ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

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Greene Finney & Horton
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Anderson Regional Joint Water System
Anderson, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Anderson Regional Joint Water System, South Carolina (the "Joint Water System"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Joint Water System'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Anderson Regional Joint Water System, South Carolina, as of June 30, 2016, and the changes in its financial position and its cash flows for the year 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 and the pension plan schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Joint Water System's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016 on our consideration of the Joint Water System'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 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 Joint Water System's internal control over financial reporting and compliance.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 15, 2016

To the Board of Commissioners of the Anderson Regional Joint Water System and to the community we serve:

We are pleased to transmit the Annual Financial Report of the Anderson Regional Joint Water System ("Joint Water System") for the fiscal years ended June 30, 2016 and 2015. Statement No. 34 of the Governmental Accounting Standards Board requires that management provide a discussion and analysis to accompany the financial statements. This discussion and analysis of the Joint Water System's financial performance provides an overview of financial activities for the year ended June 30, 2016, and should be read in conjunction with the Joint Water System's financial statements.

The Joint Water System operates as a utility enterprise and maintains accounting records in accordance with the U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). The basic financial statements include: **Statements of Net Position**; **Statements of Revenues, Expenses, and Changes in Net Position**; S**tatements of Cash Flows**; and **Notes to the Financial Statements**.

The **Statements of Net Position** present the financial position of the Joint Water System as of a specific date. This statement provides information about the nature and amount of resources (assets and deferred outflows of resources) and obligations (liabilities and deferred inflows of resources), with the difference reported as net position, some of which may be restricted in accordance with bond covenants and Board of Commissioners' policy. Over time, increases and decreases in net position may serve as indicators of whether the financial position of the Joint Water System is improving or deteriorating.

The **Statements of Revenues, Expenses, and Changes in Net Position** present the results of the business activities over the course of the fiscal year and information about how the net position changed during the year. 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. This statement also provides certain information on the Joint Water System's cost recovery. The Joint Water System recovered 94.4% of its revenue under a direct cost recovery formula. The remaining 5.6% of system costs are recovered under a revenue neutral wholesale rate under contracted sales to Clemson University.

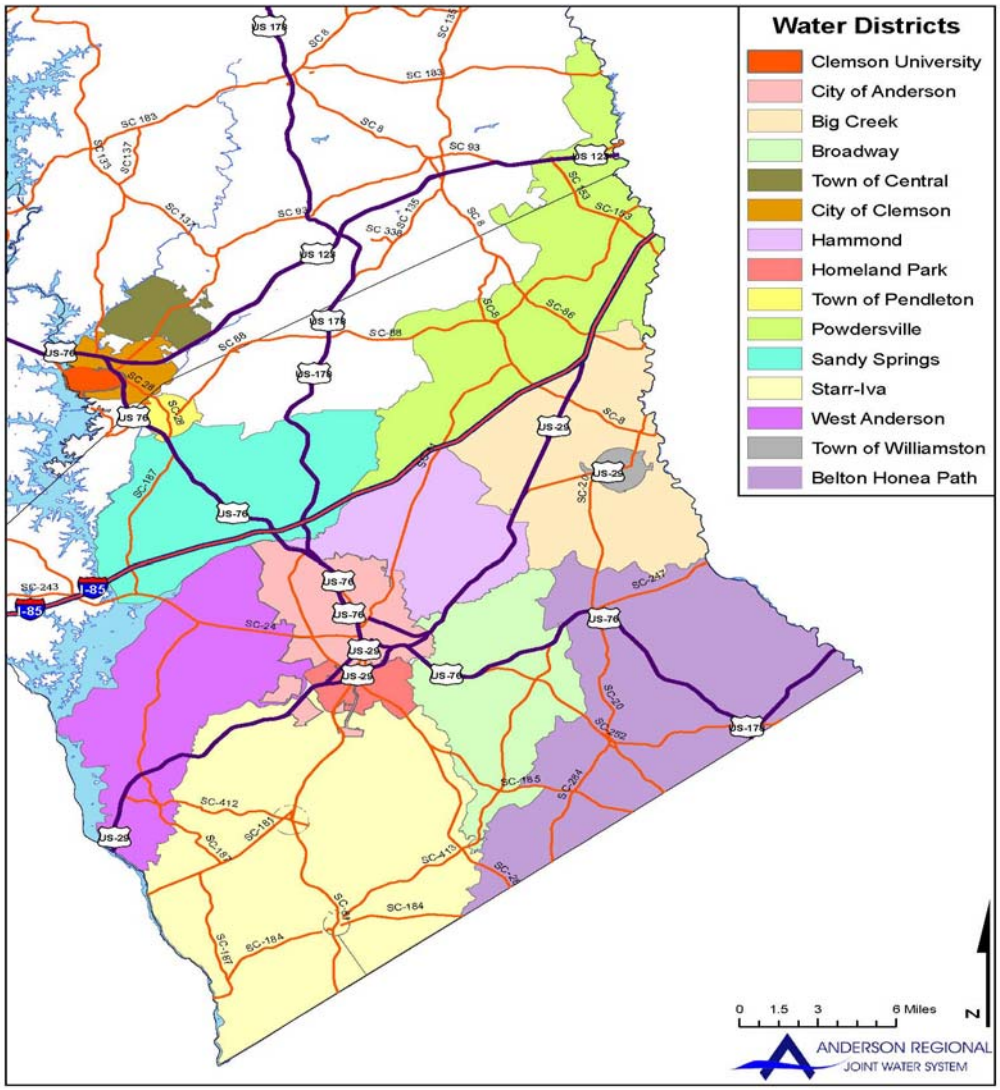
The **Statements of Cash Flows** present changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation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

The **Notes to the Financial Statements** provide required disclosures and other information essential to fully understand the data provided in the statements. Required supplementary information and supplementary information contain additional financial data and though not a required part of the financial statements, this data enhances information provided to users.

Responsibility for the accuracy of the data as well as the thoroughness of the presentation rests with the management of the Joint Water System. To the best of our knowledge, the enclosed data are accurate in all material respects and adequately present the financial position of the Anderson Regional Joint Water System.

The Joint Water System

Pursuant to Section 6-25-50 of the S.C. Code of Laws, the Anderson County Joint Municipal Water System, subsequently renamed the Anderson Regional Joint Water System pursuant to Resolution No. 10-12-04, effective October 12, 2004, established an entity for including, but not limited to, the planning, financing acquisition and location of water supply and water distribution systems to insure for an adequate, reliable and economical supply of water to the persons and property served by the members of the Joint Water System, and such other purposes as are or may be permitted by law.



A fourteen member Board of Commissioners ("Board" or "Commission") representing the participating member agencies governs the Joint Water System. Clemson University is serviced as a non-governing wholesale customer. The Commissioners serve at the pleasure of their appointing Boards or Councils. The Board, under authority of state law, has and may exercise all powers which are granted to special purpose districts by the Constitution and Laws of South Carolina, except the power to levy and collect taxes.

Board of Commissioners

Fiscal Year 2016

Commissioner		Agency
Jeff Caldwell*	Chairman	City of Anderson
Dwight Edwards*	Vice-Chairman	West Anderson Water District
Al Eaves*	Secretary	Sandy Springs Water District
Dyke Spencer*	Past-Chairman	Powdersville Water District
Billy Peele*	At large	Starr-Iva Water District
Steve Miller*	At large	Town of Pendleton
Larry Harrell		Homeland Park
Doug Locke		Broadway Water District
Phillip Mishoe		Town of Central
Benjie McGill		City of Clemson
David Rogers		Town of Williamston
Larry Burgess		Big Creek Water District
Chuck Cortez		Hammond Water District
Rip Tafta		Belton-Honea Path Water Authority

* Executive Committee

Actions by the Commission are approved via two voting procedures: agency votes and flow-based votes. Debt issuances are approved based on agency votes, with each agency receiving 1 vote. Debt issuances resulting in increases to total capacity require unanimous consent of the agencies participating in the issue. Debt issuances necessary to maintain system reliability require approval of a two thirds super-majority. Officers are selected based on simple majority of agency votes.

All other board actions, including budget adoption, contract award and policy changes require approval of a simple majority of flow-based votes. One thousand flow-based votes are allocated proportionately based an agency's pro rata water purchases during the preceding calendar year. In addition, each commissioner is entitled to 1 vote. The vote allocation is re-computed annually.

Commission Flow-Based Vote Allocation

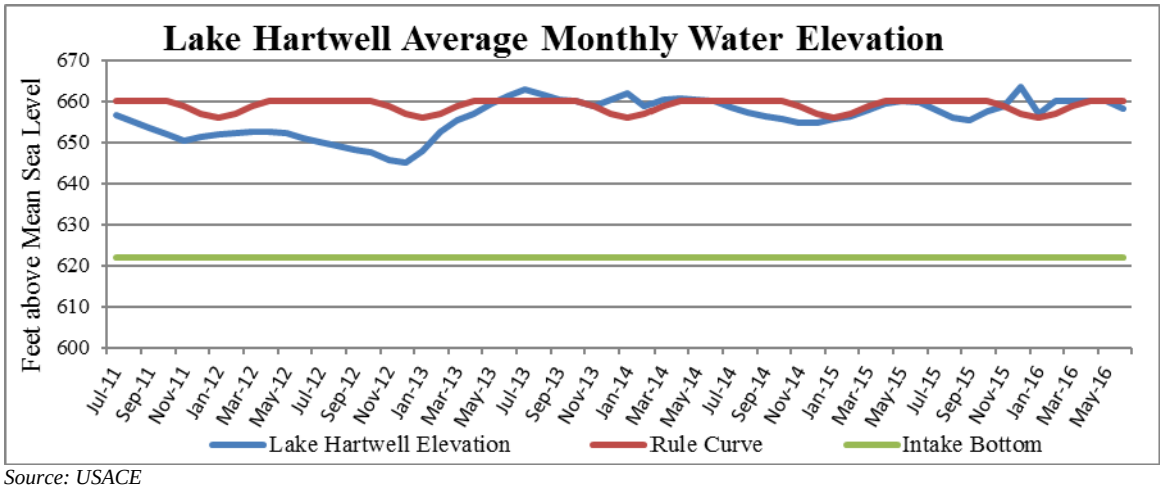
	2015 Votes		2016 Votes	
	Flow	*Total*	*Flow*	*Total*
City of Anderson	288	289	290	291
Big Creek	61	62	57	58
Broadway	41*	42	43	44
Belton/Honea Path	0	1	0	1
Town of Central	0	1	0	1
City of Clemson	120	121	120	121
Hammond	117	118	121	122
Homeland Park	43*	44	43	44
Pendleton	19	20	19	20
Powdersville	12	13	21	22
Sandy Springs	114	115	110	111
Starr Iva	63	64	60	61
West Anderson	85	86	84	85
Williamston	37	38	32	33
System Total	**1000**	**1014**	**1000**	**1014**

*Modifications to rounding rule to accommodate restrictions of ByLaws

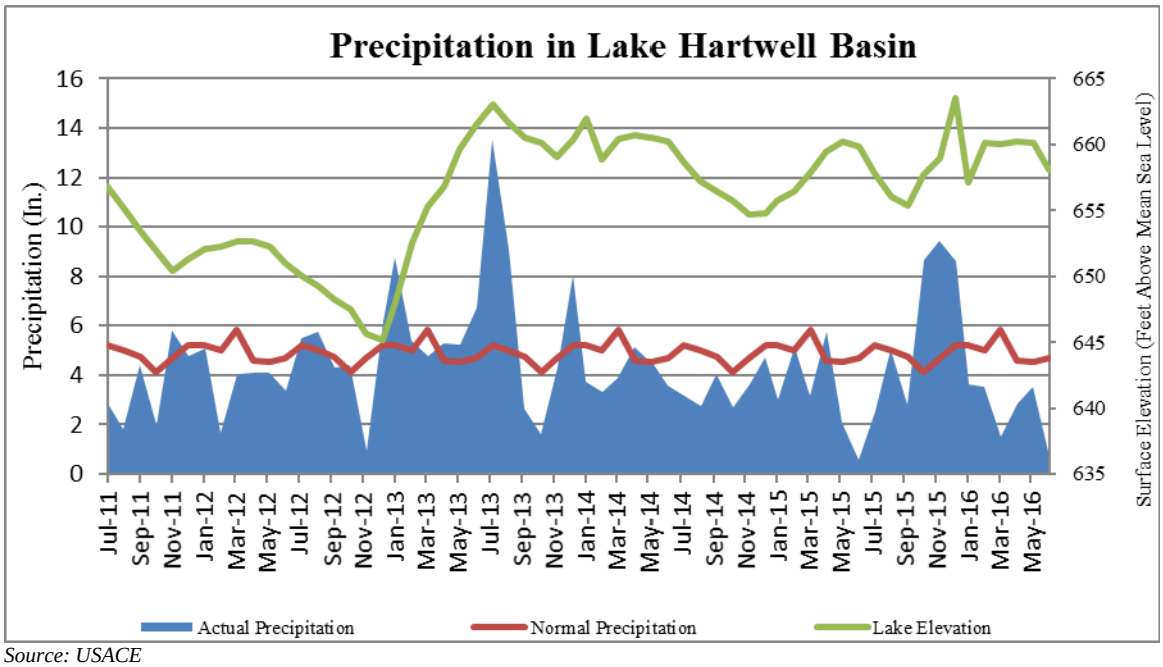
FISCAL YEAR 2016 IN REVIEW

Stable Water Resource Supplies

Fiscal year 2016 was characterized by slightly rainier weather, but still within normal range for annual precipitation, resulting in stable source water levels in the region. Supplies started the year slightly below targeted levels, but winter precipitation allowed reservoir levels to rebound so that by mid-fiscal year desired targets were met and sustained. Ground water levels which provide a long-term indicator of future stream flows remained near long-term median levels.



Source: USACE



Source: USACE

Continuing Taste and Odor Issues

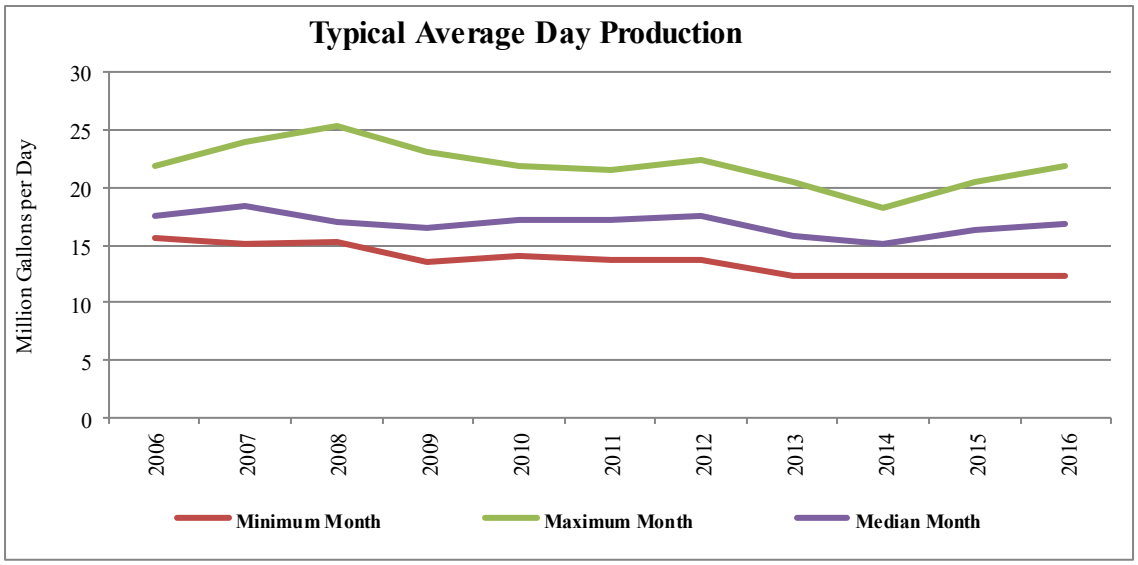
Taste and odor causing algae in its Lake Hartwell source water is a continual issue facing the Joint Water System. During fiscal year 2015, the Joint Water System formed a research team consisting of members from the Joint Water System, Clemson University and Synterra, a regional environmental consultancy, to develop a plan and conduct algaecide applications to a portion of Lake Hartwell near the raw water intakes. Each application proved to be an effective tool providing an approximate 8 week reduction in the taste and odor constituents. During fiscal year 2016, the Joint Water System continued the lake treatment process. Due to improved planning and detection techniques, the Joint Water System was able to keep algae below detectable levels.

Along with the lake treatment process, the Joint Water System has collaborated with an engineering firm to research and identify potential in plant treatment technologies to address the taste and odor issue along with other emerging threats to water quality. Advanced oxidation was recommended as the most effective treatment option to mitigate taste and odor, iron and manganese, and emerging contaminants in the raw water source. As of June 30, 2016, the Joint Water System selected advanced oxidation as the preferred technology.

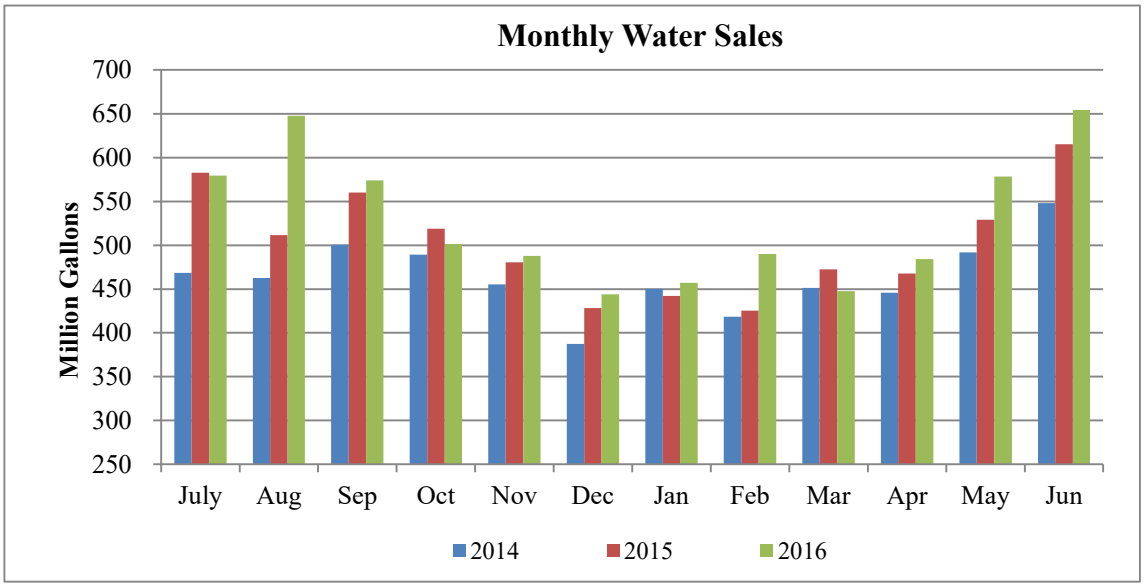
Demand and Consumption

Slightly drier summer months generally portend to increased water sales when supplies are available to meet demands. These conditions along with recovering local economy provided the impetus for water purchases during fiscal year 2016 to increase by 5.2% from the previous year.

Examination of typical average day water production data shows a continuing reduction in the average per capita demand during the minimum month compared to the long-term average. This trend would be consistent with demand hardening at the reduced use levels associated with continued conservation behavior brought about by the national economic recession. Per capita water demand during the median and maximum months has also declined, potentially signalling the establishment of a "new normal" for water sales on a per capita basis.



As the chart below shows, hot and dry summer months coupled with taste and odor mitigation resulted in monthly water sales consistently above last fiscal year.



Water Purchases
In Gallons

	2015		2016	
Anderson	1,659,869,416	27.51%	1,692,085,040	26.66%
Big Creek	327,300,000	5.42%	319,300,000	5.03%
Broadway	246,409,951	4.08%	265,805,885	4.19%
Clemson	687,687,393	11.40%	684,002,810	10.78%
Clemson University	325,848,985	5.40%	334,739,199	5.27%
Hammond	670,221,374	11.11%	742,951,907	11.71%
Homeland Park	244,141,000	4.05%	260,162,000	4.10%
Pendleton	108,510,000	1.80%	110,180,000	1.74%
Powdersville	121,700,000	2.02%	220,230,000	3.47%
Sandy Springs	631,376,000	10.46%	693,464,000	10.93%
Starr-Iva	344,625,844	5.71%	335,393,612	5.29%
West Anderson	483,558,585	8.01%	488,211,643	7.69%
Williamston	182,186,406	3.02%	199,366,923	3.14%
TOTAL	6,033,434,954		6,345,893,019	

System Initiatives

Filter Refurbishment

During fiscal year 2016, the Joint Water System experienced an unexpected failure of filters 8 and 9. Upon inspection of the failed filters, it was noted that both filters needed repair. Filter 5 was demolished in 2012 and the remainder of the work was put on hold due to taste and odor issues arising in 2013. The completion of filter 5 was grouped with the repair of filters 8 and 9 during fiscal year 2016. The reserve funds maintained by the System were used to fund the rehabilitation and refurbishment of all three filters.

The filter rehabilitation and refurbishment project is a continuation of a phased approach to upgrade the water plant process improvements and extend the useful life of all capital assets. In the coming years, the Joint Water System plans to continue this project with the refurbishment of filters 1 through 4.

STATISTICS

Financial Planning

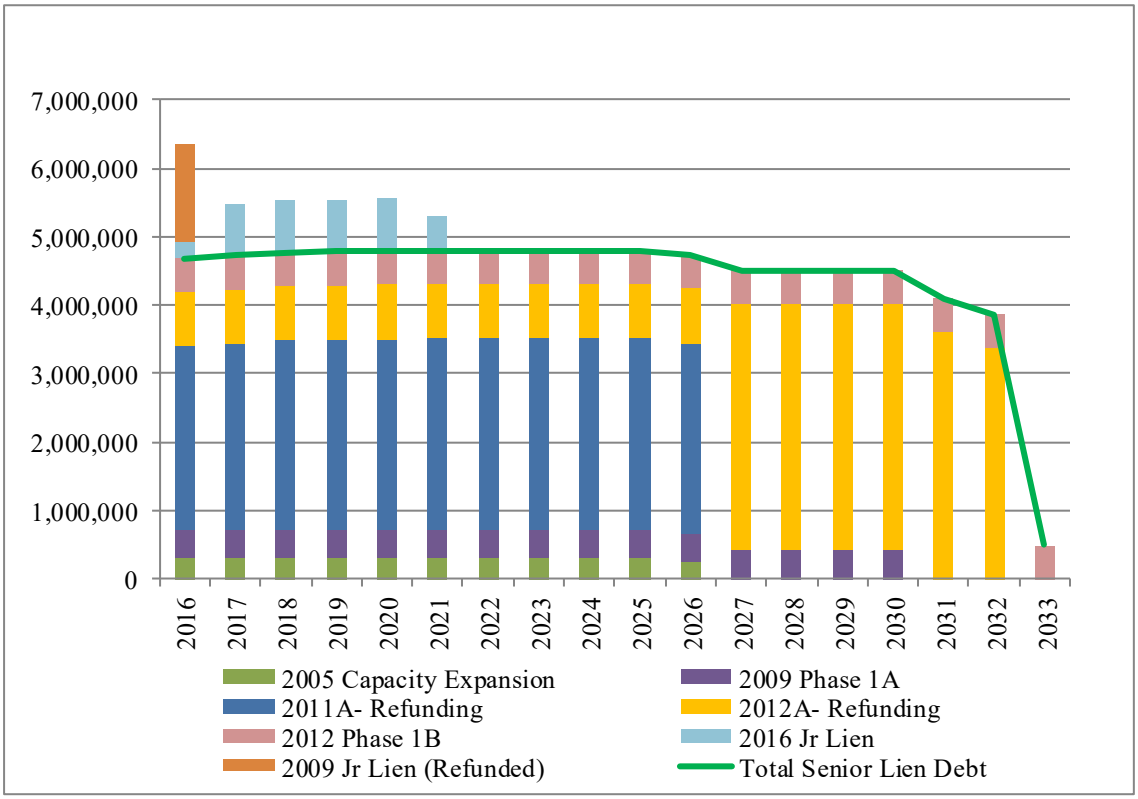
The Board has adopted a Comprehensive Financial Policy that details the parameters necessary to develop a financial model capable of evaluating multiple planning scenarios. The financial model predicts revenue, expenses and water rate requirements of the utility allowing debt issuances to be optimized under each scenario. The financial model is annually updated to provide multiple year projections for the System and estimated impacts on each member agency.

The Joint Water System adheres to SC state guidelines requiring insured or collateralized accounts with respect to investment policies for all of its funds. While the System bylaws allow the use of limited variable interest rate debt, the Commission has elected to utilize only fixed rate debt issuances. Debt issuances have been made seeking to minimize the total debt outstanding as well as year-over-year debt service cost increases wherever possible.

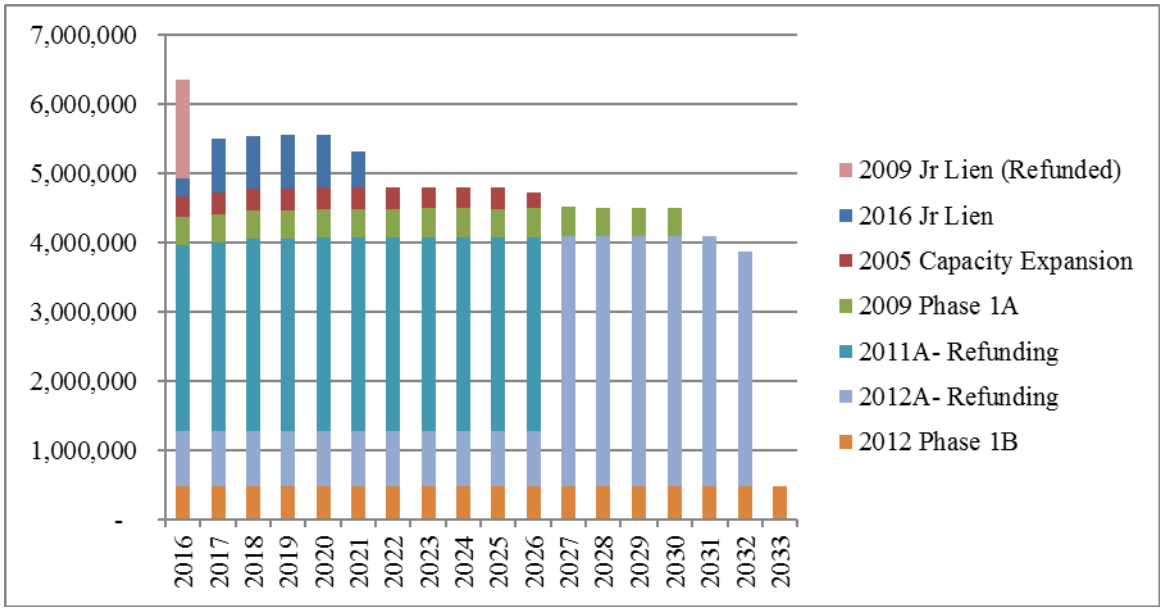
The Joint Water System bond covenants are strong with step-up provisions and absolute repayment obligations. All of the Joint Water System's debt payments, regarding revenue bonds and other loan and repayment contracts, are being made in accordance with prescribed requirements. In addition to the strong financial planning during the budget preparation cycle, it has an excellent record of executing the adopted annual budget. As a result, the Joint Water System is able to maintain an AA- rating on its outstanding bonds from Standard & Poor's and an Aa3 rating from Moody's.

The chart below depicts the Joint Water System's existing and planned annual debt repayment plans. During fiscal year 2016, the Joint Water System issued a $3,700,000 Junior Lien bond to fund the filter repair and refurbishment, the painting of clarifier 4, and the design and engineering phase of the taste and odor project.

Annual Debt Service



Total Debt Outstanding



Potable Water System Annual Revenue

FY	O&M Revenue	Debt Service	R&R Revenue	Total Revenue	Demand (kGals)	Unit cost
2003	$2,565,949	$2,814,613	$844,384	$6,224,946	6,468,672	0.96
2004	2,565,908	3,071,662	1,111,499	6,749,069	6,290,179	1.07
2005	2,422,691	3,455,125	1,027,537	6,905,353	6,336,488	1.09
2006	2,547,597	3,625,236	1,087,571	7,260,404	6,595,643	1.10
2007	2,683,260	3,795,258	1,188,856	7,667,374	6,974,033	1.10
2008	3,084,721	4,288,127	1,286,438	8,659,286	6,892,066	1.26
2009	3,700,839	4,284,127	1,285,238	9,270,204	6,283,859	1.48
2010	3,244,935	4,528,110	1,286,558	9,059,603	6,306,191	1.44
2011	3,721,351	4,528,610	1,286,708	9,536,669	6,437,476	1.48
2012	3,475,668	4,706,978	1,421,477	9,604,096	6,327,755	1.52
2013	3,549,009	4,538,853	1,392,002	9,479,864	5,852,492	1.62
2014	3,413,820	4,693,037	1,436,050	9,542,907	5,569,827	1.71
2015	3,902,083	4,636,153	1,412,363	9,950,599	6,033,435	1.65
2016	$4,228,816	$4,652,903	$1,422,323	$10,304,042	6,345,893	1.62

In lieu of fully funding depreciation, the Joint Water System collects funds for Repair and Replacement ("R&R"). The Water Sale and Purchase Agreement stipulates that an amount equivalent to 30% of the gross debt service payments on senior lien bonds be set aside to fund capital refurbishments. While many of the physical facilities are approaching 45 years of life, refurbishments have reduced the effective age (age since last major refurbishment) to less than 10 years on all major equipment classes except for the remaining filters, which are planned for refurbishment during the next fiscal year.

Water System Depreciation

FY	Annual Depreciation	Cumulative Depreciation	Annual R&R	Cumulative R&R	Cumulative Depreciation Funding (%)
2003	$1,301,603	$1,496,315	$844,384	$844,384	56.43%
2004	1,311,574	2,807,889	1,111,499	1,955,883	69.66%
2005	1,488,768	4,296,657	1,027,537	2,983,420	69.44%
2006	1,531,054	5,827,711	1,087,571	4,070,991	69.86%
2007	1,604,071	7,431,782	1,188,856	5,259,847	70.78%
2008	1,709,057	9,140,839	1,286,438	6,546,285	71.62%
2009	1,764,061	10,904,900	1,285,238	7,831,523	71.82%
2010	1,697,013	12,601,913	1,286,558	9,118,081	72.35%
2011	1,814,277	14,416,190	1,286,708	10,404,789	72.17%
2012	1,867,560	16,283,750	1,421,477	11,826,266	72.63%
2013	1,955,937	18,239,687	1,392,002	13,218,268	72.47%
2014	2,228,758	20,468,445	1,436,050	14,654,318	71.59%
2015	2,441,177	22,909,622	1,412,363	16,066,681	70.01%
2016	$2,456,714	$25,366,336	$1,422,323	$17,489,004	68.95%

FINANCIAL STATEMENTS

Statement of Net Position

The Statement of Net Position is a financial snapshot of the Joint Water System at June 30, 2016 of both the potable and raw water activities. It presents the fiscal resources of the Joint Water System (assets and deferred outflows of resources), the claims against those resources (liabilities and deferred inflows of resources) and the residual available for future operations (net position). Balance sheet items are classified by liquidity as either current or non-current. Net position is classified by the ways in which they may be used for future operations.

The Joint Water System's total assets at June 30, 2016 were $84,141,282. Assets consisted primarily of net capital assets, which account for $72,545,778 of total assets. The Joint Water System uses its capital assets to facilitate its mission, which is to provide the highest quality water at the lowest possible price. Comparable figures for 2015 were $83,393,442 in total assets, with capital assets accounting for $74,156,154 of total assets.

Depreciation provides an ongoing mechanism for accumulating sufficient reserves to replace plant capital when it reaches the end of its useful life. Depreciation is an annual expense that effectively reduces net position to account for facility aging. Accumulated depreciation through fiscal year 2016 is $25,366,336 and $22,909,622 through fiscal year 2015. In lieu of funding depreciation, the Joint Water System utilize a set of Repair and Replacement Accounts. Presently, these accounts have collected 68.95% of cumulative depreciation.

The Joint Water System's total liabilities at June 30, 2016 totaled $65,595,553, of which $47,230,642 was Bond debt (which includes a premium on the bonds) used to fund capital projects. Comparably, the Joint Water System's total liabilities at June 30, 2015 totaled $66,166,781, of which $46,904,694 was Bond debt (which includes a premium on the bonds) used to fund capital projects.

Joint Water System Balance Sheet

	2016	2015	2014
Total Assets net of Depreciation	$84,141,282	$83,393,442	$86,294,368
Total Deferred Outflows of Resources	2,845,822	3,105,155	3,192,746
Total Liabilities	65,595,553	66,166,781	67,894,812
Total Deferred Inflows of Resources	80,745	168,954	-
Net Position	21,310,806	20,162,862	21,592,302
Net Position Ratio (Percent of Assets)	25.33%	24.18%	25.02%
Accumulated Depreciation	$25,366,336	$22,909,622	$20,468,445

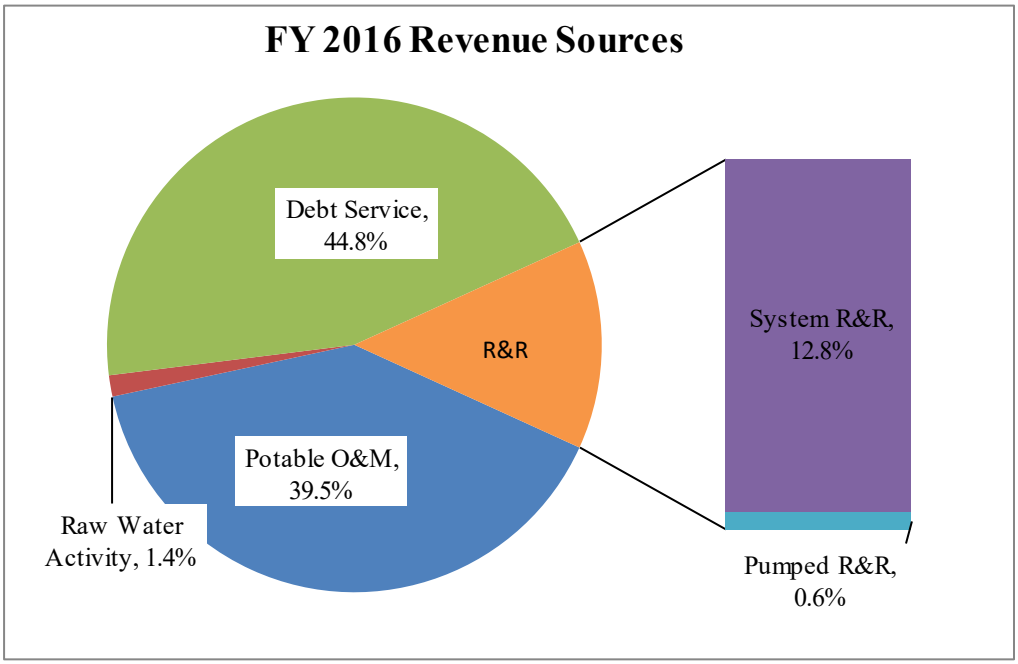
The Joint Water System's net position is separated into three categories. The first category, invested in capital assets, consists of capital assets (net of depreciation) less related outstanding debt (including deferred losses on refundings) incurred to purchase or produce those assets ($14,989,451). The second category, restricted, consists of restricted assets less accrued interest on construction related long-term debt and funds reserved for use in future years for rate stabilization ($6,653,008). The third category, unrestricted net deficit, consists of all other balance sheet amounts unrelated to acquisition of capital assets ($331,653).

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the financial activity of the Joint Water System for the year ended June 30, 2016. The Joint Water system operates two separate activities: a potable water system comprising 98.6% of total and a raw water system comprising the balance. Detailed information by activity can be found in the Combining Schedule of Revenues, Expenses and Changes in Net Position. The focus of the following discussion is on operating revenues and expenses that have a significant effect on the provision of water to the customers of the Joint Water System.

- ***Operating Revenues***

Total Operating Revenue is generated under four categories: Operations and Maintenance Fees including Miscellaneous, Capital Charge for Debt Service, Renewal and Replacement Charges, and Raw Water. The potable water activity contributed 98.6% of the $10,389,676 in total operating revenues. As shown in the financial statements, total operating revenue for 2016 increased 2.7% from 2015 with relatively equivalent changes in each category.



- ***Non-operating Revenues and (Expenses)***

Non-operating revenues and (expenses) are made up of the cumulative of interest income plus proceeds from the sales of assets and grant revenues received, less interest paid on bonds and notes payable and any applicable water credits. For fiscal year 2016 net non-operating expense was ($2,244,218) a change of $136,146 from the prior year's ($2,380,364) with the change associated with interest expense and amortization of the bond refunding.

- ***Operating Expenses***

There are five main categories of operating expenses: salaries and benefits paid or accrued to or for Joint Water System employees; expense funding general operations and maintenance; professional fees; insurance and depreciation. The following table shows each category of total operating expenses, excluding debt service.

Operating Expense Profile

	2016	2015	2014
Personnel	$1,472,059	$1,550,048	$1,402,492
O&M	2,834,616	2,968,608	2,233,994
Professional Fees	145,737	134,612	57,001
Insurance	88,388	94,995	90,647
Depreciation	2,456,714	2,441,177	2,267,658
Total ($)	$6,997,514	$7,189,440	$6,051,792

During the budget process, operating expenses are further categorized into six functional budget groups. Administrative expenses cover most general expenses of going business. Operating expenses detail the major costs of operating the water treatment plant such as chemicals and electricity, as well as laboratory costs. Maintenance expenses cover the cost of routine repairs and replacements. Large infrequent repairs or refurbishments that significantly extend the life of a capital item are funded from the System Repair and Replacement Fund or the Pumped Repair and Replacement Fund. All staff costs, including salaries, retirement and health insurance are summarized in personnel expenses. Miscellaneous expenses are specifically identified as they comprise the discretionary spending associated with professional development and travel. Debt service expenses comprise the largest single expense in the budget. Debt service expenses are for the direct payment of principal and interest on all outstanding Joint Water System debt.

Statement of Cash Flows

Net cash provided by operating activities was $5,761,342 in fiscal year 2016 compared to $5,370,220 in the prior year. The Joint Water System spent $836,257 for acquisition and construction of capital assets. Normal debt service payments resulted in principal repayment of $238,764 for Series 2005 SRF Revenue Bond, $297,502 for Series 2009A SRF Revenue Bond, and $328,957 for Series 2012B SRF Revenue Bond. In addition, principal payments of $1,465,000 were made on the Series 2011A Advanced Refunding Revenue Bonds and the 2009B Jr Lien Bond was fully refunded with a payment of $1,389,335 as part of the issuance of the Series 2016 Jr Lien.

Change in Long-Term Debt Outstanding

	2016	2015	Difference
Series 2005, SRF	$ 2,935,408	3,174,172	$ 238,764
Series 2006, Equipment Note	41,269	121,353	80,084
Series 2009A, SRF 1A	4,845,835	5,143,337	297,502
Series 2009B, Jr Lien	-	1,389,335	1,389,335
Series 2011A, Advance Refunding	23,315,000	24,780,000	1,465,000
Series 2012A, Refunding	18,640,000	18,640,000	-
Series 2012B, SRF 1B	6,884,553	7,213,510	328,957
Series 2016, Jr Lien	$ 3,462,216	-	$ 3,462,216

DEBT SERVICE COVERAGE REQUIREMENTS

In the Bond Resolutions, the Joint Water System covenants and agrees that it will, at all times, maintain rates sufficient to yield annual Net Earnings in the fiscal year equal to at least one hundred twenty percent of the sum of the annual debt service payments for all senior lien bonds outstanding (1.20x). Net earnings are derived by adjusting the change in net position. The Joint Water System continues to use Pay as You Go ("PAYGO") financing of capital projects to minimize debt issuance levels which reduces current year net operating income, but provides reduced debt service expenses in future years. For fiscal year 2016, the debt service ratio was 1.33x, as computed below.

Rate Covenant Compliance

	2016
Increase in Net Position	$ 1,147,944
Plus Interest Expense	2,257,700
Plus Water Credits	144,164
Plus Depreciation	2,456,714
Plus Contingency Reserve Draws	180,000
Plus Deferred Pension Credits	11,401
Net Earnings	$ 6,197,923
Debt Service	$ 4,652,903
Debt Service Coverage Ratio	**1.33X**
(1.20x Required)	

A LOOK AHEAD

The Management's Discussion and Analysis section "A Look Ahead" in the Annual Financial Report of the Anderson Regional Joint Water System for the fiscal year ended June 30, 2016 (Financial Report) contains forward-looking statements regarding the Joint Water System's business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in the Financial Report. Additionally, statements concerning future matters such as budgets and the financial outlook for future years, state and federal matters that may impact the Joint Water System, revenue and expense levels and other statements regarding matters that are not historical are also forward-looking statements.

Although forward-looking statements in the Financial Report reflect Management's good faith judgment, such statements can only be based on facts and factors currently known. Consequently, forward-looking statements are inherently subject to risks and uncertainties. The actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements.

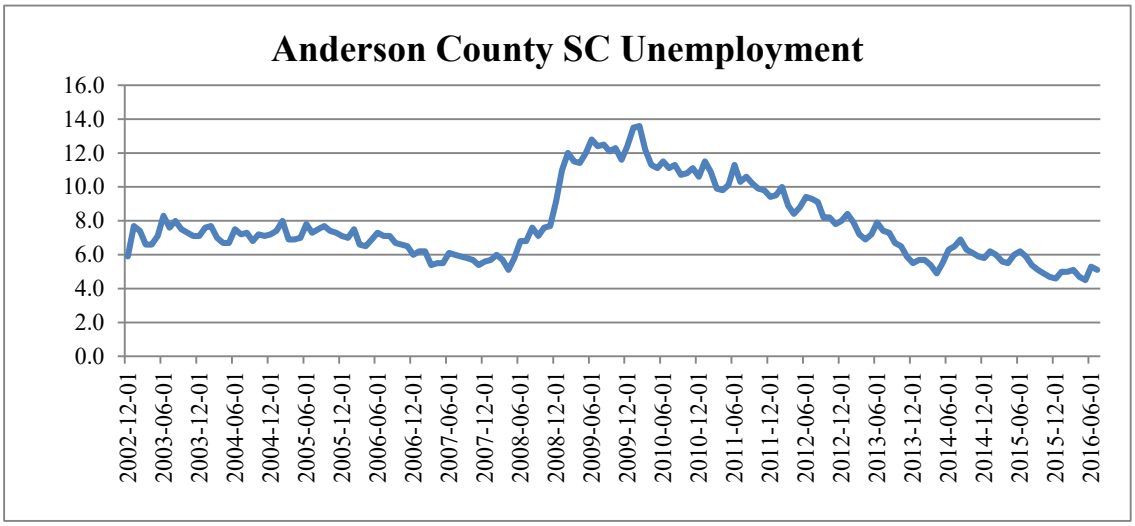
Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of the Financial Report. Management undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of the Financial Report.

Readers are urged to carefully review and consider the various disclosures made in the Financial Report which attempt to advise interested parties of factors that may affect the business, financial condition, results of operations and prospects of the Joint Water System.

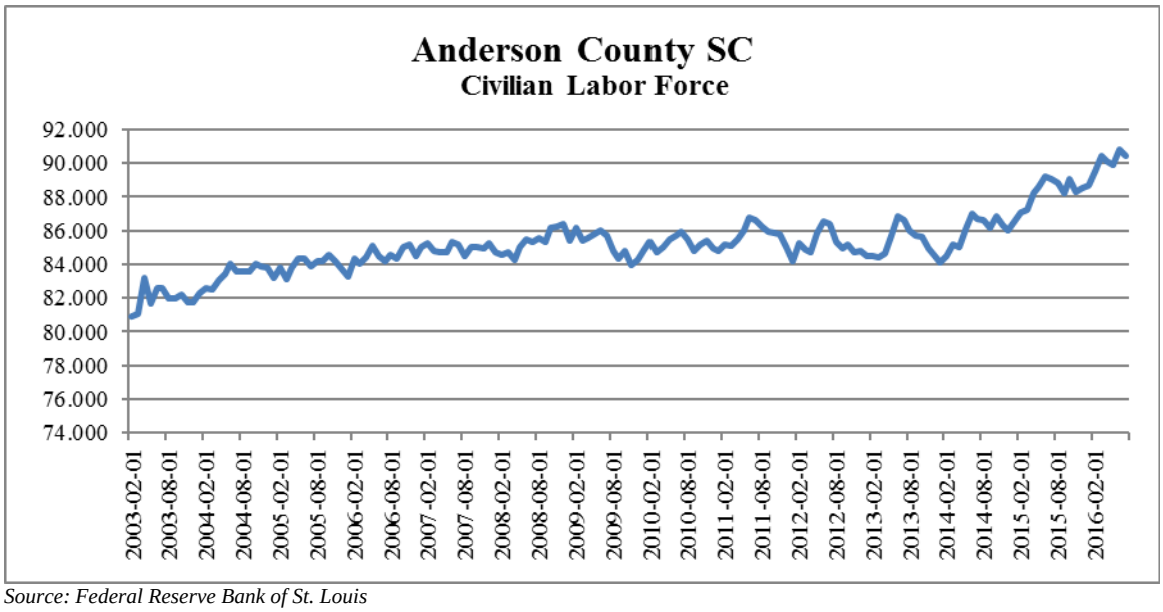
Economic Factors

- ***Local Economy***

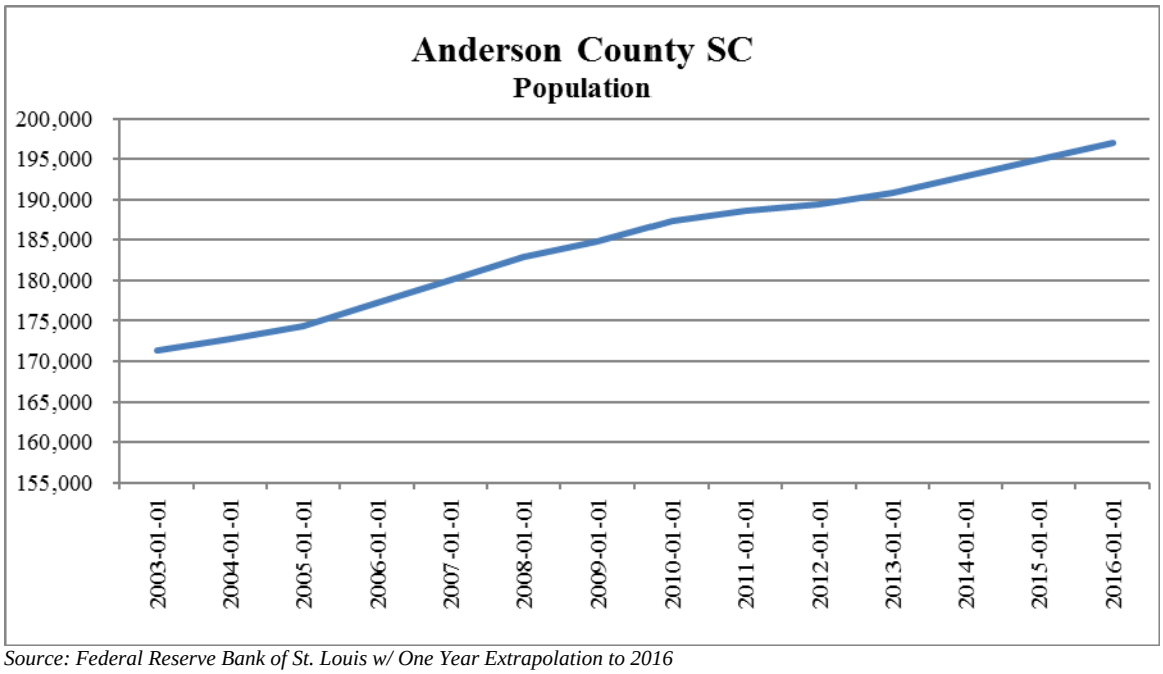
The service area continues to experience modest population growth and job creation. Several large manufacturers are presently expanding their local workforce as part of previously announced expansions. Locally unemployment levels are approximately pre-recessionary levels, but reflective of nationwide trends the number of full time jobs per capita has declined. With job creation and population increasing at approximately the same rate, the lower unemployment rate represents a reduction in actual labor force participation rates. Sustained population growth provides the basis for projecting increased annual water demands over the immediate term. The service area is well positioned geographically and with adequate infrastructure for sustained future growth in both population and job creation.



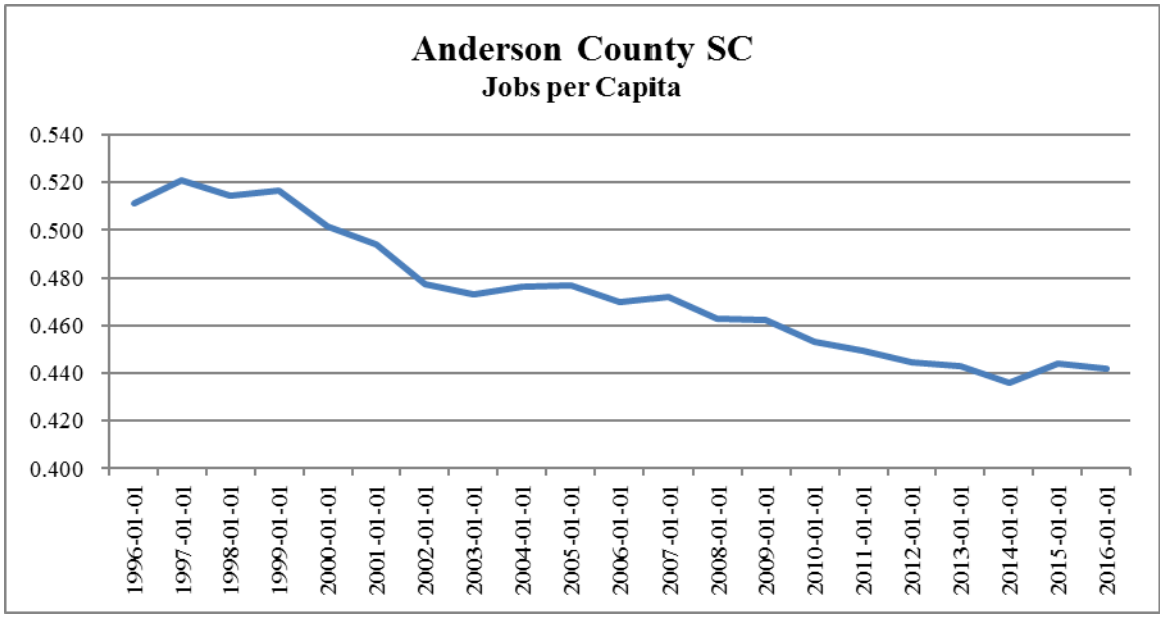
Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis w/ One Year Extrapolation to 2016



Planned Initiatives

- ***Additional Water Supply Storage Allocation***

The Joint Water System's storage rights were initially contracted for 50 years with the contract expiring in 2017. In fiscal year 2012, Management initiated the renewal process with the Corps of Engineers. At the same time, additional capacity sufficient to meet customer demands for an estimated 30 years was sought. Currently, cost of supply estimates are expected in fall 2016 and contract execution in spring 2017. The Joint Water System anticipates a significant increase in raw water cost of supply commencing with the receipt of any new allocation.

Fiscal Year Ending 2017 Budget

The Joint Water System's budget is determined by a variety of methods. The process begins in early February when capital expenditures for the renewal and replacement program are planned. Preliminary changes to the Joint Water System financial planning model are made and discussed with the Executive Committee. In March, sectional budget requests are developed. These requests are reviewed and used to prepare a preliminary budget. In early April, the preliminary budget and the predicted impacts from the financial planning model are reviewed by the Executive Committee, after which time it is made available for public inspection. The final budget is initially presented to the Board of Commissioners for a first reading and usually adopted at a subsequent meeting.

The fiscal year 2017 Budget received final approval in June 2016. The Commission directed a continued emphasis on PAYGO financing of capital projects to reduce future debt issuances. The new budget will result in an approximate 3.75% ($372,790) increase over the fiscal year 2016 budget. As per the Water Sale and Purchase Agreement budgeting guidelines, revenues and expenditures are balanced.

5 Year Pro Forma Forecast

The Joint Water System maintains an annually updated long-term Financial Pro Forma that incorporates all existing and planned debt issuances, projected operations and maintenance budgets and future repair and replacement initiatives. It provides both an overall financial perspective and detailed estimate of each agency's cost of supply. The Joint Water System prepares a Financial Pro Forma that extends through the life of the longest debt service requirement. See the notes to the financial statements for a 20 year Financial Pro Forma Forecast.

5 Year Financial Pro Forma

	FYE 17	FYE 18	FYE 19	FYE 20	FYE 21
Operating Revenues					
O&M Payments	$4,245,300	$4,286,250	$4,349,900	$4,497,900	$4,576,800
Capital Charge - Debt Service	4,796,655	5,062,705	5,322,205	5,378,205	5,353,255
Capital Charge - Repair & Replacement	1,438,997	1,518,812	1,596,662	1,613,462	1,605,977
Total Revenues	10,480,952	10,867,767	11,268,767	11,489,567	11,536,032
Total Operating Expenses:	4,365,800	4,408,750	4,464,400	4,520,400	4,576,800
Net Operating Revenues	6,115,152	6,459,017	6,804,367	6,969,167	6,959,232
Total Debt Service Requirements - Senior Lien	4,796,655	5,062,705	5,322,205	5,387,205	5,353,255
Net Revenues after Debt Service	1,318,497	1,396,312	1,482,162	1,590,962	1,605,977
Interest on Debt Service Reserve Fund	$140,000	$140,000	$140,000	$140,000	$140,000
Bottom Line					
Net Revenues Paid by Members	$10,315,952	$10,702,767	$11,103,767	$11,324,567	$11,371,032
Increased Revenue Requirement	3.75%	3.75%	3.75%	1.99%	0.41%
DEMAND (kGals)	$5,857,538	$6,077,196	$6,305,091	$6,430562	$6,456,927
Projected Debt Service Coverage Ratio	1.300 X	1.300 X	1.300 X	1.300 X	1.300 X

Requests for Information

This report is provided as a general overview of the Anderson Regional Joint Water System finances and demonstrates the Joint Water System's accountability for the money it receives and the stewardship of the facilities it maintains. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Executive Director
Anderson Regional Joint Water System
998 Hunters Trail
Anderson, SC 29625

Basic Financial Statements

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
Current assets:	
Cash and cash equivalents	$ 590,304
Restricted cash and cash equivalents	3,830,678
Restricted investments	5,811,642
Accounts receivable	
Trade	901,687
Accrued interest	72,079
Prepaid expenses	138,313
Total current assets	11,344,703
Noncurrent assets:	
Note receivable	250,801
Capital assets, net:	
Non-depreciable	4,937,659
Depreciable	67,608,119
Total noncurrent assets	72,796,579
Total assets	84,141,282
DEFERRED OUTFLOWS OF RESOURCES	
Deferred losses on refundings	2,677,457
Deferred pension charges	168,365
	2,845,822
LIABILITIES	
Current liabilities:	
Accounts payable	457,591
Accrued interest	929,419
Accrued expenses and other liabilities	168,892
Current portion of revenue bonds	2,275,821
Current portion of other long-term debt	926,124
Total current liabilities	4,757,847
Noncurrent liabilities:	
Revenue bonds, less current portion	44,954,821
Other long-term debt, less current portion	13,780,941
Net pension liability	2,101,944
Total noncurrent liabilities	60,837,706
Total liabilities	65,595,553
DEFERRED INFLOWS OF RESOURCES	
Deferred pension credits	80,745
NET POSITION	
Net investment in capital assets	14,989,451
Restricted for debt service and renewal and replacement	6,653,008
Unrestricted	(331,653)
Total net position	$ 21,310,806

The notes to the financial statements are an integral part of these statements.
See accompanying independent auditor's report.

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
Operations and maintenance	$ 4,228,816
Debt service	4,652,903
Renewal and replacement	
Water system	1,350,834
Pump station	71,489
Miscellaneous	85,634
Total operating revenues	10,389,676
OPERATING EXPENSES	
Salaries and wages	1,068,753
Payroll taxes and employee benefits	403,306
Operations and maintenance	2,834,616
Professional fees	145,737
Insurance	88,388
Total operating expenses before depreciation	4,540,800
Depreciation	2,456,714
Total operating expenses	6,997,514
Net operating income	3,392,162
NON-OPERATING REVENUES (EXPENSES)	
Interest income	157,646
Water credits	(144,164)
Interest expense	(2,257,700)
Net non-operating expenses	(2,244,218)
Increase in net position	1,147,944
NET POSITION, beginning of year	20,162,862
NET POSITION, end of year	$ 21,310,806

The notes to the financial statements are an integral part of these statements.
See accompanying independent auditor's report.

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	$ 10,291,951
Paid to suppliers for goods and services	(3,448,847)
Paid to employees for services	(1,081,762)
Net cash provided by operating activities	5,761,342
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(836,257)
Proceeds from issuance of revenue bonds	3,700,000
Payments on revenue bonds	(3,092,118)
Payments on long-term debt	(945,308)
Interest paid	(2,331,659)
Net cash used in capital and related financing activities	(3,505,342)
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in investments	(180,893)
Interest received	157,646
Collection of notes receivable	9,783
Net cash used in investing activities	(13,464)
Net increase in cash and cash equivalents	2,242,536
CASH AND CASH EQUIVALENTS, beginning of year	2,178,446
CASH AND CASH EQUIVALENTS, end of year	$ 4,420,982
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net operating income	$ 3,392,162
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation	2,456,714
Water credits	(144,164)
Changes in assets and liabilities:	
Accounts receivable	47,033
Prepaid expenses	8,397
Accounts payable	(26,462)
Accrued expenses and other liabilities	16,261
Net pension liability	97,922
Changes in deferred outflows and inflows of resources:	
Deferred pension charges	1,688
Deferred pension credits	(88,209)
Net cash provided by operating activities	$ 5,761,342
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION	
Cash and cash equivalents	$ 590,304
Restricted cash and cash equivalents	3,830,678
	$ 4,420,982

The notes to the financial statements are an integral part of these statements.
See accompanying independent auditor's report.

The Anderson Regional Joint Water System (the "Joint Water System") is a special purpose district created by the General Assembly of the State of South Carolina on February 28, 2000. A fourteen member Board of Commissioners representing the participating member agencies governs the Joint Water System. Clemson University also purchases water from the System, but because of state statute is exempt from membership on the Board. The fourteen member agencies who serve on the Board of Commissioners are as follows:

- Anderson, City of (Electric City Utilities)
- Belton-Honea Path Water Authority
- Big Creek Water & Sewerage District
- Broadway Water & Sewerage District
- Central, Town of
- Clemson, City of
- Hammond Water District
- Homeland Park Water District
- Pendleton, Town of
- Powdersville Water District
- Sandy Springs Water District
- Starr-Iva Water and Sewer District
- West Anderson Water District
- Williamston, Town of

The Joint Water System's function is to plan and finance acquisition and location of water supply and water distribution systems to insure for an adequate, reliable and economical supply of water to the persons and property served by the members of the Joint Water System. During April 2002, water treatment facilities, equipment and trunk lines were acquired by the Joint Water System's issuance of Series 2002 Revenue Bonds. It is the Joint Water System's policy to maintain customer user rates sufficient to meet operational and maintenance expenses and to pay debt service on debt issued to finance acquiring, upgrading and maintaining the System.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

REPORTING ENTITY

This report includes all operations of the Joint Water System for which the Joint Water System's Commissioners are financially accountable. The Joint Water System does not have any component units.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

Fund Accounting

The Joint Water System maintains a single enterprise fund (one of the proprietary fund types) to record its activities which consists of a self-balancing set of accounts. Enterprise funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.

Basis of Accounting

The financial statements of the Joint Water System have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Joint Water System's accounting policies are described below.

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting as required by GAAP. Basis of accounting refers to the timing of recording revenues and expenses. Under the accrual basis of accounting, revenues and receivables are recognized when earned and expenses and liabilities are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Joint Water System's principal ongoing operations. The principal operating revenues of the Joint Water System are charges to customers for water. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Joint Water System's policy to use restricted resources first, and then unrestricted resources as needed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

CHANGE IN ACCOUNTING PRINCIPLE

The Joint Water System implemented GASB Statement No. 72 "Fair Value Measurement and Application" ("GASB #72" or "Statement") for the year ended June 30, 2016. The primary objective of this Statement was to address accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The adoption of this Statement had no impact on the Joint Water System's financial statements but did result in expanded note disclosures. See Note 2 for more information regarding the Joint Water System's fair value disclosures.

CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

The Joint Water System considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Securities with an initial maturity of more than three months when initially purchased are reported as investments.

Certain cash and cash equivalents are classified as restricted on the balance sheet because their use is limited by debt covenants or by the Board of Commissioners.

Investments

The Joint Water System's operating cash and investment policy is designed to operate within existing statutes (which are identical for all non-fiduciary funds, fund types and component units within the State of South Carolina). The statutes of the State of South Carolina authorize the Joint Water System to invest in the following:

(a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.

(b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.

(e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.

(f) Repurchase agreements when collateralized by securities as set forth in this section.

(g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Investments (Continued)

The Joint Water System's cash and investment objectives are preservation of capital, liquidity and yield. The Joint Water System's guaranteed investment contract is reported at contract value. All of the rest of the Joint Water System's cash and investments are reported at fair value which are generally determined by quoted market prices.

RECEIVABLES

All trade and other receivables are shown net of an allowance for uncollectible amounts (if material). Trade receivables are generally comprised of amounts due from a member agency, grantor, and other fees and charges.

INVENTORIES AND PREPAID ITEMS

The Joint Water System accounts for inventories/prepaid items (when material) under the consumption method as they are expensed when consumed. Inventory items are reflected at average cost, determined generally on a first-in, first-out basis.

CAPITAL ASSETS

The Joint Water System defines capital assets as assets with an initial, individual cost of more than $5,000. Capital assets are recorded at cost. Donated capital assets are recorded at estimated acquisition value (as estimated by the Joint Water System) at the date of donation. Capital assets are depreciated on the straight-line method over the estimated useful lives. Estimated useful lives of the respective capital assets as follows:

Treatment facilities, trunk lines, and equipment	15 - 40 years
Operations and maintenance equipment	5 - 15 years
Office furniture and fixtures	3 - 7 years
Vehicles	5 years

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. Interest costs related to construction is capitalized as part of the capitalized value of the asset constructed. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Construction in progress at June 30, 2016 represents the filter refurbishments of filters 5, 8, and 9.

COMPENSATED ABSENCES

It is the Joint Water System's policy to permit employees to accumulate earned but unused vacation, compensatory, and sick pay benefits. Unused vacation and compensatory time is accumulated in varying amounts based on years of service up to a maximum of 240 hours of vacation (with those within three years of retirement allowed to accumulate up to 360 hours). Regular full-time employees accumulate 12 days of sick leave per year with no maximum limit.

Earned vacation and compensatory time will be paid out when used or at retirement up to the maximum limits. Sick leave will only be paid out when used by an employee for personal illness and any remaining unused sick leave balances will be forfeited upon separation of employment.

The Joint Water System reports compensated absences in accordance with the provisions of GASB Statement No. 16, "*Accounting for Compensated Absences*." The entire compensated absence liability and expense is reported on the Joint Water System's financial statements.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the Joint Water System's financial statements when incurred. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight-line method (as it approximates the effective interest method) if material. Debt is reported net of applicable bond premiums and discounts.

UNEARNED REVENUE

Unearned revenues in the Joint Water System represent amounts collected, but not due. In the Statement of Net Position, unearned revenues represent the deferral of renewal and replacement revenues which are collected for a future period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report 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) until then. The Joint Water System currently has two types of deferred outflows of resources: (1) The Joint Water System reports deferred losses on refundings which are the differences between the reacquisition prices and the net carrying amount of the defeased debt, are deferred and amortized over the life of the refunding bonds, which has the same maturity as the bonds that were refunded. Amortization of deferred losses on refundings is included in interest expense in the Statement of Revenues, Expenses and Changes in Net Position. The Joint Water System reports deferred pension charges in connection with its participation in the South Carolina Retirement System. These deferred pension charges are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position will sometimes report 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 or a reduction of an expense) until that time. The Joint Water System currently has one type of deferred inflows of resources. The Joint Water System reports deferred pension credits in connection with its participation in the South Carolina Retirement System. These deferred pension credits are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

PENSIONS

The Joint Water System recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Joint Water System's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the Joint Water System's fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

NET POSITION

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the Statement of Net Position. Net position is classified into three components as follows:

- *Net Investment in Capital Assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of items that do not meet the definition of "restricted" or "net investment in capital assets."

REVENUES AND RECEIVABLES

Revenues and receivables, based on water consumption, are recognized when services are provided and are billed monthly.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

NOTE 2 – DEPOSITS AND INVESTMENTS

DEPOSITS

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Joint Water System's deposits might not be recovered. The Joint Water System does not have a formal deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of June 30, 2016, none of the Joint Water System's bank balances of approximately $4,450,051 (with a carrying value of approximately $4,420,982) were exposed to custodial credit risk.

INVESTMENTS

As of June 30, 2016, the Joint Water System had the following investments:

Investment Type	Credit Rating ^	Fair Value Level (1)	Fair Value	Investment Maturities in Years	
				< 1 yr	> 5 yrs
Guaranteed Investment Contract	NR, NR	N/A	$ 2,537,980	-	$ 2,537,980
Government Money Market Funds	AAAm, Aaamf, AAAmmf	Level 1	3,273,662	3,273,662	-
Total			$ 5,811,642	3,273,662	$ 2,537,980

^ If available, credit ratings are for Standard & Poor's, Moody's Investors Service and Fitch Ratings.
(1) See section below for definition of fair value hierarchy.
NR – Not rated.
N/A – Not applicable.

Interest Rate Risk: The Joint Water System does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Joint Water System does not have an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Joint Water System does not have an investment policy for credit risk but follows the investment policy statutes of the State of South Carolina.

Concentration of Credit Risk for Investments: The Joint Water System places no limit on the amount the Joint Water System may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures. The Joint Water System's Guaranteed Investment Contract ("GIC") with Morgan Stanley exceeds 5% of the Joint Water System's investments as of June 30, 2016.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

Fair Value: The fair value measurement and disclosure framework provides for a three-tier fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Joint Water System can access at the measurement date.

Level 2 – Inputs to the valuation methodology, other than quoted prices included in Level 1 that are observable for an asset or liability either directly or indirectly and include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology that are unobservable for an asset or liability and include:

- Fair value is often based on developed models in which there are few, if any, observable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable values or reflective of future fair values. The Joint Water System believes that the valuation methods used are appropriate and consistent with GAAP. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no significant changes from the prior year in the methodologies used to measure fair value.

RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS

Provisions of the revenue bonds require the Joint Water System to establish various funds and restrict the use of certain cash, cash equivalents, and investments. A brief description follows:

Current principal and interest payments funds - reports resources accumulated for the next principal and interest payments.

Debt service reserves funds - reports resources set aside to cover potential future deficiencies in the current principal and interest payments funds.

Renewal and replacement ("R&R") funds - reports resources set aside to primarily fund capital asset replacements.

Cash, cash equivalents, and investments are restricted as follows at June 30:

	2016
Current principal and interest payments	$ 2,921,486
Debt service reserves	2,890,156
Capital Improvements	2,059,892
Renewal and replacement	1,770,786
Total restricted cash, cash equivalents, and investments	$ 9,642,320

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the Joint Water System for the year ended June 30, 2016, was as follows:

	Balance at June 30, 2015	Increases	Decreases	Transfers	Balance at June 30, 2016
Capital assets not being depreciated:					
Land	$ 4,096,896	-	-	-	$ 4,096,896
Construction In progress	31,249	809,514	-	-	840,763
Total capital assets not being depreciated	4,128,145	809,514	-	-	4,937,659
Capital assets being depreciated:					
Facilities and improvements	90,894,934	-	-	-	90,894,934
Buildings	979,380	12,409	-	-	991,789
Machinery and equipment	1,063,317	24,415	-	-	1,087,732
Total capital assets being depreciated	92,937,631	36,824	-	-	92,974,455
Less accumulated depreciation for:					
Facilities and improvements	21,752,192	2,405,429	-	-	24,157,621
Buildings	189,755	24,717	-	-	214,472
Machinery and equipment	967,675	26,568	-	-	994,243
Total accumulated depreciation	22,909,622	2,456,714	-	-	25,366,336
Total capital assets being depreciated, net	70,028,009	(2,419,890)	-	-	67,608,119
Total Capital Assets, Net	$ 74,156,154	(1,610,376)	-	-	$ 72,545,778

Depreciation expense and capitalized interest for the year ended June 30, 2016 was $2,456,714 and $5,333, respectively.

NOTE 4 – DEFERRED LOSSES ON REFUNDINGS

Deferred losses on refunding debt consisted of the following at June 30, 2016.

	2016
Deferred losses on refundings	$ 3,708,036
Less: accumulated amortization	(1,030,579)
Deferred losses on refundings, net	$ 2,677,457

Amortization expense was $257,645 for the years ended June 30, 2016.

NOTE 5 – LONG-TERM OBLIGATIONS

REVENUE BONDS PAYABLE

The Joint Water System is obligated on various series of revenue bonds issued for purposes of acquiring water treatment facilities, equipment and trunk lines. Revenue bonds outstanding at June 30 are as follows:

Series 2011A serial bonds dated June 15, 2011 with annual principal payments ranging from $90,000 to $2,690,000, plus interest at 2.00 to 5.00 percent payable semi-annually through July 15, 2026.	$ 23,315,000
Series 2012A serial bonds dated April 18, 2012 with annual principal payments ranging from $60,000 to $3,250,000, plus interest at 2.00 to 5.00 percent payable semi-annually through July 15, 2032.	$ 18,640,000

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

REVENUE BONDS PAYABLE (CONTINUED)

Series 2016 serial bonds dated February 18, 2016, bearing interest at the rate of 1.562%. The Bond is payable in monthly installments of principal and interest of $64,146.20 for a period of sixty months through February 18, 2021.	$ 3,462,216
Gross debt	45,417,216
Premium on Series 2011A and 2012A bonds	1,813,426
Net debt	47,230,642
Less current portion	(2,275,821)
Long-term portion	$ 44,954,821

Interest expense on revenue bonds totaled $1,944,796 for the year ended June 30, 2016. Amortization of the 2011A bond premium totaled $258,014 for the year ended June 30, 2016. Amortization of the 2012A bond premium totaled $23,920 for the year ended June 30, 2016.

Future amounts required to pay principal and interest on revenue bonds outstanding at June 30, 2016 are as follows:

June 30,	Principal	Interest	Total
2017	$ 2,275,821	1,923,709	$ 4,199,530
2018	2,412,161	1,831,494	4,243,655
2019	2,553,679	1,732,725	4,286,404
2020	2,665,379	1,628,025	4,293,404
2021	2,525,176	1,518,518	4,043,694
2022-2026	11,655,000	6,019,775	17,674,775
2027-2031	14,740,000	2,977,750	17,717,750
2032-2033	6,590,000	265,850	6,855,850
	$ 45,417,216	17,897,846	$ 63,315,062

Provisions of the revenue bond agreements require the Joint Water System to maintain user rates sufficient to generate net earnings, as defined by the agreements, of at least 120 percent of the combined annual principal and interest payments, make timely payment of principal and interest on all outstanding debt, maintain required funds for debt service reserves, and meet various other general requirements specified in the bond agreements. Net earnings as defined in the revenue bond agreements provides that the Joint Water System can add back as income amounts transferred from the R&R fund to defray the costs of unforeseen contingencies (“Contingencies”). Management believes that the Joint Water System was in compliance with these covenants at June 30, 2016.

The revenue bonds are payable solely from and secured by a pledge of the gross revenues of the Joint Water System.

The Joint Water System’s 2012 and 2011 bond refundings resulted in a loss of $1,135,739 and $2,572,297, respectively. The loss is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Amortization is expensed over the term as a component of interest expense. The unamortized balance follows the debt for purposes of calculating the various components of net position. See Note 4 for more details on the outstanding balances of the deferred losses on refundings at June 30, 2016.

OTHER LONG-TERM DEBT

On December 16, 2005, the Joint Water System entered into an agreement with the South Carolina Water Quality Revolving Fund Authority to borrow up to $4,878,604 to fund construction on the expansion and upgrade of the Water Treatment Plant. The Joint Water System was reimbursed costs during construction. On May 1, 2007, the Joint Water System began making quarterly principal and interest payments. The first 19 payments of $81,318 at 3 percent and the remaining 61 payments of $77,045 at 2.25 percent.	$ 2,935,408

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

OTHER LONG-TERM DEBT (CONTINUED)

On April 9, 2009, the Joint Water System entered into an agreement with the South Carolina Water Quality Revolving Fund Authority to borrow up to $7,212,765 to fund Water Transmission Main Improvements – Phase 1A. The Joint Water System was reimbursed for costs during construction. On July 1, 2010, the Joint Water System began making quarterly principal and interest payments. The first 6 payments of $114,048 at 3.5 percent and the remaining 73 payments of $102,682 at 2.25 percent.	$ 4,845,835
On November 29, 2006, the Joint Water System entered into a note agreement with a financial institution for $686,121 to purchase water treatment equipment. The note accrues interest at 4.05 percent, with quarterly principal and interest payments of $20,948 through November 30, 2016. The note is collateralized by equipment.	41,269
On April 19, 2012, the Joint Water System entered into an agreement with the South Carolina Water Quality Revolving Fund Authority to borrow up to $8,000,000 to fund Water Transmission Main Improvements – Phase 1B. The Joint Water System was reimbursed for costs during construction. On September 1, 2013, the Joint Water System began making quarterly principal and interest payments of $125,896 at 2.25 percent interest through September 1, 2014, effective December 1, 2014 a new quarterly payment amount of $122,124 was recalculated with payments through June 2033.	6,884,553
Gross Debt	14,707,065
Less current portion	926,124
Long-term portion	$ 13,780,941

Interest expense on the long-term debt totaled $342,526 for the year ended June 30, 2016.

CHANGES IN LONG-TERM OBLIGATIONS

Future amounts required to pay principal and interest on long-term debt outstanding at June 30, 2016 are as follows:

June 30,	Principal	Interest	Total
2017	$ 926,124	323,177	$ 1,249,301
2018	904,934	302,472	1,207,406
2019	925,467	281,938	1,207,405
2020	946,466	260,939	1,207,405
2021	967,942	239,463	1,207,405
2022-2026	5,179,297	857,729	6,037,026
2027-2031	3,904,574	309,283	4,213,857
2032-2033	952,261	24,252	976,513
	$ 14,707,065	2,599,253	$ 17,306,318

Changes in long-term debt for the years ended June 30, 2016.

	2016			
	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Revenue bonds	$ 44,809,335	3,700,000	3,092,119	$ 45,417,216
Net premium/discount on bonds	2,095,359	-	281,933	1,813,426
State revolving loans	15,531,019	-	865,223	14,665,796
Note payable	121,353	-	80,084	41,269
	$ 62,557,066	3,700,000	4,319,359	$ 61,937,707

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

2016 DEBT REFUNDING

In February 2016, the Joint Water System issued a Waterworks System Improvement and Refunding Revenue Bond (Junior Lien) of $3,700,000 to current refund the entire outstanding balance ($812,265) of its Series 2009B Waterworks System Revenue Bond (Junior Lien). Accordingly, the liability for the refunded bonds has been removed from the Joint Water System's statement of net position. This refunding increased total future debt service payments by $5,268.

NOTE 6 - EMPLOYEE BENEFITS

INSURANCE

The Joint Water System offers medical and life insurance through the State of South Carolina. The Joint Water System pays the entire cost of the employee portion of medical and dental coverage, and will pay a portion of dependent coverage if elected by the employee. Medical and life insurance totaled $148,701 for the year ended June 30, 2016. The Joint Water System does not provide medical insurance to retirees.

DEFERRED COMPENSATION PLAN

The Joint Water System offers its employees a deferred compensation plan, created in accordance with Internal Revenue Code Section 457, which is administered and controlled by the State of South Carolina. The plan, available to all Joint Water System employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Participants' rights under the plan are equal to those of general creditors of the Joint Water System in an amount equal to the fair market value of the deferred account for each participant. CitiStreet (under state contract) is the program administrator of the 457 Plan.

STATE RETIREMENT PLAN

The Joint Water System participates in the State of South Carolina's retirement plan, which is administered by the South Carolina Public Employee Benefit Authority ("PEBA"), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors ("PEBA Board"), appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review.

The PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the System' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. The PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

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

Plan Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under the system is presented below.

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

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

Plan Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for the system is presented below.

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

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

Plan Contributions

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

As noted earlier, both employees and the Joint Water System are required to contribute to the Plan at rates established and as amended by the PEBA. The Joint Water System's contributions are actuarially determined, but are communicated to and paid by the Joint Water System as a percentage of the employees' annual eligible compensation as follows for the past three years:

	SCRS Rates		
	2014	2015	2016
Employer Rate:			
Retirement	10.45%	10.75%	10.91%
Incidental Death Benefit	0.15%	0.15%	0.15%
Accidental Death Contributions	0.00%	0.00%	0.00%
	10.60%	10.90%	11.06%
Employee Rate	7.50%	8.00%	8.16%

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

Plan Contributions (Continued)

The required contributions and percentages of amounts contributed by the Joint Water System to the Plan for the past three years were as follows:

Year Ended June 30,	SCRS Contributions Required	% Contributed
2016	$ 116,952	100%
2015	113,267	100%
2014	$ 112,013	100%

Eligible payrolls of the Joint Water System covered under the Plan for the past three years were as follows:

Year Ended June 30,	SCRS Payroll
2016	$ 1,057,430
2015	1,039,146
2014	$ 1,056,723

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically within an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2015 total pension liability, net pension liability, and sensitivity information were determined by the PEBA's consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2014 actuarial valuation as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015 using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for the SCRS.

	SCRS
Actuarial Cost Method	Entry Age
Actuarial Assumptions:	
Investment Rate of Return*	7.50%
Projected Salary Increases*	3.5% to 12.5% (varies by service)
Benefit Adjustments	Lesser of 1% or $500 annually

*Includes inflation at 2.75%

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014 valuations for the SCRS is as follows:

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions and Methods (Continued)

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

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014 actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission ("RSIC") in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted by the RSIC for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	**5.0%**		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	**13.0%**		
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income	**9.0%**		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	**31.0%**	7.10%	2.20%
Global Tactical Asset Allocation	**10.0%**	4.90%	0.49%
Alternatives	**32.0%**		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

The net pension liability ("NPL") represents the system's total pension liability determined in accordance with GASB No. 67 less the System's fiduciary net position. NPL total, as of the June 30, 2015 measurement date, for the SCRS is presented in the following table:

Plan	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$ 44,097,310,230	25,131,828,101	$ 18,965,482,129	57.00%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB No, 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

At June 30, 2016, the Joint Water System reported a liability of $2,101,944 for its proportionate share of the net pension liability for the SCRS. The net pension liability was measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined based on the most recent actuarial valuation report of July 1, 2014 that was projected forward to the measurement date. The Joint Water System's proportion of the net pension liability was based on a projection of the Joint Water System's long-term share of contributions to the Plan relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2015 measurement date, the Joint Water System's SCRS proportion was 0.011083 percent, which was a decrease of 0.000557 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Joint Water System recognized pension expense of $128,353 for the SCRS. At June 30, 2016, the Joint Water System reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	$ 37,344	$ 3,759
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	14,069	-
Changes in Proportionate Share and Differences Between the Joint Water System's Contributions and Proportionate Share of Total Contributions	-	76,986
Joint Water System's Contributions Subsequent to the Measurement Date	116,952	-
Total SCRS	$ 168,365	$ 80,745

Deferred outflows of resources of $116,952 related to the Joint Water System's contributions subsequent to the measurement date to the SCRS will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS will be recognized in pension expense as follows:

Year Ended June 30,	SCRS
2017	$ (15,333)
2018	(15,333)
2019	(28,160)
2020	29,494
Total	$ (29,332)

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in the SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of the Joint Water System's proportionate share of the net pension liability of the Plan as of June 30, 2015 to changes in the discount rate, calculated using the discount rate of 7.5 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.5 percent) or 1% point higher (8.5 percent) than the current rate:

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Joint Water System's proportionate share of the net pension liability of the SCRS	$ 2,649,951	2,101,944	$ 1,642,645

Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plan administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

Payable to Plan

The Joint Water System reported a payable of approximately $15,362 to the PEBA as of June 30, 2016, representing required employer and employee contributions for the month of June 2016 for the SCRS. This amount is included in Accrued Expenses and Other Liabilities on the financial statements and was paid in July 2016.

NOTE 7 – COMMITMENTS

In February 2013, the Joint Water System entered into a fifteen year agreement for commercial power electric service. During the initial period of the agreement the Joint Water System is required to pay an excess facilities charge of $1,535 per month through February 2028. The agreement expense was $18,420 for the year ended June 30, 2016. Future amounts to be paid for the commercial power electric service agreement are as follows:

June 30,	
2017	$ 18,420
2018	18,420
2019	18,420
2020	18,420
2021	18,420
2022-2028	122,800
	$ 214,900

NOTE 8 – MAJOR CUSTOMERS

At June 30, 2016, the Joint Water System had three customers which accounted for 28 percent, 12 percent, and 10 percent of operating revenue. At June 30, 2016, three customers accounted for 25 percent, 13 percent, and 11 percent of trade accounts receivable.

NOTE 9 – SUBSEQUENT EVENTS

In July 2016, the Joint Water System entered into agreements with two contractors for construction related to an Ozone addition. The total amount of the contracts was $1,360,000.

In August 2016, the Joint Water System entered into an agreement with Rehab Construction Company, Inc. for filter repairs for a total cost of $1,156,260.

Required Supplementary Information

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ANDERSON REGIONAL JOINT WATER SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - SOUTH CAROLINA RETIREMENT SYSTEM

LAST THREE FISCAL YEARS

	Year Ended June 30,		
	2016	**2015**	**2014**
Anderson Regional Joint Water System's Proportion of the Net Pension Liability	0.011083%	0.011640%	0.011640%
Anderson Regional Joint Water System's Proportionate Share of the Net Pension Liability	$ 2,101,944	2,004,022	$ 2,087,801
Anderson Regional Joint Water System's Covered-Employee Payroll	$ 1,039,146	1,056,723	$ 995,630
Anderson Regional Joint Water System's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	202.28%	189.64%	209.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.99%	59.92%	56.39%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year.

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ANDERSON REGIONAL JOINT WATER SYSTEM'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM

LAST THREE FISCAL YEARS

	Year Ended June 30,		
	2016	**2015**	**2014**
Contractually Required Contribution	$ 116,952	113,267	$ 112,013
Contributions in Relation to the Contractually Required Contribution:	116,952	113,267	112,013
Contribution Deficiency (Excess)	$ -	-	$ -
Anderson Regional Joint Water System's Covered-Employee Payroll	$ 1,057,430	1,039,146	$ 1,056,723
Contributions as a Percentage of Covered-Employee Payroll:	11.06%	10.90%	10.60%

Supplementary Information

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

	Potable Water	Raw Water	Total
OPERATING REVENUES			
Operations and maintenance	$ 4,104,494	124,322	$ 4,228,816
Debt service	4,652,903	-	4,652,903
Renewal and replacement			
Water system	1,331,328	19,506	1,350,834
Pump station	71,489	-	71,489
Miscellaneous	85,634	-	85,634
Total operating revenues	10,245,848	143,828	10,389,676
OPERATING EXPENSES			
Salaries and wages	1,068,753	-	1,068,753
Payroll taxes and employee benefits	403,306	-	403,306
Operations and maintenance	2,722,311	112,305	2,834,616
Professional fees	145,737	-	145,737
Insurance	88,388	-	88,388
Total operating expenses before depreciation	4,428,495	112,305	4,540,800
Depreciation	2,138,742	317,972	2,456,714
Total operating expenses	6,567,237	430,277	6,997,514
Net operating income (loss)	3,678,611	(286,449)	3,392,162
NON-OPERATING REVENUES (EXPENSES)			
Interest income	157,646	-	157,646
Water credits	(144,164)	-	(144,164)
Interest expense	(2,257,700)	-	(2,257,700)
Net non-operating expenses	(2,244,218)	-	(2,244,218)
Increase in net position	1,434,393	(286,449)	1,147,944
NET POSITION, beginning of year	13,669,522	6,493,340	20,162,862
NET POSITION, end of year	$ 15,103,915	6,206,891	$ 21,310,806

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*

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Anderson Regional Joint Water System
Anderson, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Anderson Regional Joint Water System, South Carolina (the "Joint Water System"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Joint Water System's basic financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control Over Financial Reporting

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

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

Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 15, 2016