



Grand Strand Water  
& Sewer Authority

COMPREHENSIVE  
**ANNUAL**  
FINANCIAL  
**REPORT**

For the fiscal years ended  
June 30, 2017 & 2016

CONWAY, SOUTH CAROLINA





## Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016

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, 2017

## 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, 2017

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# INTRODUCTORY SECTION

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September 25, 2017

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, 2017 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 service area of GSWSA includes all of the area in Horry County except those areas served by municipalities and/or private water and/or sewer companies. It is located in the northeastern portion of the State of South Carolina.

In addition, GSWSA provides water and sewer services to Georgetown County, the City of Marion, City of Mullins, Town of Nichols, and Town of Lake View. Sewer service is also provided to the Town of Latta, Town of Sellers and Centenary. These areas are all located in South Carolina. GSWSA also provides limited sewer service to Tabor City and Columbus County, North Carolina through contractual agreements it has reached with these entities.

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

### LOCAL ECONOMY

Horry County'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 2017, with the addition of 3,399 customers. The monthly average of submittals for new developer projects requiring water and sewer service remained consistent with 11 projects for fiscal year 2016 and 10 projects for fiscal year 2017. The monthly average Residential Equivalent Units (REUs) submitted also remained consistent with 246 REUs submitted for fiscal year 2016 and 226 REUs in fiscal year 2017. 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 2017 were \$10.2 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. 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 \$2.5 million for the preparation and recovery of Hurricane Matthew. In addition, \$5.1 million was spent on the Rural Water and Sewer program to extend water and sewer lines to the rural communities of Horry County. GSWSA also spent approximately \$5.2 million to install 36" water transmission main from International Drive to Highway 17 By-Pass to provide an emergency back-up water supply to the City of Myrtle Beach. GSWSA also constructed a 250,000 gallon elevated storage tank to provide additional fire flow capacity to the Cool Springs/Aynor area which costed approximately \$1.2 million. GSWSA also spent \$8.5 million on the relocation of existing sewer facilities along Highway 707 from Socastee to Horry County/Georgetown County line.

#### 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. It also annually performs a comprehensive review of its rates, fees and charges to maintain a sufficient and equitable cost recovery system. GSWSA has a policy of rate stability with gradual adjustments over time.

During 2017, GSWSA continued several policies aimed at reducing and/or maintaining expenses at the same level as 2016. 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. In addition, expenses were up from 2016 as result of additional money spent to fund Hurricane Matthew recovery and other water and wastewater maintenance costs.

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, 2016. This was the 28th 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**

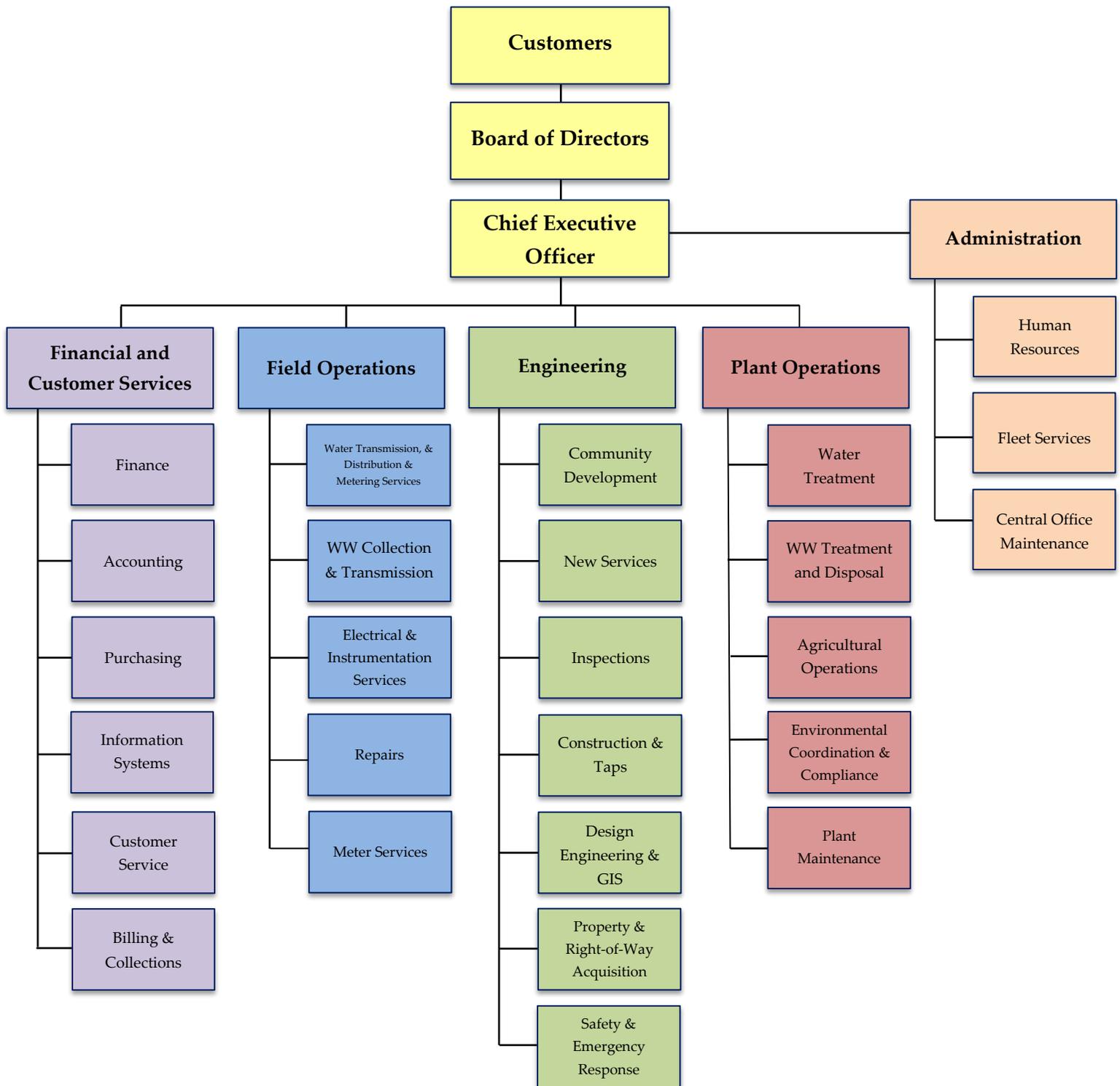
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO

# Grand Strand Water and Sewer Authority

## Functional Organizational Chart



# GRAND STRAND WATER AND SEWER AUTHORITY



## 2017 | Board of Directors

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

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: 8-15-2017

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

## 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

# FINANCIAL SECTION

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SAPP**

*Trusted Advisors For Over 60 Years*

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PAWLEYS ISLAND

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## **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, 2017 and June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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 respective financial position of the business-type activities and fiduciary activities of the Authority as of 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.

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

- 1 -

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

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 16, schedule of proportionate share of net pension liability on page 68, schedule of contributions on page 69, and schedule of funding progress for postemployment benefit plan on page 70 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 11, 2017, 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 11, 2017

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# GRAND STRAND WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis

For The Fiscal Year Ended June 30, 2017

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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, 2017 and 2016. 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 2017. GSWSA is within debt covenants and the more stringent financial policies and guidelines set by the Board. The following are the financial highlights for the fiscal year.

- Total assets and deferred cash outflows of resources at June 30, 2017 were \$758 million and exceeded liabilities and deferred cash inflows by \$506 million (i.e. net position). Of total net position, approximately \$90.9 million was unrestricted. Total assets and deferred cash outflows increased from fiscal year 2016 to 2017 by \$15.6 million and total liabilities and deferred cash inflow decreased by \$7.2 million.
- Total deferred outflows of resources are down \$1.9 million from 2016. This change is due to the net of a decrease in the value of the interest rate swaps and the increase in the deferred outflow from pension expense. Deferred inflows of resources decreased approximately \$5.6 million from 2016 due to the decrease in the value of the interest rate swaps.
- Operating revenues were approximately \$85.5 million in 2017, an increase of approximately \$1.4 million from 2016, or 1.7%. During 2017, the increase in revenues was due to the increase in water and wastewater volume and availability charges.
- In 2017, operating expenses before depreciation increased by \$4.1 million or 8.2%. The total operating expenses, including depreciation, increased \$5.7 million or 7.7%. The increase in operating expenses in 2017 was mainly attributed to additional costs associated with the recovery of Hurricane Matthew, accrual of additional days worked in the fiscal year, recognition of GSWSA's proportionate share of pension expense, in addition to an increase in water and wastewater maintenance costs.
- The operating income for fiscal year 2017 was \$5.4 million, a 44.4% decrease from the previous fiscal year due to an increase in GSWSA's proportionate share of pension expense, as well as costs associated with Hurricane Mathew recovery.
- There was a decrease in net position, before capital contributions of \$1.8 million in fiscal year 2017. There was an increase in net position after capital contributions of \$22.8 million.
- The ratio of total operating revenues to total operating expenses was 1.07 for 2017 and 1.13 for 2016.

## Financial Highlights, Continued

- Debt service coverage for 2017 decreased to 207% as compared to 217% in 2016 and 193% in 2015. Debt service coverage required by the bond covenants is 110%, which is within our current coverage.
- In 2017, capital contributions from customer impact fees were \$11.1 million, an increase of 16.4% compared to fiscal year 2016. Developer contributions of facilities were \$10.2 million, an increase of 97.0% from 2016.
- GSWSA treated and distributed over 15.24 billion gallons of water and collected and treated over 11.46 billion gallons of wastewater, an increase from fiscal year 2016 of 6.3% for water and a decrease of 0.30% for wastewater. Water consumption was up in all customer classes. Wastewater consumption was up in all classes with the exception of bulk and wholesale customers during 2017.
- In fiscal year 2017, GSWSA added 3,129 water and 2,992 wastewater customers which resulted in a net of 3,948 water and 3,596 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 17 to 75 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 2017 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

	2017	2016	2015	Change 2016-2017	% Change 2016-2017
<b>Assets</b>					
Current assets	\$ 126,685,944	\$ 122,542,564	\$ 122,765,837	\$ 4,143,380	3.4%
Restricted assets - current	1,975,117	2,362,824	2,379,109	(387,707)	-16.4%
Restricted assets - noncurrent	20,720,555	20,300,205	21,187,441	420,350	2.1%
Capital assets	588,494,714	575,164,930	565,956,614	13,329,784	2.3%
Other assets	4,750	4,750	4,750	-	0.0%
Total assets	<u>\$ 737,881,080</u>	<u>\$ 720,375,273</u>	<u>\$ 712,293,751</u>	<u>\$ 17,505,807</u>	<u>2.4%</u>
<b>Deferred outflows of resources</b>					
Interest rate swap	\$ 11,008,596	\$ 16,574,681	\$ 12,848,826	\$ (5,566,085)	-33.6%
Deferred charge on refundings	2,293,299	2,473,058	3,098,301	(179,759)	-7.3%
Pensions	6,439,916	2,555,542	2,386,749	3,884,374	152.0%
Total deferred outflows of resources	<u>\$ 19,741,811</u>	<u>\$ 21,603,281</u>	<u>\$ 18,333,876</u>	<u>\$ (1,861,470)</u>	<u>-8.6%</u>
<b>Liabilities</b>					
Current liabilities	\$ 32,866,638	\$ 31,201,517	\$ 30,450,642	\$ 1,665,121	5.3%
Noncurrent liabilities	207,890,574	211,175,684	224,734,695	(3,285,110)	-1.6%
Total liabilities	<u>\$ 240,757,212</u>	<u>\$ 242,377,201</u>	<u>\$ 255,185,337</u>	<u>\$ (1,619,989)</u>	<u>-0.7%</u>
<b>Deferred inflows of resources</b>					
Interest rate swap	\$ 11,008,596	\$ 16,574,681	\$ 12,848,826	\$ (5,566,085)	-33.6%
Pensions	38,627	53,646	2,291,717	(15,019)	-28.0%
Total deferred inflows of resources	<u>\$ 11,047,223</u>	<u>\$ 16,628,327</u>	<u>\$ 15,140,543</u>	<u>\$ (5,581,104)</u>	<u>-33.6%</u>
<b>Net Position</b>					
Net investment in capital assets	\$ 398,919,173	\$ 377,470,987	\$ 349,856,963	\$ 21,448,186	5.7%
Restricted for capital projects	14,004,705	13,842,968	15,076,149	161,737	1.2%
Restricted for debt service	1,975,117	2,362,824	2,379,109	(387,707)	-16.4%
Unrestricted	90,919,461	89,296,247	92,989,526	1,623,214	1.8%
Total Net Position	<u>\$ 505,818,456</u>	<u>\$ 482,973,026</u>	<u>\$ 460,301,747</u>	<u>\$ 22,845,430</u>	<u>4.7%</u>

## Financial Analysis, Continued

### Condensed Statements of Activities

	2017	2016	2015	Change 2016-2017	% Change 2016-2017
<b>Operating revenues</b>					
Water and sewer volume & availability fees	\$ 64,410,537	\$ 63,432,455	\$ 58,947,140	\$ 978,082	1.5%
Customer charges	7,937,632	7,444,799	6,942,943	492,833	6.6%
Surface water charges	7,217,763	7,208,410	6,906,882	9,353	0.1%
Surface water treatment plant contract revenue	3,698,805	3,609,666	3,535,258	89,139	2.5%
Other revenue	2,279,270	2,413,100	1,879,572	(133,830)	-5.5%
Total operating revenues	85,544,007	84,108,430	78,211,795	1,435,577	1.7%
<b>Operating expenses</b>					
Operating expenses before depreciation	53,601,284	49,533,015	47,191,293	4,068,269	8.2%
Depreciation	26,584,902	24,937,431	24,159,506	1,647,471	6.6%
Total operating expenses	80,186,186	74,470,446	71,350,799	5,715,740	7.7%
Operating income	5,357,821	9,637,984	6,860,996	(4,280,163)	-44.4%
<b>Nonoperating revenues (expenses)</b>					
Investment income (loss)	(284,159)	4,593,832	2,499,961	(4,877,991)	-106.2%
Loss on disposal of capital assets	(174,857)	(444,642)	(47,918)	269,785	-60.7%
Interest expense	(6,746,504)	(7,300,013)	(7,785,354)	553,509	-7.6%
Total nonoperating expense	(7,205,520)	(3,150,823)	(5,333,311)	(4,054,697)	128.7%
<b>Income (loss) before capital contributions</b>	(1,847,699)	6,487,161	1,527,685	(8,334,860)	-128.5%
Capital contributions	24,693,129	16,184,118	18,735,691	8,509,011	52.6%
<b>Change in net position</b>	22,845,430	22,671,279	20,263,376	174,151	0.8%
<b>Beginning net position</b>	482,973,026	460,301,747	466,837,534	22,671,279	4.9%
Restatement	-	-	(26,799,163)	-	0.0%
<b>Beginning net position, as restated</b>	482,973,026	460,301,747	440,038,371	22,671,279	4.9%
<b>Ending net position</b>	\$ 505,818,456	\$ 482,973,026	\$ 460,301,747	\$ 22,845,430	4.7%

## Financial Analysis, Continued

	Selected Data for Analysis			Change 2016-2017	% Change 2016-2017
	2017	2016	2015		
<i>Employees at Year End</i>	314	307	300	7	2.3%
<i>Active Customers at Year End:</i>					
Water Customers	82,948	79,819	77,022	3,129	3.9%
Wastewater Customers	78,730	75,738	72,965	2,992	4.0%
<i>Water Sales for Fiscal Year</i>					
(Billions of Gallons)	15.24	14.34	13.83	0.90	6.3%
<i>Wastewater Sales for Fiscal Year</i>					
(Billions of Gallons)	11.46	11.49	10.90	(0.03)	-0.3%
<i>Total Operating Revenues</i>					
(Per Average Employees)	\$272,433	\$273,969	\$260,706	\$ (1,536)	-0.6%
<i>Total Operating Expenses</i>					
(Per Average Employees)	\$255,370	\$242,575	\$237,836	\$ 12,795	5.3%
<i>Ratio of Operating Revenues to:</i>					
Operating Expenses	1.067	1.129	1.096	(0.062)	-5.5%
Operating Expenses Net of Depreciation	1.596	1.698	1.657	(0.102)	-6.0%
Total Assets	0.116	0.117	0.110	(0.001)	-0.9%
<i>Debt Related Ratios:</i>					
Debt to Net Assets	0.476	0.502	0.554	(0.026)	-5.2%
Debt to Capital Assets	0.409	0.421	0.451	(0.012)	-2.9%
Operating Coverage					
(Operating Cash Flow/Debt)	0.141	0.136	0.128	0.005	3.7%
Debt Ratio					
(Total Debt/Total Assets)	0.326	0.336	0.358	(0.010)	-3.1%
Bond Coverage					
(Net Earnings/Debt Required)	2.07	2.17	1.93	(0.10)	-4.6%
<i>Liquidity Ratio</i>					
(Current Assets/Current Liabilities)	3.915	4.003	4.110	(0.088)	-2.2%
<i>Asset Management Ratios:</i>					
Days Sales Outstanding					
(Receivables/(Sales/360))	54	53	48	1	1.9%
Asset Turnover					
(Sales/Assets)	0.116	0.117	0.110	(0.001)	-0.8%

## General Trends and Significant Events

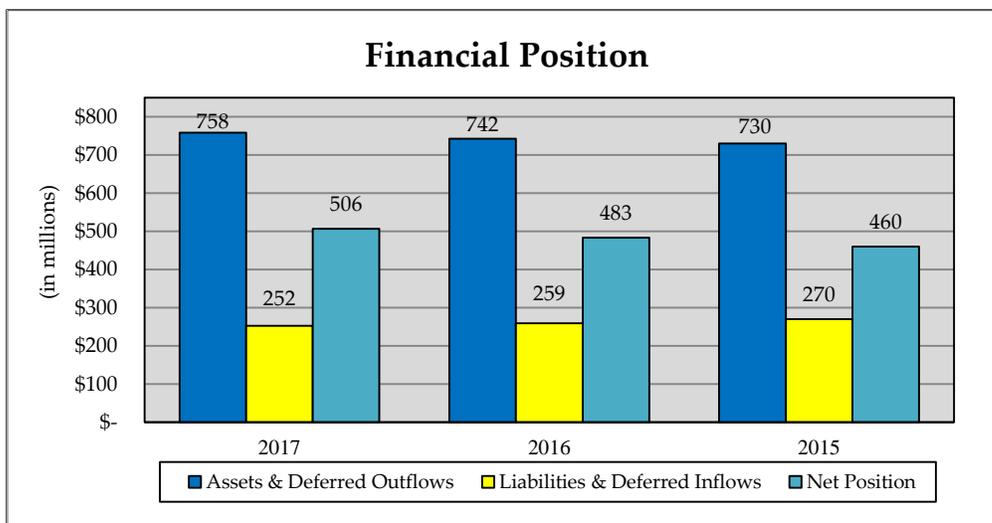
The local economy has continued to improve over the last year. Horry County has seen improvements in market values, sales in real estate and unemployment rates have continued to improve due to strong growth in tourism-related jobs. In more recent years, GSWSA's management has taken a proactive approach to planning for sustainability and preservation. Management of GSWSA has expanded its service area to include parts of Georgetown, Marion and Dillon Counties in South Carolina; as well as Columbus County, North Carolina. In addition, management and the rest of the staff at GSWSA have continued to closely monitor expenses and budget conservatively.

The volume of water sold in fiscal year 2017 was 15.24 billion gallons, an increase of 6.3% from fiscal year 2016. Retail customers purchased 39% of the total water sold and the wholesale customers purchased 61%.

The volume of treated wastewater sold in fiscal year 2017 was 11.46 billion gallons, a decrease of 0.3% from fiscal year 2016. All wastewater customer classes increased with the exception of bulk and wholesale customers. Retail customers purchased approximately 55% of the total treated wastewater and wholesale customers purchased 45%.

## Financial Condition

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



## Financial Condition, Continued

During fiscal year 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 and notes 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.

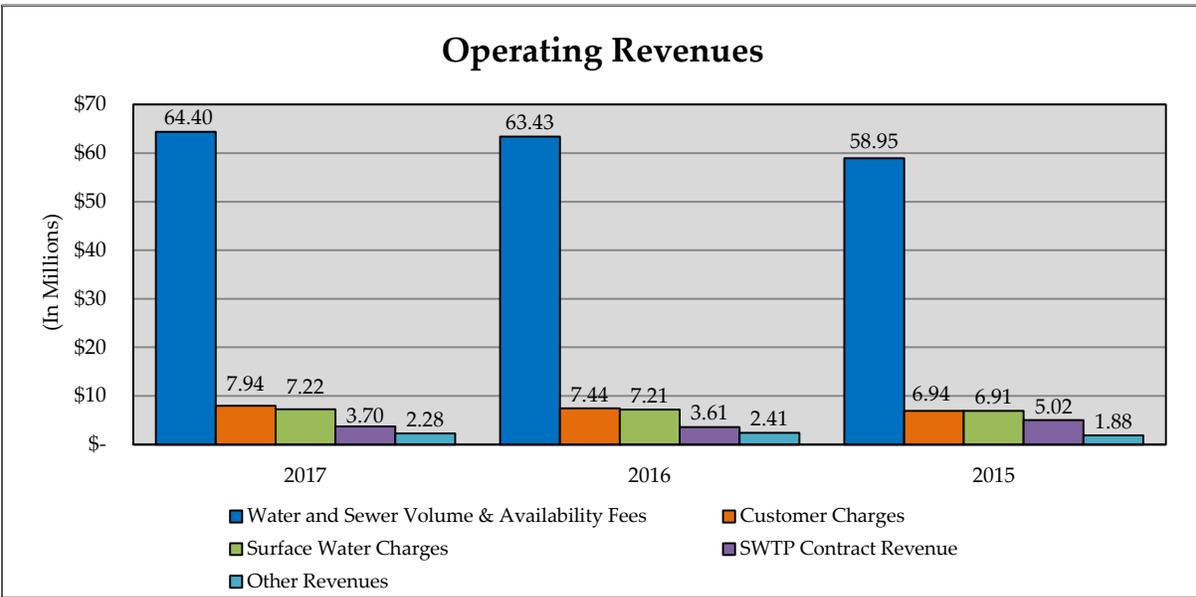
During fiscal year 2016, total assets and deferred outflows increased by \$11.4 million or 1.6% with approximately \$9.2 million represented by an increase in capital assets, which is largely due to the increase in capital expenditures for facilities during 2016. Total liabilities decreased by \$12.8 million or 5.0%, as a result of a decrease in revenue bonds payable from making annual debt payments for approximately \$9.8 million and the recognition of an increase in Net Pension Liability for approximately \$2.8 million. Net position increased overall by \$22.7 million or 4.9% in 2016. In addition, the net position restricted for capital assets decreased \$1.2 million.

Accounts receivable, net of allowance, for 2017 increased by \$549,508 from 2016. Accounts receivable at June 30, 2016 were increased by approximately \$2.0 million from 2015. 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

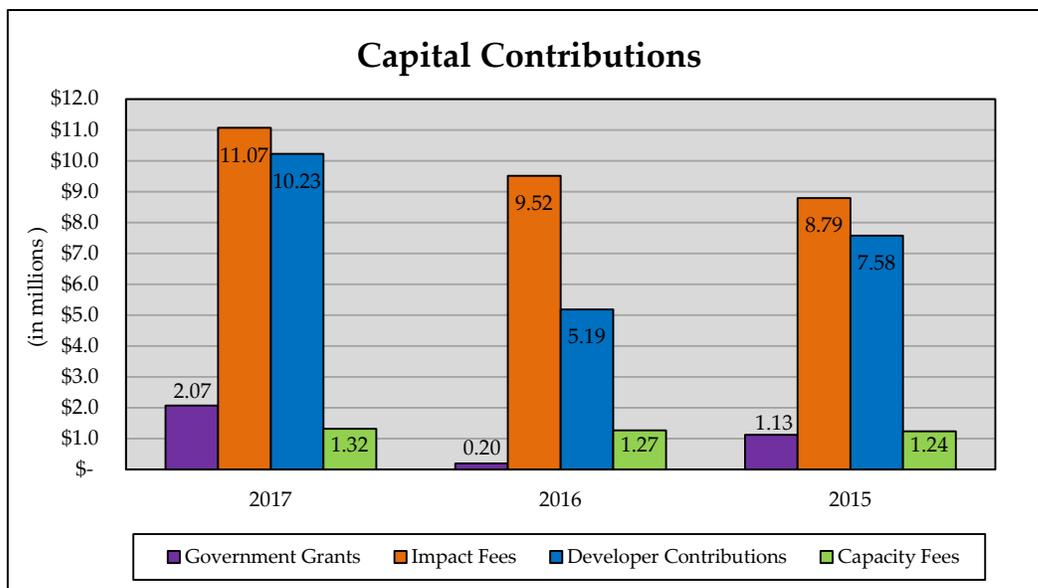


In 2017, GSWSA did not increase retail water and wastewater rates. Wholesale and contract water and wastewater rates were increased by various percentages as specified by contract. In 2016, GSWSA increased retail water and wastewater rates by 3.3% and 2.6%, respectively. Other rates that increased were the wholesale operating water rates by 2.9% and wholesale capital charges by various percentages as specified by contract. Wholesale wastewater rates also increased by various percentages as specified by contract. GSWSA's retail water and wastewater rates did not increase during 2015. However, wholesale and contract water and wastewater rates were increased by various percentages as specified by contract.

## Results of Operations, Continued

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

The following chart depicts the capacity fee revenue activity.



Overall, capital contributions increased \$8.5 million, or 52.6% during fiscal year 2017. Developer contributions increased \$5.0 million from 2016. 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 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 Diversion 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.

## Results of Operations, Continued

During fiscal year 2016, capital contributions decreased \$2.6 million, or 13.6%. Development of the local area has continued as a result of the demand for single family homes and commercial development, although not as many developer assets were deeded over to GSWSA during fiscal year 2016. Government grants were \$200,960 for 2016 as compared to \$1.1 million for 2015. The decrease in government grants was due to the closing out of a project associated with funds from the SC Emergency Management Division for public assistance for the 2015 ice storm, as well as a Principal Forgiveness loan from the SC Budget and Control Board to upgrade the Lake View Wastewater Treatment Plant. Impact fees were approximately \$9.5 million for 2016 compared to \$8.8 million for 2015. Capacity fees also slightly increased \$34,620 from 2015.

**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.

In 2017, total operating expenses increased \$5.7 million from fiscal year 2016, and operating revenues increased by \$1.4 million. Operating expenses for water and wastewater operations for the last three years are listed below:

	2017	%	2016	%	Variance	2015	%
Personnel Services	\$ 26,172,901	32.6%	\$ 23,502,702	31.5%	\$ 2,670,199	\$ 21,316,332	29.9%
Contractual Services	16,880,486	21.1%	15,359,308	20.6%	1,521,178	15,719,842	22.0%
Supplies and Materials	9,305,376	11.6%	9,632,549	12.9%	(327,173)	9,213,765	12.9%
Depreciation	26,584,902	33.2%	24,937,431	33.5%	1,647,471	24,159,506	33.9%
Other Expenses	1,242,521	1.5%	1,038,456	1.4%	204,065	941,354	1.3%
Total Operating Expenses	<u>\$ 80,186,186</u>	<u>100.0%</u>	<u>\$ 74,470,446</u>	<u>100.0%</u>	<u>\$ 5,715,740</u>	<u>\$ 71,350,799</u>	<u>100.0%</u>

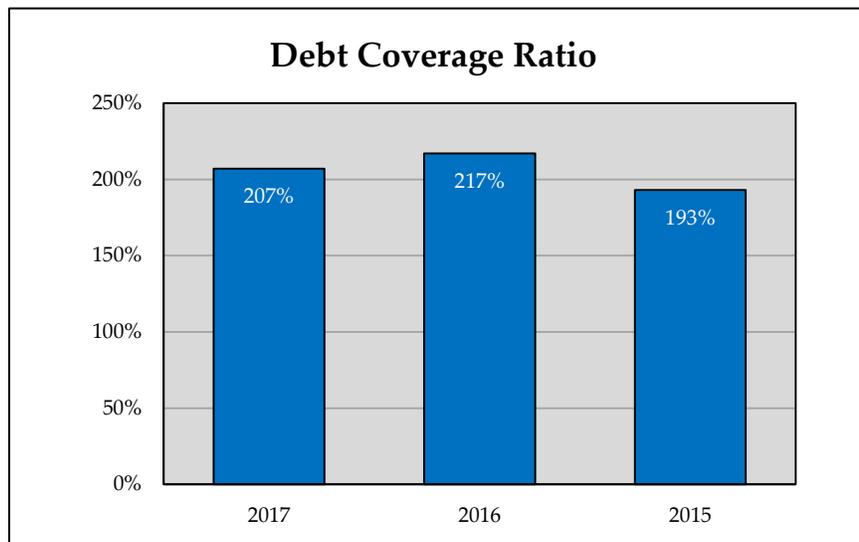
Personnel costs increased \$2,670,199 or 11.36% from 2016 to 2017. GSWSA granted an average 4.05% merit increase during 2017. The overall increase in personnel costs was mainly a result of the merit increase, an increase in insurance premiums, as well as the recognition of GSWSA's portion of the state's 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.

## Results of Operations, Continued

Personnel costs increased \$2,186,370 or 10.30% from 2015 to 2016. GSWSA granted an average 3.4% merit increase during 2016. 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 down by \$360,534 due to a decrease in water and wastewater facility maintenance costs. Supplies and materials increased by \$418,784 or 4.5% as the result of treatment supplies, as well as facility and vehicle maintenance. Depreciation was up \$777,925 or 3.2% due to the addition of assets during fiscal year 2016. Other expenses are up slightly by \$97,102 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 2017, 2016 and 2015 were 207%, 217% and 193%, respectively. The calculation in 2017 does not include operating expenses of approximately \$1.4 million spent on the recovery of Hurricane Matthew.



**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 \$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.

Capital assets increased by \$9.2 million during 2016. 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 2016 was only approximately \$34.7 million and the depreciation of capital assets was \$24.9 million. Some of the largest additions to capital assets in 2016 included:

Rural Water	\$ 2,006,778
Rural Sewer	2,848,328
SCDOT Highway 707 Widening	4,240,309
Lake View Sewer Improvements	1,411,121

Developer contributions to capital assets were \$5.2 million. Disposals for 2016 were \$1,668,021.

During fiscal year 2015, 2016 and 2017, GSWSA obtained State Revolving Fund loans for the Bull Creek/Myrtle Beach Waterline Interconnect Phase 2 and MBSWTP Ozone System Improvements projects. As of June 30, 2017, the draws made on these loans and recorded debt was \$7.8 million.

Grand Strand Water and Sewer Authority also issued the Bonds of 2016D. The bond proceeds were used to refinance ten State Revolving Fund Loans in the amount of \$14,205,000 for net present savings of \$193,096.

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.

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# BASIC FINANCIAL STATEMENTS

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# GRAND STRAND WATER AND SEWER AUTHORITY

## Statements of Net Position

	As of June 30	
	2017	2016
<b>Assets and Deferred Outflows of Resources</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 15,379,709	\$ 9,316,960
Investments	88,910,785	94,576,372
Receivables		
Customer accounts, net of allowance of \$231,989 in 2017 and \$237,878 in 2016	12,940,595	12,391,087
Assessments	3,281,065	3,176,450
Interest	766,919	714,648
Other	3,033,990	185,038
Total receivables	20,022,569	16,467,223
Inventories	1,216,655	1,098,731
Prepays	1,156,226	1,083,278
Restricted assets		
Cash and cash equivalents	1,588,192	1,973,645
Investments	386,925	389,179
Total current assets	128,661,061	124,905,388
<i>Noncurrent assets</i>		
Restricted investments	20,720,555	20,300,205
Container and security deposits	4,750	4,750
Capital assets		
Nondepreciable	72,224,002	98,768,112
Depreciable, net of depreciation	516,270,712	476,396,818
Total capital assets	588,494,714	575,164,930
Total noncurrent assets	609,220,019	595,469,885
Total assets	\$ 737,881,080	\$ 720,375,273
<i>Deferred outflows of resources</i>		
Interest rate swap	\$ 11,008,596	\$ 16,574,681
Deferred charges on refundings	2,293,299	2,473,058
Pensions	6,439,916	2,555,542
Total deferred outflows of resources	\$ 19,741,811	\$ 21,603,281

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	
	2017	2016
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<i>Current liabilities</i>		
Accounts payable	\$ 3,713,023	\$ 3,101,826
Accrued salaries and benefits	391,464	281,093
Accrued compensated absences	647,916	655,019
Capital lease payable	140,730	135,761
Construction contracts payable	3,556,669	3,918,732
Revenue bonds payable	13,745,000	10,630,000
Notes payable	2,843,806	4,848,432
Companion instrument debt	410,953	412,239
Accrued interest on revenue bonds	479,424	493,239
Accrued interest on notes payable	221,804	267,939
Customer security and tap deposits	6,530,070	6,253,507
Unearned customer contributions	185,779	203,730
Total current liabilities	32,866,638	31,201,517
<i>Noncurrent liabilities</i>		
Revenue bonds payable	120,092,174	121,321,863
Notes payable	47,380,383	54,649,166
Net Pension Liability	35,567,573	29,997,513
Companion instrument debt	3,675,174	4,086,127
Capital lease payable	23,951	164,681
Accrued compensated absences	1,151,319	956,334
Total noncurrent liabilities	207,890,574	211,175,684
Total liabilities	\$ 240,757,212	\$ 242,377,201
<i>Deferred inflows of resources</i>		
Interest rate swap	\$ 11,008,596	\$ 16,574,681
Pensions	38,627	53,646
Total deferred inflows of resources	\$ 11,047,223	\$ 16,628,327
<i>Net position</i>		
Net investment in capital assets	\$ 398,919,173	\$ 377,470,987
Restricted for:		
Capital projects	14,004,705	13,842,968
Debt service	1,975,117	2,362,824
Unrestricted	90,919,461	89,296,247
Total net position	\$ 505,818,456	\$ 482,973,026

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>2017</b>	<b>2016</b>
<b><i>Operating revenues</i></b>		
Water and sewer volume and availability fees	\$ 64,410,537	\$ 63,432,455
Customer charges	7,937,632	7,444,799
Surface water charges	7,217,763	7,208,410
Surface water treatment plant contract revenues	3,698,805	3,609,666
Other revenue	2,279,270	2,413,100
Total operating revenues	85,544,007	84,108,430
<b><i>Operating expenses</i></b>		
Personnel costs	26,172,901	23,502,702
Contractual services	16,880,486	15,359,308
Supplies and materials	9,305,376	9,632,549
Depreciation on assets acquired with:		
Authority funds	14,943,824	13,820,969
Contributed capital	11,641,078	11,116,462
Other expenses	1,242,521	1,038,456
Total operating expenses	80,186,186	74,470,446
Operating income	5,357,821	9,637,984
<b><i>Non-operating revenues (expenses)</i></b>		
Investment income	(284,159)	4,593,832
Loss on disposal of capital assets	(174,857)	(444,642)
Interest expense	(6,746,504)	(7,300,013)
Total non-operating expenses, net	(7,205,520)	(3,150,823)
<b><i>Income (loss) before contributions</i></b>	(1,847,699)	6,487,161
<b><i>Capital contributions</i></b>		
Surface water treatment plant capacity fees	1,321,560	1,271,652
Government grants/contributions	2,066,122	200,960
Customer impact fees	11,073,651	9,516,614
Developer contributions	10,231,796	5,194,892
Total capital contributions	24,693,129	16,184,118
<b><i>Change in net position</i></b>	22,845,430	22,671,279
<b><i>Beginning net position</i></b>	\$ 482,973,026	\$ 460,301,747
<b><i>Net position, ending</i></b>	\$ 505,818,456	\$ 482,973,026

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	
	2017	2016
<i>Operating activities</i>		
Cash received from customers and users	\$ 85,166,447	\$ 83,696,235
Cash paid to suppliers	(27,008,058)	(27,230,263)
Cash paid to employees	(23,070,270)	(22,297,099)
Cash paid to OPEB trust	(1,133,711)	(1,110,746)
	33,954,408	33,058,127
<i>Capital and related financing activities</i>		
Acquisition and construction of capital assets	(33,313,060)	(28,549,451)
Capital contributions	14,443,382	10,998,766
Interest paid on debt	(6,936,384)	(7,348,916)
Proceeds from issuance of debt	23,253,321	372,553
Principal paid on debt	(30,743,969)	(15,486,616)
Principal payments on capital lease obligations	(135,761)	(130,968)
Proceeds from sale of capital assets	244,298	64,716
	(33,188,173)	(40,079,916)
<i>Investing activities</i>		
Purchase of investments	(36,060,968)	(33,820,964)
Proceeds from sale of investments	41,308,459	36,383,950
Interest and investment income received	(336,430)	4,461,256
	4,911,061	7,024,242
Net cash and cash equivalents used for investing activities		
Net change in cash and cash equivalents	5,677,296	2,453
Cash and cash equivalents - beginning	11,290,605	11,288,152
Cash and cash equivalents - ending	\$ 16,967,901	\$ 11,290,605

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	
	2017	2016
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 5,357,821	\$ 9,637,984
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	26,584,902	24,937,431
(Increase) decrease in operating assets		
Receivables - customers and assessments	(654,123)	(2,199,365)
Inventories	(117,924)	2,939
Prepays	(72,948)	(83,738)
Increase (decrease) in operating liabilities		
Accounts payable	611,197	331,614
Accrued salaries and compensated absences	298,253	(312,884)
Net pension liability	1,670,667	407,741
Customer security and tap deposits	276,563	336,405
Net cash provided by operating activities	\$ 33,954,408	\$ 33,058,127
<i>Noncash capital and related financing activities</i>		
Developer contributions	\$ 10,231,796	\$ 5,194,892
Government contributions	2,066,122	200,960
Capitalized interest expense	4,003	-
Unrealized gain/(depreciation) in fair value of investments	236,329	1,579,536
Proceeds from bond refundings	14,205,000	5,345,000
Principal paid on debt	(14,205,000)	(5,345,000)
Total noncash capital and related financing activities	\$ 12,538,250	\$ 6,975,388
<i>Reconciliation of cash and cash equivalents</i>		
Unrestricted cash and investments - beginning	\$ 103,893,332	\$ 105,550,343
Restricted cash and investments - beginning	22,663,029	23,566,550
	126,556,361	129,116,893
Investments with original maturity dates over ninety days	(115,265,756)	(117,828,741)
Cash and cash equivalents - beginning	\$ 11,290,605	\$ 11,288,152
Unrestricted cash and investments - ending	\$ 104,290,494	\$ 103,893,332
Restricted cash and investments - ending	22,695,672	22,663,029
	126,986,166	126,556,361
Investments with original maturity dates over ninety days	(110,018,265)	(115,265,756)
Cash and cash equivalents - ending	\$ 16,967,901	\$ 11,290,605

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, 2017

<i>Assets</i>	
Cash in money market account	<u>\$ 1,200,671</u>
Investments	
US Government Agency Bonds/Notes	1,832,186
US Government Notes	925,568
US Government Bonds	807,301
US Government Inflation Bonds	<u>53,290</u>
Total investments	<u>3,618,345</u>
Receivables	
Employee contributions	<u>4,537</u>
Total assets	<u>\$ 4,823,553</u>
 <i>Net Position Restricted for Other Post Employment Benefits</i>	
Held in trust for other postemployment benefits	<u><u>\$ 4,823,553</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, 2017

*Additions*

Investment income (loss)	
Net depreciation in fair value of investments	\$ (130,361)
Interest income	97,308
Total investment income (loss)	(33,053)
Contributions	
Employer	1,053,624
Plan members	80,152
Total contributions	1,133,776
Total additions	1,100,723

*Deductions*

Benefits paid	266,440
Net increase in net position	834,283

*Net Position Restricted for Other Post Employment Benefits,*

Beginning of year	3,989,270
End of year	\$ 4,823,553

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**

#### *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.

#### *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.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### Receivables

Customer accounts are reported net of allowance for doubtful accounts and represent various volume, availability and service fees earned but not yet collected. Cycle billings at year-end are estimated to record revenues earned through year-end. Receivables include approximately \$6,933,643 and \$8,482,504 in revenues earned through year-end but not yet billed as of June 30, 2017 and 2016, 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.

#### 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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

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

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

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

#### Long-Term Obligations

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

#### Accrued Compensated Absences

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

#### 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.

# 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, 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 may include 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, fair value of the embedded instrument, the companion debt, and the accrued interest on the companion debt are reported in the financial statements.

#### *Non-exchange Transactions*

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

# 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, 2017 and 2016 include \$3,252,675 and \$3,234,091, 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 11, 2017, 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:

	2017	2016
Petty cash	\$ 4,650	\$ 4,650
Cash deposits	8,833,661	6,050,299
Money market deposits	4,082,724	5,213,841
Investment pool deposits	4,046,866	21,815
Total cash and cash equivalents	\$ 16,967,901	\$ 11,290,605

#### Deposits

At June 30, 2017 and 2016, the carrying amount of GSWSA's deposits in financial institutions were \$12,916,385 and \$11,264,140. The financial institutions' balances totaled \$14,051,180 and \$13,178,210, 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 2017 and 2016, 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, 2017 and 2016, 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.

	2017	2016
Investment Type	Fair Value	Fair Value
Federal Home Loan Mortgage	\$ 18,446,705	\$ 18,725,779
Federal National Mortgage	13,453,529	15,340,469
Federal Home Loan Bank	9,291,251	4,712,830
Government National Mortgage Association	2,946,904	4,589,448

# 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 57.07% 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, 2017, 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	\$ 62,784,272	\$ 9,637,210	\$36,931,704	\$ 16,215,358	\$ -	-	57.07%
Corporate Bonds	3,095,604	-	-	3,095,604	-	AA+	2.81%
Federal Home Loan Bank	9,291,251	-	5,805,920	3,485,331	-	AA+	8.44%
Federal Home Loan							
Mortgage Corporation	18,446,705	4,827,419	10,436,611	213,576	2,969,099	AA+	16.77%
Federal National Mortgage Association	13,453,529	2,181,596	4,184,019	3,710,866	3,377,048	AA+	12.23%
Government National Mortgage Association	2,946,904	-	-	1,362,311	1,584,593	AA+	2.68%
	<u>\$ 110,018,265</u>	<u>\$ 16,646,225</u>	<u>\$57,358,254</u>	<u>\$ 28,083,046</u>	<u>\$ 7,930,740</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, 2016, 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	\$ 66,631,403	\$ 8,965,207	\$38,654,279	\$ 19,011,917	\$ -	-	57.81%
Corporate Bonds	5,265,827	-	2,010,848	3,254,979	-	AA+	4.57%
Federal Home Loan Bank	4,712,830	-	1,059,543	3,653,287	-	AA+	4.09%
Federal Home Loan Mortgage Corporation	18,725,779	910,398	11,871,201	3,812,889	2,131,291	AA+	16.24%
Federal National Mortgage Association	15,340,469	1,265,913	7,192,189	2,454,657	4,427,710	AA+	13.31%
Government National Mortgage Association	4,589,448	234	-	440,578	4,148,636	AA+	3.98%
	<u>\$ 115,265,756</u>	<u>\$ 11,141,752</u>	<u>\$60,788,060</u>	<u>\$ 32,628,307</u>	<u>\$ 10,707,637</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. 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, however there are no level 3 inputs as of June 30, 2017. 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	-
	<u>\$ 114,097,253</u>	<u>\$ 72,744,100</u>	<u>\$ 41,353,153</u>	<u>-</u>

# 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, 2017, was as follows:

	Balance <u>June 30, 2016</u>	Additions	Retirements	Disposals/ Transfers	Balance <u>June 30, 2017</u>
Capital assets not being depreciated					
Land and easements	\$ 52,753,063	\$ 1,778,788	\$ -	\$ -	\$ 54,531,851
Construction-in-progress	<u>46,015,049</u>	<u>23,625,134</u>	-	<u>(51,948,032)</u>	<u>17,692,151</u>
	<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>

# 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, 2016, was as follows:

	Balance <u>June 30, 2015</u>	Additions	Retirements	Disposals/ Transfers	Balance <u>June 30, 2016</u>
Capital assets not being depreciated					
Land and easements	\$ 52,586,469	\$ 166,594	\$ -	\$ -	\$ 52,753,063
Construction-in-progress	<u>39,085,223</u>	<u>25,448,179</u>	-	<u>(18,518,353)</u>	<u>46,015,049</u>
	<u>91,671,692</u>	<u>25,614,773</u>	-	<u>(18,518,353)</u>	<u>98,768,112</u>
Capital assets being depreciated					
Utility plant	748,203,703	5,182,891	(1,306,885)	18,518,353	770,598,062
Buildings and leaseholds	10,818,706	131,235	-	-	10,949,941
Site Improvements	2,017,824	-	-	-	2,017,824
Vehicles	9,053,651	2,732,586	(27,063)	-	11,759,174
Machinery, equipment and furniture	<u>17,378,614</u>	<u>993,620</u>	<u>(334,073)</u>	-	<u>18,038,161</u>
	<u>787,472,498</u>	<u>9,040,332</u>	<u>(1,668,021)</u>	<u>18,518,353</u>	<u>813,363,162</u>
Accumulated depreciation for:					
Utility plant	(290,008,474)	(22,343,351)	839,012	-	(311,512,813)
Buildings and leaseholds	(3,427,132)	(340,271)	-	-	(3,767,403)
Site Improvements	(137,270)	(137,652)	-	-	(274,922)
Vehicles	(6,686,195)	(939,420)	13,960	-	(7,611,655)
Machinery, equipment and furniture	<u>(12,928,505)</u>	<u>(1,176,736)</u>	<u>305,690</u>	-	<u>(13,799,551)</u>
	<u>(313,187,576)</u>	<u>(24,937,430)</u>	<u>1,158,662</u>	-	<u>(336,966,344)</u>
	<u>\$ 565,956,614</u>	<u>\$ 9,717,675</u>	<u>\$ (509,359)</u>	<u>\$ -</u>	<u>\$ 575,164,930</u>

Certain direct and indirect costs of GSWSA's construction and engineering departments were capitalized in the amount of \$4,771,034 and \$3,862,262 during 2017 and 2016, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$4,003 and \$0 during 2017 and 2016, 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

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

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

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2017 were as follows:

2018	\$ 144,352
2019	<u>24,059</u>
Total minimum lease payments	168,411
Less amount representing interest	<u>(3,730)</u>
Present value of minimum lease payments	<u>\$ 164,681</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, 2017 was \$257,992,684. Bonds, notes and state revolving loans payable at June 30, 2017 and 2016 are composed of the following individual issues.

	<u>2017</u>	<u>2016</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	\$ 1,730,000
<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 seven annual principal installments of \$715,000 until 2023; semiannual interest at 2.25%; due June 1 and December 1.	5,005,000	5,720,000
<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.	24,325,000	24,325,000
<u>Series 2011B</u> Bonds; due in annual principal installments beginning June 1, 2017 ranging from \$610,000 to \$2,895,000 during 2017 through 2023; interest at 3.0% to 5.0% per annum; due June 1.	14,310,000	16,670,000
<u>Series 2011C</u> Bonds; due in annual principal installments beginning June 1, 2017 ranging from \$4,110,000 to \$4,335,000 during 2017 through 2019; interest at 2.612% to 3.256% per annum; due June 1.	8,550,000	12,660,000

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	2017	2016
<u>Series 2012</u>		
Bonds; due in annual principal installments beginning June 1, 2017 ranging from \$1,955,000 to \$6,340,000 during 2017 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.	60,845,000	62,800,000
 <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, 2017, ranging from \$710,000 to \$850,000 through December 1, 2022; semiannual interest at 1.64%; due June 1 and December 1.	4,665,000	5,345,000
 <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 annual principal installments beginning June 1, 2017, ranging from \$220,000 to \$2,570,000 through June 1, 2026; interest at 1.72% per annum; due June 1.	12,825,000	-
Total bonds payable	131,445,000	129,250,000
 <u>Highway 905 Force Main SRF</u>		
Note payable, including accrued interest of \$7,975, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 4.0%. Quarterly principal and interest payments of \$28,364 began June 1, 1999. Payments of \$26,585 began on December 1, 2011 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$1,556,830 with a March 1, 2019, maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	-	282,802

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	<u>2017</u>	<u>2016</u>
<u>Aynor Sewer System SRF</u> Note payable, including accrued interest of \$2,182, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$27,579 began February 1, 2000. Payments of \$26,253 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$1,581,949 with a maturity date of November 1, 2019. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	-	352,484
<u>Wampee Sewer System SRF</u> Note payable, including accrued interest of \$5,896, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$20,044 began April 1, 2000. Payments of \$19,052 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$1,149,705. The maturity date is January 1, 2020. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	-	273,321
<u>Tip Top Land Application SRF</u> Note payable, including accrued interest of \$337,554, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$289,557 began May 1, 2001. Payments of \$273,672 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$16,608,978 with a February 1, 2021 maturity date.	-	4,918,444

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	<u>2017</u>	<u>2016</u>
<u>Buist Tract North Force Main SRF</u> Note payable, including accrued interest of \$5,557, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$19,404 began August 1, 2001. Payments of \$18,314 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$1,113,023 with a May 1, 2021 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	-	345,506
<u>Schwartz WWTP Improvements SRF</u> Note payable, including accrued interest of \$3,124 to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$48,400 began January 1, 2002. Payments of \$45,552 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$2,776,238 with a maturity date of October 1, 2021. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	-	940,136
<u>Conway WWTP Upgrade and Expansion SRF</u> Note payable, including accrued interest of \$92,059 to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$88,096 began August 1, 2003. Payments of \$81,113 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$4,942,568 with a May 1, 2023 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	-	2,095,907

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	<u>2017</u>	<u>2016</u>
<u>Vereen WWTP Upgrade and Expansion SRF</u> Note payable, including accrued interest of \$48,775 to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly payments of \$127,662 began August 1, 2003. Payments of \$117,543 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$7,162,425 with a May 1, 2023, maturity. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	-	3,037,242
<u>Highway 319 Force Main SRF</u> Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$4,057 began October 1, 2003. Payments of \$3,729 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$227,611 with a July 1, 2023 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	-	99,529
<u>Schwartz WWTP Expansion – Phase I SRF</u> Note payable, including accrued interest of \$103,237, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.0%. Quarterly principal and interest payments of \$98,060 began June 1, 2006. Payments of \$93,134 began on December 1, 2011 when the loan was renegotiated with a 2.25% interest rate. Total approved loan of \$5,883,070 will mature on March 1, 2026. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	-	3,253,235

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	<u>2017</u>	<u>2016</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.	7,299,309	7,893,031
<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.	6,477,795	6,921,741
<u>Conway WWTP Odor Control Upgrade SRF</u>		
Note payable, including accrued interest of \$3,936, to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.25%. Quarterly principal and interest payments of \$53,953 began May 1, 2009. Payments of \$49,796 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$3,164,707 with a February 1, 2029 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	2,051,570	2,202,468

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	<u>2017</u>	<u>2016</u>
<u>Highway 501 to Highway 544 Force Main SRF</u> Note payable, including accrued interest of \$143, to South Carolina State Budget and Control Board for Clean Water State Revolving Fund at 1.54%. Quarterly principal and interest payments of \$21,711 began August 1, 2010. Total approved loan of \$1,492,111 with May 1, 2030 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	1,016,901	1,087,400
<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.	964,191	1,022,157
<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.	2,444,022	2,590,956

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	2017	2016
<p><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.</p>	18,233,318	18,006,597
<p><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.</p>	3,981,357	4,174,642
<p><u>Bull Creek to MB Water System Interconnect Phase 2</u>            Note payable 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 \$5,930,697 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.</p>	4,857,064	-
<p><u>Myrtle Beach SWTP Ozone System Improvements</u>            Note payable 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 \$3,357,946 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.</p>	2,898,662	-
<p>Total notes payable</p>	50,224,189	59,497,598

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

	<u>2017</u>	<u>2016</u>
<u>Companion Instrument Debt</u>		
Advances payable comprising companion instrument debt related to an interest rate swap. Payments of principal and interest ranging from \$30,020 to \$305,786 at a rate of 4.2% began December 1, 2016 with all unpaid principal and interest due in June 2031.	<u>4,086,127</u>	<u>4,498,366</u>
Total debt, before deferrals	185,755,316	193,245,964
Unamortized revenue bond discount/premium	<u>2,392,174</u>	<u>2,701,863</u>
Total debt, net	188,147,490	195,947,827
Less current portion	<u>(16,999,759)</u>	<u>(15,890,671)</u>
Total long - term portion of debt	<u><b>\$ 171,147,731</b></u>	<u><b>\$ 180,057,156</b></u>

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

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

<u>Date</u>	<u>Revenue Bonds</u>		<u>Companion Instrument Debt</u>		<u>State Revolving Loans</u>		<u>Total Principal</u>	<u>Total Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
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	<u>6,255,000</u>	<u>801,000</u>	<u>-</u>	<u>-</u>	<u>115,139</u>	<u>518</u>	<u>6,370,139</u>	<u>7,171,657</u>
	<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>

Remaining debt service payments at June 30, 2016 are as follows:

<u>Date</u>	<u>Revenue Bonds</u>		<u>Companion Instrument Debt</u>		<u>State Revolving Loans</u>		<u>Total Principal</u>	<u>Total Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2017	\$ 10,630,000	\$ 5,953,258	\$ 412,239	\$ 182,477	\$ 4,848,432	\$ 1,276,064	\$ 15,890,671	\$ 23,302,470
2018	11,190,000	5,556,615	410,953	165,249	4,957,184	1,167,312	16,558,137	23,447,313
2019	10,815,000	5,174,847	407,739	148,103	5,041,819	1,056,093	16,264,558	22,643,601
2020	7,305,000	4,734,480	402,997	131,111	5,002,599	944,000	12,710,596	18,520,187
2021	7,720,000	4,438,071	398,726	114,312	4,730,131	833,135	12,848,857	18,234,375
2022-2026	34,060,000	16,787,277	1,687,684	339,748	17,105,331	2,897,680	52,853,015	72,877,720
2027-2031	33,815,000	8,769,536	778,028	67,500	11,330,752	1,274,284	45,923,780	56,035,100
2032-2036	6,080,000	2,743,100	-	-	6,481,350	378,252	12,561,350	15,682,702
2037-2041	<u>7,635,000</u>	<u>1,182,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,635,000</u>	<u>8,817,750</u>
	<u>\$ 129,250,000</u>	<u>\$ 55,339,934</u>	<u>\$ 4,498,366</u>	<u>\$ 1,148,500</u>	<u>\$ 59,497,598</u>	<u>\$ 9,826,820</u>	<u>\$ 193,245,964</u>	<u>\$ 259,561,218</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, 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>

Long term liability activity including capital leases for the year ended June 30, 2016, are as follows:

	Balance			Balance	Due Within
	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>One Year</u>
Companion Instrument Debt	\$ 4,910,226	\$ -	\$ 411,860	\$ 4,498,366	\$ 412,239
Bonds payable	139,390,000	5,345,000	15,485,000	129,250,000	10,630,000
Notes payable	64,059,800	372,553	4,934,755	59,497,598	4,848,432
Capital lease payable	431,411	-	130,969	300,442	135,761
Compensated Absences	<u>1,529,441</u>	<u>772,907</u>	<u>690,995</u>	<u>1,611,353</u>	<u>655,019</u>
Total liabilities	210,320,878	6,490,460	21,653,579	195,157,759	16,681,451
Plus deferred amounts:					
Issuance premiums	<u>3,321,242</u>	<u>-</u>	<u>619,379</u>	<u>2,701,863</u>	<u>-</u>
Total	<u>\$ 213,642,120</u>	<u>\$ 6,490,460</u>	<u>\$ 22,272,958</u>	<u>\$ 197,859,622</u>	<u>\$ 16,681,451</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 \$181,171,039 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 \$181,794,035, with annual payments expected to require 43 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$18,051,609 and \$43,878,918, 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 September 10, 2012, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina State Water Pollution Control Revolving Fund for \$21,503,390 with an interest rate of 2.25%. The loan will provide proceeds which will be used to construct a new 5 MGD wastewater treatment plant. The wastewater treatment plant will use rapid infiltration basins for the disposal of the treated wastewater. As of June 30, 2017, GSWSA received \$21,044,152.

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, 2017, GSWSA received \$5,043,159.

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, 2017, GSWSA received \$2,933,626.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

On November 30, 2016, GSWSA issued the Bonds of 2016D in the amount of \$14,205,000. The proceeds of the Bonds of 2016D were used to pay the principal and interest of ten State Revolving Fund Loans in the amount of \$14,205,000. As a result, the State Revolving Fund Loans were fully redeemed during FY 2017 and the liability has been removed from the Statement of Net Position. The refunding was undertaken to reduce total debt service payments by \$519,823 and resulted in a net present value savings of \$193,096.

#### Derivatives

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

#### **Interest Rate Swaps**

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

Terms – The terms, fair value and credit ratings of the outstanding swaps as of June 30, 2017 were as follows. The notional amounts match the principal amounts of the outstanding debt.

<u>Associated Bond Issue</u>	<u>2012 Bonds</u>	<u>2003 Bonds</u>
Notional amounts	\$ 62,800,000	\$ 1,730,000
Up-front payment	\$ 4,388,000	\$ -
Effective date	June 1, 2012*	April 1, 2003
Fixed payer rate	4.717%	3.580%
Variable receiver rate	70.00% of LIBOR	61.75% of LIBOR+ 80 BP
Fair value of swap	(\$10,990,402)	(\$18,194)
Termination date	June 1, 2031	June 1, 2018
Counterparty credit rating**	A+, 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 and Bonds of 2003 have one counterparty. These ratings represent the Standard & Poor's Ratings.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

Fair value – Both of the swap agreements had negative fair values as of June 30, 2017. Due to the current low-interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceeded the variable receiver rates. These swaps are based on a different variable receiver rate, which is partially responsible for the difference in performance.

Swap payments and associated debt - Assuming that interest rates remain the same at June 30, 2017, 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
2018	\$ 2,150,000	\$ 1,043,647	\$ 2,354,940	\$ 5,548,587
2019	2,295,000	1,014,201	2,265,790	5,574,991
2020	2,225,000	974,546	2,177,196	5,376,742
2021	2,760,000	936,099	2,091,305	5,787,404
2022	4,090,000	888,409	1,984,761	6,963,170
2023 - 2031	47,325,000	4,353,661	9,726,354	61,405,015

Assuming that interest rates remain the same at June 30, 2017, the debt service requirements on the Bonds of 2003 interest rate swap would be as follows:

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2018	\$ 920,000	\$ 33,862	(\$ 926)	\$ 952,936

Credit risk – As of June 30, 2017, the fair value of the swaps were negative, therefore GSWSA is not subject to credit risk. However, at times when the fair values of the swaps are positive, GSWSA is exposed to credit risk in the amount of the derivative's fair value.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

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

- Bonds of 2012 Swap – Exposed to basis risk through the potential mismatch of 70.00% of LIBOR and the SIFMA rate. As a result, savings might not be realized. As of June 30, 2017, the one month LIBOR rate was 1.22389% which places the SIFMA at approximately 299% of one month LIBOR at that date.
- Bonds of 2003 Swap – Exposed to basis risk through the potential mismatch of 61.75% of LIBOR plus 80 basis points and the SIFMA rate. As a result, savings might not be realized. As of June 30, 2017, the one month LIBOR rate was 1.22389% which places the SIFMA at approximately 299% of one month LIBOR at that date.

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

Methods of evaluating effectiveness – Both swaps are effective hedges as of June 30, 2017.

Bonds of 2012 Swap – “Synthetic instrument,” a quantitative method, was used to determine that the Bonds of 2012 Swap are effective. The synthetic instrument method evaluates effectiveness by comparing the variable cash flows on the swap with the variable cash flows on the bonds. Any difference between these variable cash flows is added to the fixed cash flows on the swap and the actual synthetic rate on the swap is calculated. If the actual synthetic rate falls in a range of 90 to 111% of the fixed rate on the swap, it is considered an effective hedge. The swaps meet this criteria and are considered to be effective hedges.

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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### NOTE 6 - DEBT DEFEASANCE

On February 1, 2002, Grand Strand Water and Sewer Authority issued Waterworks and Sewer System Refunding Revenue Bonds, Series 2002 in order to defease the 2003 through 2007 and 2013 through 2019 series of the 1992 Refunding Waterworks and Sewer System Revenue Bonds in the amount of \$36,680,000. U.S. Government Securities were purchased and placed in an irrevocable trust for the purpose of generating resources to fully service the defeased bonds until the debt is called or defeased. As a result the 1992 Refunding Waterworks and Sewer System Revenue Bonds series 2003 through 2007 and 2013 through 2019 are considered defeased and GSWSA has removed the liabilities from its accounts. The reacquisition cost exceeded the net carrying amount of the old debt by \$2,752,162. This amount is being netted against the new debt, 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 un-matured and outstanding principal balance on the defeased bonds at June 30, 2017 and 2016 was \$8,825,000 and \$12,870,000, 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 un-matured and outstanding principal balance on the defeased bonds at June 30, 2017 and 2016 was \$15,214,800 and \$17,931,700, 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 un-matured and outstanding principal balance on the defeased bonds at June 30, 2017 and 2016 was \$60,845,000 and \$62,800,000, respectively.

### 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:

	2017	2016
Net investment in capital assets:		
Capital assets, net of depreciation	\$ 588,494,714	\$ 575,164,930
Less:		
Revenue bonds payable, net	(131,543,875)	(129,478,805)
Companion instrument debt payable	(4,086,127)	(4,498,366)
Notes payable	(50,224,189)	(59,497,598)
Capital lease payable	(164,681)	(300,442)
Contractors payable	(3,556,669)	(3,918,732)
Total	398,919,173	377,470,987
Restricted for:		
Capital projects	14,004,705	13,842,968
Debt service	1,975,117	2,362,824
Unrestricted	90,919,461	89,296,247
Total net position	\$ 505,818,456	\$ 482,973,026

# 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 Budget and Control Board, 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 employees of the state, higher education, public school districts, political subdivisions, and governmental entities that elect to participate.

GWSA's annual covered payroll for fiscal years 2017 and 2016 for active members covered by the SCRS was \$14,855,923 and \$14,443,247, respectively. Annual covered payroll for fiscal years 2017 and 2016 for retired members was \$1,436,350 and \$1,681,621, 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. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee 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. A Class Two member who has separated from service with at least five or more 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 or more years of earned service is eligible for a monthly pension upon satisfying 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 years 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 the highest 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 of earnings. 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. Class Two 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 2017 is 8.66% 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 2017 is 11.41% 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 2017 and 2016 were \$1,883,387 and \$1,783,410, 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, 2015	1,616,501	100%
June 30, 2016	1,783,410	100%
June 30, 2017	1,883,387	100%

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### *Contributions, continued*

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 will end effective June 30, 2018 and a member's participation may not continue after this date.

#### *Net pension liability*

At June 30, 2017, the Authority reported liabilities of \$35,567,573 for its proportionate share of the SCRS net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, projected forward to June 30, 2016. 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, 2016, the Authority's proportionate share of the SCRS plan was 0.166516%, which was the same as its proportionate share of the net pension liability measured as of June 30, 2016.

#### *Pension expense*

For the year ended June 30, 2017, GSWSA recognized pension expense for the SCRS plan of \$3,554,054.

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

At June 30, 2017, 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	\$ 4,556,530	\$ -
Changes of assumptions	-	-
Net difference between projected & actual earning on pension plan investments	-	38,627
Changes in proportion & differences between GSWSA contributions & proportionate share of contributions	-	-
Authority contributions subsequent to the measurement date	1,883,386	-
Total	\$ 6,349,916	\$ 38,627

# 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 \$1,883,387 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, 2017 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

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	\$ 1,212,153
2019	1,019,431
2020	1,569,906
2021	716,413
Total	<u>\$ 4,517,903</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 during the valuation process 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. The last experience study was performed on data through June 30, 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 most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2015. The net pension liability of each defined benefit pension plan was therefore determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company (GRS) based on the July 1, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

# 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 in the July 1, 2015 valuations for the SCRS plan administered by PEBA.

Actuarial cost method	Entry age
Actual assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.5% to 12.5%
Includes inflation at	2.75%
Benefit adjustments	Lesser of 1% or \$500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators & Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees & Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50% assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75% real rate of return and a 2.75% 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
Short Term			
Cash & Short Duration (Net)	2.0%	0.71%	0.01%
Domestic Fixed Income			
Core Fixed Income	10.0%	1.72%	0.17%
Mixed Credit	5.0%	3.52%	0.17%
Global Fixed Income			
Emerging Markets Debt	5.0%	4.91%	0.25%
Global Public Equity	34.0%	6.52%	2.22%
Global Tactical Asset Allocation	10.0%	3.90%	0.39%
Alternatives			
Hedge Funds (Low Beta)	10.0%	3.87%	0.39%
Private Debt	7.0%	4.47%	0.31%
Private Equity	9.0%	9.30%	0.84%
Real Estate (Broad Market)	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Total Expected Real Return	100.0%		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			7.85%

Discount rate

The discount rate used to measure the total pension liability was 7.50%. 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, each 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.

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 7.50%, 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 (6.50%) or 1.00% higher (8.50%) than the current rate.

<b>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</b>		
1.00 % Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 44,369,572	\$ 35,567,573	\$ 28,240,238

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### 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, 2016, 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
\$45,356,214,752	\$23,996,362,354	\$21,359,852,398	52.9%

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.

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.

#### 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, 2017, four beneficiaries and two employees had elected coverage under the Act. At June 30, 2016, one employee 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.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

#### *Other employee benefits, continued*

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:

<u>Fiscal Year Ended</u>	<u>Annual Employer Contribution</u>
June 30, 2015	\$ 552,278
June 30, 2016	669,296
June 30, 2017	710,837

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.

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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

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

**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 monthly premiums and contribution amounts for Copay insurance coverage as of January 1, 2017.

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

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.

**Annual OPEB Cost** - GSWSA's annual OPEB cost of \$1,053,624 is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of certain accounting standards related to accounting and financial reporting by employees for post employment benefits other than pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

GSWSA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net negative OPEB obligations for fiscal years 2015, 2016 and 2017 were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
2015	\$ 413,066	98%	\$ -
2016	1,053,624	100%	-
2017	1,053,624	100%	-

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

Annual required contribution	\$ 1,053,624
Interest on OPEB asset	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	1,053,624
Contributions made	<u>(1,053,624)</u>
Increase in net OPEB obligation	-
Net OPEB obligation (asset) - beginning of year	<u>-</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ 0</u></u>

**Funded Status and Funding Progress** – The funded status of the plan as of July 1, 2015, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 15,810,846
Actuarial value of plan assets	<u>(2,953,933)</u>
Unfunded actuarial accrued liability	<u><u>\$ 12,856,913</u></u>
Funded ratio (actuarial value of plan assets (AAL))	18.7%
Covered payroll (active plan members)	\$ 14,799,940
UAAL as a percentage of covered payroll	86.9%

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

### **NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, 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. Amounts determined regarding the funding status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

On July 1, 2015 an updated actuarial valuation was completed which takes into account the change in insurance premiums effective January 1, 2016 and plan changes effective July 1, 2015. The change in insurance premiums resulted in higher premium rates. The entry age normal (level percent of pay) cost method was used for the valuation. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), and a Pre-Medicare medical trend rate of 7.50% and Medicare-eligible medical trend rate of 5.50% decreasing each year until an ultimate rate of 5.0% is reached. Also, the actuarial assumptions included a 2.5% annual salary rate increase and 2.5% for an annual inflation rate. The UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at June 30, 2017 was 30 years.

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

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

# GRAND STRAND WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

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

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%.

During fiscal year 2016, the following customers provided the indicated percentages of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 14.67%, City of Conway 4.95%, City of North Myrtle Beach 4.55%, and Little River Water and Sewerage Company 2.29%. No other customers provided more than 0.70%.

### **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, 2017, 2016 and 2015.

During 2017 and 2016, 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, 2017, open contracts for construction totaled approximately \$23,506,043 with \$21,084,348 having been incurred during the year. At June 30, 2016, open contracts for construction totaled approximately \$24,595,515 with \$15,624,247 having been incurred during the year. The remaining commitments at June 30, 2017 and 2016 were \$2,421,695 and \$8,971,268, 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, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.16652%	0.15817%	0.15789%
Authority's proportionate share of the net pension liability	<u>\$ 35,567,573</u>	<u>\$ 29,997,513</u>	<u>\$ 27,182,908</u>
Authority's covered payroll for measurement period	<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	220.5759%	202.2721%	189.6389%
Plan fiduciary net position as a percentage of the total pension liability	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, 2017

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 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	\$ 1,030,564
Contributions in relation to the contractually required contribution	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	1,030,564
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 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	\$ 11,189,618
Contributions as a percentage of covered-employee payroll	11.5600%	11.0600%	10.9000%	10.6000%	10.6000%	9.5350%	9.4925%	9.3900%	9.3908%	9.2100%

**GRAND STRAND WATER AND SEWER AUTHORITY**  
 Required Supplementary Information  
 Schedule of Funding Progress for Postemployment Health Care Plan  
 June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2009	\$ 577,000	\$ 6,838,000	\$ 6,261,000	8.4%	\$ 11,264,000	55.6%
7/1/2011	1,437,355	5,902,477	4,465,122	24.4%	11,844,331	37.7%
7/1/2013	2,207,926	6,714,091	4,506,165	32.9%	13,568,776	33.2%
7/1/2015	2,953,933	15,810,846	12,856,913	18.7%	14,799,940	86.9%

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

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**Schedule of Cash Receipts and Disbursements for Restricted Accounts**  
**Required by Revenue Bond and State Revolving Loan Provisions**  
**For the Year Ended June 30, 2017**

	1998 SRF Loan Conway		1999 State Revolving Loan		2000 SRF Loan		2001 SRF Loan		2002 State Revolving Loan		2004A - Schwartz WWTP Exp. - Phase 1			
	Current	Debt Service	Aynor Current	Debt Service	Tip Top Current	Debt Service	Buist NFM Current	Debt Service	Conway Current	Debt Service	Vereen Current	Debt Service	319 FM Current	Debt Service
Cash and Investments, Beginning of year	\$ 8,862	\$ 17,502	\$ 19,052	\$ 182,448	\$ 12,209	\$ 45,552	\$ 54,075	\$ 78,362	\$ 3,729	\$ 31,045				
Cash Receipts:														
Transfer from Operating Cash	44,308	43,754	31,753	456,115	30,523	75,918	135,187	195,904	6,215	155,222				
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-				
Interest Earned	-	-	-	4	-	1	1	2	-	1				
Other Transfers	-	-	-	-	-	-	-	-	-	-				
Cash Disbursements:														
Principal and Interest Payments	(53,170)	(61,256)	(50,805)	(638,567)	(42,732)	(121,471)	(189,263)	(274,268)	(9,944)	(186,268)				
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-				
Transfers to Operating Cash	-	-	-	-	-	-	-	-	-	-				
Transfers to Investments	-	-	-	-	-	-	-	-	-	-				
Transfers to Capital Project Cash	-	-	-	-	-	-	-	-	-	-				
Other Transfers	-	-	-	-	-	-	-	-	-	-				
Cash and Investments, End of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**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, 2017**

	2006 Schwartz WWTP Expansion Phase 2	2008A MB WWTP SRF		2008 Conway WWTP Odor Control Upgrade		2008 Revenue Bonds		501 to 544 SRF		Vereen WWTP SRF		Bucksport Composting Facility SRF		Bonds of 2011A		Bonds of 2011B		Bonds of 2011C		
		Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service
Cash and Investments, Beginning of year	\$ 191,582	\$ 49,663	\$ 33,198	\$ 427,808	\$ 14,474	\$ 20,120	\$ 33,998	\$ 87,777	\$ 258,563	\$ 390,463										
Cash Receipts:																				
Transfer from Operating Cash	766,207	595,850	199,153	833,980	86,830	80,466	203,962	1,052,912	3,100,287	4,361,125										
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Earned	122	107	33	335	15	12	34	413	2,630	115,804										
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:																				
Principal and Interest Payments	(766,329)	(595,957)	(199,185)	(835,656)	(86,845)	(80,478)	(203,996)	(1,053,325)	(3,102,750)	(4,479,134)										
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Capital Project Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash and Investments, End of year	\$ 191,582	\$ 49,663	\$ 33,199	\$ 426,467	\$ 14,474	\$ 20,120	\$ 33,998	\$ 87,777	\$ 258,730	\$ 388,258										

**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, 2017**

	Bucksport Rapid Infil. WWTIP SRF	Highway 501 to International Dr SRF	Bull Creek to Myrtle Beach WL SRF	MBSWTP Ozone System Impr SRF	Bull Creek	
	Current Debt Service	Current Debt Service	Current Debt Service	Current Debt Service	Depreciation & Contingency	
Cash and Investments, Beginning of year	\$ 334,534	\$ 67,808	\$ -	\$ -	\$ 3,185,225	\$ 11,890,924
Cash Receipts:						
Transfer from Operating Cash	1,237,905	271,188	324,228	66,743	422,221	5,121,906
Transfer from Capital Project	-	-	-	-	-	-
Interest Earned	208	43	58	24	-	-
Other Transfers	-	-	-	-	-	-
Cash Disbursements:						
Principal and Interest Payments	(1,245,259)	(271,231)	(265,325)	(50,075)	-	-
Renewals and Replacements	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	-	(578,696)	(6,036,875)
Transfers to Investments	-	-	-	-	-	-
Transfers to Capital Project Cash	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-
Cash and Investments, End of year	\$ 327,388	\$ 67,808	\$ 58,961	\$ 16,692	\$ 3,028,750	\$ 10,975,955

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule of Operating Expenses by Department

	For the years ended June 30	
	2017	2016
<b>Water plants</b>		
Personnel services	\$3,670,194	\$2,791,443
Contractual services	3,321,411	3,096,985
Supplies and materials	3,294,788	3,675,289
Business and travel expenses	37,648	8,562
Other expenses	117,506	117,058
Departmental transfers	280,873	2,413,559
Total water plants	<u>10,722,420</u>	<u>12,102,896</u>
<b>Water systems</b>		
Personnel services	4,930,497	\$4,456,762
Contractual services	2,091,891	1,644,849
Supplies and materials	1,184,980	1,173,775
Business and travel expenses	16,328	20,279
Other expenses	46,910	46,903
Total water systems	<u>8,270,606</u>	<u>7,342,568</u>
Total water	<u>18,993,026</u>	<u>19,445,464</u>
<b>Wastewater plants</b>		
Personnel services	6,023,589	\$5,986,404
Contractual services	4,754,522	4,638,504
Supplies and materials	2,366,047	2,558,606
Business and travel expenses	27,700	36,798
Other expenses	49,048	48,486
Departmental transfers	(180,979)	(438,781)
Total wastewater plants	<u>13,039,927</u>	<u>12,830,017</u>
<b>Wastewater systems</b>		
Personnel services	3,135,981	\$2,631,920
Contractual services	4,292,102	3,569,422
Supplies and materials	1,181,218	993,106
Other expenses	54,815	14,984
Total wastewater systems	<u>8,664,116</u>	<u>7,209,432</u>
Total wastewater	<u>21,704,043</u>	<u>20,039,449</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

Schedule of Operating Expenses by Department

	<b>For the years ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>General administration</b>		
Personnel services	962,072	\$827,950
Contractual services	576,849	618,198
Supplies and materials	28,677	32,908
Business and travel expenses	92,730	123,182
Other expenses	753,184	579,392
Total general administration	<u>2,413,512</u>	<u>2,181,630</u>
<b>Planning, engineering and construction</b>		
Personnel services	1,650,183	\$1,184,153
Contractual services	104,384	90,691
Supplies and materials	53,500	55,912
Business and travel expenses	8,007	5,551
Other expenses	4	-
Total planning, engineering and construction	<u>1,816,078</u>	<u>1,336,307</u>
<b>Financial services</b>		
Personnel services	3,259,408	\$3,335,665
Contractual services	1,432,106	1,378,260
Supplies and materials	77,941	119,869
Business and travel expenses	3,938	5,761
Other expenses	23,078	18,937
Total financial services	<u>4,796,471</u>	<u>4,858,492</u>
<b>High tech turf farm</b>		
Personnel services	2,540,977	\$2,288,404
Contractual services	307,221	322,400
Supplies and materials	1,118,225	1,023,084
Business and travel expenses	7,902	8,843
Other expenses	3,723	3,720
Departmental transfers	(99,894)	(1,974,778)
Total high tech turf farm	<u>3,878,154</u>	<u>1,671,673</u>
Depreciation	<u>26,584,902</u>	<u>\$24,937,431</u>
<b>Total operating expenses</b>	<u><u>\$ 80,186,186</u></u>	<u><u>\$ 74,470,446</u></u>

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# STATISTICAL SECTION

## STATISTICAL SECTION (UNAUDITED)

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

**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.

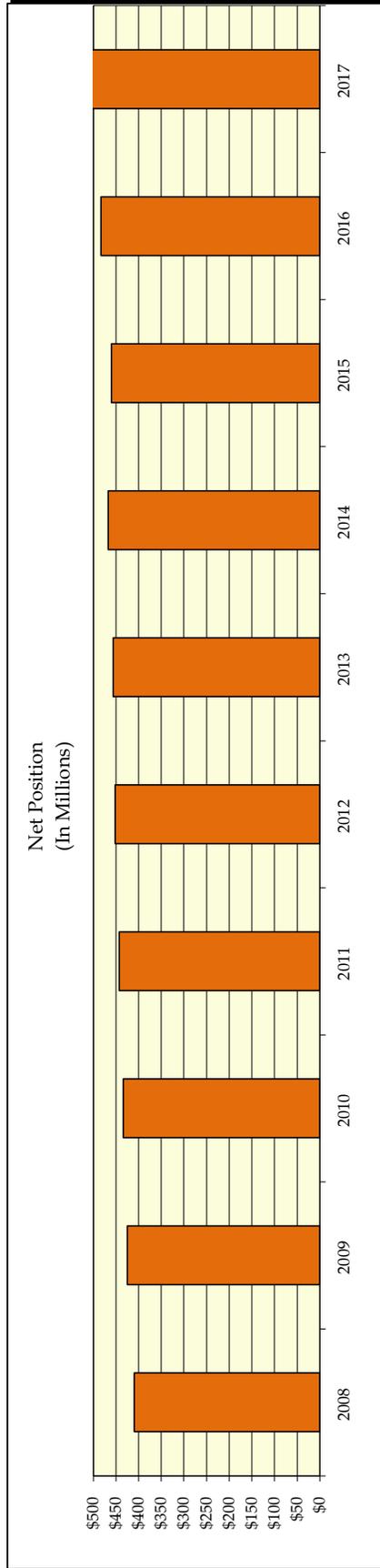
**Demographic and Economic Information (*Schedule 14*)** - This schedule offers demographic and economic indicators to help the reader understand the environment within which GSWSA's financial activities take place and to help make comparisons over time and with other special districts.

**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)

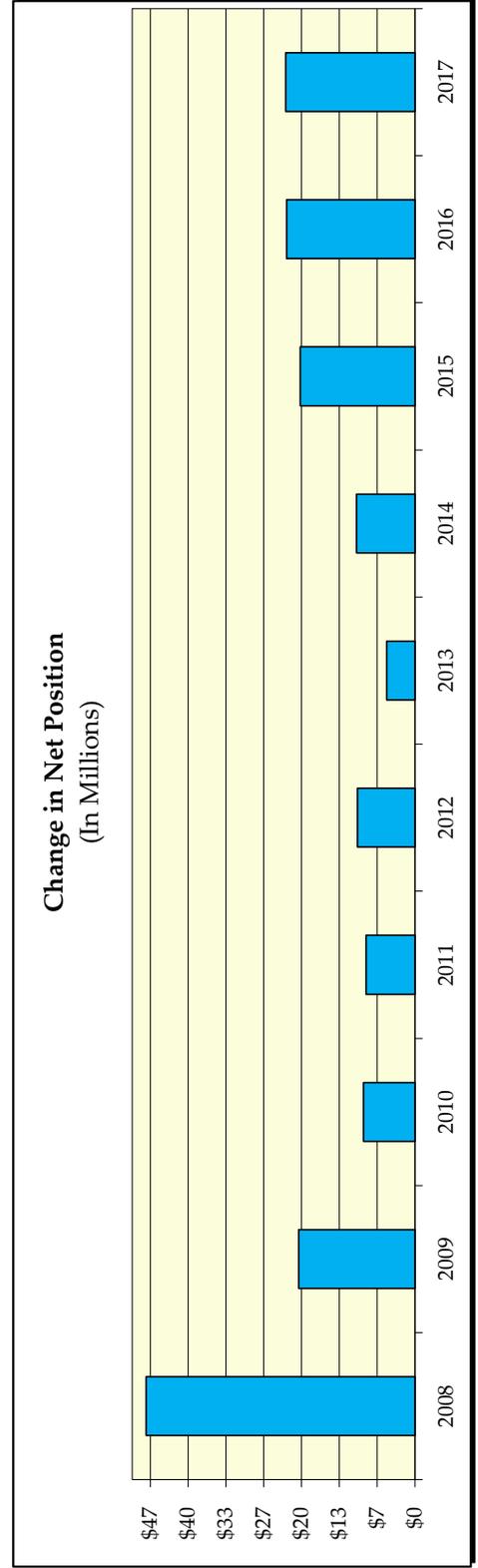
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Primary government</b>										
Net investment in capital assets	\$ 289,803,143	\$ 299,789,950	\$ 316,467,676	\$ 322,250,503	\$ 297,286,102	\$ 312,595,550	\$ 323,365,517	\$ 352,955,264	\$ 377,470,987	\$ 398,919,173
Restricted	30,716,584	24,275,266	28,327,674	27,054,587	42,084,820	25,781,440	19,705,533	17,455,258	16,205,792	15,979,822
Unrestricted	88,898,786	100,867,438	89,234,671	93,371,833	112,105,675	118,118,519	123,766,484	89,891,225	89,296,247	90,919,461
<b>Total primary government net position</b>	<b>\$ 409,418,513</b>	<b>\$ 424,932,654</b>	<b>\$ 434,030,021</b>	<b>\$ 442,676,923</b>	<b>\$ 451,476,597</b>	<b>\$ 456,495,509</b>	<b>\$ 466,837,534</b>	<b>\$ 460,301,747</b>	<b>\$ 482,973,026</b>	<b>\$ 505,818,456</b>



**GRAND STRAND WATER AND SEWER AUTHORITY**

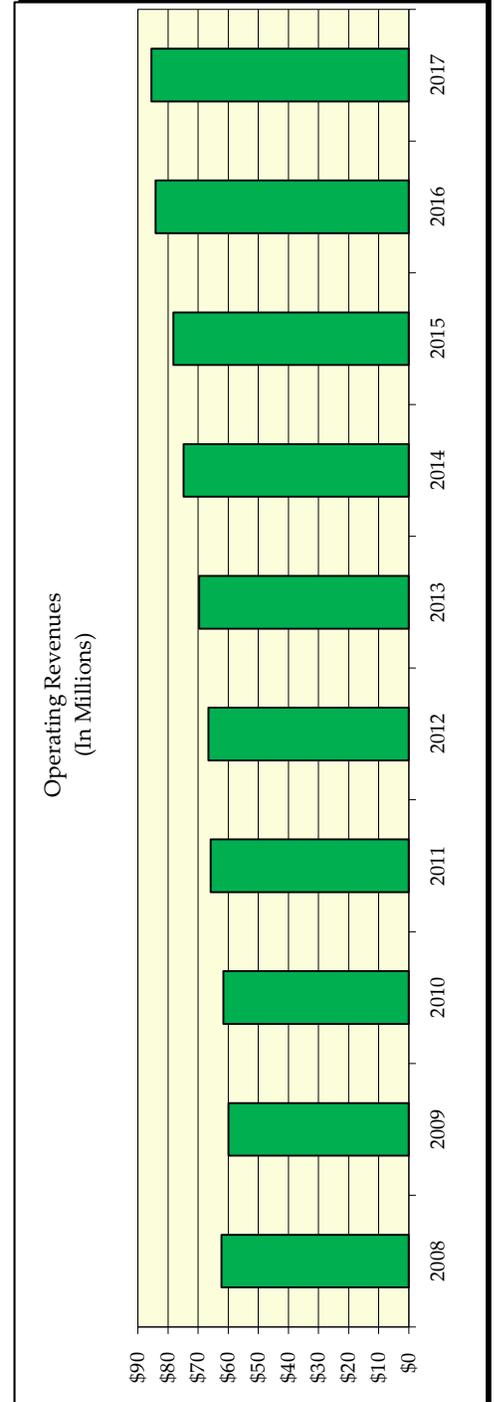
Changes in Net Position  
Last Ten Fiscal Years  
(Unaudited)

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income/(Loss)	Total		Income/(Loss) Before Capital Contributions	Capital Contributions	Change in Net Position
				Nonoperating Revenues/ (Expenses)				
2008	\$ 62,262,174	\$ 54,556,193	\$ 7,705,981	\$ (1,485,332)	\$ 6,220,649	\$ 41,308,314	\$ 47,528,963	
2009	59,871,611	61,745,596	(1,873,985)	(2,797,844)	(4,671,829)	25,198,062	20,526,233	
2010	61,640,883	58,526,944	3,113,939	(3,488,744)	(374,805)	9,472,172	9,097,367	
2011	65,860,428	61,662,207	4,198,221	(6,504,152)	(2,305,931)	10,952,833	8,646,902	
2012	66,565,157	62,422,937	4,142,220	(2,216,447)	1,925,773	8,223,999	10,149,772	
2013	69,595,977	67,667,670	1,928,307	(8,207,642)	(6,279,335)	11,298,247	5,018,912	
2014	74,866,698	69,036,775	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	



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

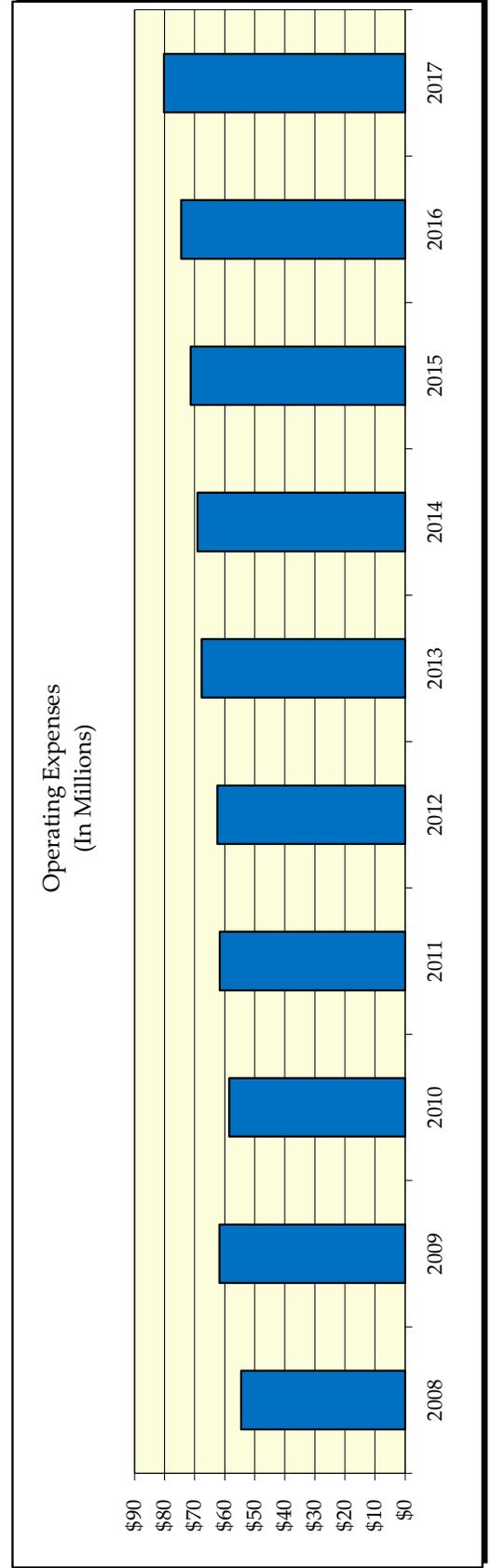
Fiscal Year	Water & Sewer Volume & Availability Fees	Customer Charges	Surface Water Charges	SWTP Contract Water Consumption	Other Revenue	Total Operating Revenue
2008	\$ 44,731,026	\$ 5,030,195	\$ 6,021,758	\$ 2,453,313	\$ 4,025,882	\$ 62,262,174
2009	44,766,505	4,880,877	6,194,359	2,484,055	1,545,815	59,871,611
2010	45,921,594	5,117,627	6,275,812	2,956,888	1,368,962	61,640,883
2011	49,729,727	5,110,985	6,428,952	3,308,715	1,282,049	65,860,428
2012	50,177,028	5,354,967	6,324,150	3,228,297	1,480,715	66,565,157
2013	52,282,191	5,883,160	6,773,344	3,127,607	1,529,675	69,595,977
2014	55,381,294	6,298,312	6,630,975	4,933,844	1,622,273	74,866,698
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



**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
2008	\$ 15,010,022	\$ 10,885,255	\$ 9,785,172	\$ 17,400,238	\$ 1,475,506	\$ 54,556,193
2009	16,771,906	12,840,165	10,588,022	19,860,538	1,684,965	61,745,596
2010	16,781,857	12,150,141	8,033,877	20,843,152	717,917	58,526,944
2011	17,659,270	11,776,220	9,083,240	22,303,035	840,442	61,662,207
2012	18,011,198	11,414,221	9,409,350	22,761,494	826,674	62,422,937
2013	19,536,316	13,721,247	10,408,212	23,038,102	963,793	67,667,670
2014	20,321,453	13,608,744	10,847,474	23,223,172	1,035,932	69,036,775
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



**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)
2008	\$ 8,128,067	\$ (1,037)	\$ (9,612,362)	\$ (1,485,332)
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)

**GRAND STRAND WATER AND SEWER AUTHORITY**

Annual Capital Contributions by Source

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	SWTP	Government	Customer	Developer	Total
	Capacity Fees	Grants	Impact Fees	Contributions	
2008	\$ 1,961,592	\$ -	\$ 6,953,139	\$ 32,393,583	\$ 41,308,314
2009	1,985,592	757,542	3,614,012	18,840,916	25,198,062
2010	2,078,076	89,046	3,088,548	4,216,502	9,472,172
2011	2,090,904	605,767	3,827,392	4,428,770	10,952,833
2012	2,171,628	129,379	3,653,858	2,269,134	8,223,999
2013	2,223,864	532,307	4,557,327	3,984,749	11,298,247
2014	1,222,608	159,666	5,207,881	3,234,267	9,824,422
2015	1,237,032	1,132,895	8,786,817	7,578,947	18,735,691
2016	1,271,652	200,960	9,516,614	5,194,892	16,184,118
2017	1,321,560	2,066,122	11,073,651	10,231,796	24,693,129

**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			
						Water		Sewer	
						Base Rate	Usage Rate	Base Rate	Usage Rate
2008	16,140	15,625	515	3.19%	9,325	\$ 9.90	\$ 1.15	\$ 8.90	\$ 1.75
2009	14,909	14,478	431	2.89%	9,925	9.90	1.15	8.90	1.75
2010	14,904	13,823	1,081	7.25%	10,223	10.40	1.15	9.40	1.75
2011	15,305	14,178	1,127	7.36%	10,758	10.40	1.15	9.40	1.75
2012	14,968	14,705	263	1.76%	10,168	10.65	1.20	9.65	1.85
2013	14,394	13,948	446	3.10%	11,381	10.65	1.20	9.65	1.85
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	11.35	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
2008	525	195	720
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

**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	
2008	7,937	10	19	4,752	7	27	52,223	0	0	7,966	4,786	52,223
2009	8,084	10	49	4,899	21	23	52,249	0	0	8,143	4,943	52,249
2010	8,649	11	44	5,067	15	22	56,197	0	0	8,704	5,104	56,197
2011	8,768	11	46	5,105	15	22	57,287	0	0	8,825	5,142	57,287
2012	8,980	11	41	5,355	15	22	58,618	0	0	9,032	5,392	58,618
2013	9,416	11	38	5,516	15	21	62,839	0	0	9,465	5,552	62,839
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

**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
2008	9.90	1.15	8.90	1.75
2009	9.90	1.15	8.90	1.75
2010	10.40	1.15	9.40	1.75
2011	10.40	1.15	9.40	1.75
2012	10.65	1.20	9.65	1.85
2013	10.65	1.20	9.65	1.85
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	11.35	1.33	11.10	2.05

**GRAND STRAND WATER AND SEWER AUTHORITY**

Ten Largest Customers

Current Year and Nine Years Ago

(Unaudited)

Customer	Fiscal Year 2017		
	Water Revenue	Sewer Revenue	Total
City of Myrtle Beach	\$ 8,108,212	\$ 6,259,000	\$ 14,367,212
City of Conway	3,656,653	1,389,863	5,046,515
City of North Myrtle Beach	4,246,905	788,372	5,035,277
Little River Water and Sewerage Company	1,225,581	1,045,933	2,271,514
City of Loris	223,861	509,585	733,445
Ocean Lakes Utilities	165,872	371,325	537,197
Tabor City	17,438	376,133	393,571
Georgetown County	277,534	109,280	386,815
Myrtle Beach Resort	173,962	147,033	320,995
Oceanside Village	190,533	130,124	320,658

Customer	Fiscal Year 2008		
	Water Revenue	Sewer Revenue	Total
City of Myrtle Beach	\$ 6,876,224	\$ 5,751,965	\$ 12,628,189
City of North Myrtle Beach	3,030,344	338,083	3,368,427
City of Conway	2,325,915	896,886	3,222,801
Little River Water and Sewerage Company	909,346	652,500	1,561,846
City of Loris	200,514	305,416	505,930
Ocean Lakes Utilities	158,288	235,627	393,915
Georgetown County Water and Sewer Authority	207,548	82,674	290,222
Ocean Side Village	146,746	98,425	245,171
Myrtle Beach Resort	116,751	127,033	243,784
Springmaid Beach Resort	87,784	88,484	176,268

**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
2008	\$ 1,219,819	\$ 146,951,664	\$ -	\$ 61,639,865	\$ 209,811,348	2.77%	815
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	NA	584

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

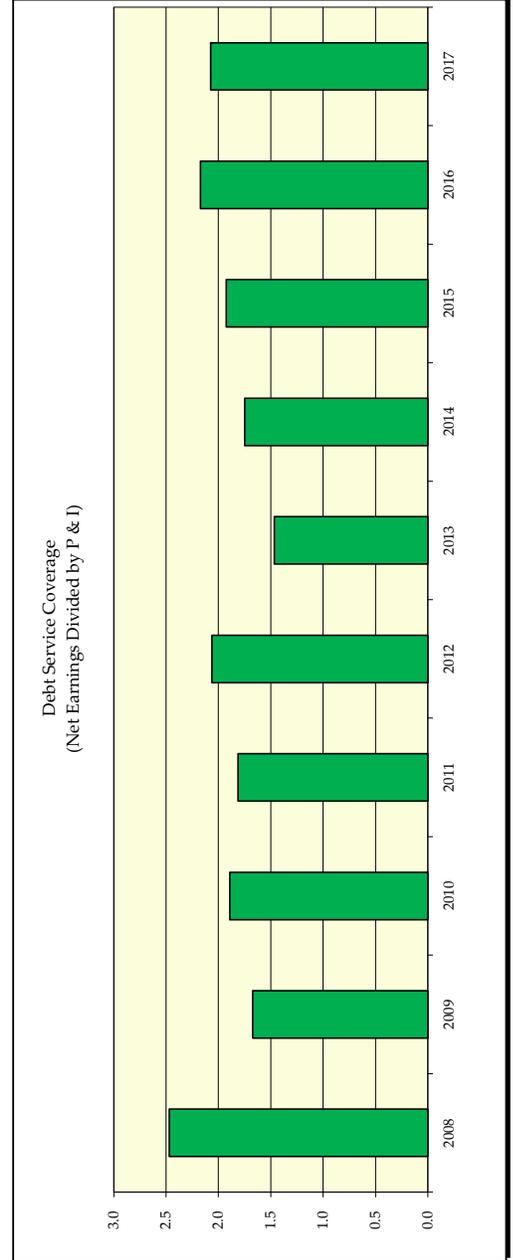
Fiscal Year	Gross Revenues <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Earnings Available for Debt Service	Debt Service Requirements <sup>(3)</sup>			Coverage <sup>(4)</sup>
				Principal	Interest	Total	
2008	\$ 79,304	\$ 37,156	\$ 42,148	\$ 7,599	\$ 9,462	\$ 17,061	2.47
2009	72,434	41,885	30,549	8,705	9,572	18,277	1.67
2010	73,408	37,684	35,724	9,151	9,742	18,893	1.89
2011	74,954	39,349	35,605	10,562	9,084	19,646	1.81
2012	77,873	39,661	38,212	11,576	6,949	18,525	2.06
2013	75,841	44,630	31,211	12,949	8,327	21,276	1.47
2014	83,770	45,814	37,956	13,464	8,234	21,698	1.75
2015	92,175	48,678	43,497	14,450	8,135	22,585	1.93
2016	99,046	49,533	49,513	15,075	7,726	22,801	2.17
2017	97,480	52,224	45,256	14,733	7,083	21,816	2.07

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

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

<sup>(2)</sup> Total Operating Expenses Excluding Depreciation and Certain Other Adjustments. Expenses associated with Hurricane Matthew recovery have been excluded from 2017's calculation.

<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
2007	249,925	7,074,627	28,307	37	5
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 <sup>(2)</sup>	38,302 <sup>(3)</sup>	43	7
2016	322,342 <sup>(1)</sup>	NA	NA	NA	6 <sup>(4)</sup>

Data presented is Horry County statistics.

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

<sup>(2)</sup> Bureau of Economic Analysis (<http://www.bea.gov/regional/bearfacts/action.cfm?geoType=4&frps=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/laurcity15.txt>)

NA - Not Available

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

Schedule 15

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Full-Time Equivalent Employees as of June 30										
Water										
Water Plant Operations	23	23	25	24	24	22	22	21	24	22
Water Plant Maintenance	6	6	6	5	6	6	6	6	6	8
Water Systems Maintenance	15	13	14	17	16	19	16	17	16	15
Water Systems Operations	25	27	29	34	34	38	38	39	41	40
Sewer										
Sewer Plant Operations	39	39	45	36	34	36	37	39	40	42
Sewer Plant Maintenance	12	13	11	13	17	18	18	18	14	14
Sewer Systems Maintenance	36	38	37	38	38	41	43	38	44	45
Biosolid / Sludge Disposal Operations	25	23	27	27	26	26	25	25	25	27
Engineering / Inspection / Construction										
Engineering	16	15	14	15	15	16	16	16	18	18
Inspections	7	7	7	6	6	5	5	6	6	6
Construction	19	23	22	22	22	21	25	24	27	31
Administration										
Billing / Customer Service	16	18	23	23	23	25	26	28	24	24
Human Resources	2	2	2	2	2	2	2	1	1	1
Finance and Accounting	6	6	6	5	5	6	6	6	6	6
Purchasing	4	4	4	4	4	4	4	5	4	4
Information Systems	4	4	4	4	4	4	4	3	4	4
Executive Administration	5	3	3	3	3	3	3	3	3	3
Fleet / Facilities Management	-	5	3	4	4	4	4	5	4	4
<b>Total</b>	<b>260</b>	<b>269</b>	<b>282</b>	<b>282</b>	<b>283</b>	<b>295</b>	<b>300</b>	<b>300</b>	<b>307</b>	<b>314</b>

**GRAND STRAND WATER AND SEWER AUTHORITY**

Miscellaneous Statistical Data

June 30, 2017

(Unaudited)

	<u>2017</u>	<u>2016</u>
<u>Sewer System Facts</u>		
<u>Use of Sewer</u>		
Sewer Customers, End of Period	78,730	75,738
Average Daily Consumption (Millions of Gallons)	31.39	31.48
Estimated Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	11.46	11.49
<u>System Facilities</u>		
Total Miles of Sewer Lines *	1,772	1,737
Number of Treatment Plants	14	14
Number of Pumping Stations	694	680
Number of Residential Effluent Pumping Stations	405	392
Number of Residential Grinder Pumping Stations	5,233	4,962

*Force Main	886
Gravity	<u>886</u>
	1,772

**GRAND STRAND WATER AND SEWER AUTHORITY**

Miscellaneous Statistical Data

June 30, 2017

(Unaudited)

	<u>Water System Facts</u>	
	2017	2016
<u>Use of Water</u>		
Water Customers, End of Period	82,948	79,819
Average Daily Consumption (Millions of Gallons)	41.74	39.30
Estimated Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons) *	15.24	14.34
<u>System Facilities</u>		
Storage Tanks **	32	31
Storage Capacity (Millions of Gallons) **	26	29
Auxiliary Deep Water Wells	52	52
Total Miles of Distribution Lines	1,869	1,842
Fire Hydrants	7,653	7,442

\* Includes SWTP Participant Sales

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

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INDEPENDENT AUDITOR'S OTHER  
REPORTS SECTION

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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 fiduciary activities of Grand Strand Water and Sewer Authority (GSWSA) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the GSWSA's basic financial statements, and have issued our report thereon dated September 11, 2017.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 GSWSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*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

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

Myrtle Beach, South Carolina  
September 11, 2017