

**Grand Strand Water and Sewer Authority
Retiree Health Care Benefit Plan**

Report on Financial Statements

For the year ended June 30, 2014

Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan (the "Plan"), administered by the Grand Strand Water and Sewer Authority Board, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net position held in trust for the beneficiaries of the Plan, administered by the Grand Strand Water and Sewer Authority Board as of June 30, 2014, and its changes in net position held in trust for the beneficiaries of the Plan for the period then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require the Schedule of Funding Progress and the Schedule of Employer Contributions to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Schedule of Funding Progress and the Schedule of Employer Contributions in accordance with audit standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Elliott Davis, LLC

Columbia, South Carolina
September 10, 2014

Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan

Statement of Plan Net Position

As of June 30, 2014

Assets

Cash and cash equivalents	\$ 152,000
Investments, at fair value	
US Government Agency Bonds/Notes	1,627,340
US Government Notes	530,891
US Government Bonds	280,599
Total investments	<u>2,438,830</u>
Receivables	
Employee contributions	1,516
Excess premiums	606
Total receivables	<u>2,122</u>
Total assets	<u>\$ 2,592,952</u>

Liabilities

Benefits payable	<u>\$ -</u>
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Net Position

Held in trust for other postemployment benefits	<u>\$ 2,592,952</u>
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See Notes to Financial Statements

Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan

Statement of Changes in Plan Net Position

For the year ended June 30, 2014

Additions:

Investment income	
Net depreciation in fair value of investments	\$ (37,099)
Interest income	<u>78,682</u>
Total investment income	<u>41,583</u>
Contributions	
Employer	419,660
Plan members	<u>32,376</u>
Total contributions	<u>452,036</u>
Total additions	<u>493,619</u>

Deductions:

Benefits paid	<u>108,593</u>
Change in plan net position	385,026

Net Position Held in Trust for Other Postemployment Benefits,

Beginning of year	<u>2,207,926</u>
End of year	<u>\$ 2,592,952</u>

See Notes to Financial Statements

Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan

Notes to Financial Statements

June 30, 2014

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

Note 1. Summary of Significant Accounting Policies

Basis of accounting:

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

Method used to value investments:

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

Estimates:

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

Subsequent events:

In preparing these financial statements, the Plan has evaluated events and transactions for potential recognition or disclosure through September 10, 2014, the date the financial statements were available for issue.

Note 2. Plan Description and Contribution Information

The membership of the Plan consisted of the following at July 1, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	30
Active plan members	<u>280</u>
Total	<u><u>310</u></u>
Number of participating employers	1

Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan

Notes to Financial Statements

June 30, 2014

Note 2. Plan Description and Contribution Information, Continued

Plan description:

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.

Total costs per participant for health and dental coverage was \$501 for the year ended June 30, 2014. GSWSA pays 75% of the premium for participants with 20 years of service retiring after age 60, with the participant paying the balance. The participant pays 100% of the balance when retiring prior to age 60 with at least five years of service.

GSWSA will also pay 75% of the premium for disabled participants who retire with 10 years of service with the participant paying the balance. Disabled participants pay 100% of the premium when retiring with less than 10 years, but more than 5 years of service.

Premiums are adjusted annually based on a contract between GSWSA and the insurance carrier.

Contributions:

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

Note 3. Funding Status and Funding Progress

The funded status of the Plan as of the most recent actuarial valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrual Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
07/01/2013	\$ 2,207,926	\$ 6,714,091	\$ 4,506,165	32.9%	\$ 13,568,776	33.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts, and assumptions about the probability of occurrence of events, far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, will present trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits as time progresses.

Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan

Notes to Financial Statements

June 30, 2014

Note 3. Funding Status and Funding Progress, Continued

The Schedule of Employer Contributions (also presented as required supplementary information) presents trend information about the amounts contributed to the Plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of the GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortizes any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Valuation date	July 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	5.0%
Initial medical cost trend rate	8.5% pre-Medicare, 6.25% Medicare eligible
Ultimate trend rate	5.0% pre-Medicare, 5.0% Medicare eligible
Annual salary increase rate	2.5%

Note 4. Cash and Cash Equivalents

At June 30, 2014, the Plan's assets consisted of \$2,762 in cash and \$149,238 in a money market account maintained by a regional bank. Using a daily sweep, available cash balances in the money market account are deposited by the bank into multiple FDIC-insured deposit accounts at one or more other financial institutions.

Interest rate risk

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

Custodial credit risk

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

Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan

Notes to Financial Statements

June 30, 2014

Note 4. Cash and Cash Equivalents, Continued

Concentration of credit risk

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

Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan*Schedule of Funding Progress for Postemployment Health Care Plan**As of June 30, 2014*

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/2009	\$ 577,000	\$ 6,838,000	\$ 6,261,000	8.4%	\$ 11,264,000	55.6%
07/01/2011	1,437,355	5,902,477	4,465,122	24.4%	11,844,331	37.7%
07/01/2013	2,207,926	6,714,091	4,506,165	32.9%	13,568,776	33.2%

Grand Strand Water and Sewer Authority Retiree Health Care Benefit Plan**Schedule of Employer Contributions****For the year ended June 30, 2014**

Year Ended June 30	Actuarial Valuation Date	Annual OPEB Cost	Contribution	% Contributed	Net OPEB Obligation/ (Asset)
2011	07/01/2009	\$ 562,000	\$ 442,606	79%	\$ 50,225
2012	07/01/2011	427,607	477,832	112%	-
2013	07/01/2011	427,419	427,419	100%	-
2014	07/01/2013	413,090	419,660	102%	(6,570)