

2014

GRAND STRAND WATER & SEWER AUTHORITY COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEARS ENDED JUNE 30, 2014 AND 2013



C O N W A Y , S O U T H C A R O L I N A





Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2014

with Independent Auditor's Report

Conway, South Carolina

Prepared by Financial Services | Marguerite S. Carroll | Chief Financial Officer

GRAND STRAND WATER AND SEWER AUTHORITY

Appointed Officials

June 30, 2014

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, 2014

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INTRODUCTORY SECTION

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September 22, 2014

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, 2014 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, Elliott Davis, LLC, 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.

Elliott Davis, LLC 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, Elliott Davis, LLC 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.

GSWSA also provides sewer service to the City of Marion, Town of Sellers, City of Mullins, Town of Lake View and Centenary area which are also located in South Carolina. GSWSA 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 reflected stabilization in all of its market segments. However, the real estate market will require more time to fully recover. Strong growth in tourism-related jobs has allowed the county's unemployment rate to continue to improve. Horry County continues to be a major retirement area with more recent growth in real estate values and sales. Tourism continues to be the county's largest employer. The county still ranks first among the 46 counties in the state in tourism. According to the 2007 Census of Agriculture, Horry County ranks first in the state in the production of tobacco, third in the sale of pork, and fourth in overall crop production.

The local economy served by GSWSA has continued to see moderate growth during fiscal year 2014, with the addition of 2,259 customers. The monthly average of submittals for new developer projects requiring water and sewer service was up from 4.7 projects in fiscal year 2013 to 7.3 projects in 2014. The projects submitted in 2014 will account for a monthly average of over 113 Residential Equivalent Units (REUs). This is a 16.5% increase from the monthly average of 97 REUs submitted in 2013. The number of new developer project submittals and REUs have significantly increased due to economic development. Assets contributed to GSWSA by developers during 2014 were \$3.2 million.

GSWSA's growth remains moderate, 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 \$18 million dollars to date on the 5 MGD Bucksport Wastewater Treatment Plant which will use rapid infiltration basins for the disposal of treated wastewater. In addition, more than \$4 million has been spent on the installation of a 30" force main from Highway 501 to International Drive, which will provide additional water volume and pressure to the Carolina Forest, North Myrtle Beach and Little River service areas. GSWSA spent almost \$3.2 million on its Rural Water and Sewer program to extend water and sewer lines to the rural communities of Horry County.

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 2030 Capital Improvement Plan in 2010 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 2014, GSWSA continued several policies aimed at reducing and/or maintaining expenses at the same level as 2013. Departments were required to monitor expenses over time and reduce costs as appropriate. Chemical usage for water and wastewater departments was also closely monitored and rebid to reduce cost. Overall, expenses were up due to a small increase in salaries and wages and associated payroll taxes, as well as health insurance 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, and 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, 2013. This was the 25th 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**

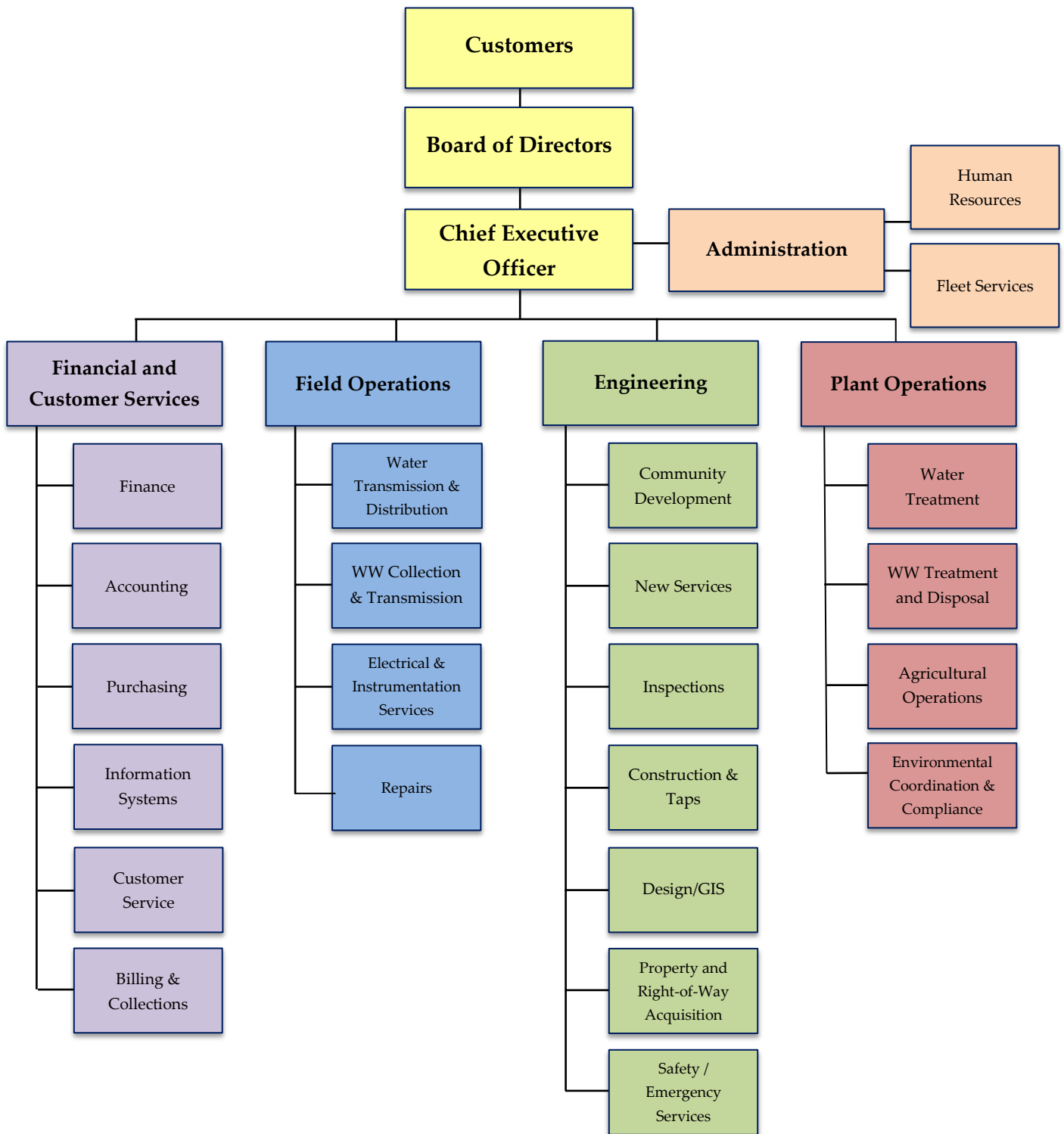
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Grand Strand Water and Sewer Authority

Functional Organizational Chart



GRAND STRAND WATER AND SEWER AUTHORITY



2014 | Board of Directors

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

Benjy A. Hardee
Vice-Chairman
Term Expires: 8-15-2015

John C. Griggs
Secretary
Term Expires: 8-15-2015



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



Arnold T. Johnson
Member
Term Expires: 8-15-2015



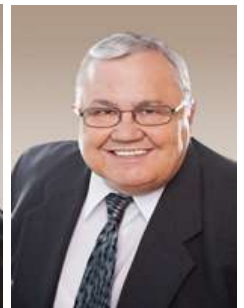
Wilbur M. James
Member
Term Expires: 8-15-2019



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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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of Grand Strand Water and Sewer Authority (the Authority) as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits 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 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, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 12 and schedule of funding progress for postemployment benefit plan on page 57 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 audit 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 audits of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of cash receipts and disbursements for restricted accounts and the supplementary schedule of operating expenses by department are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014 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 describe 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.



Columbia, South Carolina
September 10, 2014

MANAGEMENT'S DISCUSSION
AND ANALYSIS

GRAND STRAND WATER AND SEWER AUTHORITY

Management's Discussion and Analysis

For The Fiscal Year Ended June 30, 2014

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, 2014 and 2013. 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 remained stable during fiscal year 2014. 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, 2014 were \$717 million and exceeded liabilities and deferred cash inflows by \$466.8 million (i.e. net position). Of total net position, approximately \$123.8 million was unrestricted. Total assets and deferred cash outflows increased from fiscal year 2013 to 2014 by \$14 million and total liabilities and deferred cash inflow increased by \$3.6 million.
- Operating revenues were approximately \$74.9 million in 2014, an increase of approximately \$5.3 million from 2013, or 7.6%. During 2014, the major increase in revenues was due to the increase in water and wastewater volume, as well as an increase in rates for water and wastewater volume and availability, and net billable customers. In addition, the surface water treatment plant contract revenues increased by more than \$1 million as a result of the City of Conway electing to pay a volumetric rate as opposed to a volumetric and a monthly capital charge.
- In 2014, operating expenses before depreciation increased by \$1.2 million or 2.7%. The total operating expenses, including depreciation, increased \$1.4 million or 2.0%. The increase in operating expenses in 2014 was mainly attributed to a small merit increase for employees and associated payroll taxes, as well as an increase in health insurance costs.
- The operating income for fiscal year 2014 was \$5.8 million, a 202.3% increase from the previous fiscal year due to a greater increase in operating revenues than the increase in operating expenses.
- There was an increase in net position, before capital contributions of \$0.5 million in fiscal year 2014. There was an increase in net position after capital contributions of \$10.3 million.
- The ratio of total operating revenues to total operating expenses was 1.08 for 2014 and 1.03 for 2013.
- Debt service coverage for 2014 increased to 175% as compared to 147% in 2013 and 206% in 2012. Debt service coverage required by the bond covenants is 110%, which is within our current coverage.

Financial Highlights, Continued

- In 2014, capital contributions from customer impact fees were \$5.2 million, an increase of 14.3% compared to fiscal year 2013. Developer contributions of facilities were \$3.2 million, a decrease of 18.8% from 2013.
- GSWSA treated and distributed over 14.98 billion gallons of water and collected and treated over 10.64 billion gallons of wastewater, an increase from fiscal year 2013 of 7.4% for water and an increase of 8.1% for wastewater. Water and wastewater consumption was up in all customer classes during 2014.
- In fiscal year 2014, GSWSA added 1,993 water and 1,948 wastewater net customers which resulted in a net of 2,425 water and 2,311 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 can be found on pages 13 to 62 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.

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 2013 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.

Overview of the Financial Statements, Continued

The *Statement of Cash Flows* provides information about the changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts disbursement information, without consideration of the earnings event, when an obligation arises or depreciation of capital assets.

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				
	2014	2013	2012	Change 2013-2014	% Change 2013-2014
Assets					
Current assets	\$ 126,379,150	\$ 119,648,368	\$ 110,482,310	\$ 6,730,782	5.6%
Restricted assets - current	3,763,849	10,149,879	26,318,811	(6,386,030)	-62.9%
Noncurrent assets	-	-	2,342,017	-	0.0%
Restricted assets - noncurrent	21,509,031	20,833,568	20,774,086	675,463	3.2%
Capital assets	549,455,859	535,989,599	529,596,306	13,466,260	2.5%
Other assets	11,320	4,750	4,750	6,570	138.3%
Total assets	\$ 701,119,209	\$ 686,626,164	\$ 689,518,280	\$ 14,493,045	2.1%
Deferred outflows of resources					
Interest rate swap	\$ 12,483,590	\$ 12,646,032	\$ 19,169,725	\$ (162,442)	-1.3%
Deferred charge on refundings	3,396,394	3,771,678	4,146,962	(375,284)	-10.0%
Total deferred outflows of resources	\$ 15,879,984	\$ 16,417,710	\$ 23,316,687	\$ (537,726)	-3.3%
Liabilities					
Current liabilities	\$ 29,171,522	\$ 25,799,768	\$ 23,780,583	\$ 3,371,754	13.1%
Noncurrent liabilities	208,506,547	208,102,565	218,408,062	403,982	0.2%
Total liabilities	\$ 237,678,069	\$ 233,902,333	\$ 242,188,645	\$ 3,775,736	1.6%
Deferred inflows of resources					
Interest rate swap	\$ 12,483,590	\$ 12,646,032	\$ 19,169,725	\$ (162,442)	-1.3%
Total deferred inflows of resources	\$ 12,483,590	\$ 12,646,032	\$ 19,169,725	\$ (162,442)	-1.3%
Net Position					
Net investment in capital assets	\$ 323,365,517	\$ 312,595,550	\$ 297,286,102	\$ 10,769,967	3.4%
Restricted for capital projects	17,233,991	23,726,036	39,494,069	(6,492,045)	-27.4%
Restricted for debt service	2,471,542	2,055,404	2,590,751	416,138	20.2%
Unrestricted	123,766,484	118,118,519	112,105,675	5,647,965	4.8%
Total Net Position	\$ 466,837,534	\$ 456,495,509	\$ 451,476,597	\$ 10,342,025	2.3%

Note: For the year 2012 the statement of net position was restated to show deferred inflows and outflows of resources.

Financial Analysis, Continued

Condensed Statements of Activities

	2014	2013	2012	Change 2013-2014	% Change 2013-2014
Operating revenues					
Water and sewer volume & availability fees	\$ 55,381,294	\$ 52,282,191	\$ 50,177,028	\$ 3,099,103	5.9%
Customer charges	6,298,312	5,883,160	5,354,967	415,152	7.1%
Surface water charges	6,630,975	6,773,344	6,324,150	(142,369)	-2.1%
Surface water treatment plant contract revenue	4,933,844	3,127,607	3,228,297	1,806,237	57.8%
Other revenue	1,622,273	1,529,675	1,480,715	92,598	6.1%
Total operating revenues	74,866,698	69,595,977	66,565,157	5,270,721	7.6%
Operating expenses					
Operating expenses before depreciation	45,813,603	44,629,568	39,661,443	1,184,035	2.7%
Depreciation	23,223,172	23,038,102	22,761,494	185,070	0.8%
Total operating expenses	69,036,775	67,667,670	62,422,937	1,369,105	2.0%
Operating income	5,829,923	1,928,307	4,142,220	3,901,616	202.3%
Nonoperating revenues (expenses)					
Investment income (loss)	2,725,519	(368,606)	5,757,105	3,094,125	839.4%
Loss on disposal of capital assets	(252,249)	(167,185)	(275,083)	(85,064)	-50.9%
Interest expense	(7,785,590)	(7,671,851)	(7,698,469)	(113,739)	1.5%
Total nonoperating expense	(5,312,320)	(8,207,642)	(2,216,447)	2,895,322	-35.3%
Income (loss) before capital contributions	517,603	(6,279,335)	1,925,773	6,796,938	108.2%
Capital contributions	9,824,422	11,298,247	8,223,999	(1,473,825)	-13.0%
Change in net position	10,342,025	5,018,912	10,149,772	5,323,113	106.1%
Beginning net position	456,495,509	451,476,597	442,676,923	5,018,912	1.1%
Restatement	-	-	(1,350,098)	-	0.0%
Beginning net position, as restated	456,495,509	451,476,597	441,326,825	5,018,912	1.1%
Ending net position	\$ 466,837,534	\$ 456,495,509	\$ 451,476,597	\$ 10,342,025	2.3%

Financial Analysis, Continued

	Selected Data for Analysis			Change 2013-2014	% Change 2013-2014
	2014	2013	2012		
<i>Employees at Year End</i>	300	295	283	5	1.7%
<i>Active Customers at Year End:</i>					
Water Customers	74,297	72,304	67,650	1,993	2.8%
Wastewater Customers	70,339	68,391	64,010	1,948	2.8%
<i>Water Sales for Fiscal Year</i> (Billions of Gallons)	14.98	13.95	14.71	1.03	7.4%
<i>Wastewater Sales for Fiscal Year</i> (Billions of Gallons)	10.64	9.84	9.95	0.80	8.1%
<i>Total Operating Revenues</i> (Per Average Employees)	\$ 249,556	\$ 235,919	\$ 235,213	\$ 13,637	5.8%
<i>Total Operating Expenses</i> (Per Average Employees)	\$ 230,123	\$ 229,382	\$ 220,576	\$ 741	0.3%
<i>Ratio of Operating Revenues to:</i>					
Operating Expenses	1.084	1.028	1.066	0.056	5.4%
Operating Expenses Net of Depreciation	1.634	1.559	1.678	0.075	4.8%
Total Assets	0.107	0.101	0.094	0.006	5.9%
<i>Debt Related Ratios:</i>					
Debt to Net Assets	0.509	0.512	0.568	(0.003)	-0.6%
Debt to Capital Assets	0.433	0.436	0.486	(0.003)	-0.7%
Operating Coverage (Operating Cash Flow/Debt)	0.128	0.097	0.107	0.031	32.0%
Debt Ratio (Total Debt/Total Assets)	0.339	0.341	0.362	(0.002)	-0.6%
Bond Coverage (Net Earnings/Debt Required)	1.75	1.47	2.06	0.28	19.0%
<i>Liquidity Ratio</i> (Current Assets/Current Liabilities)	4.461	5.031	5.752	(0.570)	-11.3%
<i>Asset Management Ratios:</i>					
Days Sales Outstanding (Receivables/(Sales/360))	55	63	51	(8)	-12.7%
Asset Turnover (Sales/Assets)	0.107	0.101	0.094	0.006	5.9%

General Trends and Significant Events

The local economy has improved over the last year. Horry County has seen improvements in market values and 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.

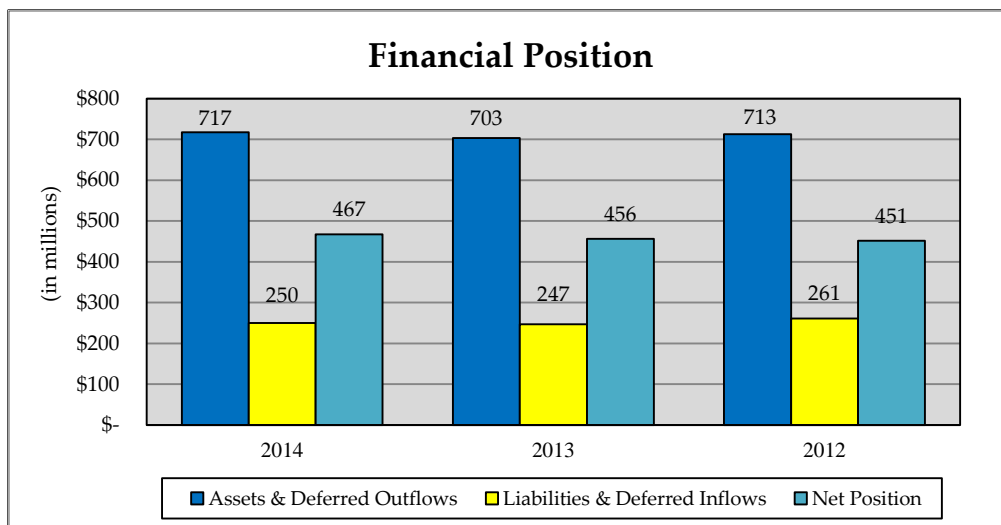
Weather temperatures during fiscal year 2014 were generally normal for all seasons. It also rained 7.77" inches or 18.04% less in 2014 than 2013. The decreased rainfall in the area as well as the increase in total net billable customers during the year resulted in more water usage than 2013.

The volume of water sold in fiscal year 2014 was 14.98 billion gallons, an increase of 7.4% from fiscal year 2013. Retail customers purchased 38% of the total water sold and the wholesale customers purchased 62%.

The volume of treated wastewater sold in fiscal year 2014 was 10.64 billion gallons, an increase of 8.1% from fiscal year 2013. GSWSA's total wastewater flows for 2014 were more than in 2013 with all wastewater customer classes showing a total increase over 2013. Retail customers purchased approximately 53% of the total treated wastewater and wholesale customers purchased 47%.

Financial Condition

The improvement in the national and local economy affected GSWSA's growth and it's 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 assets. 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.



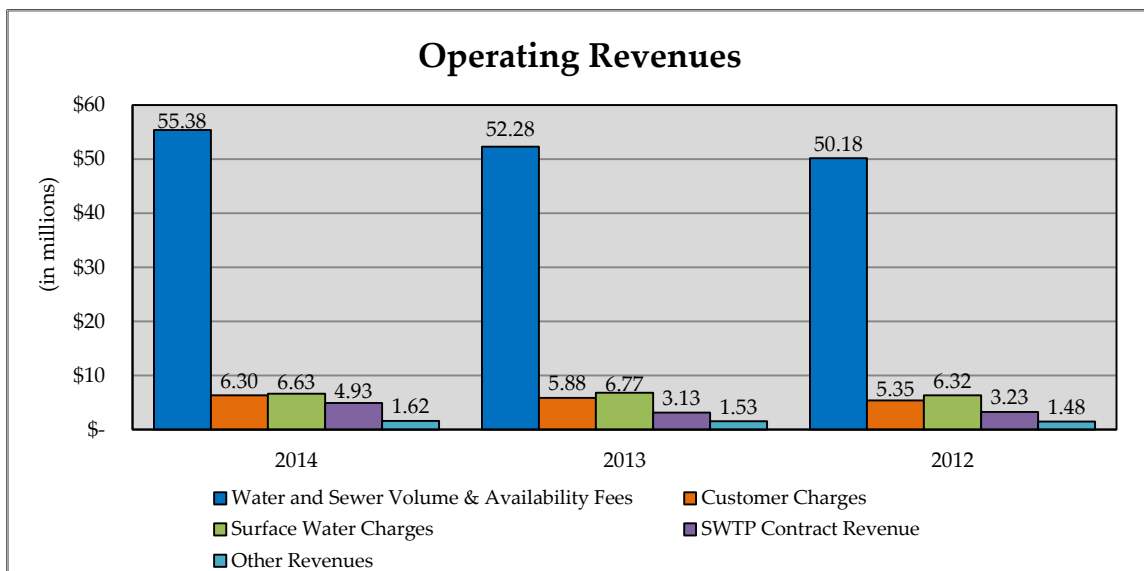
Financial Condition, Continued

During fiscal year 2014, total assets and deferred outflows increased by \$14 million or 2.0% with approximately \$13.5 million represented by an increase in capital assets, which is largely due to the increase in capital expenditures for facilities during 2014. Total liabilities increased by \$3.8 million or 1.6% as a result of an increase in contracts payable and notes payable of approximately \$2.1 million. Net position increased overall by \$10.3 million, with most of the change resulting from an increase in net investment in capital assets of \$10.8 million and a decrease in the amount restricted for capital assets in the amount of \$6.5 million. Unrestricted net assets also increased \$5.6 million or 4.8%.

Accounts receivable for 2014 decreased by approximately \$0.6 million from 2013. The change is mainly due to the decrease in the amount of the June 30th accrual of water and wastewater volume sales.

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.

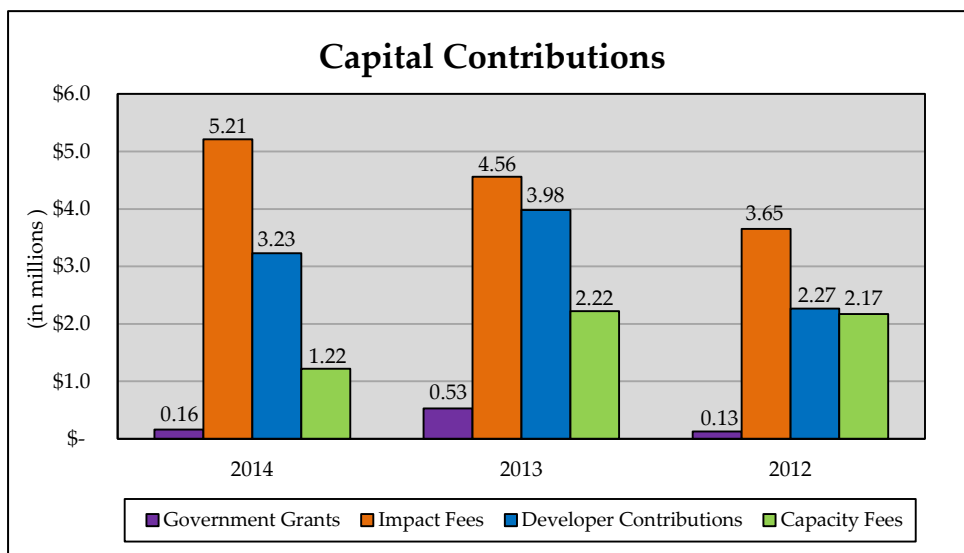


In 2014, GSWSA increased retail water and wastewater rates by 2.8% and 5.7% respectively. Other rates that increased were the wholesale operating water rates by 6.1% and wholesale capital charges by various percentages as specified by contract. Wholesale wastewater rates were also increased by various 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 decreased \$1.5 million, or 13.0% during fiscal year 2014. Developer contributions decreased \$750,482 from 2013. Although there was a decrease in these contributions, development of the local area has continued as a result of an increase in the demand for single family homes and student housing at Coastal Carolina University. Government grants were \$159,666 for 2014 as compared to \$532,307 for 2013. Impact fees were approximately \$5.2 million for 2014 compared to \$4.6 million for 2013. Capacity fees also decreased approximately \$1.0 million dollars as a result of the City of Conway electing to pay a monthly volumetric rate as opposed to a volumetric and a monthly capital charge.

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 thirteen wastewater treatment plants that range in size from 10,000 gallons per day to 22.4 million gallons per day.

Results of Operations, Continued

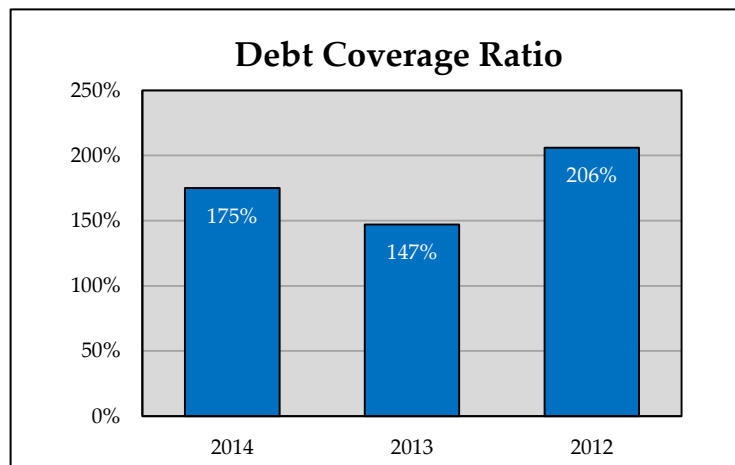
In 2014, total operating expenses increased \$1.4 million from fiscal year 2013, and operating revenues increased by \$5.3 million. Operating expenses for water and wastewater operations for the last three years are listed below:

	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>Variance</u>	<u>2012</u>	<u>%</u>
Personnel Services	\$ 20,321,453	29.5%	\$ 19,536,316	28.9%	\$ 785,137	\$ 18,011,198	28.9%
Contractual Services	13,608,744	19.7%	13,721,247	20.3%	(112,503)	11,414,221	18.3%
Supplies and Materials	10,847,474	15.7%	10,408,212	15.4%	439,262	9,409,350	15.1%
Depreciation	23,223,172	33.6%	23,038,102	34.0%	185,070	22,761,494	36.4%
Other Expenses	1,035,932	1.5%	963,793	1.4%	72,139	826,674	1.3%
Total Operating Expenses	<u>\$ 69,036,775</u>	<u>100.0%</u>	<u>\$ 67,667,670</u>	<u>100.0%</u>	<u>\$ 1,369,105</u>	<u>\$ 62,422,937</u>	<u>100.0%</u>

Personnel costs increased \$785,137 or 4.02% from 2013 to 2014. GSWSA granted an average 3% merit increase during 2014. The number of employees increased by five from fiscal year 2013 to 2014. The overall increase in personnel costs was mainly a result of an increase in the number of employees and health insurance costs. Contractual services is down by \$112,503 due to outsourcing the printing and mailing of customer bills. Supplies and materials increased \$439,262 or 4.2% higher treatment supply costs associated with increased usage water and wastewater volume. Depreciation was up \$185,070 or 0.8% due to the addition of assets during fiscal year 2014. Other expenses are up by \$72,139 due to an increase in business and travel expenses.

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 2014, 2013 and 2012 were 175%, 147% and 206%, respectively.



Rate Covenant, Continued

Bond Ratings: GSWSA currently holds ratings of Aa2 from Moody's and AA from Standard & Poor's. Based on these ratings and the current financial position, management does not expect a change in bond ratings.

Capital Assets And Long-Term Debt

Capital assets increased by \$13.5 million during 2014. 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 2014 was only approximately \$37 million and the depreciation of capital assets was \$23 million. Some of the largest additions to capital assets in 2014 included:

Bucksport Rapid Infiltration WWTP - 93% Complete	\$ 18,107,599
Highway 501 to International Drive - 90% Complete	4,473,101
Rural Water	1,320,884
Rural Sewer	1,884,796
WWTP Renewal & Replacement	1,778,964

Developer contributions to capital assets were \$3.2 million. Disposals for 2014 were \$1,824,319.

During fiscal year 2013 and 2014, GSWSA obtained State Revolving Fund loans for the Bucksport Rapid Infiltration WWTP and Highway 501 to International Drive FM projects. As of June 30, 2014, the draws made on these loans and recorded debt was \$18.9 million.

Additional detailed information on GSWSA's capital assets and long-term debt activity can be found in Notes 3, 4, 5 and 6.

Contacting GSWSA's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of GSWSA's finances and to demonstrate GSWSA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Grand Strand Water and Sewer Authority, Post Office Box 2368, Conway, South Carolina 29528-2368.

BASIC FINANCIAL STATEMENTS

GRAND STRAND WATER AND SEWER AUTHORITY

Statements of Net Position

	As of June 30	
	2014	2013
Assets and Deferred Outflows of Resources		
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,752,747	\$ 8,179,771
Investments	95,270,341	88,680,286
Investment in real estate	5,261,452	4,896,522
Receivables		
Customer accounts, net of allowance of \$252,341 in 2014 and \$246,442 in 2013	11,523,163	12,117,381
Assessments	2,892,174	2,892,750
Interest	517,448	568,186
Grant	-	188,125
Other	55,966	145,224
Total receivables	14,988,751	15,911,666
Inventories	1,184,059	1,398,767
Prepays	921,800	581,356
Restricted assets		
Cash and cash equivalents	3,719,862	9,760,383
Investments	43,987	389,496
Total current assets	130,142,999	129,798,247
<i>Noncurrent assets</i>		
Restricted investments	21,509,031	20,833,568
Container and security deposits	4,750	4,750
Prepaid net OPEB asset	6,570	-
Capital assets		
Nondepreciable	80,672,828	61,499,984
Depreciable, net of depreciation	468,783,031	474,489,615
Total capital assets	549,455,859	535,989,599
Total noncurrent assets	570,976,210	556,827,917
Total assets	\$ 701,119,209	\$ 686,626,164
<i>Deferred outflows of resources</i>		
Interest rate swap	\$ 12,483,590	\$ 12,646,032
Deferred charges on refundings	3,396,394	3,771,678
Total deferred outflows of resources	\$ 15,879,984	\$ 16,417,710

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	
	2014	2013
Liabilities, Deferred Inflows of Resources, and Net Position		
<i>Current liabilities</i>		
Accounts payable	\$ 3,066,685	\$ 2,479,554
Accrued salaries and benefits	655,637	632,955
Accrued compensated absences	577,021	532,484
Capital lease payable	126,344	121,883
Construction contracts payable	3,762,271	2,386,987
Revenue bonds payable	9,655,000	9,555,000
Notes payable	4,519,991	3,734,284
Companion instrument debt	401,963	392,147
Accrued interest on revenue bonds	552,651	581,767
Accrued interest on notes payable	286,612	180,701
Customer security and tap deposits	5,447,382	5,111,258
Unearned customer contributions	119,965	90,748
	29,171,522	25,799,768
<i>Noncurrent liabilities</i>		
Revenue bonds payable	142,917,702	152,776,607
Notes payable	59,365,434	48,557,198
Companion instrument debt	4,910,227	5,312,189
Capital lease payable	431,410	557,754
Accrued compensated absences	881,774	898,817
	208,506,547	208,102,565
Total liabilities	\$ 237,678,069	\$ 233,902,333
<i>Deferred inflows of resources</i>		
Interest rate swap	\$ 12,483,590	\$ 12,646,032
Total deferred inflows of resources	\$ 12,483,590	\$ 12,646,032
<i>Net position</i>		
Net investment in capital assets	\$ 323,365,517	\$ 312,595,550
Restricted for:		
Capital projects	17,233,991	23,726,036
Debt service	2,471,542	2,055,404
Unrestricted	123,766,484	118,118,519
Total net position	\$ 466,837,534	\$ 456,495,509

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

GRAND STRAND WATER AND SEWER AUTHORITY
Statements of Activities

	For the years ended	
	June 30	
	2014	2013
<i>Operating revenues</i>		
Water and sewer volume and availability fees	\$ 55,381,294	\$ 52,282,191
Customer charges	6,298,312	5,883,160
Surface water charges	6,630,975	6,773,344
Surface water treatment plant contract revenues	4,933,844	3,127,607
Other revenue	1,622,273	1,529,675
Total operating revenues	74,866,698	69,595,977
<i>Operating expenses</i>		
Personnel costs	20,321,453	19,536,316
Contractual services	13,608,744	13,721,247
Supplies and materials	10,847,474	10,408,212
Depreciation on assets acquired with:		
Authority funds	12,738,856	12,620,784
Contributed capital	10,484,316	10,417,318
Other expenses	1,035,932	963,793
Total operating expenses	69,036,775	67,667,670
Operating income	5,829,923	1,928,307
<i>Non-operating revenues (expenses)</i>		
Investment income (loss)	2,725,519	(368,606)
Loss on disposal of capital assets	(252,249)	(167,185)
Interest expense	(7,785,590)	(7,671,851)
Total non-operating expenses, net	(5,312,320)	(8,207,642)
<i>Income/(Loss) before contributions</i>	517,603	(6,279,335)
<i>Capital contributions</i>		
Surface water treatment plant capacity fees	1,222,608	2,223,864
Government grants/contributions	159,666	532,307
Customer impact fees	5,207,881	4,557,327
Developer contributions	3,234,267	3,984,749
Total capital contributions	9,824,422	11,298,247
<i>Change in net position</i>	10,342,025	5,018,912
<i>Beginning net position, as previously reported</i>	456,495,509	451,476,597
<i>Net position, ending</i>	\$ 466,837,534	\$ 456,495,509

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	
	2014	2013
<i>Operating activities</i>		
Cash received from customers and users	\$ 75,797,616	\$ 67,033,865
Cash paid to suppliers	(25,030,755)	(26,137,209)
Cash paid to employees	(19,827,327)	(17,784,361)
Cash paid to OPEB trust	(450,520)	(464,324)
Net cash provided by operating activities	30,489,014	22,647,971
<i>Capital and related financing activities</i>		
Acquisition and construction of capital assets	(32,139,064)	(24,551,918)
Capital contributions	6,619,372	6,990,555
Interest paid on debt	(7,539,971)	(7,536,877)
Proceeds from issuance of debt	15,505,761	3,628,793
Principal paid on debt	(13,856,409)	(13,330,937)
Principal payments on capital lease obligations	(121,883)	(112,186)
Proceeds from sale of capital assets	84,317	111,008
Net cash and cash equivalents used for capital and related financing activities	(31,447,877)	(34,801,562)
<i>Investing activities</i>		
Purchase of investments	(57,876,891)	(45,538,166)
Proceeds from sale of investments	50,591,952	40,276,832
Interest and investment income received	2,776,257	2,663,888
Net cash and cash equivalents used for investing activities	(4,508,682)	(2,597,446)
Net decrease in cash and cash equivalents	(5,467,545)	(14,751,037)
Cash and cash equivalents - beginning	17,940,154	32,691,191
Cash and cash equivalents - ending	\$ 12,472,609	\$ 17,940,154

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	
	2014	2013
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 5,829,923	\$ 1,928,307
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	23,223,172	23,038,102
(Increase) decrease in operating assets		
Receivables - customers and assessments	594,794	(2,690,111)
Inventories	214,708	(223,810)
Prepays	(340,444)	(46,971)
Increase (decrease) in operating liabilities		
Accounts payable	587,131	344,888
Accrued salaries and compensated absences	50,176	169,567
Customer security and tap deposits	336,124	127,999
Net OPEB obligation	(6,570)	-
Net cash provided by operating activities	\$ 30,489,014	\$ 22,647,971
<i>Noncash capital and related financing activities</i>		
Developer contributions	\$ 3,234,267	\$ 3,984,749
Government contributions	159,666	344,182
Capitalized interest expense	429,835	509,930
Unrealized depreciation in fair value of investments	(306,072)	(1,308,151)
Total noncash capital and related financing activities	\$ 3,517,696	\$ 3,530,710
<i>Reconciliation of cash and cash equivalents</i>		
Unrestricted cash and investments - beginning	\$ 96,860,057	\$ 93,634,781
Restricted cash and investments - beginning	30,983,447	47,092,897
	127,843,504	140,727,678
Investments with original maturity dates over ninety days	(109,903,350)	(108,036,487)
Cash and cash equivalents - beginning	\$ 17,940,154	\$ 32,691,191
Unrestricted cash and investments - ending	\$ 104,023,088	\$ 96,860,057
Restricted cash and investments - ending	25,272,880	30,983,447
	129,295,968	127,843,504
Investments with original maturity dates over ninety days	(116,823,359)	(109,903,350)
Cash and cash equivalents - ending	\$ 12,472,609	\$ 17,940,154

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, 2014

<i>Assets</i>	
Cash and cash equivalents	<u>\$ 152,000</u>
Investments	
US Government Agency Bonds/Notes	1,627,340
US Government Notes	530,891
US Government Bonds	<u>280,599</u>
Total investments	<u>2,438,830</u>
Receivables	
Employe contributions	1,516
Excess premiums	<u>606</u>
Total receivables	<u>2,122</u>
Total assets	<u>\$ 2,592,952</u>
<i>Liabilities</i>	
Benefits payable	<u>\$ -</u>
<i>Net Position</i>	
Held in trust for other postemployment benefits	<u><u>\$ 2,592,952</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
June 30, 2014

Additions

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

Deductions

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

Net position held in trust for other postemployment benefits,

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

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's financial statements are presented on the full accrual basis in accordance with generally accepted accounting principles. GSWSA applies all relevant Government Accounting Standards Board (GASB) pronouncements, as well as when applicable, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements. GSWSA has elected not to adopt the provisions of FASB which relate to accounting for the effects of certain types of regulation.

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.

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 \$7,434,523 and \$7,991,552 in revenues earned through year-end but not yet billed as of June 30, 2014 and 2013, 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 lower of average cost or market value.

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 estimated fair market value, if available, or at the engineers' estimated fair market 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:

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets, Capacity Rights and Depreciation, continued

	<u>Years</u>
Utility plant and equipment	7 - 45
Buildings and leaseholds	14 - 50
Vehicles	3 - 10
Machinery, equipment and furniture	5 - 10

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

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

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

Long-Term Obligations

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

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.

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 two items that qualify for reporting in this category, deferred charges on refundings and the deferral of the interest rate swap. 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 only one item that qualifies for reporting in this category, the value of the interest rate swap. 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.

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.

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenues and the Rate Structure, continued

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 assets 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

Net Position, continued

Unrestricted net position consists of all other net assets not included in the above two categories. The unrestricted net positions at June 30, 2014 and 2013 include \$3,218,466 and \$3,215,062, respectively, maintained in a rate stabilization account as designated by the Board of Directors. This fund consists of excess operating and maintenance revenues at year end which are not re-budgeted and may only be used or expended by the Board to provide for unanticipated emergencies (e.g. major natural disaster or loss of a major customer) which could otherwise result in spiked rate (i.e. revenue) increases. This fund is periodically reviewed to ensure that it is adequate.

Comparative Data

Some prior year amounts have been reclassified for comparative purposes.

Subsequent Events

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	<u>2014</u>	<u>2013</u>
Petty cash	\$ 5,000	\$ 5,100
Cash deposits	6,945,594	15,128,622
Money market deposits	5,500,371	2,784,824
Investment pool deposits	<u>21,644</u>	<u>21,608</u>
Total cash and cash equivalents	<u>\$ 12,472,609</u>	<u>\$ 17,940,154</u>

Deposits

At June 30, 2014 and 2013, the carrying amount of GSWSA's deposits in financial institutions was \$12,445,965 and \$17,913,446. The financial institutions' balances totaled \$13,196,391 and \$18,778,644, 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 \$5,000 and \$5,100 for fiscal years 2014 and 2013, respectively.

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

Deposits, continued

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, 2014 and 2013, 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.

<u>Investment Type</u>	<u>2014 Fair Value</u>	<u>2013 Fair Value</u>
Federal Home Loan Mortgage	\$ 15,973,714	\$ 17,656,542
Federal National Mortgage	17,380,112	16,614,085
Federal Farm Credit Banks	1,436,452	3,623,036
Federal Home Loan Bank	7,505,221	6,705,287

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 54.02% 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.

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

As of June 30, 2014, 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	\$ 63,108,749	\$ 4,243,856	\$43,582,455	\$ 15,282,438	\$ -	AA+	54.02%
Corporate Bonds	2,861,474	-	2,861,474	-	-	AA+	2.45%
Federal Farm Credit Bank	1,436,452	-	-	1,436,452	-	AA+	1.23%
Federal Home Loan Bank	7,505,221	-	7,016,466	488,755	-	AA+	6.42%
Federal Home Loan Mortgage Corporation	15,973,714	43,987	7,485,114	5,584,828	2,859,785	AA+	13.67%
Federal National Mortgage Association	17,380,112	993,753	10,224,341	1,972,266	4,189,752	AA+	14.88%
Government National Mortgage Association	8,557,637	-	1,657	-	8,555,980	AA+	7.33%
	<u>\$ 116,823,359</u>	<u>\$ 5,281,596</u>	<u>\$71,171,507</u>	<u>\$ 24,764,739</u>	<u>\$ 15,605,517</u>		<u>100.00%</u>

As of June 30, 2013, 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	\$ 52,224,941	\$ 6,088,873	\$26,977,546	\$ 19,158,522	\$ -	AA+	47.52%
Corporate Bonds	884,799	-	884,799	-	-	AA+	0.80%
Federal Farm Credit Bank	3,623,036	2,203,802	-	1,419,234	-	AA+	3.30%
Federal Home Loan Bank	6,705,287	2,071,472	4,153,515	480,300	-	AA+	6.10%
Federal Home Loan Mortgage Corporation	17,656,542	341,514	3,491,758	10,374,910	3,448,360	AA+	16.06%
Federal National Mortgage Association	16,614,085	903,236	9,740,590	1,325,871	4,644,388	AA+	15.12%
Government National Mortgage Association	11,634,584	-	2,567	-	11,632,017	AA+	10.59%
Municipal Bonds	560,076	560,076	-	-	-	AA+	0.51%
	<u>\$109,903,350</u>	<u>\$ 12,168,973</u>	<u>\$45,250,775</u>	<u>\$ 32,758,837</u>	<u>\$ 19,724,765</u>		<u>100.00%</u>

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

Investment in Real Estate

Bucksport Marina - On February 26, 2010, GSWSA acquired the Bucksport Marina for \$3,510,674 as an Investment in Real Estate. As of June 30, 2014, GSWSA had invested an additional \$1,750,778 to upgrade the facility. The investment is a joint effort with other local organizations to provide further economic development for the surrounding areas with a proposed Marine Park. The investment is recorded at acquisition cost plus the cost to upgrade.

Since GSWSA's core operations are primarily for water and wastewater, they have entered into an agreement with a company to operate and manage the marina.

Due to the ownership and operation of the marina being unrelated to the utility operations of GSWSA, the State of South Carolina Insurance Reserve Fund could not provide coverage on the marina. Therefore, GSWSA acquired insurance from People's Underwriters, Inc. to cover General Liability & Docks, Property, Pollution and Excess insurance coverage through an annual premium of approximately \$29,285.

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, 2014, was as follows:

	Balance June 30, 2013	Additions	Retirements	Disposals/ Transfers	Balance June 30, 2014
Capital assets not being depreciated					
Land and easements	\$ 49,590,667	\$ 53,509	\$ -	\$ -	\$ 49,644,176
Construction-in-progress	<u>11,909,317</u>	<u>31,160,571</u>	<u>-</u>	<u>(12,041,236)</u>	<u>31,028,652</u>
	<u>61,499,984</u>	<u>31,214,080</u>	<u>-</u>	<u>(12,041,236)</u>	<u>80,672,828</u>
Capital assets being depreciated					
Utility plant	710,481,371	3,225,266	(1,136,378)	12,041,236	724,611,495
Buildings and leaseholds	9,475,296	14,436	-	-	9,489,732
Vehicles	7,764,066	1,268,894	(332,951)	-	8,700,009
Machinery, equipment and furniture	<u>15,009,663</u>	<u>1,303,322</u>	<u>(354,990)</u>	<u>-</u>	<u>15,957,995</u>
	<u>742,730,396</u>	<u>5,811,918</u>	<u>(1,824,319)</u>	<u>12,041,236</u>	<u>758,759,231</u>
Accumulated depreciation for:					
Utility plant	(247,882,779)	(21,397,488)	812,497	-	(268,467,770)
Buildings and leaseholds	(2,785,478)	(307,250)	-	-	(3,092,728)
Vehicles	(6,060,468)	(615,370)	324,468	-	(6,351,370)
Machinery, equipment and furniture	<u>(11,512,056)</u>	<u>(903,064)</u>	<u>350,788</u>	<u>-</u>	<u>(12,064,332)</u>
	<u>(268,240,781)</u>	<u>(23,223,172)</u>	<u>1,487,753</u>	<u>-</u>	<u>(289,976,200)</u>
	<u>\$ 535,989,599</u>	<u>\$ 13,802,826</u>	<u>\$ (336,566)</u>	<u>\$ -</u>	<u>\$ 549,455,859</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, 2013, was as follows:

	Balance <u>June 30, 2012</u>	Additions	Retirements	Disposals/ Transfers	Balance <u>June 30, 2013</u>
Capital assets not being depreciated					
Land and easements	\$ 49,047,980	\$ 543,591	\$ (904)	\$ -	\$ 49,590,667
Construction-in-progress	<u>6,146,782</u>	<u>18,783,273</u>	<u>-</u>	<u>(13,020,738)</u>	<u>11,909,317</u>
	<u>55,194,762</u>	<u>19,326,864</u>	<u>(904)</u>	<u>(13,020,738)</u>	<u>61,499,984</u>
Capital assets being depreciated					
Utility plant	689,689,684	8,596,885	(825,936)	13,020,738	710,481,371
Buildings and leaseholds	9,467,341	7,955	-	-	9,475,296
Vehicles	7,619,740	516,417	(372,091)	-	7,764,066
Machinery, equipment and furniture	<u>14,016,869</u>	<u>1,261,467</u>	<u>(268,673)</u>	<u>-</u>	<u>15,009,663</u>
	<u>720,793,634</u>	<u>10,382,724</u>	<u>(1,466,700)</u>	<u>13,020,738</u>	<u>742,730,396</u>
Accumulated depreciation for:					
Utility plant	(227,382,854)	(21,050,411)	550,486	-	(247,882,779)
Buildings and leaseholds	(2,477,215)	(308,263)	-	-	(2,785,478)
Vehicles	(5,781,110)	(651,449)	372,091	-	(6,060,468)
Machinery, equipment and furniture	<u>(10,750,911)</u>	<u>(1,027,979)</u>	<u>266,834</u>	<u>-</u>	<u>(11,512,056)</u>
	<u>(246,392,090)</u>	<u>(23,038,102)</u>	<u>1,189,411</u>	<u>-</u>	<u>(268,240,781)</u>
	<u>\$ 529,596,306</u>	<u>\$ 6,671,486</u>	<u>\$ (278,193)</u>	<u>\$ -</u>	<u>\$ 535,989,599</u>

Direct and indirect costs of GSWSA's construction and engineering departments were capitalized in the amount of \$3,414,869 and \$3,423,145 during 2014 and 2013, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$429,835 and \$509,930 during 2014 and 2013, 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, 2014 were as follows:

2015	\$	144,352
2016		144,352
2017		144,352
2018		144,352
2019		<u>24,059</u>
Total minimum lease payments		601,467
Less amount representing interest		<u>(43,713)</u>
Present value of minimum lease payments	\$	<u>557,754</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, 2014 was \$275,492,239. Bonds, notes and state revolving loans payable at June 30, 2014 and 2013 are composed of the following individual issues.

	2014	2013
<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, 2014, ranging from \$640,000 to \$920,000 through June 1, 2018; interest at 3.58% per annum; due June 1.	\$ 3,090,000	\$ 3,727,445
<u>Series 2007</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, 2013, ranging from \$610,000 to \$850,000 through December 1, 2022; semiannual interest at 2.59%; due June 1 and December 1.	6,640,000	7,250,000
<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 twelve annual principal installments of \$715,000 until 2023; semiannual interest at 2.25%; due June 1 and December 1.	7,150,000	7,865,000
<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, 2014 ranging from \$610,000 to \$2,975,000 during 2014 through 2023; interest at 3.0% to 5.0% per annum; due June 1.	21,880,000	24,855,000

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT, Continued

	2014	2013
<u>Series 2011C</u>		
Bonds; due in annual principal installments beginning June 1, 2014 ranging from \$3,905,000 to \$4,335,000 during 2014 through 2019; interest at 1.223% to 3.256% per annum; due June 1.	20,635,000	24,540,000
 <u>Series 2012</u>		
Bonds; due in annual principal installments beginning June 1, 2014 ranging from \$710,000 to \$6,340,000 during 2014 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.	65,325,000	66,035,000
Total bonds payable	149,045,000	158,597,445
 <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.	477,788	572,049
 <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.	541,819	633,348

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT, Continued

	<u>2014</u>	<u>2013</u>
<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.	409,958	476,011
<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.	6,837,591	7,765,348
<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.	473,215	534,952

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT, Continued

	<u>2014</u>	<u>2013</u>
<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.	1,254,243	1,406,089
<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.	2,636,717	2,898,156
<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.	3,820,946	4,199,806

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT, Continued

	<u>2014</u>	<u>2013</u>
<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.	124,254	136,207
<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.	3,837,035	4,119,257
<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.	9,041,247	9,596,320

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT, Continued

	<u>2014</u>	<u>2013</u>
<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.	7,780,302	8,195,349
<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.	2,494,292	2,635,367
<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.	1,225,665	1,293,493

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT, Continued

	<u>2014</u>	<u>2013</u>
<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.	1,134,261	1,188,454
<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, 2011 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.	2,875,115	3,012,483
<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 \$21,503,390 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.	15,653,958	3,628,793

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT, Continued

	<u>2014</u>	<u>2013</u>
<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 \$4,747,694 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.	<u>3,267,019</u>	<u>-</u>
Total notes payable	<u>63,885,425</u>	<u>52,291,482</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 \$312,676 at a rate of 5.34% began December 1, 2013 with all unpaid principal and interest due in June 2031.	<u>5,312,190</u>	<u>5,704,336</u>
Total debt, before deferrals	218,242,615	216,593,263
Unamortized revenue bond discount/premium	<u>3,527,702</u>	<u>3,734,162</u>
Total debt, net	221,770,317	220,327,425
Less current portion	<u>(14,576,954)</u>	<u>(13,681,431)</u>
Total long - term portion of debt	<u>\$ 207,193,363</u>	<u>\$ 206,645,994</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, 2014 are as follows:

Date	Revenue Bonds		Companion Instrument Debt		State Revolving Loans		Total Principal	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2015	\$ 9,655,000	\$ 6,626,869	\$ 401,963	\$ 216,665	\$ 4,519,991	\$ 1,364,038	\$ 14,576,954	\$ 22,784,526
2016	10,140,000	6,308,822	411,861	199,711	4,655,669	1,277,543	15,207,530	22,993,606
2017	10,630,000	5,953,258	412,239	182,477	4,760,162	1,173,050	15,802,401	23,111,186
2018	11,190,000	5,556,615	410,953	165,249	4,867,029	1,066,183	16,467,982	23,256,029
2019	10,815,000	5,174,847	407,739	148,103	4,949,738	956,889	16,172,477	22,452,316
2020-2024	37,620,000	20,192,440	1,897,890	491,818	20,024,131	3,274,964	59,542,021	83,501,243
2025-2029	30,800,000	12,074,692	1,199,471	153,649	13,771,013	1,440,341	45,770,484	59,439,166
2030-2034	17,970,000	4,266,682	170,074	7,204	6,288,742	322,231	24,428,816	29,024,933
2035-2039	6,945,000	1,873,400	-	-	48,950	233	6,993,950	8,867,583
2040-2041	3,280,000	248,000	-	-	-	-	3,280,000	3,528,000
	<u>\$ 149,045,000</u>	<u>\$ 68,275,625</u>	<u>\$ 5,312,190</u>	<u>\$ 1,564,876</u>	<u>\$ 63,885,425</u>	<u>\$ 10,875,472</u>	<u>\$ 218,242,615</u>	<u>\$ 298,958,588</u>

Remaining debt service payments at June 30, 2013 are as follows:

Date	Revenue Bonds		Companion Instrument Debt		State Revolving Loans		Total Principal	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2014	\$ 9,555,000	\$ 6,971,141	\$ 392,147	\$ 233,205	\$ 3,734,284	\$ 1,074,747	\$ 13,681,431	\$ 21,960,524
2015	9,655,000	6,701,996	401,963	216,665	3,927,685	1,050,708	13,984,648	21,954,017
2016	10,140,000	6,379,124	411,861	199,711	4,016,137	962,256	14,567,998	22,109,089
2017	10,630,000	6,015,545	412,239	182,477	4,106,608	871,786	15,148,847	22,218,655
2018	11,187,445	5,610,879	410,953	165,249	4,199,143	779,250	15,797,541	22,352,919
2019-2023	42,375,000	22,203,493	1,964,965	573,091	18,403,213	2,538,726	62,743,178	88,058,488
2024-2028	30,115,000	13,629,867	1,380,041	208,881	10,671,925	957,722	42,166,966	56,963,436
2029-2033	23,500,000	5,487,705	330,167	18,802	3,065,011	134,509	26,895,178	32,536,194
2034-2038	6,635,000	2,184,400	-	-	167,476	1,888	6,802,476	8,988,764
2039-2041	4,805,000	488,250	-	-	-	-	4,805,000	5,293,250
	<u>\$ 158,597,445</u>	<u>\$75,672,400</u>	<u>\$ 5,704,336</u>	<u>\$ 1,798,081</u>	<u>\$52,291,482</u>	<u>\$ 8,371,592</u>	<u>\$ 216,593,263</u>	<u>\$ 302,435,336</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, 2014, are as follows:

	Balance			Balance	Due Within
	<u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>One Year</u>
Companion Instrument Debt	\$ 5,704,336	\$ -	\$ 392,146	\$ 5,312,190	\$ 401,963
Bonds payable	158,597,445	-	9,552,445	149,045,000	9,655,000
Notes payable	52,291,482	15,505,761	3,911,818	63,885,425	4,519,991
Capital lease payable	679,637	-	121,883	557,754	126,344
Compensated Absences	<u>1,431,301</u>	<u>665,098</u>	<u>637,604</u>	<u>1,458,795</u>	<u>577,021</u>
Total liabilities	218,704,201	16,170,859	14,615,896	220,259,164	15,280,319
Less deferred amounts:					
Issuance premiums	<u>3,734,162</u>	<u>-</u>	<u>206,460</u>	<u>3,527,702</u>	<u>-</u>
Total	<u>\$ 222,438,363</u>	<u>\$ 16,170,859</u>	<u>\$ 14,822,356</u>	<u>\$ 223,786,866</u>	<u>\$ 15,280,319</u>

Long term liability activity including capital leases for the year ended June 30, 2013, are as follows:

	Balance			Balance	Due Within
	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>One Year</u>
Companion Instrument Debt	\$ 6,086,743	\$ -	\$ 382,407	\$ 5,704,336	\$ 392,147
Bonds payable	167,917,445	-	9,320,000	158,597,445	9,555,000
Notes payable	52,291,219	3,628,793	3,628,530	52,291,482	3,734,284
Capital lease payable	791,823	-	112,186	679,637	121,883
Compensated Absences	<u>1,313,692</u>	<u>693,020</u>	<u>575,411</u>	<u>1,431,301</u>	<u>532,484</u>
Total liabilities	228,400,922	4,321,813	14,018,534	218,704,201	14,335,798
Less deferred amounts:					
Issuance premiums	<u>3,940,622</u>	<u>-</u>	<u>206,460</u>	<u>3,734,162</u>	<u>-</u>
Total	<u>\$ 232,341,544</u>	<u>\$ 4,321,813</u>	<u>\$ 14,224,994</u>	<u>\$ 222,438,363</u>	<u>\$ 14,335,798</u>

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT, Continued

Revenue bonds are collateralized by an irrevocable pledge of income and revenues derived from the operation of the systems and a mortgage lien on the water and sewer systems. The revenues derived from the operation of the respective systems are to be used for the expenses in connection with the administration and operation of the systems. The revenue bonds also require the establishment of the following restricted asset 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 January 31, 2014, PNC Bank revised the terms of the Series 2008 Bonds by reducing the semiannual interest rate to 2.25% from 3.36%. This change resulted in a net present value savings of \$302,665.

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 a current interest rate of 2.25%. The loan will provide proceeds for the project 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, 2014, GSWSA received \$15,653,958.

On July 30, 2013, 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 \$4,747,694 with a current interest rate of 1.90%. The loan will provide proceeds for the project to install a 30" water transmission main line from Highway 501 at Perry Road to International Drive. As of June 30, 2014, GSWSA received \$3,267,019.

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT, Continued

Derivatives:

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

Interest Rate Swaps

Objective of the interest rate swap – To protect against the potential of rising interest costs, GSWSA has entered into a fixed-to-variable interest rate for the Bonds of 2012 Swap 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, 2014 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	\$ 66,710,000	\$ 4,342,445
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	(\$12,300,858)	(\$187,732)
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, 2014. 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, 2014, 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
2015	\$ 745,000	\$ 604,329	\$ 3,014,397	\$ 4,363,726
2016	1,780,000	598,269	2,976,079	5,354,348
2017	1,955,000	581,779	2,894,050	5,430,829
2018	2,150,000	563,668	2,803,957	5,517,625
2019	2,295,000	543,750	2,704,877	5,543,627
2020 - 2031	56,400,000	3,834,833	19,076,306	79,311,139

Assuming that interest rates remain the same at June 30, 2014, 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
2015	\$ 665,000	\$ 57,850	\$ 59,932	\$ 782,782
2016	695,000	46,157	47,818	788,975
2017	810,000	30,420	31,514	871,934
2018	920,000	16,177	16,759	952,936

Credit risk – As of June 30, 2014, 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, 2014, the one month LIBOR rate was 0.1552% which places the SIFMA at approximately 39% 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, 2014, the one month LIBOR rate was 0.1552% which places the SIFMA at approximately 39% 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, 2014.

Bonds of 2012 Swap – Regression analysis, a quantitative method, was used to determine that the Bonds of 2012 Swap is effective. The regression analysis method evaluates effectiveness by considering the statistical relationship between the cash flows or fair values of the companion debt instrument. The changes in cash flows or fair values of the companion debt instrument met or exceeded all the following criteria:

	Value	Test	Result
R ²	0.81	> 0.80	PASS
F-Statistic	292	> 3.98	PASS
Regression Coefficient	1.24	0.80 to 1.25	PASS

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 and amortized over the remaining life of the refunded debt. The un-matured and outstanding principal balance on the defeased bonds at June 30, 2014 and 2013 was \$20,280,000 and \$23,675,000, respectively.

On November 16, 2011, Grand Strand Water and Sewer Authority issued Taxable Waterworks and Sewer System Refunding Revenue Bonds, Series 2011C in the amount of \$28,410,000. These proceeds were issued in order to defease the Waterworks and Sewer System Refunding Revenue Bonds, Series 2002 dated November 1, 2002. The Series 2002 Bonds mature June 1 in the years 2013 through 2019, which included \$27,470,000 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 2002 Waterworks and Sewer System Refunding Revenue Bonds years 2013 through 2019 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 \$69,170. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. The issuance of the Bonds of 2011C resulted in a net present value savings of \$2,453,820. The un-matured and outstanding principal balance on the defeased bonds at June 30, 2014 and 2013 was \$20,620,000 and \$24,135,000, respectively.

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 and amortized over the remaining life of the refunded debt. 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, 2014 and 2013 was \$65,325,000 and \$66,035,000, respectively.

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 7 - NET POSITION

Net position represents assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources. Net position amounts were as follows at June 30:

	<u>2014</u>	<u>2013</u>
Net investment in capital assets:		
Capital assets, net of depreciation	\$ 549,455,859	\$ 535,989,599
Less:		
Revenue bonds payable, net	(152,572,702)	(162,331,607)
Companion instrument debt payable	(5,312,190)	(5,704,336)
Notes payable	(63,885,425)	(52,291,482)
Capital lease payable	(557,754)	(679,637)
Contractors payable	<u>(3,762,271)</u>	<u>(2,386,987)</u>
Total	<u>323,365,517</u>	<u>312,595,550</u>
Restricted for:		
Capital projects	17,233,991	23,726,036
Debt service	<u>2,471,542</u>	<u>2,055,404</u>
Unrestricted	<u>123,766,484</u>	<u>118,118,519</u>
Total net position	<u>\$ 466,837,534</u>	<u>\$ 456,495,509</u>

NOTE 8 - EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN

The South Carolina Retirement Systems (the Systems) represents the collective retirement funds that are held in a group trust for the plans and are protected by the state's constitution. Effective July 1, 2012, the South Carolina Public Employee Benefit Authority (PEBA) was created as a separate agency and governing body. As a result, the Retirement Systems, which was formerly a division of the SC Budget and Control Board, was transferred from the Budget and Control Board to the new administrative agency. PEBA administers the various retirement systems and retirement programs managed by the Retirement Division. PEBA also has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as trustee 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 Retirement Systems and serves as a co-trustee of the Retirement Systems in conducting that review. The report may be obtained by writing to:

Retirement Systems Finance
South Carolina Public Employee Benefit Authority
PO Box 11960
Columbia, South Carolina 29211-1960
www.retirement.sc.gov

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

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

All permanent employees participate in the South Carolina Retirement System (SCRS), a cost-sharing, multiple-employer public employee retirement system. The SCRS was established, effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws. Benefit provisions and both employee and employer contribution rates are established and amended under authority of Title 9 of the South Carolina Code of Laws. Annual covered payroll for fiscal years 2014 and 2013 for active members covered by the SCRS was \$12,611,208 and \$12,356,657, respectively. Annual covered payroll for fiscal years 2014 and 2013 for retired members was \$1,722,828 and \$1,414,465, respectively.

Benefits of the SCRS are established by the state statutes. The required employer and employee obligations to contribute to the SCRS are 10.60% and 7.50%, respectively for fiscal year 2014 and 10.60% and 7.00%, respectively for fiscal year 2013. All full time employees are covered under the plan beginning with the effective date of employment unless specifically exempted by legislation.

Under current statutes, membership in the SCRS is required as a condition of employment. Members of SCRS who joined prior to July 1, 2012 (Class II Members), must have five years of earned service (paid employment as an employee during which regular contributions are paid to the system) to be eligible to receive service or disability retirement benefits, receive a supplemental minimum payment, or to qualify a survivor for a monthly benefit after an in-service death. Members who join on or after July 1, 2012 (Class III members), must have at least eight years of earned service credit to qualify for a monthly annuity. This requirement does not apply to disability retirement eligibility if the disability is the result of a job-related injury.

If a member terminates employment prior to eligibility to retire, he can choose to leave his contribution on deposit or request a refund of his contributions plus interest. Class II members with at least five years of earned service or Class III members with at least eight years of earned service have the option to leave fund on deposit and later apply for a retirement annuity.

Class II Members who retire at age 65 or older with five years of earned service or Class II Members who retire after 28 years of service, five years of which must be earned, are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.82% of the employee's average final compensation (member's 12 highest consecutive quarters of earnable compensation plus annual leave payout) for each year of credited service. Class III Members who retire at age 65 or older with eight years of earned service or who meet the rule of 90 (i.e., the total of the member's age and creditable service equals at least 90 years) with at least eight years of earned service, are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.82% of the employee's average final compensation (member's 20 highest consecutive quarters of earnable compensation) for each year of credited service.

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

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

Class II Members who are at least 60 years of age with at least five years of earned service may elect early retirement in which case the full service benefit is reduced by 5% for each year the member's age at retirement is less than 65. In addition, Class II members may elect early retirement if they are at least 55 years of age or older with at least 25 years of service, five years of which must be earned. Benefit is permanently reduced 4% for each year of service less than 28. Class III members may elect early retirement at a minimum of age 60 with at least eight years of earned service. Benefit is permanently reduced 5% for each year of age less than 65.

Each July 1, eligible SCRS retirees should receive a benefit adjustment, formerly referred to as a "cost of living adjustment" equal to 1% of their annual annuity up to a maximum of \$500 per year.

If a member dies while actively employed or not more than 90 days from the last day he earned regular compensation and earned regular service credit, the following benefits may be available to the active member's designated beneficiary:

- Refund of contributions (member contributions and interest);
- Monthly annuity (survivor annuity);
- Incidental death benefit payment (equivalent to one year's salary)

State statutes determine the levels of contributions required. GSWSA is required to contribute at the actuarially determined rates. SCRS member employees are required to contribute 7.50% of all compensation. GSWSA is required to contribute 10.45% of each member employee's compensation. In addition to the above rates, GSWSA has elected to contribute 0.15% of each member employee's compensation to provide group life insurance benefits for their participants. The contributions to the SCRS for employer and employee portions for 2014 were \$1,519,408 and \$1,072,396. 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, 2012	\$ 1,218,593	100%
June 30, 2013	1,459,739	100%
June 30, 2014	1,519,408	100%

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, 2014 one employee had elected coverage under the Act. In 2013 no employees had elected coverage under the Act.

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

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

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 termination, retirement, disability, death or an approved hardship is the deferred compensation available to an employee.

GSWSA recognizes the value of long term employment and wishes to reward this loyalty by increasing the amount it matches to an employee's Deferred Compensation Program as the years of employment increase. Grand Strand Water and Sewer Authority's contributions to its employees' 401K for the last three years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual Employer Contribution</u>
June 30, 2012	\$ 538,557
June 30, 2013	588,999
June 30, 2014	593,540

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 hardship 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. GSWSA employees receiving benefits contribute \$125 per month for retiree only, \$757 per month for retiree and spouse, \$574 for retiree and children and \$1,026 for family coverage to age 65, and thereafter. GSWSA has been contributing at a rate that is based on an actuarial valuation that is prepared in accordance with certain parameters.

Annual OPEB Cost - GSWSA's annual OPEB cost of \$413,090 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.

GSWSA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net negative OPEB obligations for fiscal years 2012, 2013 and 2014 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>
2012	\$ 427,607	112%	\$ -
2013	427,419	100%	-
2014	413,090	102%	(6,570)

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued

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	\$	413,090
Interest on OPEB obligation		-
Adjustment to annual required contribution		-
		-
Annual OPEB cost		413,090
Contributions made		(419,660)
		(6,570)
Decrease in net OPEB obligation		(6,570)
Net OPEB obligation (asset) - beginning of year		-
		-
Net OPEB obligation (asset) - end of year	\$	(6,570)

Funded Status and Funding Progress – The funded status of the plan as of July 1, 2013, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$	6,714,091
Actuarial value of plan assets		(2,207,926)
		(2,207,926)
Unfunded actuarial accrued liability	\$	4,506,165
Funded ratio (actuarial value of plan assets (AAL))		32.9%
Covered payroll (active plan members)	\$	13,568,776
UAAL as a percentage of covered payroll		33.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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.

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued

On July 1, 2013 an updated actuarial valuation was completed which takes into account the change in insurance carriers to Blue Cross Blue Shield for Medical and Vision, as well as Delta Dental, effective January 1, 2014. The change in insurance carriers resulted in lower 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 8.50% and Medicare-eligible medical trend rate of 6.25% 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, 2014 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.

NOTE 10 - MAJOR CUSTOMERS

During fiscal year 2014, the following customers provided the indicated percentages of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 16.1%, City of Conway 5.4%, City of North Myrtle Beach 4.8%, and Little River Water and Sewerage Company 2.5%. No other customers provided more than 0.99%.

During fiscal year 2013, the following customers provided the indicated percentages of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 15.2%, City of Conway 4.8%, City of North Myrtle Beach 5.1%, and Little River Water and Sewerage Company 2.5%. No other customers provided more than 0.96%.

GRAND STRAND WATER AND SEWER AUTHORITY

Notes to the Financial Statements

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 Insurance Reserve Fund, 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 Insurance Reserve Fund for its general insurance. The State Insurance Reserve Fund 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 \$75,000 per employee 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, 2014, 2013 and 2012.

During 2014 and 2013, 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, 2014, open contracts for construction totaled approximately \$31,649,312 with \$19,247,245 having been incurred during the year. At June 30, 2013, open contracts for construction totaled approximately \$22,646,439 with \$8,553,689 having been incurred during the year. The remaining commitments at June 30, 2014 and 2013 were \$12,402,067 and \$14,092,750, respectively.

SCHEDULES

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GRAND STRAND WATER AND SEWER AUTHORITY
 Required Supplementary Information
 Schedule of Funding Progress for Postemployment Health Care Plan
 June 30, 2014

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%

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, 2014

	1998 SRF	1999 State Revolving Loan		2000 SRF Loan	2001 SRF Loan		2002 State Revolving Loan			2004A - Schwartz
	Loan Conway	WWTP Upgrade		Tip Top	Buist NFM	Schwartz Imp.	Conway	Vereen	319 FM	WWTP Exp. - Phase 1
	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	\$ 8,862	\$ 17,502	\$ 19,053	\$ 182,458	\$ 12,210	\$ 45,554	\$ 54,078	\$ 78,366	\$ 3,730	\$ 31,047
Cash Receipts:										
Transfer from Operating Cash	106,339	105,009	76,207	1,094,670	73,251	182,206	324,448	470,167	14,917	372,530
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-
Interest Earned	1	1	2	13	4	3	4	6	-	4
Other Transfers	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:										
Principal and Interest Payments	(106,340)	(105,010)	(76,209)	(1,094,687)	(73,255)	(182,208)	(324,452)	(470,174)	(14,917)	(372,535)
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	-	-	-	-	-	-	-
Transfers to Investments	-	-	-	-	-	-	-	-	-	-
Transfers to Capital Project Cash	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-
Cash and Investments, End of year	<u>\$ 8,862</u>	<u>\$ 17,502</u>	<u>\$ 19,053</u>	<u>\$ 182,454</u>	<u>\$ 12,210</u>	<u>\$ 45,555</u>	<u>\$ 54,078</u>	<u>\$ 78,365</u>	<u>\$ 3,730</u>	<u>\$ 31,046</u>

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, 2014

	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 Current Debt Service	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
Cash and Investments, Beginning of year	\$ 191,589	\$ 49,689	\$ 33,198	\$ 439,116	\$ 14,475	\$ 20,120	\$ 34,001	\$ 87,800	\$ 341,438	\$ 391,119
Cash Receipts:										
Transfer from Operating Cash	766,318	595,927	199,184	928,651	86,844	80,477	203,993	1,053,282	4,084,293	4,477,622
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-
Interest Earned	8	8	2	38	2	-	2	20	124	112,117
Other Transfers	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:										
Principal and Interest Payments	(766,329)	(595,957)	(199,185)	(946,816)	(86,846)	(80,478)	(203,996)	(1,053,325)	(4,097,250)	(4,477,120)
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	-	-	-	-	-	-	-
Transfers to Investments	-	-	-	-	-	-	-	-	-	-
Transfers to Capital Project Cash	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-
Cash and Investments, End of year	<u>\$ 191,586</u>	<u>\$ 49,667</u>	<u>\$ 33,199</u>	<u>\$ 420,989</u>	<u>\$ 14,475</u>	<u>\$ 20,119</u>	<u>\$ 34,000</u>	<u>\$ 87,777</u>	<u>\$ 328,605</u>	<u>\$ 503,738</u>

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, 2014

	Bucksport Rapid Infil. WWTP			
	SRF	Bonds of 2011A	Bull Creek	
	Current Debt Service	Construction Fund	Depreciation & Contingency	Depreciation & Contingency
Cash and Investments, Beginning of year	\$ -	\$ 8,094,474	\$ 3,141,624	\$ 12,489,938
Cash Receipts:				
Transfer from Operating Cash	669,068	-	416,596	4,090,273
Transfer from Capital Project	-	-	-	-
Interest Earned	4	25,842	-	-
Other Transfers	-	-	-	-
Cash Disbursements:				
Principal and Interest Payments	(334,534)	-	-	-
Renewals and Replacements	-	-	-	-
Transfers to Operating Cash	-	-	(342,913)	(3,853,834)
Transfers to Investments	-	-	-	-
Transfers to Capital Project Cash	-	(6,828,009)	-	-
Other Transfers	-	-	-	-
Cash and Investments, End of year	<u>\$ 334,538</u>	<u>\$ 1,292,307</u>	<u>\$ 3,215,307</u>	<u>\$ 12,726,377</u>

GRAND STRAND WATER AND SEWER AUTHORITY

Schedule of Operating Expenses by Department

	For the years ended June 30	
	2014	2013
Water plants		
Personnel services	\$ 2,453,406	\$ 2,402,075
Contractual services	2,782,132	2,735,500
Supplies and materials	3,477,325	3,460,800
Business and travel expenses	5,329	4,051
Other expenses	111,388	111,619
Departmental transfers	1,472,592	1,294,462
Total water plants	<u>10,302,172</u>	<u>10,008,507</u>
Water systems		
Personnel services	3,713,159	3,311,382
Contractual services	1,136,060	1,515,427
Supplies and materials	2,522,108	1,994,283
Business and travel expenses	16,549	12,402
Other expenses	45,556	48,872
Total water systems	<u>7,433,432</u>	<u>6,882,366</u>
Total water	<u>17,735,604</u>	<u>16,890,873</u>
Wastewater plants		
Personnel services	5,369,588	5,143,404
Contractual services	4,401,956	4,165,545
Supplies and materials	2,645,622	2,448,145
Business and travel expenses	30,009	21,456
Other expenses	48,883	47,071
Departmental transfers	32,043	426,128
Total wastewater plants	<u>12,528,101</u>	<u>12,251,749</u>
Wastewater systems		
Personnel services	2,387,845	2,330,226
Contractual services	3,295,519	3,205,830
Supplies and materials	1,065,425	1,398,191
Other expenses	10,166	8,059
Total wastewater systems	<u>6,758,955</u>	<u>6,942,306</u>
Total wastewater	<u>19,287,056</u>	<u>19,194,055</u>

GRAND STRAND WATER AND SEWER AUTHORITY

Schedule of Operating Expenses by Department

	For the years ended June 30	
	2014	2013
General administration		
Personnel services	942,406	882,141
Contractual services	463,947	557,937
Supplies and materials	37,260	35,021
Business and travel expenses	174,726	116,372
Other expenses	543,830	533,401
Total general administration	<u>2,162,169</u>	<u>2,124,872</u>
Planning, engineering and construction		
Personnel services	1,055,444	1,174,111
Contractual services	74,210	75,180
Supplies and materials	60,831	61,415
Business and travel expenses	3,122	11,302
Other expenses	126	-
Total planning, engineering and construction	<u>1,193,733</u>	<u>1,322,008</u>
Financial services		
Personnel services	2,650,568	2,540,652
Contractual services	1,193,111	1,195,111
Supplies and materials	169,944	174,648
Business and travel expenses	24,613	31,666
Other expenses	14,201	12,325
Total financial services	<u>4,052,437</u>	<u>3,954,402</u>
High tech turf farm		
Personnel services	1,749,037	1,752,324
Contractual services	261,809	270,717
Supplies and materials	868,959	835,709
Business and travel expenses	7,260	5,198
Other expenses	174	-
Departmental transfers	(1,504,635)	(1,720,590)
Total high tech turf farm	<u>1,382,604</u>	<u>1,143,358</u>
Depreciation	<u>23,223,172</u>	<u>23,038,102</u>
Total operating expenses	<u><u>\$ 69,036,775</u></u>	<u><u>\$ 67,667,670</u></u>

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. GSWSA implemented GASB Statement 34 in 2002; schedules presenting information from the basic financial statements begin in that 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.

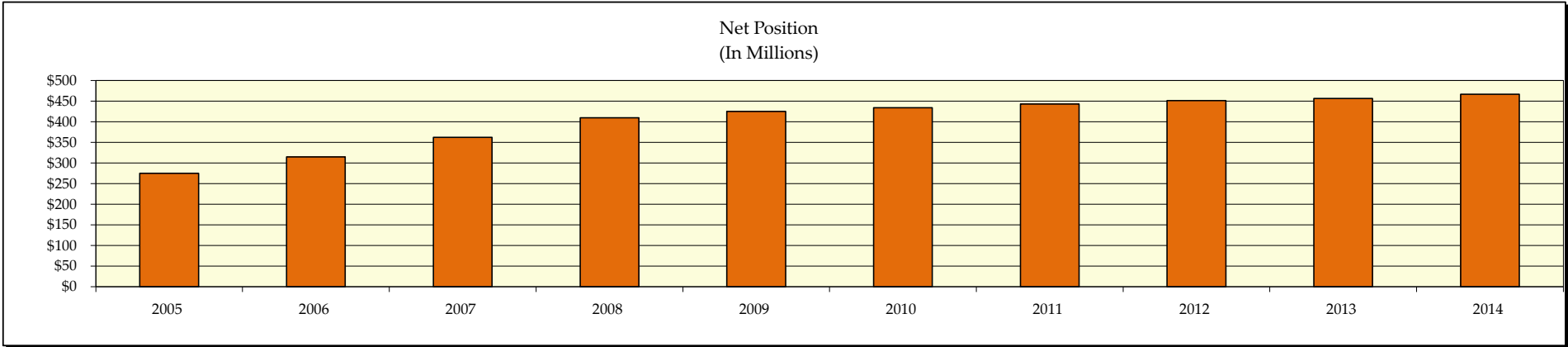
Demographic and Economic Information (Schedule 14) - This schedule offers demographic and economic indicators to help the reader understand the environment within which GSWSA's financial activities take place and to help make comparisons over time and with other special districts.

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.

GRAND STRAND WATER AND SEWER AUTHORITY

Net Position By Component
Last Ten Fiscal Years
(Unaudited)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Primary government										
Net investment in capital assets	\$ 162,579,976	\$ 204,870,843	\$ 249,401,693	\$ 289,803,143	\$ 299,789,950	\$ 316,467,676	\$ 322,250,503	\$ 297,286,102	\$ 312,595,550	\$ 323,365,517
Restricted	27,535,216	25,980,196	30,231,725	30,716,584	24,275,266	28,327,674	27,054,587	42,084,820	25,781,440	19,705,533
Unrestricted	<u>84,837,573</u>	<u>84,059,592</u>	<u>82,256,132</u>	<u>88,898,786</u>	<u>100,867,438</u>	<u>89,234,671</u>	<u>93,371,833</u>	<u>112,105,675</u>	<u>118,118,519</u>	<u>123,766,484</u>
Total primary government net position	<u>\$ 274,952,765</u>	<u>\$ 314,910,631</u>	<u>\$ 361,889,550</u>	<u>\$ 409,418,513</u>	<u>\$ 424,932,654</u>	<u>\$ 434,030,021</u>	<u>\$ 442,676,923</u>	<u>\$ 451,476,597</u>	<u>\$ 456,495,509</u>	<u>\$ 466,837,534</u>



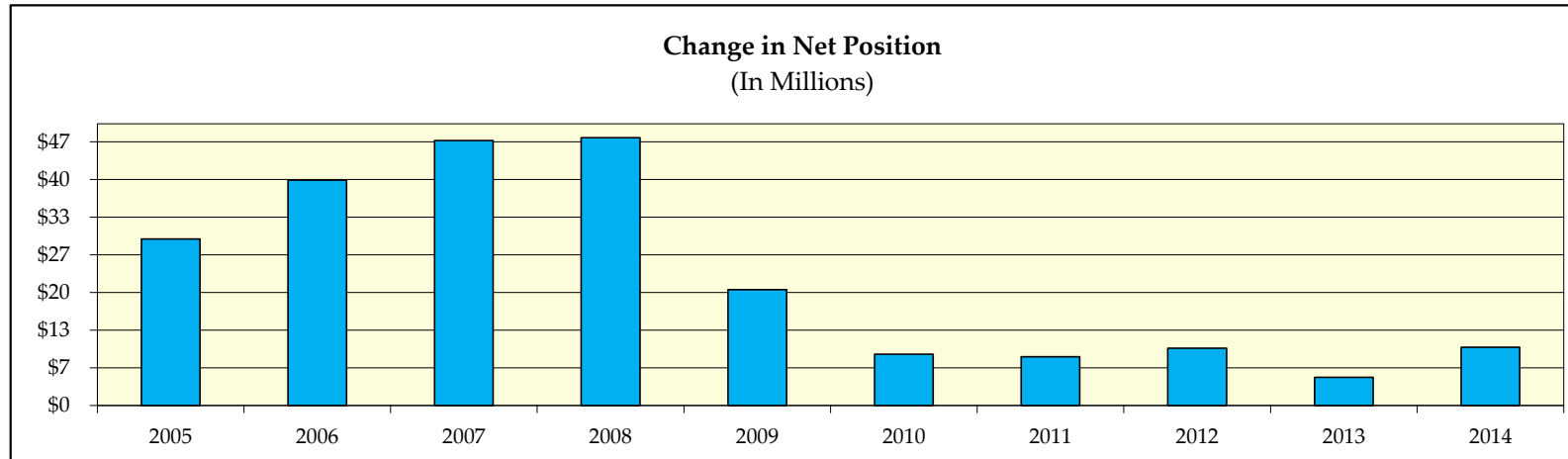
GRAND STRAND WATER AND SEWER AUTHORITY

Schedule 2

Changes in Net Position
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income/(Loss)	Total Nonoperating Revenues/ (Expenses)	Income/(Loss) Before Capital Contributions	Capital Contributions	Change in Net Position
2005	\$ 36,571,027	\$ 33,591,329	\$ 2,979,698	\$ (2,758,266)	\$ 221,432	\$ 29,300,325	\$ 29,521,757
2006	42,668,707	39,729,593	2,939,114	(1,210,337)	1,728,777	38,229,179	39,957,956
2007	58,417,958	50,960,722	7,457,236	(2,823,384)	4,633,852	42,345,067	46,978,919
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

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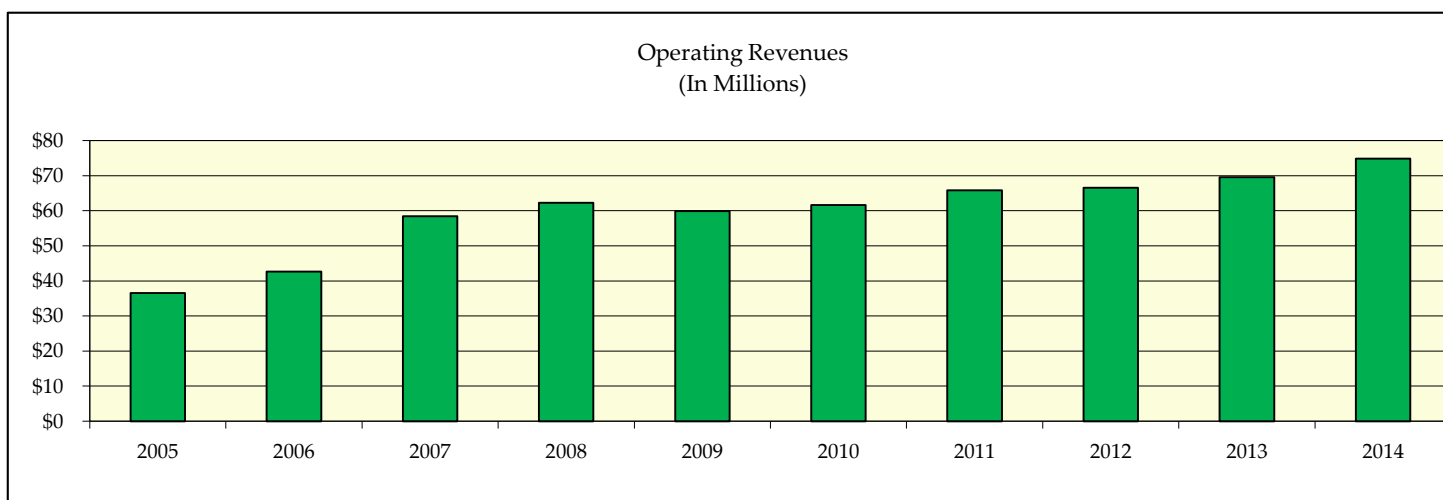
GRAND STRAND WATER AND SEWER AUTHORITY

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
2005	\$ 21,033,852	\$ 5,234,451	\$ 4,904,977	\$ 2,150,031	\$ 3,247,716	\$ 36,571,027
2006	24,318,246	6,332,314	5,389,236	2,330,268	4,298,643	42,668,707
2007	40,342,471	5,833,911	5,713,617	2,316,629	4,211,330	58,417,958
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

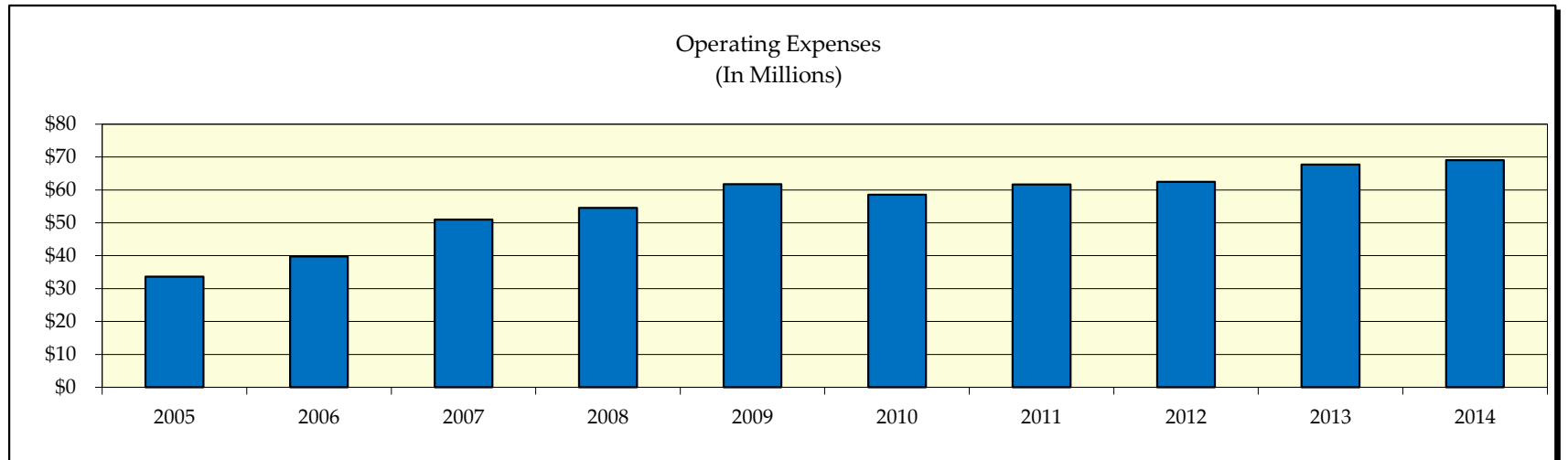


GRAND STRAND WATER AND SEWER AUTHORITY

Schedule 4

Operating Expenses
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Personnel Costs	Contractual Services	Supplies and Materials	Depreciation	Other Expenses	Total Operating Expenses
2005	\$ 8,920,515	\$ 5,580,116	\$ 5,258,876	\$ 12,538,491	\$ 1,293,331	\$ 33,591,329
2006	9,671,621	8,545,559	7,021,438	13,323,239	1,167,736	39,729,593
2007	13,309,990	10,925,712	9,951,269	15,363,404	1,410,347	50,960,722
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



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)
2005	\$ 4,760,648	\$ (142,859)	\$ (7,376,055)	\$ (2,758,266)
2006	3,311,395	(541,197)	(8,038,477)	(5,268,279)
2007	6,200,184	48,862	(9,072,430)	(2,823,384)
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)

GRAND STRAND WATER AND SEWER AUTHORITY

Annual Capital Contributions by Source

Last Ten Fiscal Years

(Unaudited)

Schedule 6

Fiscal Year	SWTP Capacity Fees	Government Grants	Customer Impact Fees	Developer Contributions	Total
2005	\$ 1,918,047	\$ 284,906	\$ 11,544,330	\$ 15,553,042	\$ 29,300,325
2006	1,970,844	-	13,912,826	22,345,509	38,229,179
2007	1,970,844	-	9,827,621	30,546,602	42,345,067
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

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

Schedule 7

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
2005	7,524	6,705	819	10.89%	5,479	\$ 9.58	\$ 1.10	\$ 7.11	\$ 1.65
2006	8,632	7,815	817	9.46%	6,045	9.58	1.10	8.11	1.70
2007	15,536	14,214	1,322	8.51%	8,775	9.58	1.10	8.11	1.70
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

GRAND STRAND WATER AND SEWER AUTHORITY

Schedule 8

Annual Taps Sold
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Taps Sold		
	Water Meter Taps	Sewer Taps	Total
2005	705	257	962
2006	784	238	1022
2007	837	243	1080
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

GRAND STRAND WATER AND SEWER AUTHORITY

Schedule 9

Number of Water and Sewer Customers By Type
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Water Only			Sewer Only			Water & Sewer			Total		
	Retail	Wholesale	Other	Retail	Wholesale	Other	Retail	Wholesale	Other	Water Only	Sewer Only	Water & Sewer
2005	6,752	8	20	3,741	8	27	42,742	0	0	6,780	3,776	42,742
2006	7,041	8	19	4,137	8	27	47,654	0	0	7,068	4,172	47,654
2007	7,393	10	19	4,471	8	26	50,883	0	0	7,422	4,505	50,883
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

GRAND STRAND WATER AND SEWER AUTHORITY

Water and Sewer Rates

Last Ten Fiscal Years

(Unaudited)

Schedule 10

Fiscal Year	Water		Sewer	
	Base Rate	Usage Rate	Base Rate	Usage Rate
2005	\$ 9.58	\$ 1.10	\$ 7.11	\$ 1.65
2006	9.58	1.10	8.11	1.70
2007	9.58	1.10	8.11	1.70
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

GRAND STRAND WATER AND SEWER AUTHORITY

Ten Largest Customers
Current Year and Nine Years Ago
(Unaudited)

Customer	Fiscal Year 2014		
	Water Revenue	Sewer Revenue	Total
City of Myrtle Beach	\$ 7,351,231	\$ 6,287,337	\$ 13,638,568
City of Conway	3,175,807	1,437,310	4,613,117
City of North Myrtle Beach	3,516,246	509,804	4,026,050
Little River Water and Sewerage Company	1,174,545	916,891	2,091,436
City of Loris	315,112	525,221	840,333
Ocean Lakes Utilities	144,294	323,278	467,572
Georgetown County Water and Sewer Authority	251,765	124,623	376,388
Tabor City	12,377	323,317	335,694
Oceanside Village	153,575	143,789	297,364
Myrtle Beach Resort	136,999	155,804	292,803

Customer	Fiscal Year 2005		
	Water Revenue	Sewer Revenue	Total
City of Conway	\$ 2,001,162	\$ 664,614	\$ 2,665,776
Little River Water and Sewerage Company	764,067	536,770	1,300,837
City of Myrtle Beach	835,885	-	835,885
Ocean Lakes Utilities	130,793	194,151	324,944
Georgetown County Water and Sewer Authority	160,038	88,494	248,532
Oceanside Village	135,635	92,255	227,890
Myrtle Beach Air Force Base	-	193,886	193,886
City of Loris	188,291	-	188,291
Springmaid Beach	70,773	97,988	168,761
Pirateland Campground	96,004	47,727	143,731

GRAND STRAND WATER AND SEWER AUTHORITY

Schedule 12

Ratios of Outstanding Debt By Type
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Capital Lease	Revenue Bonds	Companion Debt	Notes Payable	Total		
					Amount	As a % of Personal Income	Per Capita
2005	\$ 1,503,026	\$ 127,404,847	\$ -	\$ 38,063,752	\$ 166,971,625	2.93%	767
2006	1,411,971	125,024,902	-	55,662,189	182,099,062	2.99%	802
2007	1,317,609	141,587,770	-	61,696,450	204,601,829	3.08%	858
2008	1,219,819	146,951,664	-	61,639,865	209,811,348	2.97%	839
2009	1,118,476	151,559,700	4,751,909	68,890,697	226,320,782	2.99%	879
2010	1,013,453	145,882,320	5,008,853	68,638,660	220,543,286	2.87%	836
2011	904,615	153,643,869	5,279,688	54,936,108	214,764,280	2.77%	798
2012	791,823	167,917,445	6,086,743	52,291,219	227,087,230	2.82%	822
2013	679,637	162,331,607	5,704,336	52,291,482	221,007,062	2.57%	783
2014	557,754	152,572,702	5,312,190	63,885,425	222,328,071	NA	768

GRAND STRAND WATER AND SEWER AUTHORITY

Revenue Bond Coverage

Last Ten Fiscal Years

(in thousands)

(Unaudited)

Fiscal Year	Gross Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Net Earnings Available for Debt Service	Debt Service Requirements ⁽³⁾			Coverage ⁽⁴⁾
				Principal	Interest	Total	
2005	\$ 54,650	\$ 21,052	\$ 33,598	\$ 4,079	\$ 7,204	\$ 11,283	2.98
2006	65,380	26,406	38,974	4,117	7,883	12,000	3.25
2007	76,465	35,597	40,868	6,105	8,910	15,015	2.72
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

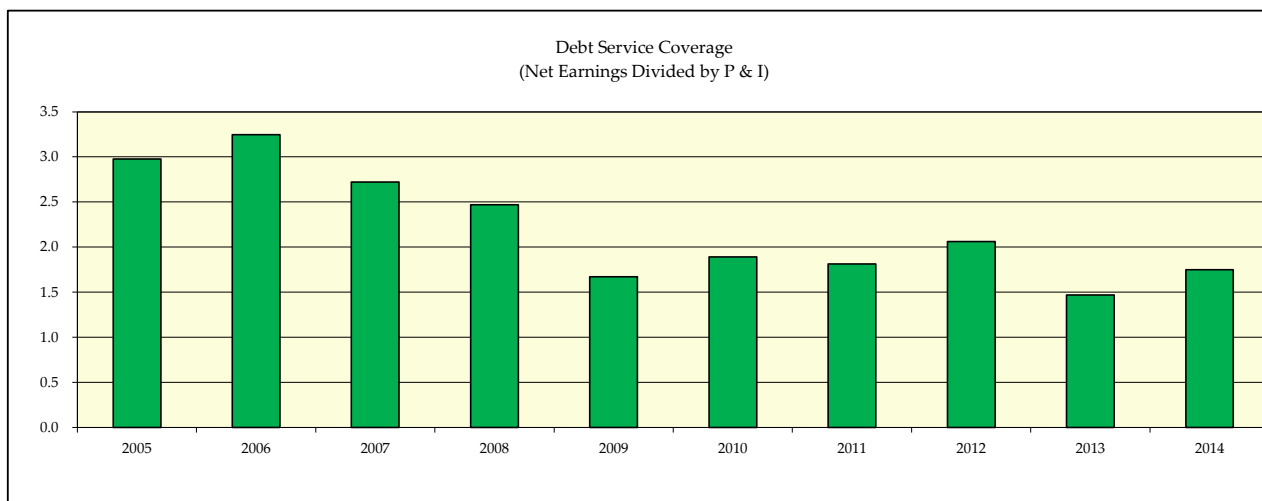
⁽¹⁾ Gross revenues include operating revenue, investment income, SWTP capacity fees and customer impact fees

⁽³⁾ Includes Principal and Interest of Revenue bonds and State Revolving Loans Only.

Principal = Total Reductions for Bonds and Notes from Note 5-2

⁽²⁾ Total Operating Expenses Excluding Depreciation and Certain Other Adjustments.

⁽⁴⁾ 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)

Schedule 14

Calendar Year	Population	Personal Income (Thousands of Dollars)	Per Capita Personal Income	Median Age	Unemployment Rate
2004	217,608	\$ 5,694,801	\$ 26,170	38.3	5.9
2005	226,992	6,080,889	26,789	38.3	5.8
2006	238,493	6,632,252	27,809	38.3	5.4
2007	249,925	7,074,627	28,307	37.1	5.0
2008	257,380	7,562,597	29,383	NA	11.3
2009	263,868	7,678,701	29,101	41.0	14.5
2010	269,291	7,743,921	28,757	40.8	13.1
2011	276,340	8,054,854	29,148	41.3	12.0
2012	282,285	8,598,437 ⁽²⁾	30,460	41.40 ⁽³⁾	11.0
2013	289,650 ⁽¹⁾	NA	NA	NA	8.5 ⁽⁴⁾

Data presented is Horry County statistics.

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

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

⁽³⁾ US Census Bureau Fact Finder (<http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=CF>)

⁽⁴⁾ As of 2/28/14 from Bureau of Labor Statistics (<http://www.bls.gov/lau/laucnty13.txt>)

NA - Not Available

GRAND STRAND WATER AND SEWER AUTHORITY

Schedule 15

Number of Employees by Identifiable Activity
Last Ten Fiscal Years
(Unaudited)

Full-Time Equivalent Employees as of June 30

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water										
Water Plant Operations	14	13	24	23	23	25	24	24	22	22
Water Plant Maintenance	2	2	8	6	6	6	5	6	6	6
Water Systems Maintenance	17	17	15	15	13	14	17	16	19	16
Water Systems Operations	12	13	13	25	27	29	34	34	38	38
Sewer										
Sewer Plant Operations	18	18	32	39	39	45	36	34	36	37
Sewer Plant Maintenance	2	4	11	12	13	11	13	17	18	18
Sewer Systems Maintenance	34	35	38	36	38	37	38	38	41	43
Biosolid / Sludge Disposal										
Operations	16	18	22	25	23	27	27	26	26	25
Engineering / Inspection / Construction										
Engineering	12	7	15	16	15	14	15	15	16	16
Inspections	5	6	7	7	7	7	6	6	5	5
Construction	16	16	17	19	23	22	22	22	21	25
Administration										
Billing / Customer Service	14	15	16	16	18	23	23	23	25	26
Meter Reading	13	8	9	-	-	-	-	-	-	-
Human Resources	2	2	2	2	2	2	2	2	2	2
Finance and Accounting	5	5	5	6	6	6	5	5	5	6
Purchasing	4	4	4	4	4	4	4	4	4	4
Information Systems	2	2	3	4	4	4	4	4	4	4
Executive Administration	7	14	6	5	3	3	3	3	3	3
Fleet / Facilities Management	-	-	-	-	5	3	4	4	4	4
Total	<u>195</u>	<u>199</u>	<u>247</u>	<u>260</u>	<u>269</u>	<u>282</u>	<u>282</u>	<u>283</u>	<u>295</u>	<u>300</u>

GRAND STRAND WATER AND SEWER AUTHORITY

Miscellaneous Statistical Data

June 30, 2014

(Unaudited)

Sewer System Facts

	<u>2014</u>	<u>2013</u>
<u>Use of Sewer</u>		
Sewer Customers, End of Period	70,339	68,391
Average Daily Consumption (Millions of Gallons)	29.16	26.95
Estimated Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	10.64	9.84

System Facilities

Total Miles of Sewer Lines *	1,688	1,676
Number of Treatment Plants	13	13
Number of Pumping Stations	657	657
Number of Residential Effluent Pumping Stations	395	400
Number of Residential Grinder Pumping Stations	4,439	4,245

*Force Main 838

Gravity 850

1,688

GRAND STRAND WATER AND SEWER AUTHORITY

Miscellaneous Statistical Data

June 30, 2014

(Unaudited)

Water System Facts

	<u>2014</u>	<u>2013</u>
<u>Use of Water</u>		
Water Customers, End of Period	74,297	72,304
Average Daily Consumption (Millions of Gallons)	41.04	38.21
Estimated Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons) *	14.98	13.95
 <u>System Facilities</u>		
Storage Tanks **	25	25
Storage Capacity (Millions of Gallons) **	29	29
Auxiliary Deep Water Wells	51	51
Total Miles of Distribution Lines	1,780	1,764
Fire Hydrants	7,126	7,002

* Includes SWTP Participant Sales

** Includes SWTP Storage Tanks (Ground & Elevated)

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INDEPENDENT AUDITOR'S OTHER
REPORTS SECTION

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**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 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, 2014, and the related notes to the financial statements, which collectively comprise GSWSA's basic financial statements, and have issued our report thereon dated September 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 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*.

Purpose of this Report

This report is intended 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.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

Columbia, South Carolina
September 10, 2014