

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

**Report on Financial Statements
For the Year Ended June 30, 2016**

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

**FINANCIAL REPORT
Year Ended June 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Grand Strand Water & Sewer Authority Retiree Health Care Benefit Plan (the "Plan"), administered by the Grand Strand Water & Sewer Authority Board, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position held in trust for the beneficiaries of the Plan, administered by the Grand Strand Water & Sewer Authority Board as of June 30, 2016, and its changes in net position held in trust for the beneficiaries of the Plan for the period then ended, in accordance with accounting principles generally accepted in the United States of America.

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

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

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require the Schedule of Funding Progress and the Schedule of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Schedule of Funding Progress 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.



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

Myrtle Beach, South Carolina
August 25, 2016

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

**STATEMENT OF PLAN NET POSITION
As of June 30, 2016**

Assets

Cash and Cash Equivalents	\$ <u>740,261</u>
Investments, at Fair Value	
US Government Agency Bonds/Notes	\$ 1,854,840
US Government Notes	862,044
US Government Bonds	473,838
US Government Inflation Bonds	53,815
Total Investments	\$ <u>3,244,537</u>
Receivables	
Employee Contributions	\$ <u>4,472</u>
Total Receivables	\$ <u>4,472</u>
Total Assets	\$ <u><u>3,989,270</u></u>
Net Position - Restricted for Other Post Employment Benefits	
Held in Trust for Other Post Employment Benefits	\$ <u><u>3,989,270</u></u>

See Notes to Financial Statements

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

**STATEMENT OF CHANGES IN PLAN NET ASSETS
As of June 30, 2016**

Additions

Investment Income	
Net Appreciation in Fair Value of Investments	\$ 34,675
Interest Income	83,837
Total Investment Income	<u>\$ 118,512</u>

Contributions	
Employer	\$ 1,053,624
Plan Members	58,613
Total Contributions	<u>\$ 1,112,237</u>
Total Additions	<u>\$ 1,230,749</u>

Deductions

Benefits Paid	\$ 195,412
Change in Plan Net Position	<u>\$ 1,035,337</u>

Net Position Held in Trust for Other Post Employment Benefits,

Beginning of Year	<u>\$ 2,953,933</u>
End of Year	<u><u>\$ 3,989,270</u></u>

See Notes to Financial Statements

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 1 - Plan Description

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

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

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

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

Eligibility:

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 1 - Plan Description (continued)

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.

Funding Policy:

The contribution requirements of plan members and GSWSA are established and may be amended by the Board of Directors. 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. Following is a chart detailing premiums and contribution amounts for coverage as of January 1, 2016.

2016 Monthly Insurance Premiums - Copay Plan				
	Medical	Vision	Dental	Total
Single	\$ 652.54	\$ 4.08	\$ 28.20	\$ 684.82
Retiree/Children	\$ 1,236.46	\$ 8.31	\$ 59.96	\$ 1,304.73
Retiree/Spouse	\$ 1,496.00	\$ 7.90	\$ 57.69	\$ 1,561.59
Family	\$ 1,820.39	\$ 12.22	\$ 95.38	\$ 1,927.99

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.

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RETIREE HEALTHCARE BENEFIT PLAN**

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 2 - 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.

Contributions:

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

Subsequent events:

In preparing these financial statements, the Plan has evaluated events and transactions for potential recognition or disclosure through August 25, 2016, the date the financial statements were available for issue.

Note 3 - Funding Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrual Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/2015	\$ 2,953,933	\$ 15,810,846	\$ 12,856,913	18.7%	\$ 14,799,940	86.9%

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RETIREE HEALTHCARE BENEFIT PLAN**

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 3 - Funding Status and Funding Progress, (continued)

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.

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, 2015
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	5.00%
Initial medical cost trend rate	7.50% pre-Medicare, 5.50% Medicare eligible
Ultimate trend rate	5.00%
Annual salary increase rate	2.50%

Note 4 - Cash and Cash Equivalents

At June 30, 2016, the Plan's assets consisted of \$740,261 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

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 4 - Cash and Cash Equivalents, (continued)

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.

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

Note 5 – Fair Value Measurement

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

Fair value measurements of GSWSA's investments are as follows at June 30, 2016.

	<u>Fair Value Measurements Using</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Investments				
<i>Debt Securities</i>				
US Government Agency Bonds/Notes	\$ 1,854,840	\$	\$ 1,854,840	\$
US Government Notes	862,044	862,044		
US Government Bonds	473,838	473,838		
US Government Inflation Bonds	53,815	53,815		
Total Debt Securities	<u>\$ 3,244,537</u>	<u>\$ 1,389,697</u>	<u>\$ 1,854,840</u>	<u>\$</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT HEALTH CARE PLAN
As of June 30, 2016**

<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>
07/01/2009	\$ 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%
07/01/2015	2,953,933	15,810,846	12,856,913	18.7%	14,799,940	86.9%

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

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2016**

<u>Year Ended 30-Jun</u>	<u>Actuarial Valuation Date</u>	<u>Annual OPEB Cost</u>	<u>Contribution</u>	<u>% Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
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)
2015	07/01/2013	413,066	406,496	98%	-
2016	07/01/2015	1,053,624	1,053,624	100%	-