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, 2018, two beneficiaries and no employees had elected coverage under the Act. At June 30, 2017, four beneficiaries and two employees had elected coverage under the Act

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 reaching 59 ½ years of age, termination, retirement, disability, death or an approved hardship is the deferred compensation available to an employee.

GSWSA 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/457 for the last three years are as follows:

Fiscal Year Ended	Annual Employer Contribution
June 30, 2016	\$ 669,296
June 30, 2017	710,837
June 30, 2018	780,805

GSWSA 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 unforeseeable emergency withdrawal 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**

*Plan Description*

Grand Strand Water and Sewer Authority, 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, 2017, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	30
Active plan members	<u>313</u>
Total	<u>343</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.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN

#### OPEB Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately-issued Grand Strand Water and Sewer Authority Retiree Healthcare Benefit Plan financial statements and required supplementary information. That report may be obtained on the internet at [https://www.gswsa.com/about\\_us.cfm?page=78](https://www.gswsa.com/about_us.cfm?page=78); by writing the Chief Financial Officer, Grand Strand Water and Sewer Authority, P.O. Box 2368, Conway, South Carolina 29528-2368; or by calling (843) 443-8200.

#### Benefits Provided

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.
  - Age 55 or older with 25 years of experience = 63% employer paid portion
  - Age 55 or older with 26 years of experience = 67% employer paid portion
  - Age 55 or older with 27 years of experience = 71% employer paid portion

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Benefits Provided, 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.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### 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, 2018 the Plan's average contribution rate was 6.94% of covered-employee payroll. Following is a chart detailing premiums and contribution amounts for coverage as of January 1, 2018.

#### Coplay Plan Monthly Insurance Premiums

	Medical	Vision	Dental	Total
Single	\$ 748.57	\$ 4.08	\$ 30.99	\$ 783.64
Retiree/Children	1,420.18	8.31	65.90	1,494.39
Retiree/Spouse	1,718.69	7.90	63.40	1,789.99
Family	2,091.79	12.22	104.82	2,208.83

#### HDHP Plan Monthly Insurance Premiums

	Medical	Vision	Dental	Total
Single	\$ 664.74	\$ 4.08	\$ 30.99	\$ 699.81
Retiree/Children	1,258.75	8.31	65.90	1,332.96
Retiree/Spouse	1,522.76	7.90	63.40	1,594.06
Family	1,852.79	12.22	104.82	1,969.83

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Actuarial Assumptions

The total OPEB Liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.25%
Real wage growth – SCRS	0.75%
Wage inflation – SCRS	3.00%
Salary increases, including wage inflation – SCRS	3.00% - 7.00%
Long-term Investment Rate of Return, net of OPEB plan investment expense, including price inflation	5.00%
Municipal Bond Index Rate	
Prior Measurement Date	3.56%
Measurement Date	3.89%
Year FNP is projected to be depleted	
Prior Measurement Date	N/A
Measurement Date	N/A
Single Equivalent Interest Rate, net of OPEB plan investment expense, including price inflation	
Prior Measurement Date	5.00%
Measurement Date	5.00%
Health Care Cost Rates	
Pre-Medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2016 decreasing to an ultimate rate of 5.00% by 2020

#### *Other Information:*

The discount rate used to measure the total OPEB liability was based upon the long-term expected rate of return. Mortality rates were based on the RP-2014 Mortality Table for Employees with a 95% multiplier to better reflect anticipated experience and provide a margin for future improvements.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the July 1, 2017 valuation were based on a review of recent plan experience done concurrently with the July 1, 2017 valuation.



# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Actuarial Assumptions, continued

Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding OPEB plans which are likely to cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. As of the most recent adoption of the current long-term rate of return by the Plan, the target asset allocation and best estimates of geometric rates of return (the inflation expectation of 1.95% is not reflected in these rates) for each major asset class, as provided by the Plan, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Rate of Return</u>
US Government Funds	0.50%	1.75%
Core Bonds	98.50%	3.55%
US TIPS	<u>1.00%</u>	2.95%
Total	100.00%	3.54%

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Discount Rate

The discount rate used to measure the total OPEB liability as of the Measurement Date was 5.00%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projection's basis was an actuarial valuation performed as of July 1, 2017. In addition to the actuarial methods and assumptions of the July 1, 2017 actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually using the payroll growth assumptions.
- Active employees do not explicitly contribute to the Plan.
- In all future years, the employer continues to contribute the full ADC. The employer is assumed to have the ability and willingness to make contributions to the Trust. Benefits are subsequently paid from the OPEB trust.
- Projected assets do not include employer contributions that fund the estimated service costs of future employees.
- Cash flows occur mid-year.

Based on these assumptions, the Plan's fiduciary net position was projected to not be depleted.

The fiduciary net position projections are based upon the Plan's financial status on the Valuation Date, the indicated set of methods and assumptions, and the requirements of GASB 74. As such, the fiduciary net position projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing plan basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of the Plan, or the Plan's ability to make benefit payments in future years.

#### Health Care Cost Trend Rate Sensitivity Analysis

The following presents the net OPEB liability of GSWSA, as well as what GSWSA's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point or 1-percentage-point higher than the current healthcare cost trend rates:

<u>Health Care Cost Trend Rate Sensitivity</u>			
	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 13,861,204	\$ 18,803,920	\$ 25,484,642

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Discount Rate Sensitivity Analysis

The following presents the net OPEB liability of GSWSA, as well as what GSWSA's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	Discount Rate Sensitivity		
	1% Decrease	Current	1% Increase
Net OPEB Liability	\$ 24,577,672	\$ 18,803,920	\$ 14,412,125

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

The total OPEB liability is based upon an actuarial valuation performed as of the Valuation Date, July 1, 2017. An expected total OPEB liability is determined as of June 30, 2018 using standard roll forward techniques. The roll forward calculation begins with the total OPEB liability, as of July 1, 2017, subtracts the actual benefit payments (net of retiree contributions) for the year, applies interest at the discount rate for the year, and then adds the annual normal cost (also called the Service Cost). The procedure used to determine the total OPEB liability, as of June 30, 2018, is shown in the following table:

	Total OPEB Liability (a)	Plan Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2017	\$ 19,510,471	\$ 4,823,553	\$ 14,686,918
Changes for the year:			
Service Cost at the end of the year*	709,034		709,034
Interest on TOL and Cash Flows	970,507		970,507
Difference between expected and actual experience	282,083		282,083
Changes of assumptions or other inputs	3,327,220		3,327,220
Contributions - Employer		1,190,970	(1,190,970)
Net investment income		(19,128)	19,128
Benefit payments and implicit subsidy credit	(203,137)	(203,137)	-
Net Changes	\$ 5,085,707	\$ 968,705	\$ 4,117,002
Balance as of June 30, 2018	\$ 24,596,178	\$ 5,792,258	\$ 18,803,920

**GRAND STRAND WATER AND SEWER AUTHORITY**

Notes to the Financial Statements

**NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs, continued

Since certain expense items are recognized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts will increase OPEB expense they are labeled deferred outflows of resources. If they serve to reduce OPEB expense they are labeled deferred inflows of resources. The recognition of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive Plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five year period.

The following table provides a summary of the Deferred Outflows of Resources and Deferred Inflows of Resources as of June 30, 2018:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 255,141	\$ -
Changes of assumptions or other inputs	3,009,434	-
Net difference between projected & actual earnings on pension plan investments	227,761	-
Total	\$ 3,492,336	\$ -

The net amounts of the employer’s balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ended	
June 30:	
2019	\$ 401,668
2020	401,668
2021	401,668
2022	401,669
2023	344,728
Thereafter	\$ 1,540,935

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 10 - MAJOR CUSTOMERS**

During fiscal year 2018, the following customers provided the indicated percentages of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 12.95%, City of Conway 5.23%, City of North Myrtle Beach 4.26%, and Little River Water and Sewerage Company 2.15%. No other customers provided more than 0.64%.

During fiscal year 2017, the following customers provided the indicated percentages of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 13.03%, City of Conway 4.58%, City of North Myrtle Beach 4.57%, and Little River Water and Sewerage Company 2.06%. No other customers provided more than 0.67%.

### **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 State Fiscal Accountability Authority, 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 Fiscal Accountability Authority for its general insurance. The State Fiscal Accountability Authority is self-sustaining through member premiums and reinsures through commercial companies for certain claims.

GSWSA 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 \$100,000 per occurrence 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, 2018, 2017 and 2016.

During 2018 and 2017, GSWSA 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, GSWSA enters into agreements with contractors for the construction and expansion of the system. At June 30, 2018, open contracts for construction totaled approximately \$15,368,755 with \$10,682,931 having been incurred during the year. At June 30, 2017, open contracts for construction totaled approximately \$23,506,043 with \$21,084,348 having been incurred during the year. The remaining commitments at June 30, 2018 and 2017 were \$4,685,824 and \$2,421,695, respectively.

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# SCHEDULES

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**GRAND STRAND WATER AND SEWER AUTHORITY**  
 Required Supplementary Information  
 Schedule of Proportionate Share of Net Pension Liability  
 June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.16148%	0.16652%	0.15817%	0.15789%
Authority's proportionate share of the net pension liability	<u>\$ 36,350,619</u>	<u>\$ 35,567,573</u>	<u>\$ 29,997,513</u>	<u>\$ 27,182,908</u>
Authority's covered payroll for measurement period	<u>\$ 16,292,273</u>	<u>\$ 16,124,867</u>	<u>\$ 14,830,279</u>	<u>\$ 14,334,036</u>
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	223.1157%	220.5759%	202.2721%	189.6389%
Plan fiduciary net position as a percentage of the total pension liability	53.34%	52.91%	57.00%	59.90%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
 Required Supplementary Information  
 Schedule of Contributions - South Carolina Retirement System  
 For the year ended June 30, 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 2,317,359	\$ 1,883,387	\$ 1,783,410	\$ 1,616,501	\$ 1,519,408	\$ 1,459,739	\$ 1,218,593	\$ 1,185,438	\$ 1,115,324	\$ 1,122,160
Contributions in relation to the contractually required contribution	2,317,359	1,883,387	1,783,410	1,616,501	1,519,408	1,459,739	1,218,593	1,185,438	1,115,324	1,122,160
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 17,089,671	\$ 16,292,273	\$ 16,124,868	\$ 14,830,279	\$ 14,334,036	\$ 13,771,122	\$ 12,780,208	\$ 12,488,168	\$ 11,877,784	\$ 11,949,543
Contributions as a percentage of covered-employee payroll	13.5600%	11.5600%	11.0600%	10.9000%	10.6000%	10.6000%	9.5350%	9.4925%	9.3900%	9.3908%

**GRAND STRAND WATER AND SEWER AUTHORITY**  
Retiree Healthcare Benefit Plan  
Schedule of Changes in Net OPEB Liability and Related Ratios  
June 30, 2018

	2018	2017	2016
<b>Total OPEB Liability</b>			
Service Cost	\$ 709,034	\$ 553,328	\$ 1,053,624
Interest on the Total OPEB Liability	970,507	907,157	
Differences Between Expected and Actual Experience	282,083		1,567,216
Changes of Assumptions or other inputs	3,327,220		
Benefit Payment*	(203,137)	(186,288)	(195,412)
Net Change in Total OPEB Liability	\$ 5,085,707	\$ 1,274,197	\$ 2,425,428
Total OPEB Liability - Beginning	\$ 19,510,471	\$ 18,236,274	\$ 15,810,846
Total OPEB Liability - Ending	<u>\$ 24,596,178</u>	<u>\$ 19,510,471</u>	<u>\$ 18,236,274</u>
<b>Plan Fiduciary Net Position</b>			
Contributions			
Employer**	\$ 1,190,970	\$ 1,053,624	\$ 1,053,624
Employee	83,965	80,152	58,613
	<u>\$ 1,274,935</u>	<u>\$ 1,133,776</u>	<u>\$ 1,112,237</u>
Net Investment Income	\$ (19,128)	\$ (33,053)	\$ 118,512
Benefits Payments*	(287,102)	(266,440)	(195,412)
Net Change in Plan Fiduciary Net Position	\$ 968,705	\$ 834,283	\$ 1,035,337
Plan Fiduciary Net Position - Beginning	\$ 4,823,553	\$ 3,989,270	\$ 2,953,933
Plan Fiduciary Net Position - Ending	\$ 5,792,258	\$ 4,823,553	\$ 3,989,270
Plan's Net OPEB Liability - Ending	\$ 18,803,920	\$ 14,686,918	\$ 14,247,004
Plan's Fiduciary Net Position as a Percentage of the Total OPEB Liability	23.55%	24.72%	21.88%
Covered-Employee Payroll	\$ 15,886,558	\$ 15,521,883	\$ 15,521,883
Plan's Net OPEB Liability as a Percentage of Covered-Employee Payroll	118.36%	94.62%	91.79%

**Notes to Schedule**

\* Benefit payments are net of participant contributions and for 2018 include a payment of \$4,900 for the implicit subsidy based on the guidance of GASB Implementation Guide No. 2017-2, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

\*\* Employer contribution amounts for 2018 include the \$4,900 implicit subsidy payment during the period

For years following the valuation date (when no new valuation is performed), covered payroll has been set to equal to the covered payroll from the most recent valuation.

Presentation of 10 Year Trend. The schedule is intended to illustrate various trends over a ten year period, however, data prior to 2016 is unavailable.

**GRAND STRAND WATER AND SEWER AUTHORITY**

Retiree Healthcare Benefit Plan

Schedule of Plan Contributions

June 30, 2018

	2018	2017	2016
Actuarially Determined Contribution	\$ 1,186,070	\$ 1,053,624	\$ 1,053,624
Contributions in Relation to the Actuarially Determined Contribution	<u>\$ 1,190,970</u>	<u>\$ 1,053,624</u>	<u>\$ 1,053,624</u>
Contribution Deficiency (Excess)	<u>\$ (4,900)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 15,886,558	\$ 15,521,883	\$ 15,521,883
Contributions as a Percentage of Covered-Employee Payroll	7.50%	6.79%	6.79%

**Notes to Schedule**

*Valuation Date:*

Actuarially determined contributions rates are calculated as July 1, 2016, 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 2017 actuarial valuation, the mortality rates utilized are based on the RP-2014 Mortality Table for Employees with a 95% multiplier to better reflect anticipated experience and provide a margin for future improvements.

*Other Information.*

Employer contribution amounts for 2018 include the \$4,900 implicit subsidy payment during the period

For years following the valuation date (when no new valuation is performed), covered payroll has been set to equal to the covered payroll from the most recent valuation.

*Presentation of 10 Year Trend.* The schedule is intended to illustrate various trends over a ten year period, however, data prior to 2016 is unavailable.

**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, 2018

	2006 Schwartz			2008A			2008 Conway			2008			501 to 544 SRF			Vereen			Bucksport			Bonds of 2011A			Bonds of 2011B			
	WWTP Expansion Phase 2	MB WWTP SRF	Debt Service	Current	Debt	Service	Control Upgrade	Current	Debt	Service	Revenue Bonds	Current	Debt	Service	Current	Debt	Service	WWTP SRF	Current	Debt	Service	Current	Debt	Service	Current	Debt	Service	
Cash and Investments Beginning of Year	\$ 191,582	\$ 49,663	\$	\$ 33,198	\$ 426,468	\$	\$ 14,474	\$ 20,120	\$	\$ 33,999	\$ 87,777	\$	\$ 258,729															
Cash Receipts:																												
Transfer from Operating Cash	765,499	595,277		198,970	815,293		86,751	80,391		203,776	696,337		3,106,201															
Transfer from Capital Project	-	-		-	-		-	-		-	-		-															
Interest Earned	830	680		215	2,935		94	87		220	1,498		13,599															
Other Transfers	-	-		-	-		-	-		-	-		-															
Cash Disbursements:																												
Principal and Interest Payments	(766,329)	(595,957)		(199,185)	(819,569)		(86,845)	(80,478)		(203,996)	(751,385)		(3,104,750)															
Renewals and Replacements	-	-		-	-		-	-		-	-		-															
Transfers to Operating Cash	-	-		-	-		-	-		-	-		-															
Transfers to Investment	-	-		-	-		-	-		-	-		-															
Transfer to Capital Projects Cash	-	-		-	-		-	-		-	-		-															
Other Transfers	-	-		-	-		-	-		-	-		-															
Cash and Investments End of Year	\$ 191,582	\$ 49,663	\$	\$ 33,198	\$ 425,127	\$	\$ 14,474	\$ 20,120	\$	\$ 33,999	\$ 34,227	\$	\$ 273,779															

**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, 2018**

	Bucksport Rapid Infil. WWTP SRF			Hwy 501 to International Dr SRF			Bull Creek to Myrtle Beach SRF			MBSWTP Ozone System Impr SRF			Bonds of 2017			Bull Creek			
	Current	Debt	Service	Current	Debt	Service	Current	Debt	Service	Current	Debt	Service	Current	Debt	Service	Current	Debt	Service	
Cash and Investments Beginning of Year	\$ 388,257	\$ -	\$ -	\$ 67,808	\$ -	\$ -	\$ 58,961	\$ -	\$ -	\$ 16,692	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,842,175	\$ -	\$ -	\$ 9,929,349
Cash Receipts:																			
Transfer from Operating Cash	4,476,728	-	-	270,938	-	-	294,518	-	-	185,878	-	-	331,146	-	-	1,086,841	-	-	5,611,915
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Earned	115,617	1,417	-	293	418	-	418	229	968	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:																			
Principal and Interest Payments	(4,476,781)	(1,309,558)	-	(274,231)	(305,367)	-	(305,367)	(186,994)	(284,669)	-	-	-	-	-	-	-	-	-	-
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(385,679)	-	-	(5,813,898)
Transfers to Operating Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to Capital Projects Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash and Investments End of Year	\$ 503,821	\$ 327,389	\$ -	\$ 67,808	\$ 48,530	\$ -	\$ 48,530	\$ 15,805	\$ 47,445	\$ -	\$ -	\$ -	\$ 47,445	\$ -	\$ -	\$ 3,493,337	\$ -	\$ -	\$ 9,727,366

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule of Operating Expenses by Department

	<b>For the years ended June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Water plants</b>		
Personnel services	\$ 4,010,075	\$ 3,670,194
Contractual services	3,454,076	3,321,411
Supplies and materials	3,306,971	3,294,788
Business and travel expenses	31,368	37,648
Other expenses	117,423	117,506
Departmental transfers	261,199	280,873
Total water plants	<u>11,181,112</u>	<u>10,722,420</u>
<b>Water systems</b>		
Personnel services	\$ 5,424,982	\$ 4,930,497
Contractual services	2,475,068	2,091,891
Supplies and materials	1,262,273	1,184,980
Business and travel expenses	15,970	16,328
Other expenses	48,444	46,910
Total water systems	<u>9,226,737</u>	<u>8,270,606</u>
Total water	<u>20,407,849</u>	<u>18,993,026</u>
<b>Wastewater plants</b>		
Personnel services	\$ 6,436,991	\$ 6,023,589
Contractual services	4,876,448	4,754,522
Supplies and materials	2,105,892	2,366,047
Business and travel expenses	23,274	27,700
Other expenses	47,782	49,048
Departmental transfers	(177,273)	(180,979)
Total wastewater plants	<u>13,313,114</u>	<u>13,039,927</u>
<b>Wastewater systems</b>		
Personnel services	\$ 3,242,467	\$ 3,135,981
Contractual services	3,662,645	4,292,102
Supplies and materials	1,148,783	1,181,218
Other expenses	22,095	54,815
Total wastewater systems	<u>8,075,990</u>	<u>8,664,116</u>
Total wastewater	<u>21,389,104</u>	<u>21,704,043</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule of Operating Expenses by Department

	<b>For the years ended June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>General administration</b>		
Personnel services	\$ 1,012,472	\$ 962,072
Contractual services	606,160	576,849
Supplies and materials	37,765	28,677
Business and travel expenses	120,308	92,730
Other expenses	693,240	753,184
Total general administration	<u>2,469,945</u>	<u>2,413,512</u>
<b>Planning, engineering and construction</b>		
Personnel services	\$ 1,717,839	\$ 1,650,183
Contractual services	108,901	104,384
Supplies and materials	47,994	53,500
Business and travel expenses	9,388	8,007
Other expenses	-	4
Total planning, engineering and construction	<u>1,884,122</u>	<u>1,816,078</u>
<b>Financial services</b>		
Personnel services	\$ 3,671,354	\$ 3,259,408
Contractual services	1,403,695	1,432,106
Supplies and materials	90,429	77,941
Business and travel expenses	5,372	3,938
Other expenses	26,244	23,078
Total financial services	<u>5,197,094</u>	<u>4,796,471</u>
<b>High tech turf farm</b>		
Personnel services	\$ 2,776,995	\$ 2,540,977
Contractual services	358,284	307,221
Supplies and materials	1,365,414	1,118,225
Business and travel expenses	7,985	7,902
Other expenses	3,720	3,723
Departmental transfers	(83,926)	(99,894)
Total high tech turf farm	<u>4,428,472</u>	<u>3,878,154</u>
Depreciation	<u>\$ 27,776,741</u>	<u>\$ 26,584,902</u>
<b>Total operating expenses</b>	<u><u>\$ 83,553,327</u></u>	<u><u>\$ 80,186,186</u></u>



# STATISTICAL SECTION

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## 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.

**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.

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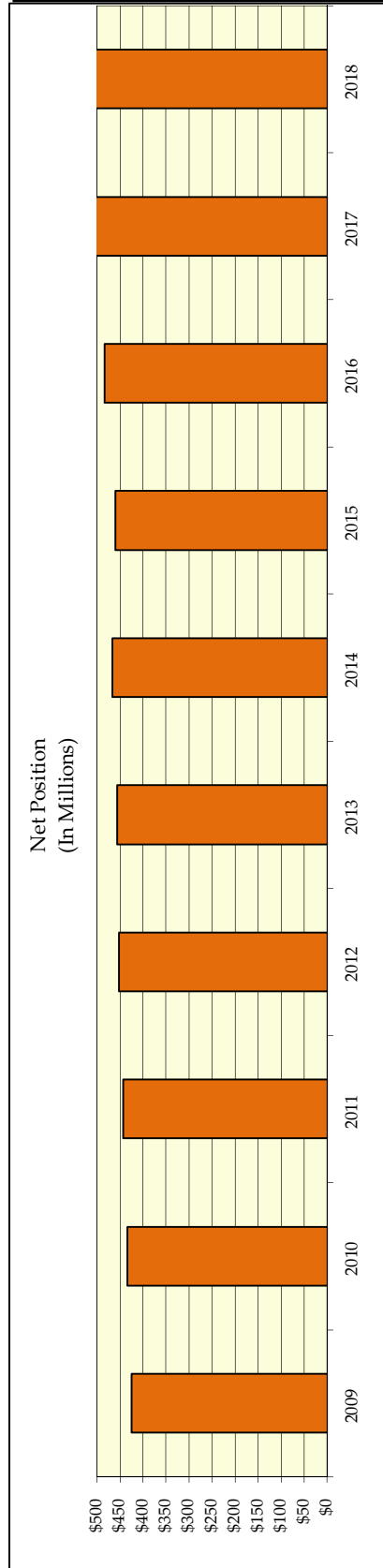
**GRAND STRAND WATER AND SEWER AUTHORITY**

Net Position By Component

Last Ten Fiscal Years

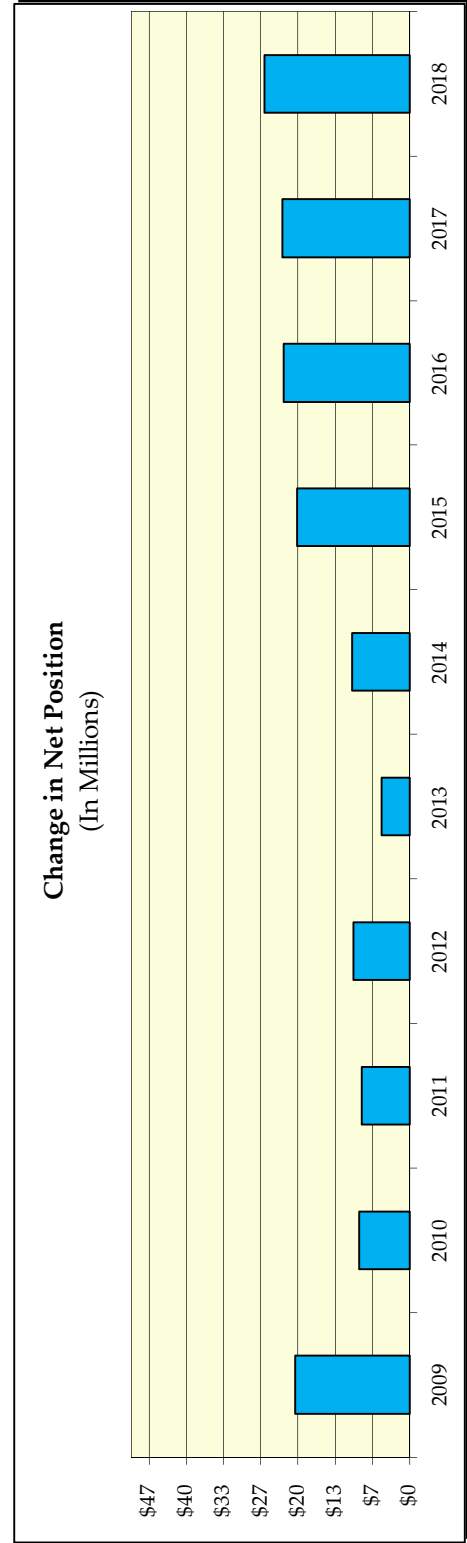
(Unaudited)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Primary government										
Net investment in capital assets	\$ 299,789,950	\$ 316,467,676	\$ 322,250,503	\$ 297,286,102	\$ 312,595,550	\$ 323,365,517	\$ 352,955,264	\$ 377,470,987	\$ 398,919,173	\$ 423,279,940
Restricted	24,275,266	28,327,674	27,054,587	42,084,820	25,781,440	19,705,533	17,455,258	16,205,792	14,746,641	15,307,670
Unrestricted	100,867,438	89,234,671	93,371,833	112,103,675	118,118,519	123,766,484	89,891,225	89,296,247	92,152,642	78,640,077
Total primary government net position	\$ 424,932,654	\$ 434,030,021	\$ 442,676,923	\$ 451,476,597	\$ 456,495,509	\$ 466,837,534	\$ 460,301,747	\$ 482,973,026	\$ 505,818,456	\$ 517,227,687



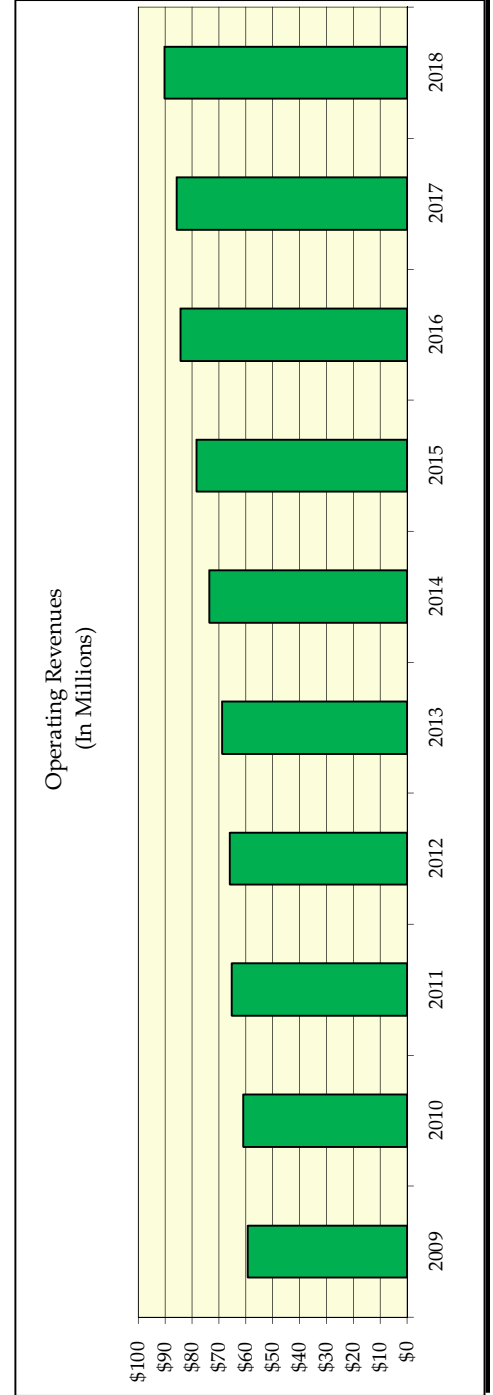
**GRAND STRAND WATER AND SEWER AUTHORITY**  
 Changes in Net Position  
 Last Ten Fiscal Years  
 (Unaudited)

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income/(Loss)	Total Nonoperating Revenues/(Expenses)	Income/(Loss) Before Capital Contributions	Capital Contributions	Change in Net Position
2009	\$ 59,318,382	\$ 61,192,367	\$ (1,873,985)	\$ (2,797,844)	\$ (4,671,829)	\$ 25,198,062	\$ 20,526,233
2010	60,978,247	57,864,308	3,113,939	(3,488,744)	(374,805)	9,472,172	9,097,367
2011	65,098,579	60,900,358	4,198,221	(6,504,152)	(2,305,931)	10,952,833	8,646,902
2012	65,780,191	61,637,941	4,142,250	(2,216,447)	1,925,803	8,223,999	10,149,802
2013	68,751,834	66,823,527	1,928,307	(8,207,642)	(6,279,335)	11,298,247	5,018,912
2014	73,484,034	67,654,111	5,829,923	(5,312,320)	517,603	9,824,422	10,342,025
2015	78,211,795	71,350,799	6,860,996	(5,333,311)	1,527,685	18,735,691	20,263,376
2016	84,108,430	74,470,446	9,637,984	(3,150,823)	6,487,161	16,184,118	22,671,279
2017	85,544,007	80,186,186	5,357,821	(7,205,520)	(1,847,699)	24,693,129	22,845,430
2018	90,258,833	83,553,327	6,705,506	(5,838,762)	866,744	25,229,405	26,096,149



**GRAND STRAND WATER AND SEWER AUTHORITY**  
 Operating Revenues by Source  
 Last Ten Fiscal Years  
 (Unaudited)

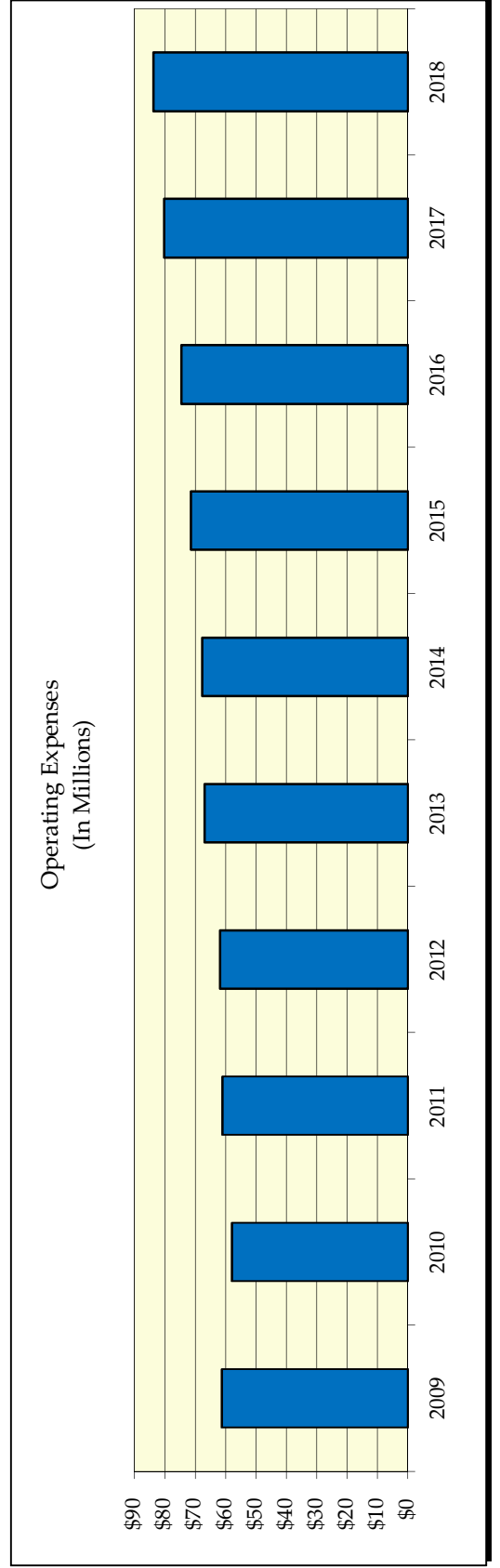
Fiscal Year	Water & Sewer Volume & Availability Fees	Customer Charges	Surface Water Charges	SWTP Contract Water Consumption	Other Revenue	Total Operating Revenue
2009	\$ 44,766,505	\$ 4,880,877	\$ 6,194,359	\$ 1,930,826	\$ 1,545,815	\$ 59,318,382
2010	45,921,594	5,117,627	6,275,812	2,294,252	1,368,962	60,978,247
2011	49,729,727	5,110,985	6,428,952	2,546,866	1,282,049	65,098,579
2012	50,177,028	5,354,967	6,324,150	2,443,331	1,480,715	65,780,191
2013	52,282,191	5,883,160	6,773,344	2,283,464	1,529,675	68,751,834
2014	55,381,294	6,298,312	6,630,975	3,551,180	1,622,273	73,484,034
2015	58,947,140	6,942,943	6,906,882	3,535,258	1,879,572	78,211,795
2016	63,432,455	7,444,799	7,208,410	3,609,666	2,413,100	84,108,430
2017	64,410,537	7,937,632	7,217,763	3,698,805	2,279,270	85,544,007
2018	66,900,002	8,873,960	7,631,477	4,285,037	2,568,357	90,258,833



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**Operating Expenses**  
**Last Ten Fiscal Years**  
**(Unaudited)**

Schedule 4

Fiscal Year	Personnel Costs	Contractual Services	Supplies and Materials	Depreciation	Other Expenses	Total Operating Expenses
2009	\$ 16,771,906	\$ 12,840,165	\$ 10,034,793	\$ 19,860,538	\$ 1,684,965	\$ 61,192,367
2010	16,781,857	12,150,141	7,371,241	20,843,152	717,917	57,864,308
2011	17,659,270	11,776,220	8,321,391	22,303,035	840,442	60,900,358
2012	18,011,198	11,414,221	8,624,354	22,761,494	826,674	61,637,941
2013	19,536,316	13,721,247	9,564,069	23,038,102	963,793	66,823,527
2014	20,321,453	13,608,744	9,464,810	23,223,172	1,035,932	67,654,111
2015	21,316,332	15,719,842	9,213,765	24,159,506	941,354	71,350,799
2016	23,502,702	15,359,308	9,632,549	24,937,431	1,038,456	74,470,446
2017	26,172,901	16,880,486	9,305,376	26,584,902	1,242,521	80,186,186
2018	28,293,175	16,945,277	9,365,521	27,776,741	1,172,613	83,553,327





**GRAND STRAND WATER AND SEWER AUTHORITY**

Nonoperating Revenues and Expenses

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Investment Income/(Loss)	Gain/(Loss) on Disposal of Capital Assets	Interest Expense	Total Nonoperating Revenues/ (Expenses)
2009	\$ 6,962,758	\$ (51,610)	\$ (9,708,992)	\$ (2,797,844)
2010	6,470,394	129,662	(10,088,800)	(3,488,744)
2011	3,175,093	(71)	(9,679,174)	(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)
2014	2,725,519	(252,249)	(7,785,590)	(5,312,320)
2015	2,499,961	(47,918)	(7,785,354)	(5,333,311)
2016	4,593,832	(444,642)	(7,300,013)	(3,150,823)
2017	(284,159)	(174,857)	(6,746,504)	(7,205,520)
2018	589,074	19,708	(6,447,544)	(5,838,762)

**GRAND STRAND WATER AND SEWER AUTHORITY**

Annual Capital Contributions by Source

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	SWTP Capacity	Government	Customer	Developer	Other	Total
	Fees	Grants	Impact Fees	Contributions	Contributions	
2009	1,985,592	757,542	3,366,849	18,840,916	247,163	25,198,062
2010	2,078,076	89,046	3,037,977	4,216,502	50,571	9,472,172
2011	2,090,904	605,767	3,062,309	4,428,770	765,083	10,952,833
2012	2,171,628	129,379	3,585,596	2,269,134	68,262	8,223,999
2013	2,223,864	532,307	4,513,236	3,984,749	44,091	11,298,247
2014	1,222,608	159,666	5,176,852	3,234,267	31,029	9,824,422
2015	1,237,032	1,132,895	6,841,829	7,578,947	1,944,988	18,735,691
2016	1,271,652	200,960	8,090,443	5,194,892	1,426,171	16,184,118
2017	1,321,560	2,066,122	7,766,803	10,231,796	3,306,848	24,693,129
2018	1,359,528	46,468	8,045,210	15,693,863	84,336	25,229,405

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

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			
						Base Rate	Usage Rate	Base Rate	Usage Rate
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
2014	15,510	14,979	531	3.42%	11,895	10.90	1.24	10.40	1.93
2015	16,560	14,771	1,789	10.80%	13,051	10.90	1.24	10.40	1.93
2016	16,577	15,433	1,144	6.90%	14,580	11.10	1.30	10.60	1.99
2017	16,810	15,235	1,575	9.37%	13,553	11.10	1.30	10.60	1.99
2018	16,300	15,270	1,030	6.32%	13,578	11.35	1.33	11.10	2.05

**GRAND STRAND WATER AND SEWER AUTHORITY**  
 Annual Taps Sold  
 Last Ten Fiscal Years  
 (Unaudited)

Fiscal Year	Taps Sold		
	Water Meter Taps	Sewer Taps	Total
2009	314	162	476
2010	267	154	421
2011	285	144	429
2012	237	115	352
2013	257	147	404
2014	307	138	445
2015	356	172	528
2016	463	197	660
2017	421	220	641
2018	556	315	871

**GRAND STRAND WATER AND SEWER AUTHORITY**

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
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
2014	9,718	11	47	5,782	15	21	64,521	0	0	9,776	5,818	64,521
2015	9,972	11	51	5,941	15	21	66,988	0	0	10,034	5,977	66,988
2016	10,282	11	50	6,226	15	21	69,476	0	0	10,343	6,262	69,476
2017	10,671	11	68	6,496	15	21	72,198	0	0	10,750	6,532	72,198
2018	11,039	10	47	6,963	16	21	74,890	0	0	11,096	7,000	74,890

**GRAND STRAND WATER AND SEWER AUTHORITY**

Water and Sewer Rates  
 Last Ten Fiscal Years  
 (Unaudited)

Fiscal Year	Water		Sewer	
	Base Rate	Usage Rate	Base Rate	Usage Rate
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
2014	10.90	1.24	10.40	1.93
2015	10.90	1.24	10.40	1.93
2016	11.10	1.30	10.60	1.99
2017	11.10	1.30	10.60	1.99
2018	11.35	1.33	11.10	2.05

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule 11

Ten Largest Customers

Current Year and Nine Years Ago  
(Unaudited)

Customer	Fiscal Year 2018		
	Water Revenue	Sewer Revenue	Total
City of Myrtle Beach	\$ 8,043,110	\$ 6,910,586	\$ 14,953,696
City of Conway	4,539,733	1,499,741	6,039,474
City of North Myrtle Beach	4,210,186	710,694	4,920,880
Little River Water and Sewerage Company	1,371,731	1,105,620	2,477,351
City of Loris	208,493	526,114	734,607
Ocean Lakes Utilities	163,854	366,145	529,999
Georgetown County	325,802	98,394	424,196
Tabor City	12,378	411,125	423,503
Oceanside Village	193,580	135,263	328,843
Myrtle Beach Resort	169,740	141,709	311,449

Customer	Fiscal Year 2009		
	Water Revenue	Sewer Revenue	Total
City of Myrtle Beach	\$ 6,295,088	\$ 6,361,414	\$ 12,656,502
City of Conway	2,334,691	1,073,716	3,408,407
City of North Myrtle Beach	2,293,639	272,421	2,566,060
Little River Water and Sewerage Company	909,827	865,201	1,775,028
City of Loris	208,606	399,985	608,591
Ocean Lakes Utilities	165,647	259,816	425,463
Georgetown County Water and Sewer Authority	193,752	82,602	276,354
Myrtle Beach Resort	134,101	117,434	251,535
Ocean Side Village	140,833	107,692	248,525
Springmaid Beach Resort	98,294	98,596	196,890

**GRAND STRAND WATER AND SEWER AUTHORITY**

Ratios of Outstanding Debt By Type

Last Ten Fiscal Years  
(Unaudited)

Fiscal Year	Capital Lease	Revenue Bonds	Companion Debt	Notes Payable	Amount	Total	
						As a % of Personal Income	Per Capita
2009	\$ 1,118,476	\$ 151,559,700	\$ 4,751,909	\$ 68,890,697	\$ 226,320,782	2.95%	858
2010	1,013,453	145,882,320	5,008,853	68,638,660	220,543,286	2.85%	819
2011	904,615	153,643,869	5,279,688	54,936,108	214,764,280	2.67%	777
2012	791,823	167,917,445	6,086,743	52,291,219	227,087,230	2.64%	804
2013	679,637	162,331,607	5,704,336	52,291,482	221,007,062	2.48%	763
2014	557,754	152,572,702	5,312,190	63,885,425	222,328,071	2.33%	744
2015	431,411	142,711,242	4,910,226	64,059,800	212,112,679	2.09%	686
2016	300,442	131,951,863	4,498,366	59,497,598	196,248,269	1.93%	635
2017	164,681	133,837,174	4,086,127	50,224,189	188,312,171	1.73%	584
2018	23,951	120,958,775	3,675,174	52,943,611	177,601,511	NA	533



**GRAND STRAND WATER AND SEWER AUTHORITY**  
 Revenue Bond Coverage  
 Last Ten Fiscal Years  
 (in thousands)  
 (Unaudited)

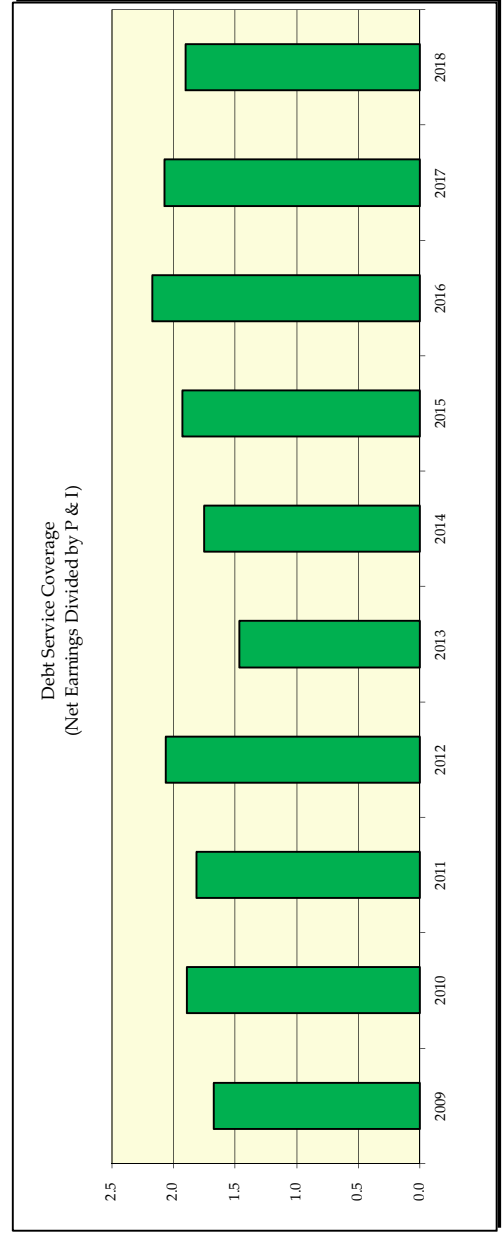
Fiscal Year	Gross Revenues <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Earnings Available for Debt Service	Debt Service Requirements <sup>(3)</sup>		Coverage <sup>(4)</sup>
				Principal	Interest	
2009	\$ 71,881	\$ 41,332	\$ 30,549	\$ 8,705	\$ 9,572	1.67
2010	72,745	37,021	35,724	9,151	9,742	1.89
2011	74,192	38,587	35,605	10,562	9,084	1.81
2012	77,088	38,876	38,212	11,576	6,949	2.06
2013	74,997	43,785	31,211	12,949	8,327	1.47
2014	82,388	44,431	37,956	13,464	8,234	1.75
2015	90,688	47,191	43,497	14,450	8,135	1.93
2016	99,046	49,533	49,513	15,075	7,726	2.17
2017	97,480	52,224	45,256	14,733	7,083	2.07
2018	100,357	55,777	44,580	16,735	6,735	1.90

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

<sup>(2)</sup> Includes Principal and Interest of Revenue bonds and State Revolving Loans Only.

<sup>(3)</sup> Total Operating Expenses Excluding Depreciation and Certain Other Adjustments. Expenses associated with Hurricane Matthew recovery have been excluded from 2017's calculations.

<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)

Calendar Year	Population	Personal Income (Thousands of Dollars)	Per Capita Personal Income	Median Age	Unemployment Rate
2008	257,380	7,562,597	29,383	NA	11
2009	263,868	7,678,701	29,101	41	15
2010	269,291	7,743,921	28,757	41	13
2011	276,340	8,054,854	29,148	41	12
2012	282,285	8,598,437	30,460	41	11
2013	289,650	8,924,166	30,810	42	9
2014	298,832	9,554,503	36,677	43	7
2015	309,199	10,150,918	38,302	43	7
2016	322,342	10,901,662 <sup>(2)</sup>	39,517 <sup>(3)</sup>	44	6
2017	333,268 <sup>(1)</sup>	NA	NA	NA	5 <sup>(4)</sup>

Data presented is Horry County statistics.

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

<sup>(2)</sup> Bureau of Economic Analysis (<http://www.bea.gov/regional/bearfacts/action.cfm?geoType=4&fips=45051&areatype=45051>)

<sup>(3)</sup> US Census Bureau Fact Finder ([http://factfinder.census.gov/faces/nav/jsf/pages/community\\_facts.xhtml#](http://factfinder.census.gov/faces/nav/jsf/pages/community_facts.xhtml#))

<sup>(4)</sup> As of 4/5/17 from Bureau of Labor Statistics (<http://www.bls.gov/lau/laucnty15.txt>)

NA - Not Available

**GRAND STRAND WATER AND SEWER AUTHORITY**

Ten Largest Employers

Current Year and Nine Years Ago

(Unaudited)

Employer	Fiscal Year 2018	
	Employees	Percentage of Total Employment
Horry County School District	5,650	3.84%
Wal-Mart	2,700	1.84%
Horry County Government	2,300	1.56%
Coastal Carolina University	2,269	1.54%
Conway Medical Center	1,500	1.02%
Grand Strand Regional Medical Center	1,400	0.95%
Food Lion	1,050	0.71%
McLeod Loris Seacoast	950	0.65%
City of Myrtle Beach	889	0.60%
Horry Telephone Cooperative	690	0.47%
	<u>19,398</u>	<u>13.19%</u>

Employer	Fiscal Year 2009	
	Employees	Percentage of Total Employment
Horry County Department of Education	4,400	3.18%
Wal-Mart	2,100	1.52%
Horry County Government	2,019	1.46%
Grand Strand Regional Medical Center	1,280	0.92%
Conway Hospital	1,100	0.79%
AVX Corporation	1,100	0.79%
City of Myrtle Beach	1,076	0.78%
Coastal Carolina University	984	0.71%
Blue Cross Blue Shield	825	0.60%
Burroughs and Chapin Company, Inc	700	0.51%
	<u>15,584</u>	<u>11.26%</u>

Notes:

The Total Employment is as of June of the current year

Source:

- (1) South Carolina Department of Employment and Workforce
- (2) Myrtle Beach Regional Economic Development
- (3) 2009 Horry County Comprehensive Annual Financial Report

**GRAND STRAND WATER AND SEWER AUTHORITY**  
 Number of Employees by Identifiable Activity  
 Last Ten Fiscal Years  
 (Unaudited)

Schedule 16

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Full-Time Equivalent Employees as of June 30										
Water										
Water Plant Operations	23	25	24	24	22	22	21	24	22	23
Water Plant Maintenance	6	6	5	6	6	6	6	6	8	7
Water Systems Maintenance	13	14	17	16	19	16	17	16	15	16
Water Systems Operations	27	29	34	34	38	38	39	41	40	42
Sewer										
Sewer Plant Operations	39	45	36	34	36	37	39	40	42	41
Sewer Plant Maintenance	13	11	13	17	18	18	18	14	14	14
Sewer Systems Maintenance	38	37	38	38	41	43	38	44	45	49
Biosolid / Sludge Disposal Operations	23	27	27	26	26	25	25	25	27	26
Engineering / Inspection / Construction										
Engineering	15	14	15	15	16	16	16	18	18	18
Inspections	7	7	6	6	5	5	6	6	6	6
Construction	23	22	22	22	21	25	24	27	31	32
Administration										
Billing / Customer Service	18	23	23	23	25	26	28	24	24	25
Human Resources	2	2	2	2	2	2	1	1	1	1
Finance and Accounting	6	6	5	5	5	6	6	6	6	6
Purchasing	4	4	4	4	4	4	5	4	4	5
Information Systems	4	4	4	4	4	4	3	4	4	5
Executive Administration	3	3	3	3	3	3	3	3	3	3
Fleet / Facilities Management	5	3	4	4	4	4	5	4	4	3
<b>Total</b>	<u>269</u>	<u>282</u>	<u>282</u>	<u>283</u>	<u>295</u>	<u>300</u>	<u>300</u>	<u>307</u>	<u>314</u>	<u>322</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

Miscellaneous Statistical Data

June 30, 2018  
(Unaudited)

	<u>2018</u>	<u>2017</u>
<u>Sewer System Facts</u>		
<u>Use of Sewer</u>		
Sewer Customers, End of Period	81,890	78,730
Average Daily Consumption (Millions of Gallons)	31.47	31.39
Estimated Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	11.49	11.46
<u>System Facilities</u>		
Total Miles of Sewer Lines *	1,816	1,772
Number of Treatment Plants	14	14
Number of Pumping Stations	701	694
Number of Residential Effluent Pumping Stations	411	405
Number of Residential Grinder Pumping Stations	5,593	5,233

*Force Main	908
Gravity	<u>908</u>
	1,816

**GRAND STRAND WATER AND SEWER AUTHORITY**

Miscellaneous Statistical Data

June 30, 2018

(Unaudited)

	<u>2018</u>	<u>2017</u>
<u>Water System Facts</u>		
<u>Use of Water</u>		
Water Customers, End of Period	85,986	82,948
Average Daily Consumption (Millions of Gallons)	41.84	41.74
Estimated Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons) *	15.27	15.24
<u>System Facilities</u>		
Storage Tanks **	32	32
Storage Capacity (Millions of Gallons) **	26	26
Auxiliary Deep Water Wells	52	52
Total Miles of Distribution Lines	1,906	1,869
Fire Hydrants	7,804	7,653

\* Includes SWTP Participant Sales

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

INDEPENDENT AUDITOR'S OTHER  
REPORTS SECTION

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1109 Main Street  
Suite A  
Conway, SC 29526

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

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

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Fax (843) 237-4809  
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**Independent Auditors' 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Grand Strand Water and Sewer Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 10, 2018.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

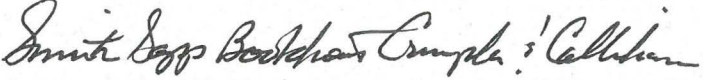
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

Smith Sapp Bookhout Crumpler & Calliham  
A Professional Association of Certified Public Accountants & Consultants  
- 99 -

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

## **Purpose of this Report**

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

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

Myrtle Beach, South Carolina  
September 10, 2018