ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

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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, 2017 ("2017"), 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, 2017, 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.

Correction of Error

As described in the Source Water Storage Agreement – Prior Period Adjustment section of Note 5 to the financial statements, in 2017 the Joint Water System discovered that it had not properly recorded the value of certain capital assets related to its purchase of the water system in April 2002 and related long-term obligations. These items were corrected when they were discovered. Our opinion is not modified with respect to these matters.

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 October 13, 2017 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
Mauldin, South Carolina
October 13, 2017

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 year ended June 30, 2017. 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, 2017 compared to the fiscal 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: **Statement of Net Position**; **Statement of Revenues, Expenses, and Changes in Net Position**; **Statement of Cash Flows**; and **Notes to the Financial Statements**.

The **Statement of Net Position** presents 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 **Statement of Revenues, Expenses, and Changes in Net Position** presents 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 93.7% of its revenue under a direct cost recovery formula. The remaining 6.3% of system costs are recovered under a revenue neutral wholesale rate under contracted sales to Clemson University.

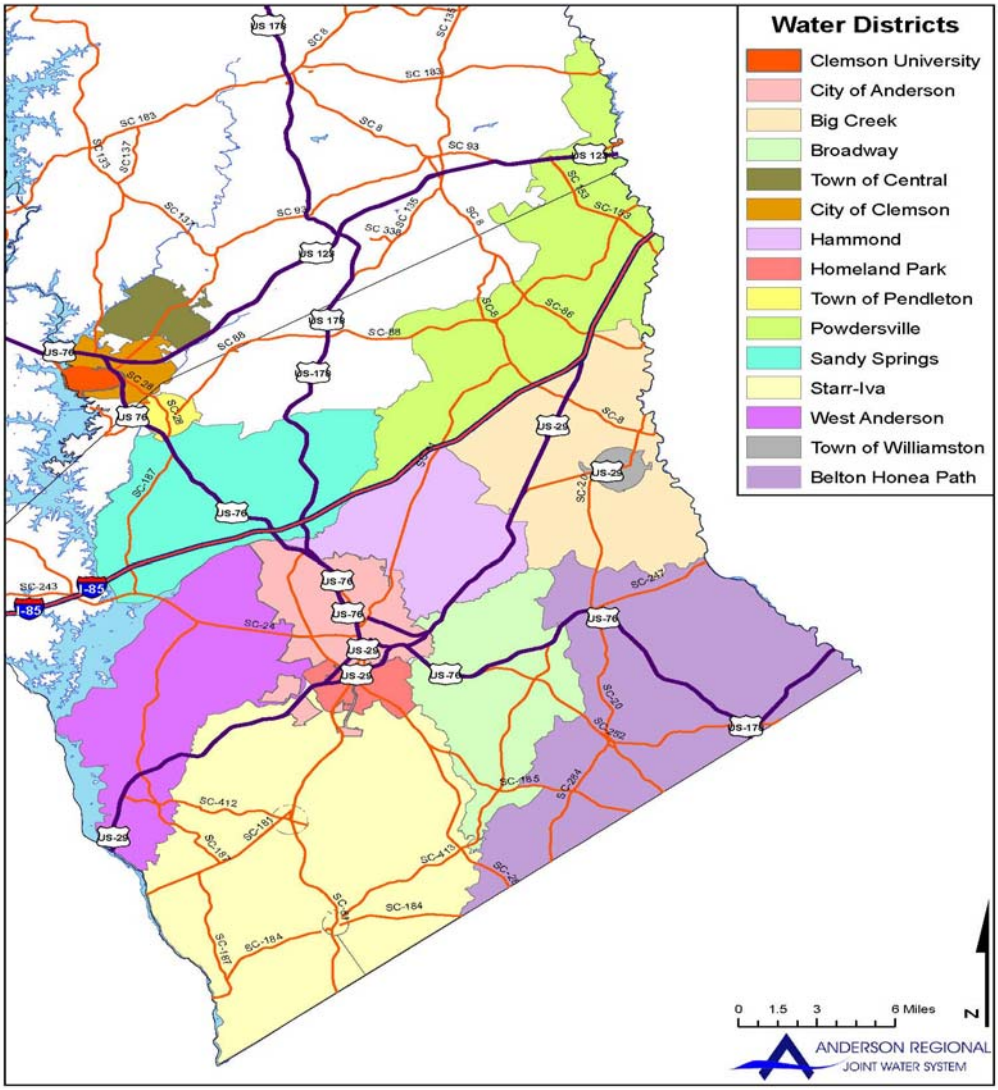
The **Statement of Cash Flows** presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation 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 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 2017

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

* 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

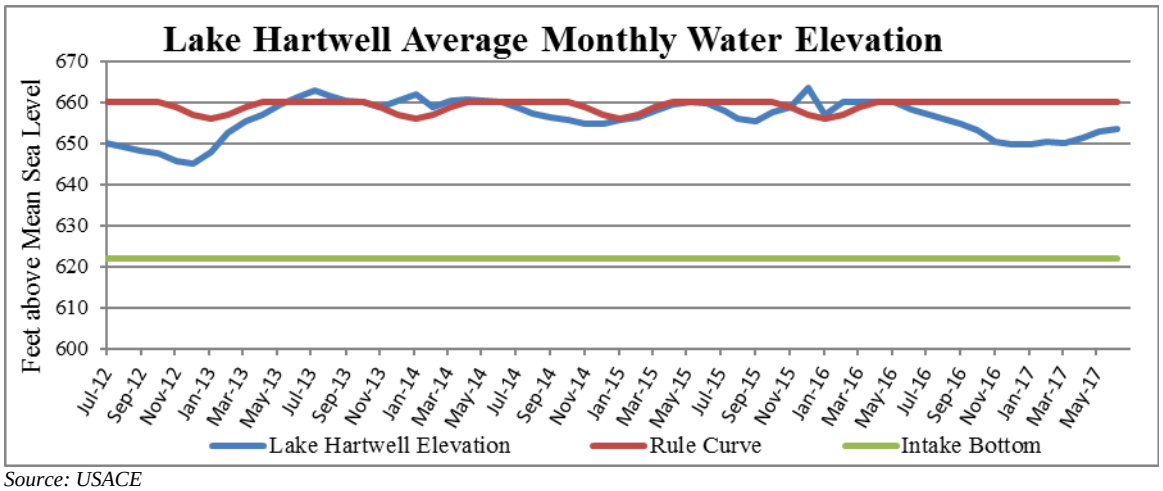
	2016 Votes		2017 Votes	
	Flow	*Total*	*Flow*	*Total*
City of Anderson	290	291	275	276
Big Creek	57	58	53	54
Broadway	43	44	43	44
Belton/Honea Path	0	1	0	1
Town of Central	0	1	0	1
City of Clemson	120	121	118	119
Hammond	121	122	135	136
Homeland Park	43	44	41	42
Pendleton	19	20	18	19
Powdersville	21	22	32	33
Sandy Springs	110	111	116	117
Starr Iva	60	61	55	56
West Anderson	84	85	81	82
Williamston	32	33	33	34
System Total	**1000**	**1014**	**1000**	**1014**

*Modifications to rounding rule to accommodate restrictions of ByLaws

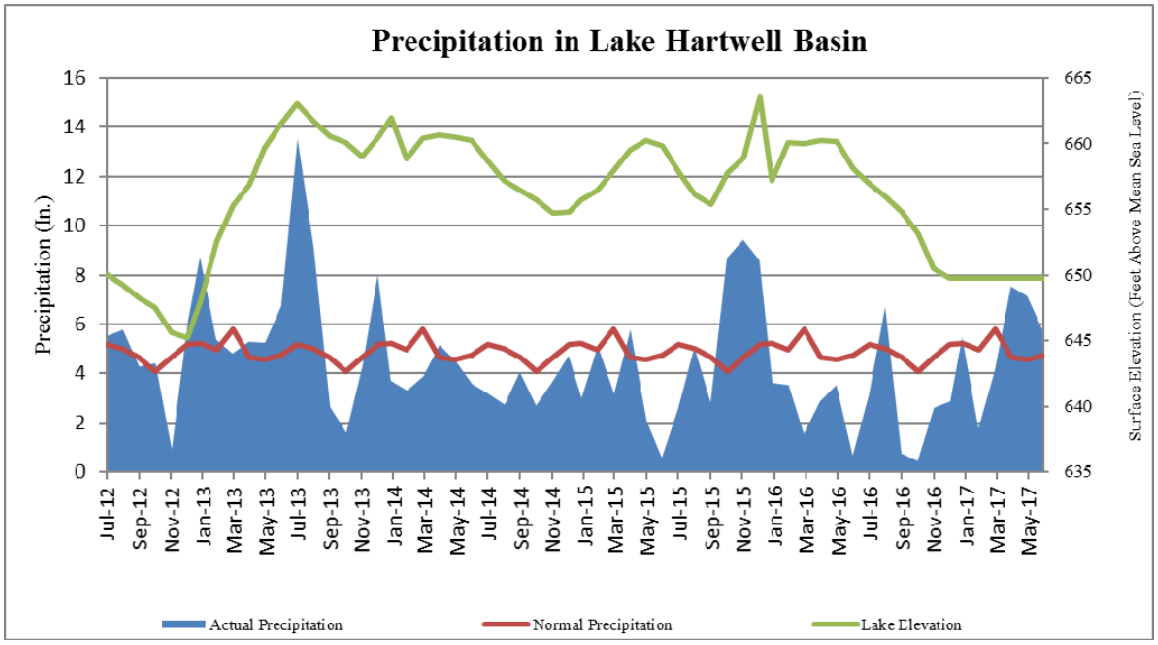
FISCAL YEAR 2017 IN REVIEW

Stable Water Resource Supplies

Fiscal year 2017 was characterized by slightly dryer 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 recover slightly before the return of dryer conditions. The fiscal year ended with reservoir levels stabilizing nine feet below target levels. 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 eight-week reduction in the taste and odor constituents. During fiscal year 2017, 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.

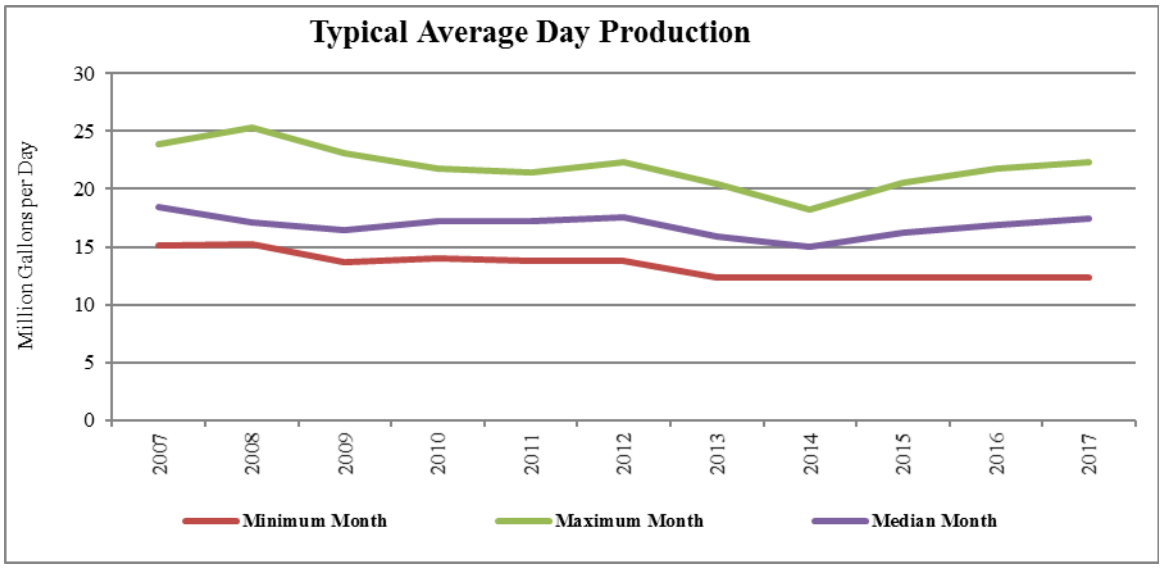
Along with the lake treatment process, the Joint Water System has collaborated with an engineering firm to research and identify potential in plant treatment technologies to address the taste and odor issue along with other emerging threats to water quality. Advanced oxidation was recommended as the 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.

In July 2016, a contractor was selected to assist the Joint Water System and the engineering firm in completing the design of the advanced oxidation process. The contractor was hired in December 2016 to build the advanced oxidation process. Construction began in February 2017 and is currently underway with an estimated completion of spring 2018.

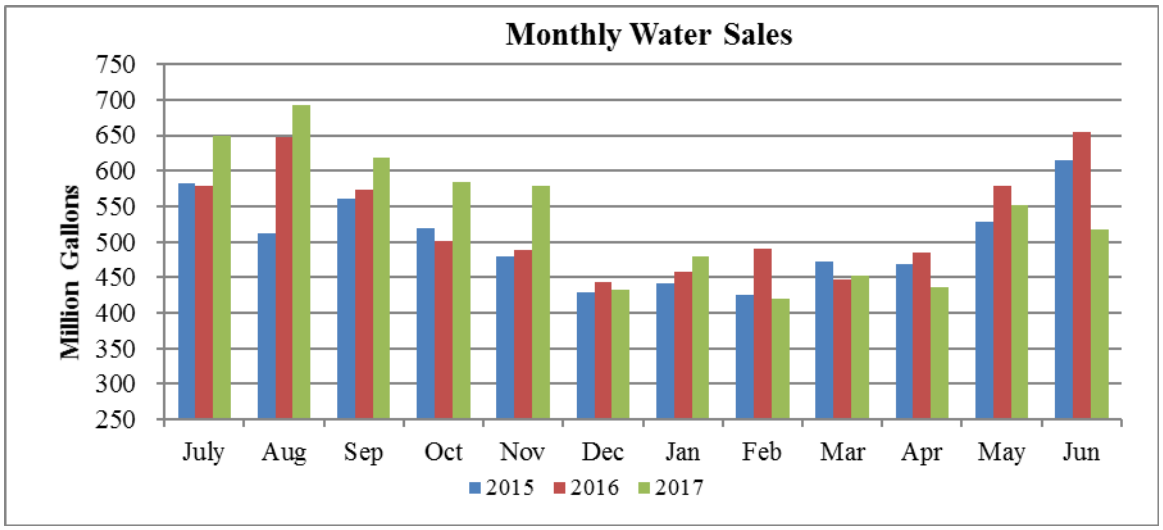
Demand and Consumption

Average rainfall in the area in conjunction with a stable local economy provided the impetus for water purchases during fiscal year 2017 to increase by 1.0% 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, the summer months at the end of fiscal year 2016 and beginning of fiscal year 2017 were very hot and dry which resulted in high water sales. The summer months at the end of fiscal year 2017 were average in temperature and precipitation, which resulted in lower water sales compared to fiscal year 2016.



Water Purchases
In Gallons

	2016		2017	
Anderson	1,692,085,040	26.66%	1,675,420,886	26.13%
Big Creek	319,300,000	5.03%	329,500,000	5.14%
Broadway	265,805,885	4.19%	266,481,792	4.16%
Clemson	684,002,810	10.78%	719,833,496	11.23%
Clemson University	334,739,199	5.27%	370,396,234	5.82%
Hammond	742,951,907	11.71%	817,724,414	12.75%
Homeland Park	260,162,000	4.10%	235,569,245	3.67%
Pendleton	110,180,000	1.74%	103,540,000	1.61%
Powdersville	220,230,000	3.47%	168,700,000	2.63%
Sandy Springs	693,464,000	10.93%	676,145,000	10.55%
Starr-Iva	335,393,612	5.29%	364,136,647	5.37%
West Anderson	488,211,643	7.69%	499,088,397	7.78%
Williamston	199,366,923	3.14%	201,995,056	3.15%
TOTAL	6,345,893,019		6,428,531,167	

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. During fiscal year 2017, filter 5 refurbishment and the rehabilitations of filters 1-4 were completed. The inspection and media replacement of filters 10 and 11 commenced in June and will be completed late summer.

STATISTICS

Financial Planning

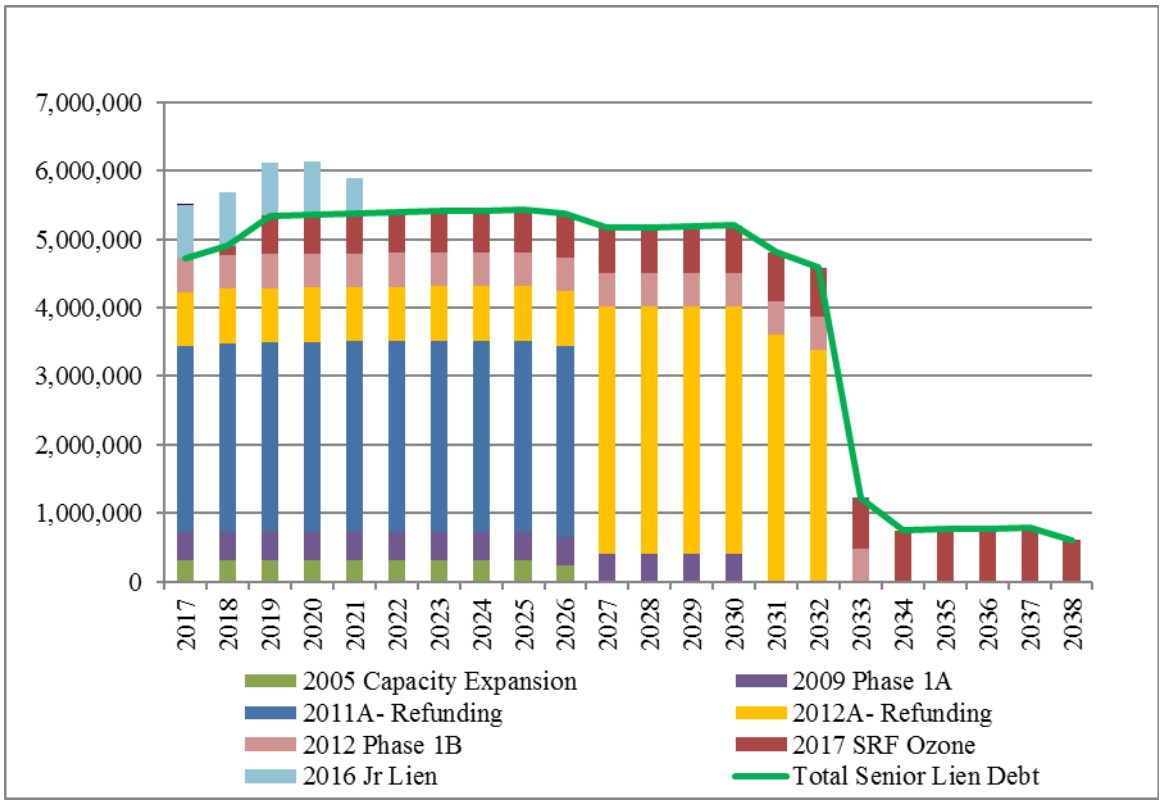
The Board has adopted a Comprehensive Financial Policy that details the parameters necessary to develop a financial model capable of evaluating multiple planning scenarios. The financial model predicts revenue, expenses and water rate requirements of the utility allowing debt issuances to be optimized 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.

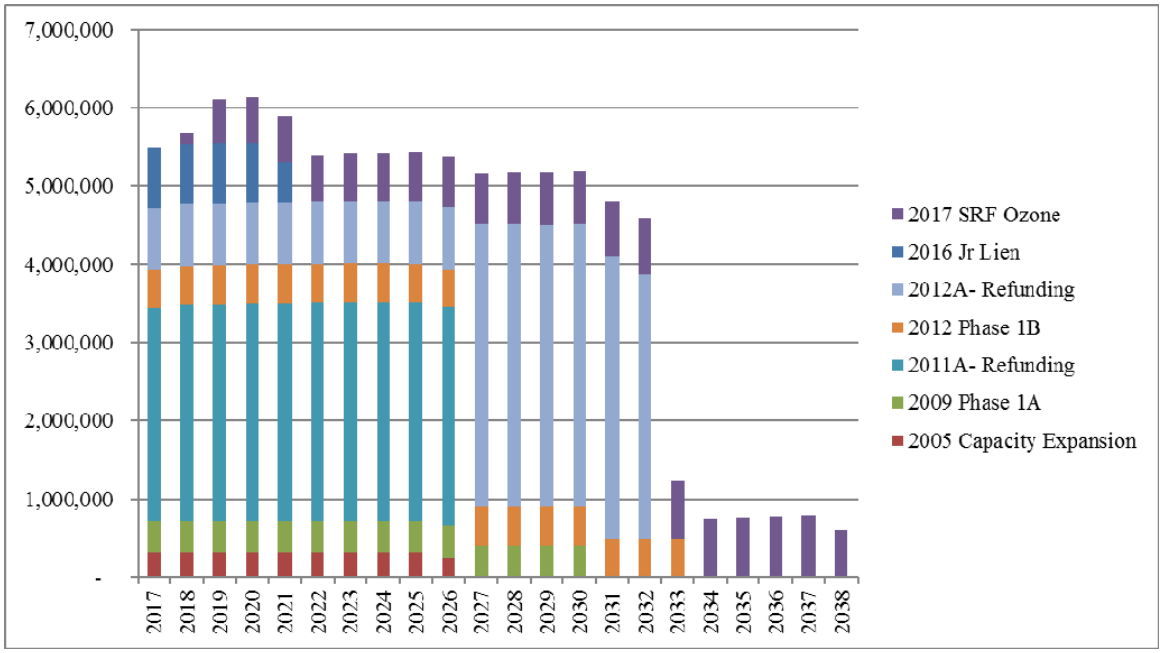
The Joint Water System bond covenants are strong with step-up provisions and absolute repayment obligations. All of the Joint Water System's debt payments, regarding revenue bonds and other loan and repayment contracts, are being made in accordance with prescribed requirements. In addition to the strong 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 2017, the Joint Water System borrowed $3,101,791 from the State Revolving Fund program for the construction of the advanced oxidation process to combat taste and odor issues.

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
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
2017	$4,695,657	$4,614,029	$1,417,697	$10,727,383	6,428,531	1.67

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.

Water System Depreciation

FY	Annual Depreciation*	Cumulative Depreciation*	Annual R&R	Cumulative R&R	Cumulative Depreciation Funding (%)
2008	$1,490,582	$7,600,504	$1,286,438	$6,546,285	86.13%
2009	1,545,586	9,146,090	1,285,238	7,831,523	85.63%
2010	1,478,538	10,624,628	1,286,558	9,118,081	85.82%
2011	1,595,802	12,220,430	1,286,708	10,404,789	85.14%
2012	1,649,085	13,869,515	1,421,477	11,826,266	85.27%
2013	1,737,462	15,606,977	1,392,002	13,218,268	84.69%
2014	2,049,183	17,656,160	1,436,050	14,654,318	83.00%
2015	2,222,702	19,878,863	1,412,363	16,066,681	80.82%
2016	2,238,239	22,117,102	1,422,323	17,489,004	79.07%
2017	$2,259,007	$24,376,109	$1,417,697	$18,906,701	77.55%

*Restated to reflect the fiscal year 2017 prior period adjustment as discussed below.

FINANCIAL STATEMENTS

Statement of Net Position

The Statement of Net Position is a financial snapshot of the Joint Water System at June 30, 2017 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, 2017 were $92,104,165. Assets consisted primarily of net capital assets, which account for $82,147,897 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 2016 were $89,773,516 in total assets, with capital assets accounting for $78,178,012 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 2017 is $24,376,109 and $22,117,102 through fiscal year 2016. In lieu of funding depreciation, the Joint Water System utilize a set of Repair and Replacement Accounts. Presently, these accounts have collected 77.55% of cumulative depreciation.

Upon the purchase of the water treatment plant by the Joint Water System in 2002, the total purchased assets were inaccurately allocated between depreciable and non-depreciable assets. The right to utilize the raw water storage space in Lake Hartwell, as outlined in the raw water storage agreement between the Joint Water System and the Army Corps of Engineers, was included in the amount allocated to depreciable plant assets and depreciated accordingly. In fiscal year 2017, it was recognized that the value

of the raw water rights of $9,597,029 should be included in non-depreciable assets and the amount included in accumulated depreciation since 2002 should be adjusted. As a result of this adjustment, the balances of annual depreciation and cumulated depreciation have been reduced. See NOTE 3 and NOTE 5 in the Notes to the Financial Statements for additional information.

The Joint Water System's total liabilities at June 30, 2017 totaled $68,324,485, of which $44,687,195 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, 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.

Joint Water System Balance Sheet

	2017	2016*	2015*
Total Assets net of Depreciation	$92,104,165	$89,773,516	$86,424,201
Total Deferred Outflows of Resources	2,781,298	2,845,822	3,105,155
Total Liabilities	68,324,485	67,798,053	68,415,881
Total Deferred Inflows of Resources	78,198	80,745	168,954
Net Position	26,482,780	24,740,540	20,944,521
Net Position Ratio (Percent of Assets)	28.75%	27.56%	24.23%
Accumulated Depreciation	$24,376,109	$22,117,102	$19,878,863

*Restated to reflect the fiscal year 2017 prior period adjustment as discussed above.

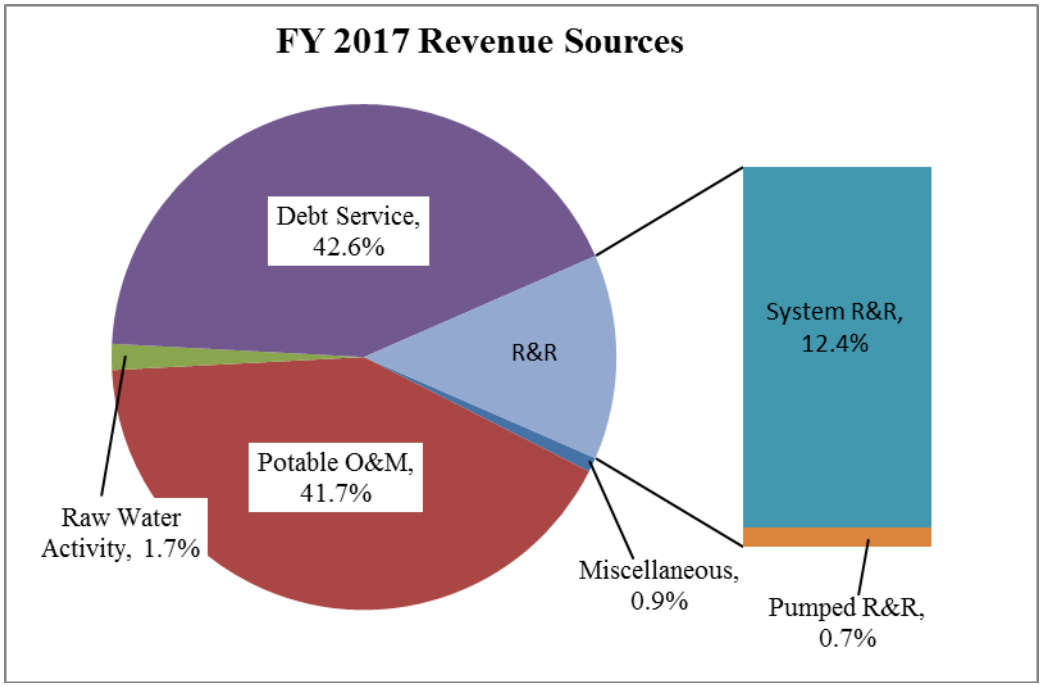
The Joint Water System's net position is separated into three categories. The first category, invested in capital assets, consists of capital assets (net of depreciation) less related outstanding debt (including deferred losses on refundings) incurred to purchase or produce those assets ($19,878,163). 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 ($7,006,699). The third category, unrestricted net deficit, consists of all other balance sheet amounts unrelated to acquisition of capital assets ($402,082).

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, 2017. The Joint Water system operates two separate activities: a potable water system comprising 98.1% 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 98.1% of the $10,827,061 in total operating revenues. As shown in the financial statements, total operating revenue for 2017 increased 4.2% from 2016 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 2017 net non-operating expense was ($2,180,970) a change of $63,248 from the prior year's ($2,244,218) 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

	2017	2016	2015
Personnel	$1,667,200	$1,472,059	$1,550,048
O&M	2,698,472	2,834,616	2,968,608
Professional Fees	194,928	145,737	134,612
Insurance	84,244	88,388	94,995
Depreciation	2,259,007	2,238,239	2,222,702
Total ($)	$6,903,851	$6,779,039	$6,970,965

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 $6,076,708 in fiscal year 2017 compared to $5,761,342 in the prior year. The Joint Water System spent $5,462,363 for acquisition and construction of capital assets. Normal debt service payments resulted in principal repayment of $244,182 for Series 2005 SRF Revenue Bond, $304,253 for Series 2009A SRF Revenue Bond, $336,421 for Series 2012B SRF Revenue Bond, $1,555,000 for Series 2011A Advanced Refunding Revenue Bonds, and $720,821 on the 2016 Jr. Lien Improvement and Refunding Revenue Bonds. In addition, the Joint Water System drew $3,101,791 on the 2017 SRF loan issued for construction of the advanced oxidation facility improvements.

Change in Long-Term Debt Outstanding

	2017	2016	Difference
Water Storage Agreement	$2,155,900	$2,202,500	$(46,600)
Series 2005, SRF	2,691,226	2,935,408	(244,182)
Series 2006, Equipment Note	-	41,269	(41,269)
Series 2009A, SRF 1A	4,541,582	4,845,835	(304,253)
Series 2011A, Advance Refunding	21,760,000	23,315,000	(1,555,000)
Series 2012A, Refunding	18,640,000	18,640,000	-
Series 2012B, SRF 1B	6,548,132	6,884,553	(336,421)
Series 2016, Jr Lien	2,741,395	3,462,216	(720,821)
Series 2017, SRF	$3,101,791	$ -	$3,101,791

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 2017, the debt service ratio was 1.39x, as computed below.

Rate Covenant Compliance

	2017
Increase in Net Position	$1,742,240
Plus Interest Expense	2,197,538
Plus Water Credits	144,171
Plus Depreciation	2,259,007
Plus Contingency Reserve Draws	25,500
Plus Deferred Pension Credits	34,884
Net Earnings	$6,403,340
Debt Service	$4,614,092
Debt Service Coverage Ratio	**1.39X**
(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, 2017 (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.

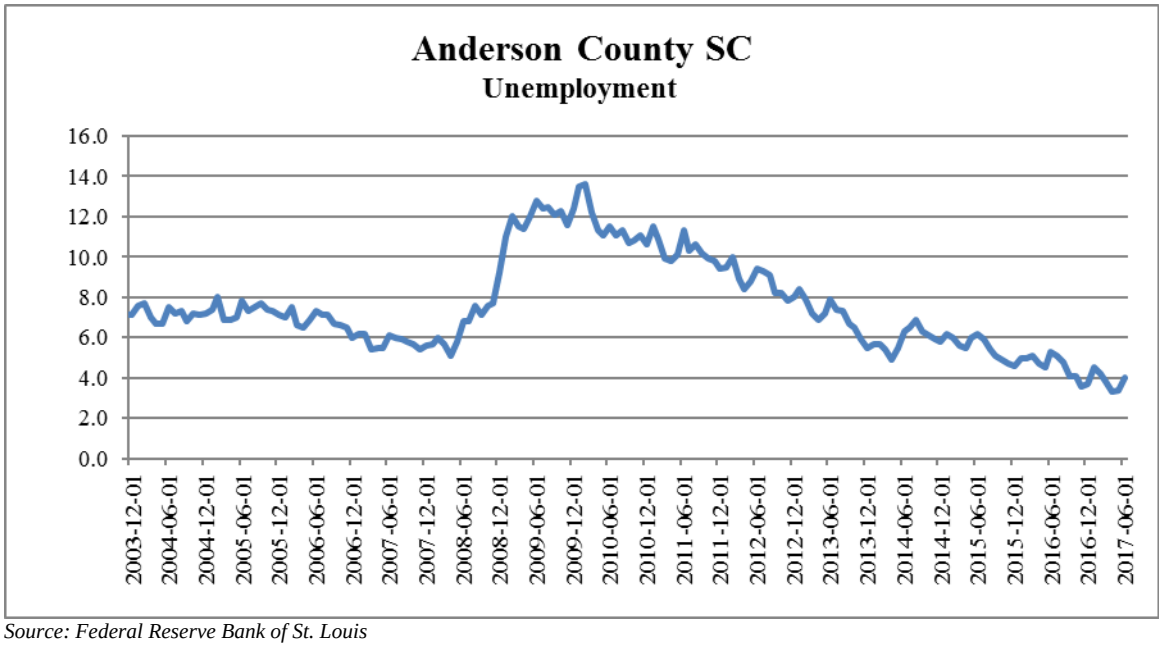
Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of the Financial Report. Management undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date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

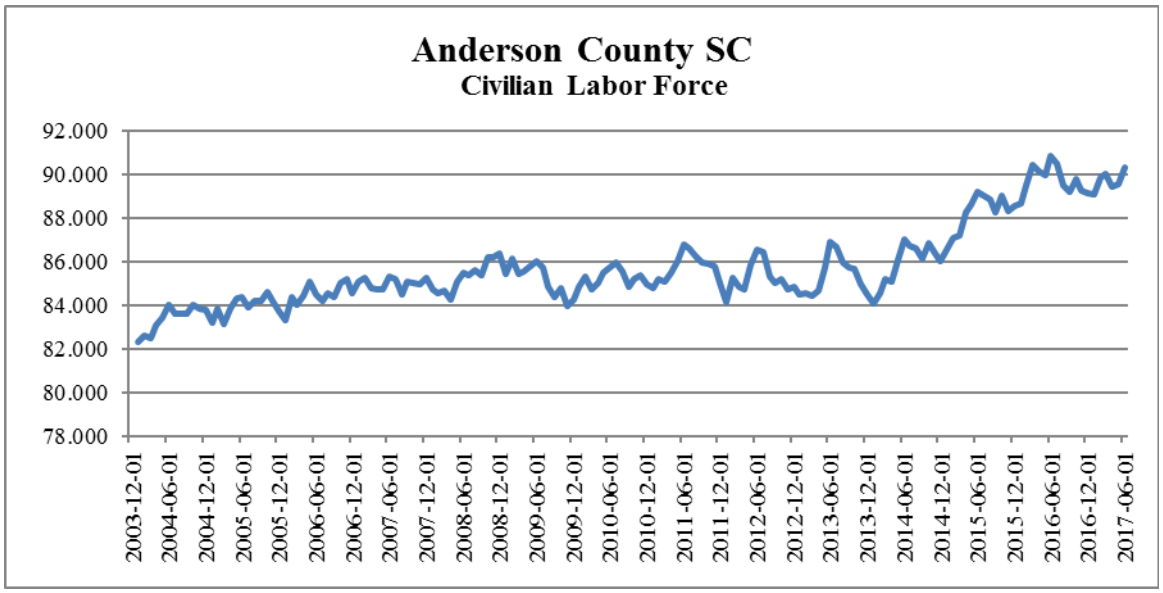
Economic Factors

- ***Local Economy***

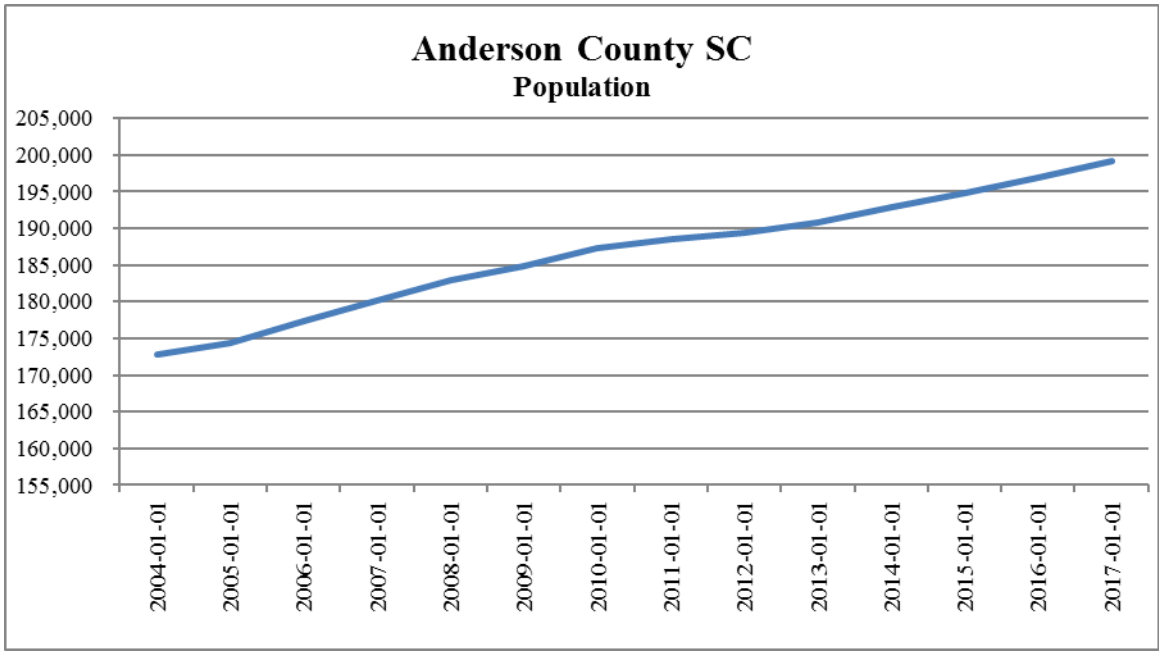
  The service area continues to experience modest population growth and job creation. Several large manufacturers are presently expanding their local workforce as part of previously announced expansions. With job creation and population increasing at approximately the same rate, the lower unemployment rate represents a stabilization 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.



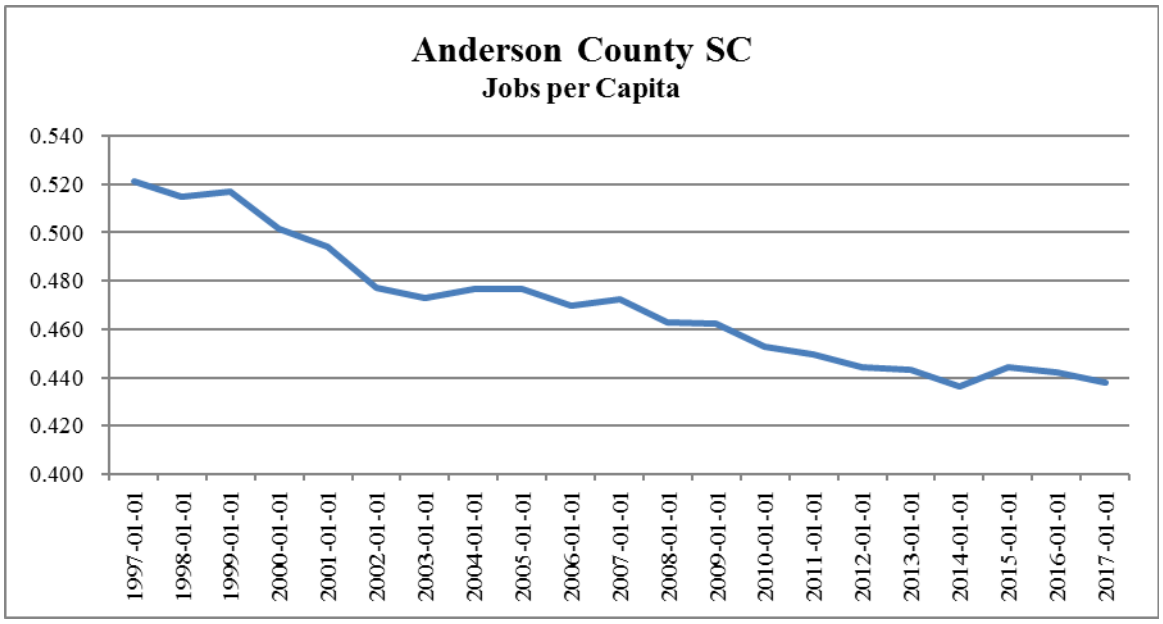
Source: Federal Reserve Bank of St. Louis



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. The Corps of Engineers stated that the new allocation study and renewal process will be conducted within the next two years. 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 2018 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 2018 Budget received final approval in June 2017. 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 2.30% ($208,834) increase over the fiscal year 2017 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 18	FYE 19	FYE 20	FYE 21	FYE 22
Operating Revenues					
O&M Payments	$4,170,900	$3,758,680	$4,045,200	$4,346,800	$4,467,600
Capital Charge – Debt Service	4,972,539	5,591,741	5,601,241	5,605,491	5,610,691
Capital Charge – Repair & Replacement	1,491,762	1,677,522	1,680,372	1,681,647	1,683,207
Total Revenues	10,635,201	11,027,943	11,326,813	11,633,938	11,761,498
Total Operating Expenses:	4,325,400	4,280,180	4,323,700	4,394,800	4,467,600
Net Operating Revenues	6,309,801	6,747,763	7,003,113	7,239,138	7,293,898
Total Debt Service Requirements – Senior Lien	4,972,539	5,591,741	5,601,241	5,605,491	5,610,691
Net Revenues after Debt Service	1,337,262	1,156,022	1,401,872	1,633,647	1,683,207
Interest on Debt Service Reserve Fund	$140,000	$140,000	$140,000	$140,000	$140,000
Bottom Line					
Net Revenues Paid by Members	$10,470,201	$10,862,943	$11,161,813	$11,468,938	$11,596,498
Increased Revenue Requirement	1.50%	3.75%	2.75%	2.75%	1.11%
DEMAND (kGals)	5,945,401	6,168,354	6,337,984	6,512,278	6,584,564
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

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Basic Financial Statements

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS	
Current assets:	
Cash and cash equivalents	$ 655,544
Restricted cash and cash equivalents	1,987,825
Restricted investments	5,908,927
Accounts receivable	
Trade	880,157
Accrued interest	144,157
Prepaid expenses	139,163
Total current assets	9,715,773
Noncurrent assets:	
Note receivable	240,495
Capital assets, net:	
Non-depreciable	17,713,352
Depreciable	64,434,545
Total noncurrent assets	82,388,392
Total assets	92,104,165
DEFERRED OUTFLOWS OF RESOURCES	
Deferred losses on refundings	2,419,812
Deferred pension charges	361,486
	2,781,298
LIABILITIES	
Current liabilities:	
Accounts payable	1,190,287
Accrued interest	890,053
Accrued expenses and other liabilities	185,823
Current portion of revenue bonds	2,412,161
Current portion of other long-term debt	3,060,834
Total current liabilities	7,739,158
Noncurrent liabilities:	
Revenue bonds, less current portion	42,275,034
Other long-term debt, less current portion	15,977,797
Net pension liability	2,332,496
Total noncurrent liabilities	60,585,327
Total liabilities	68,324,485
DEFERRED INFLOWS OF RESOURCES	
Deferred pension credits	78,198
NET POSITION	
Net investment in capital assets	19,878,163
Restricted for debt service and renewal and replacement	7,006,699
Unrestricted	(402,082)
Total net position	$ 26,482,780

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, 2017

OPERATING REVENUES	
Operations and maintenance	$ 4,695,657
Debt service	4,614,029
Renewal and replacement	
Water system	1,347,009
Pump station	70,688
Miscellaneous	99,678
Total operating revenues	10,827,061
OPERATING EXPENSES	
Salaries and wages	1,210,804
Payroll taxes and employee benefits	456,396
Operations and maintenance	2,698,472
Professional fees	194,928
Insurance	84,244
Total operating expenses before depreciation	4,644,844
Depreciation	2,259,007
Total operating expenses	6,903,851
Net operating income	3,923,210
NON-OPERATING REVENUES (EXPENSES)	
Interest income	160,739
Water credits	(144,171)
Interest expense	(2,197,538)
Net non-operating expenses	(2,180,970)
Increase in net position	1,742,240
NET POSITION, beginning of year - as previously reported	21,310,806
Prior period adjustment	3,429,734
NET POSITION, beginning of year - restated	24,740,540
NET POSITION, end of year	$ 26,482,780

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	$ 10,704,420
Paid to suppliers for goods and services	(3,405,003)
Paid to employees for services	(1,222,709)
Net cash provided by operating activities	6,076,708
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(5,462,363)
Payments on revenue bonds	(2,275,821)
Proceeds from issuance of lon-term debt	3,101,791
Payments on long-term debt	(972,725)
Interest paid	(2,246,885)
Net cash used in capital and related financing activities	(7,856,003)
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in investments	(97,285)
Interest received	88,661
Collection of notes receivable	10,306
Net cash provided by investing activities	1,682
Net increase in cash and cash equivalents	(1,777,613)
CASH AND CASH EQUIVALENTS, beginning of year	4,420,982
CASH AND CASH EQUIVALENTS, end of year	$ 2,643,369
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net operating income	$ 3,923,210
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation	2,259,007
Water credits	(144,171)
Changes in assets and liabilities:	
Accounts receivable	21,530
Prepaid expenses	(850)
Accounts payable	(33,833)
Accrued expenses and other liabilities	16,931
Net pension liability	230,552
Changes in deferred outflows and inflows of resources:	
Deferred pension charges	(193,121)
Deferred pension credits	(2,547)
Net cash provided by operating activities	$ 6,076,708
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION	
Cash and cash equivalents	$ 655,544
Restricted cash and cash equivalents	1,987,825
	$ 2,643,369
Noncash investing, capital and financing activities:	
Acquisition of capital assets not yet paid for	$ 766,529

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)

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.

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.

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

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. Depreciable 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, 2017 represents the filter refurbishments and an Ozone addition.

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.

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.

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

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (CONTINUED)

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.

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, 2017, none of the Joint Water System's bank balances of $2,653,916 (with a carrying value of $2,643,369) were exposed to custodial credit risk

INVESTMENTS

As of June 30, 2017, the Joint Water System had the following investments:

Investment Type	Credit Rating ^	Fair Value Level (1)	Fair Value	Investment Maturities in Years < 1 yr	Investment Maturities in Years > 5 yrs
Guaranteed Investment Contract	NR, NR	N/A	$ 2,537,980	-	$ 2,537,980
Government Money Market Funds	AAAm, Aaa-mf, AAAmmf	Level 1	3,370,947	3,370,947	-
Total			$ 5,908,927	3,370,947	$ 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, 2017.

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:

	2017
Current principal and interest payments	$ 3,018,254
Debt service reserves	2,890,673
Capital improvements	87,179
Renewal and replacement	1,900,646
Total restricted cash, cash equivalents, and investments	$ 7,896,752

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the Joint Water System for the year ended June 30, 2017, was as follows:

	Restated * Balance at June 30, 2016	Increases	Decreases	Transfers	Balance at June 30, 2017
Capital assets not being depreciated:					
Land	$ 3,203,896	-	-	-	$ 3,203,896
Construction in progress	840,763	4,926,851	-	(855,187)	4,912,427
Water storage agreement	9,597,029	-	-	-	9,597,029
Total capital assets not being depreciated	13,641,688	4,926,851	-	(855,187)	17,713,352
Capital assets being depreciated:					
Facilities and improvements	84,783,486	1,290,776	-	855,187	86,929,449
Buildings	991,789	11,265	-	-	1,003,054
Machinery and equipment	878,151	-	-	-	878,151
Total capital assets being depreciated	86,653,426	1,302,041	-	855,187	88,810,654
Less accumulated depreciation for:					
Facilities and improvements	21,114,565	2,210,633	-	-	23,325,198
Buildings	214,472	25,076	-	-	239,548
Machinery and equipment	788,065	23,298	-	-	811,363
Total accumulated depreciation	22,117,102	2,259,007	-	-	24,376,109
Total capital assets being depreciated, net	64,536,324	(956,966)	-	855,187	64,434,545
Total capital assets, net	$ 78,178,012	3,969,885	-	-	$ 82,147,897

* During the year ended June 30, 2017, the Joint Water System discovered that the purchase price for the water treatment plant acquired in April of 2002 had all been assigned to tangible assets and that no value had been assigned to the right to utilize the water storage space (a non-depreciable intangible asset) in the Hartwell Reservoir ("water storage agreement"). The Joint Water System determined that the value of the water storage agreement should have been $9,597,029. This means that since the purchase of the water treatment plant, the tangible assets, most of which are depreciable, were overstated and the non-depreciable water storage agreement was understated. The Joint Water System corrected this error by increasing the net capital asset balance at June 30, 2016 by $5,632,234 – see Note 5 SOURCE WATER STORAGE AGREEMENT – PRIOR PERIOD ADJUSTMENT for more details.

Depreciation expense for the year ended June 30, 2017 was $2,259,007.

NOTE 4 – DEFERRED LOSSES ON REFUNDINGS

Deferred losses on refunding debt consisted of the following at June 30, 2017.

	2017
Deferred losses on refundings	$ 3,708,036
Less: accumulated amortization	(1,288,224)
Deferred losses on refundings, net	$ 2,419,812

Amortization expense was $257,645 for the years ended June 30, 2017.

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.	$ 21,760,000
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
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.	2,741,395
Gross debt	43,141,395
Premium on Series 2011A and 2012A bonds	1,545,800
Net debt	44,687,195
Less current portion	(2,412,161)
Long-term portion	$ 42,275,034

Interest expense on revenue bonds totaled $1,887,678 for the year ended June 30, 2017. Amortization of the 2011A bond premium totaled $242,725 for the year ended June 30, 2017. Amortization of the 2012A bond premium totaled $24,901 for the year ended June 30, 2017.

Future amounts required to pay principal and interest on revenue bonds outstanding at June 30, 2017 are as follows:

June 30,	Principal	Interest	Total
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	2,120,000	1,422,750	3,542,750
2023-2027	12,225,000	5,446,825	17,671,825
2028-2032	15,390,000	2,328,800	17,718,800
2033	3,250,000	65,000	3,315,000
	$ 43,141,395	15,974,137	$ 59,115,532

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, 2017.

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, 2017.

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

OTHER LONG-TERM DEBT

A fifty-year Source Water Storage agreement, effective January 1, 1968, with the United States of America, total consideration under the agreement is $3,477,700. The "System" is required to make annual payments, based upon volume withdrawals, varying from $9,000 to $60,500 with the remainder due January 1, 2018.	$ 2,155,900
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.	2,691,226
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.	4,541,582
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.	6,548,132
On February 12, 2017 the Joint Water System entered into an agreement with the South Carolina Water Quality Revolving Fund Authority to borrow up to $13,500,000, plus capitalized interest, if any, to fund cost of construction of an Ozone addition. The Joint Water System will be reimbursed for costs during construction. On July 1, 2018, the Joint Water System will begin making quarterly principal and interest payments of $203,234 at 1.90 percent interest through April 1, 2038. effective December 1, 2014 a new quarterly payment amount of $122,124 was recalculated with payments through June 2033.	3,101,791
	19,038,631
Less current portion	(3,060,834)
Long-term portion	$ 15,977,797

Interest expense on the long-term debt totaled $319,350 for the year ended June 30, 2017.

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

OTHER LONG-TERM DEBT (CONTINUED)

Future amounts required to pay principal and interest on long-term debt outstanding at June 30, 2017 are as follows:

June 30,	Principal	Interest	Total
2018	$ 3,060,834	302,472	$ 3,363,306
2019	1,684,858	335,483	2,020,341
2020	1,720,389	299,952	2,020,341
2021	1,756,674	263,667	2,020,341
2022	1,769,651	226,609	1,996,260
2023-2027	5,219,775	740,208	5,959,983
2028-2032	3,345,220	226,775	3,571,995
2033	481,230	6,782	488,012
	$ 19,038,631	2,401,948	$ 21,440,579

CHANGES IN LONG-TERM OBLIGATIONS

Changes in long-term debt for the years ended June 30, 2017.

	2017			
	Restated Balance June 30, 2016 *	Additions	Reductions	Balance June 30, 2017
Revenue bonds	$ 45,417,216	-	(2,275,821)	$ 43,141,395
Net premium/discount on bonds	1,813,426	-	(267,626)	1,545,800
State revolving loans	14,665,796	3,101,791	(884,856)	16,882,731
Note payable	41,269	-	(41,269)	-
Source water storage agreement	2,202,500	-	(46,600)	2,155,900
	$ 64,140,207	3,101,791	(3,516,172)	$ 63,725,826

* The Source water storage agreement has been restated. See discussion later in this note for more details.

2017 STATE REVOLVING LOAN ISSUANCE

In February 2017, the Joint Water System entered into a South Carolina Water Quality Revolving Fund Authority loan to borrow up to $13,500,000, plus capitalized interest, if any, to fund cost of construction of an Ozone addition. Drawdowns totaled $3,101,791 for the year ended June 30, 2017.

SOURCE WATER STORAGE AGREEMENT – PRIOR PERIOD ADJUSTMENT

When the Joint Water System purchased the water treatment plant in April of 2002, it also purchased a water storage agreement, dating back to 1968, which allows the Joint Water System to withdraw water from the Hartwell Reservoir. The original purchase price was all allocated to tangible assets and not to the indefinite life water storage agreement. This meant that tangible assets, most of which are depreciable, were overstated and the non-depreciable water storage agreement was understated. The Joint Water System corrected this error by increasing the net capital assets balance at June 30, 2016 by $5,632,234 (See Note 3 – Capital Assets for more details).

The Joint Water System also determined that at the purchase date of the water treatment plant, it had understated its long-term obligations. The Joint Water System determined the outstanding liability balance for the Source Water Storage Agreement at the beginning of the year ended June 30, 2017 was $2,202,500, which is the amount that was owed on the agreement at June 30, 2016. The agreement called for varying annual payments over fifty years with the remainder due January 1, 2018.

The net effect of the above adjustments was an increase to the beginning net position (net investment in capital assets component of net position) by $3,429,734. These corrections had no impact on the Joint Water System's cash flows.

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 $176,545 for the year ended June 30, 2017. 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. Empower is the program administrator of the 457 Plan.

STATE RETIREMENT PLAN

The Joint Water System participates in one of the State of South Carolina's retirement plan, which are 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 State Fiscal Accountability Authority ("SFAA"), 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 Systems' Pension Trust Funds. The CAFR is publicly available 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, 202 Arbor Lake Drive, Columbia, SC 29223. 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 school districts, 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.

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.

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

Plan Benefits (Continued)

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. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the SFAA for approval an increase in the SCRS ("Plan") employer and employee contribution rates, but any such increase may not result in a differential between the employee and total 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. Required employer and employee contribution rates for the past three years are as follows:

	SCRS Rates		
	2015	2016	2017
Employer Rate:			
Retirement	10.75%	10.91%	11.41%
Incidental Death Benefit	0.15%	0.15%	0.15%
Accidental Death Contributions	0.00%	0.00%	0.00%
	10.90%	11.06%	11.56%
Employee Rate	8.00%	8.16%	8.66%

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	SCRS Contributions	
June 30,	Required	% Contributed
2017	$ 141,069	100%
2016	116,952	100%
2015	$ 113,267	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
2017	$ 1,220,323
2016	1,057,430
2015	$ 1,039,146

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 with 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 than an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015. As a result of the experience study, the actuary recommended adjustments to the actuarial assumptions, which included salary increase, payroll growth, mortality, retirement, terminations, refunds, disability, inflation, and asset valuation method. The experience study also recommended reducing the long-term investment rate of return assumption, which is a prescribed assumption that is set in state statute by the General Assembly, from 7.50 to 7.25 percent. With the exception of the rate of return, all recommended assumption and method changes were adopted by both the PEBA Board and the SFAA, as co-fiduciaries. The General Assembly did not change the assumed annual rate of return during the 2016 legislative session so that assumption currently remains at 7.50 percent. The newly adopted assumptions and methods will be first used to perform the July 1, 2016 actuarial valuation, the results of which will be used in determining the total pension liability as of the June 30, 2017 measurement date.

The June 30, 2016 total pension liability, net pension liability, and sensitivity information were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (“GRS”) and are based on the July 1, 2015 actuarial valuations as adopted by the PEBA Board and SFAA which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the Plan’s fiscal year ended June 30, 2016 using generally accepted actuarial principles. Information included in these notes are based on the certification provided by GRS.

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions and Methods (Continued)

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2015, valuations for the SCRS.

	SCRS
Actuarial Cost Method	Entry Age Normal
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, 2015 valuations for the SCRS are as follows:

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, 2015 actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based units. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016. 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 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.

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	**43.0%**		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	**8.0%**		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	**20.0%**		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	**17.0%**		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	**12.0%**		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100.0%		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			7.85%

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 June 30, 2016 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	$ 45,356,214,752	23,996,362,354	$ 21,359,852,398	52.9%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' 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 Nos, 67 and 68 are not applicable for other purposes, such as determining the Plans' funding requirements.

At June 30, 2017, the Joint Water System reported a liability of $2,332,496 for its proportionate share of the net pension liability for the SCRS. The net pension liability was measured as of June 30, 2016, 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 as of July 1, 2015 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, 2016 measurement date, the Joint Water System's SCRS proportion was .010920 percent, which was a decrease of 0.000163 from its proportion measured as of June 30, 2015.

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

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

For the year ended June 30, 2017, the Joint Water System recognized pension expense of $175,953 for the SCRS. At June 30, 2017, 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	$ 24,179	$ 2,533
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	196,238	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	-	75,665
Joint Water System's Contributions Subsequent to the Measurement Date	141,069	-
Total SCRS	$ 361,486	$ 78,198

Deferred outflows of $141,069 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, 2018. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS will increase (decrease) pension expense as follows:

Year Ended June 30,	SCRS
2018	$ 22,373
2019	9,734
2020	66,841
2021	43,271
	$ 142,219

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of the Joint Water System's proportionate share of the net pension liability of the Plan to changes in the discount rate, calculated using the discount rate of 7.50 percent, as well as what it would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 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	$ 2,909,725	2,332,496	$ 1,851,975

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

STATE RETIREMENT PLAN (CONTINUED)

Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plan administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information. 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, 202 Arbor Lake Drive, Columbia, SC 29223.

Payable to Plan

The Joint Water System reported a payable of $28,973 to the PEBA as of June 30, 2017, representing required employer and employee contributions for the month of June 2017 for the SCRS. This amount is included in Accrued Expenses and Other Liabilities on the financial statements and was paid in July 2017.

Plan Developments

House Bill 3726 was signed by the Governor of the State on April 25, 2017 and is effective immediately. This new law increases the employer SCRS contribution rates to 13.56% beginning July 1, 2017. Employer rates will continue to increase annually by 1% through July 1, 2022, which would result in the SCRS employer rate totaling 18.56% for fiscal year 2023 and thereafter. The legislation (a) would also increase and cap the employee SCRS contribution rates to 9.00%, provides, after June 30, 2027, for a decrease in employer and employee contribution rates in equal amounts if the ratio between the actuarial value of assets and the actuarial value of liabilities is equal to or greater than 85%, (b) lower the assumed annual rate of return on pension investments from 7.50% to 7.25%, and (c) for some years reduce the funding period of unfunded liabilities from 30 years to 20 years.

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, 2017. Future amounts to be paid for the commercial power electric service agreement are as follows:

June 30,	
2018	$ 18,420
2019	18,420
2020	18,420
2021	18,420
2022	18,420
2023-2028	104,380
	$ 196,480

NOTE 8 - CONSTRUCTION CONTRACTS IN PROGRESS

At June 30, 2017, the Water System had commitments for the construction of treatment facilities. Construction in progress is included in the capital assets balance. The following summarizes construction contracts in progress at June 30, 2017 on which significant additional work is to be performed:

Project Name	Contract amount	Performed at June 30, 2017	Balance to be performed
Filter rehabilitation 10 & 11	$ 194,208	95,087	$ 99,121
Advanced Oxidation Process	13,265,039	4,061,744	9,203,295
	$ 13,459,247	4,156,831	$ 9,302,416

NOTE 9 - MAJOR CUSTOMERS

At June 30, 2017, the Joint Water System had four customers which accounted for 27 percent, 12 percent, 10 percent, and 10 percent of operating revenue. At June 30, 2017, these customers accounted for 27 percent, 12 percent, 10 percent, and 10 percent of trade accounts receivable.

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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 FOUR FISCAL YEARS

	Year Ended June 30,			
	2017	**2016**	**2015**	**2014**
Anderson Regional Joint Water System's Proportion of the Net Pension Liability	0.010920%	0.011083%	0.011640%	0.011640%
Anderson Regional Joint Water System's Proportionate Share of the Net Pension Liability	$ 2,332,496	2,101,944	2,004,022	$ 2,087,801
Anderson Regional Joint Water System's Covered Payroll	$ 1,057,430	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 Payroll	220.58%	202.28%	189.64%	209.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	52.91%	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 FOUR FISCAL YEARS

	Year Ended June 30,			
	2017	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 141,070	116,952	113,267	$ 112,013
Contributions in Relation to the Contractually Required Contribution	141,070	116,952	113,267	112,013
Contribution Deficiency (Excess)	$ -	-	-	$ -
Anderson Regional Joint Water System's Covered Payroll	$ 1,220,323	1,057,430	1,039,146	$ 1,056,723
Contributions as a Percentage of Covered Payroll	11.56%	11.06%	10.90%	10.60%

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Supplementary Information

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017

	Potable Water	Raw Water	Total
OPERATING REVENUES			
Operations and maintenance	$ 4,515,909	179,748	$ 4,695,657
Debt service	4,614,029	-	4,614,029
Renewal and replacement			
Water system	1,320,467	26,542	1,347,009
Pump station	70,688	-	70,688
Miscellaneous	99,678	-	99,678
Total operating revenues	10,620,771	206,290	10,827,061
OPERATING EXPENSES			
Salaries and wages	1,210,804	-	1,210,804
Payroll taxes and employee benefits	456,396	-	456,396
Operations and maintenance	2,539,046	159,426	2,698,472
Professional fees	194,928	-	194,928
Insurance	84,244	-	84,244
Total operating expenses before depreciation	4,485,418	159,426	4,644,844
Depreciation	1,941,035	317,972	2,259,007
Total operating expenses	6,426,453	477,398	6,903,851
Net operating income (loss)	4,194,318	(271,108)	3,923,210
NON-OPERATING REVENUES (EXPENSES)			
Interest income	160,739	-	160,739
Water credits	(144,171)	-	(144,171)
Interest expense	(2,197,538)	-	(2,197,538)
Net non-operating expenses	(2,180,970)	-	(2,180,970)
Increase in net position	2,013,348	(271,108)	1,742,240
NET POSITION, beginning of year - as previously reported	15,103,915	6,206,891	21,310,806
Prior period adjustment	3,429,734	-	3,429,734
NET POSITION, beginning of year - restated	18,533,649	6,206,891	24,740,540
NET POSITION, end of year	$ 20,546,997	5,935,783	$ 26,482,780

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, 2017, 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 October 13, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001, that we consider to be a material weakness.

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*.

Joint Water System's Response to the Finding

The Joint Water System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Joint Water System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
October 13, 2017

2017-001: CORRECTION OF AN ERROR RELATED TO PURCHASE OF WATER SYSTEM IN APRIL 2002

Condition and Context: When the Joint Water System purchased the water treatment plant in April of 2002, it also purchased a water storage agreement, dating back to 1968, which allows the Joint Water System to withdraw water from the Hartwell Reservoir. The original purchase price was all allocated to tangible assets and not to the indefinite life water storage agreement. This meant that tangible assets, most of which are depreciable, were overstated and the non-depreciable water storage agreement was understated. The Joint Water System corrected this error by increasing the net capital assets balance at June 30, 2016 by $5,632,234.

The Joint Water System also determined that at the purchase date of the water treatment plant, it had understated its long-term obligations. The Joint Water System determined the outstanding liability balance for the Source Water Storage Agreement at the beginning of the year ended June 30, 2017 was $2,202,500, which is the amount that was owed on the agreement at June 30, 2016.

The net effect of the above adjustments was an increase to the beginning net position (net investment in capital assets component of net position) by $3,429,734. These corrections had no impact on the Joint Water System's cash flows.

Criteria: The Joint Water System should have appropriate internal controls in place to ensure that capital asset and long-term obligations have been properly recorded on a timely basis in accordance with generally accepted accounting principles.

Cause and Effect: The Joint Water System was not aware that these balances had not been properly recorded. This resulted in the City's net position being misstated in prior years.

Recommendation: The Joint Water System needs to ensure that all capital assets and related long-term obligations are being correctly accounted for and recorded in the proper period.

Response: The Joint Water System corrected these items in the year ended June 30, 2017 when they were discovered.