

**WACCAMAW REGIONAL  
TRANSPORTATION AUTHORITY**

**FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2017**

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors of the  
Waccamaw Regional Transportation Authority  
Conway, South Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the **Waccamaw Regional Transportation Authority** (the "Authority") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express 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.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Waccamaw Regional Transportation Authority as of September 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information* - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 4 through 11), the Schedules of Authority's Proportionate Share of the Net Pension Liability (on page 39), and the Schedules of Authority Contributions (on page 40) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information* - Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Waccamaw Regional Transportation Authority's basic financial statements. The Schedule of Revenues, Expenses, and Changes in Net Position – Budget (Non-GAAP Basis) and Actual; the Schedules of Budgeted to Actual Costs – SCDOT Grants; the Schedule of Budgeted to Actual Costs – WRCG (GSATS); and the Schedule of Expenditures of Federal Awards (as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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The Schedule of Revenues, Expenses, and Changes in Net Position – Budget (Non-GAAP Basis) and Actual; the Schedules of Budgeted to Actual Costs – SCDOT Grants; the Schedule of Budgeted to Actual Costs – WRCG (GSATS); and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenses, and Changes in Net Position – Budget (Non-GAAP Basis) and Actual; the Schedules of Budgeted to Actual Costs – SCDOT Grants; the Schedule of Budgeted to Actual Costs – WRCG (GSATS); and the Schedule of Expenditures of Federal Awards are 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 March 2, 2018, on our consideration of the Waccamaw Regional Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Waccamaw Regional Transportation Authority's 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 Waccamaw Regional Transportation Authority's internal control over financial reporting and compliance.

Columbia, South Carolina  
March 2, 2018

*Mauldin & Jenkins, LLC*

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This Management's Discussion and Analysis (MD&A) of the Waccamaw Regional Transportation Authority (the "Authority") provides an overview of the major financial activities affecting the operations of the Authority. This overview encompasses the financial performance and financial statements of the Waccamaw Regional Transportation Authority for the fiscal year ended September 30, 2017. The information contained in this MD&A is prepared by management and should be considered in conjunction with the information contained in the Independent Auditor's Report and notes to the financial statements. Following this MD&A are the basic financial statements of the Authority, together with the notes, which are essential to a full understanding of the data contained in the financial statements.

### **Financial Highlights**

Key financial highlights for fiscal year 2017 are as follows:

- The Authority changed its fiscal year reporting period to September 30, with the first period ending September 30, 2016. Previously, Authority reported on a fiscal year ended June 30. Accordingly, fifteen (15) months of operating activities is presented for the fiscal period 2016 herein.
- At September 30, 2017, total assets and deferred outflows of resources equaled \$5,552,161, and total liabilities and deferred inflows of resources equaled \$6,956,679. This results in a deficit of net position at September 30, 2017 in the amount of (\$1,404,518).
- Changes in total net position for the fiscal year ending September 30, 2017, resulted in a positive increase totaling \$549,702 after the accounting for capital contributions, which totaled \$1,432,619.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Net Position can be found on page 12 of this report.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Authority's net position changed during the fiscal years ended September 30, 2017. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave). The Statement of Revenues, Expenses, and Changes in Net Position can be found on page 13 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Overview of the Financial Statements (Continued)

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within the financial statements. The notes to the financial statements can be found on pages 15 through 38 of this report.

### Financial Statements

**Net Position:** The following table summarizes the changes in net position for the fiscal year ended September 30, 2017, and the fifteen-month period ended September 30, 2016.

	<u>2017</u>	<u>2016</u>
Current assets	\$ 653,183	\$ 1,097,047
Capital assets	<u>3,528,627</u>	<u>2,062,475</u>
Total assets	<u>4,181,810</u>	<u>3,159,522</u>
Deferred outflows of resources	<u>1,370,351</u>	<u>603,054</u>
Current liabilities	917,354	774,457
Long-term liabilities	<u>5,853,964</u>	<u>4,323,671</u>
Total liabilities	<u>6,771,318</u>	<u>5,098,128</u>
Deferred inflows of resources	<u>185,361</u>	<u>618,668</u>
Net position:		
Investment in capital assets	3,278,627	1,876,648
Restricted for transit operations	60,000	60,000
Unrestricted	<u>(4,743,145)</u>	<u>(3,890,868)</u>
Total net position	<u>\$ (1,404,518)</u>	<u>\$ (1,954,220)</u>

The Authority's total current assets decreased by \$443,864 during the fiscal year ended September 30, 2017. Elements to consider related to these changes include:

- The Authority's unrestricted cash and cash equivalents decreased approximately \$182,000 during the fiscal year ended September 30, 2017.
- The Authority's accounts receivable decreased approximately \$238,000 during the fiscal year ended September 30, 2017.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Financial Statements (Continued)**

The Authority's capital assets increased by \$1,466,152 during the fiscal year ended September 30, 2017. Elements to consider related to these changes include:

- For the fiscal year ended September 30, 2017, the Authority purchased capital assets in the amount of \$2,027,436, while incurring depreciation on capital assets in the amount of \$550,986, which was the primary cause of the net increase in capital assets.

The Authority's current liabilities increased by \$142,897 during the fiscal year ended September 30, 2017. Elements to consider related to these changes include:

- The Authority's accounts payable and short-term note payable increased by \$63,651 and \$98,824, respectively, during the year ended September 30, 2017, which accounted for the majority of the current year increase in current liabilities.

The Authority's long-term liabilities increased by \$1,530,293 during the current year as a result of an overall increase in the net pension liabilities of \$1,174,821, partially offset by a decrease in the noncurrent portion of the Authority's outstanding long-term payable to South Carolina Department of Transportation and to the Federal Transit Administration of \$187,515.

The Authority's net position increased by \$549,702 during the fiscal year ended September 30, 2017. These changes are attributed to decrease in federal, state, and local grants and appropriations as well as decreased operating expenses.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Statements (Continued)

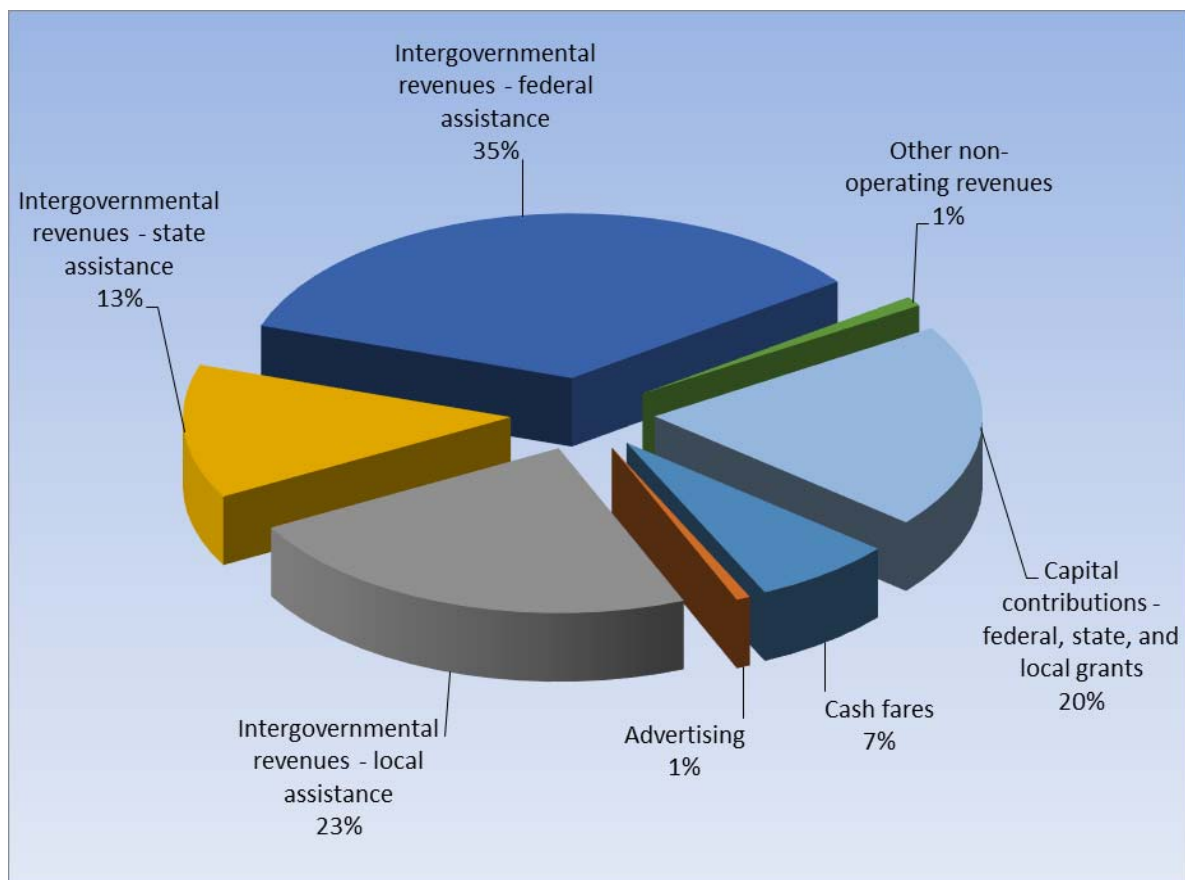
**Revenues, Expenses and Changes in Net Position:** The following table summarizes the revenues, expenses and changes in net position for the fiscal year ended September 30, 2017, and for the fifteen months ended September 30, 2016.

	2017	2016
Operating revenues:		
Cash fares	\$ 496,576	\$ 626,795
Advertising	49,410	33,029
Operating revenues	545,986	659,824
Operating expenses:		
Salaries and wages	2,514,714	2,984,994
Fringe benefits	1,881,563	1,329,689
Fuel, materials and supplies	905,605	806,276
Insurance	180,699	199,062
Professional fees	53,647	90,424
Utilities and telephone	75,566	94,872
Advertising	77,625	22,273
Printing and supplies	60,920	144,640
Travel and training	33,765	60,966
Repairs and maintenance	104,792	76,810
Non-capital equipment	58,590	30,578
Other operating expenses	71,650	60,742
Depreciation expense	550,986	687,398
Operating expenses	6,570,122	6,588,724
Operating loss	(6,024,136)	(5,928,900)
Nonoperating revenues (expenses)		
Intergovernmental revenues - local assistance	1,654,972	2,020,002
Intergovernmental revenues - state assistance	936,947	545,596
Intergovernmental revenues - federal assistance	2,485,909	3,084,950
Gain on disposal of assets	976	-
Other non-operating revenues	67,056	144,497
Interest expense	(4,641)	(1,176)
Nonoperating revenue, net	5,141,219	5,793,869
Capital contributions - federal, state and local grants	1,432,619	300,586
Change in net position	\$ 549,702	\$ 165,555

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Statements (Continued)

**Revenues, Expenses and Changes in Net Position (Continued):** The following chart shows the major revenue sources and percentages for revenues as of September 30, 2017.



*Note: Labels for some revenue accounts have been combined into an "Other" category because their individual portion was less than 1%.*

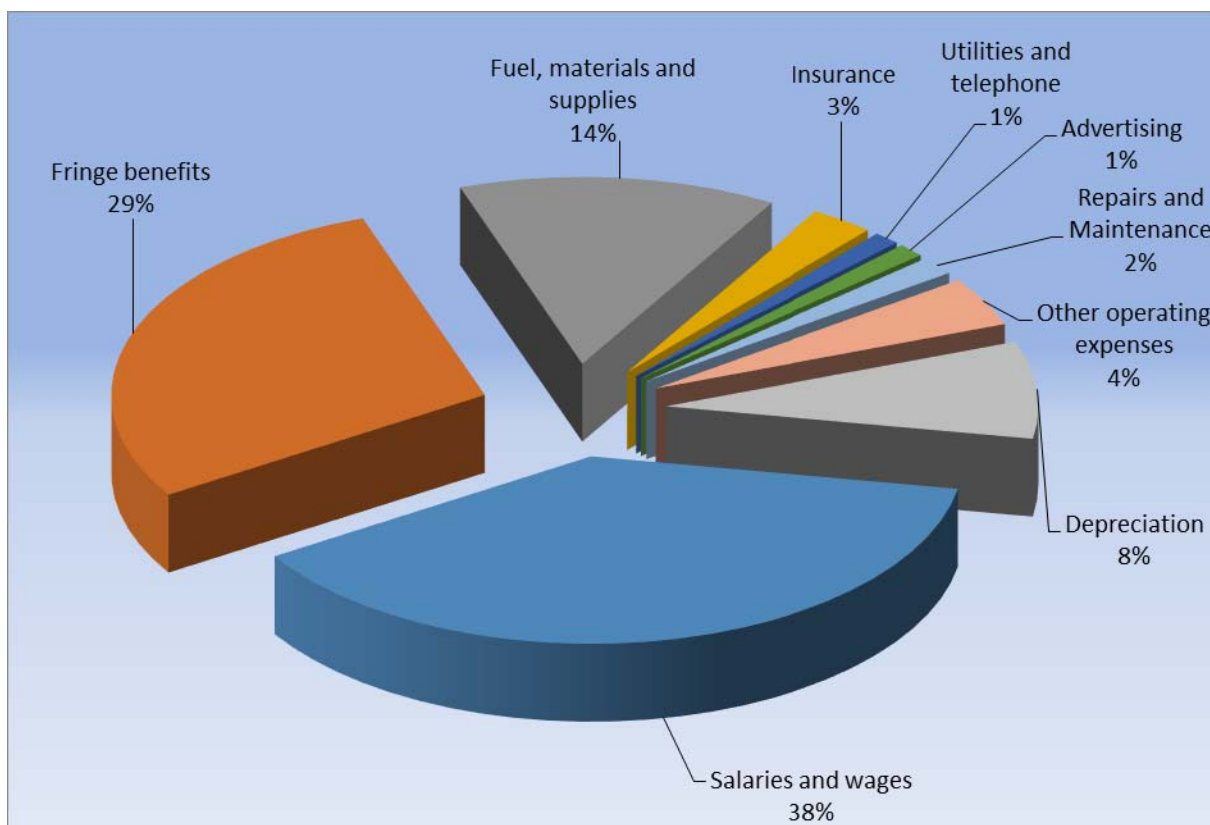
For the fiscal year ended September 30, 2017, operating revenues of the Authority were \$545,986, or 17.3% lower than for the fifteen-month period ended September 30, 2016 revenues of \$659,824. Elements to consider related to these changes include:

- The majority of the decrease is the result of the period ending September 30, 2016, including fifteen (15) months of activity while the fiscal year ended September 30, 2017, includes twelve (12) months.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Statements (Continued)

**Revenues, Expenses and Changes in Net Position (Continued):** The following chart shows the major expenses and the percentage for the total expenses as of September 30, 2017.



*Note: Because so many expense accounts exist, labels for some accounts have been combined.*

For the fiscal year ended September 30, 2017, operating expenses decreased \$18,602, or 0.3% to \$6,570,122. The majority of the current year decrease in expenses is the result of the period ending September 30, 2016, including fifteen (15) months of activity while the fiscal year ended September 30, 2017, includes twelve (12) months.

For the fiscal year ended June 30, 2017, net non-operating revenues of the Authority totaled \$5,141,219, which was approximately \$652,650 lower than the fifteen-month period ended September 30, 2016. As noted previously, the majority of this decrease is the result of the period ending September 30, 2016, including fifteen (15) months of activity while the fiscal year ended September 30, 2017, includes twelve (12) months.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Budget Analysis**

Over the course of the year, the Authority operated under an approved budget for fiscal year 2017 by the Board of Directors. The fiscal year 2017, 12-month budget was approved by the Board of Directors in September 28, 2016. A revised budget for fiscal year 2017 was approved by the Board on March 29, 2017.

The fiscal year 2017 budget is \$7.6 million. The Authority continues to petition local governments in its service areas for financial support and has continued to seek funding from state and federal sources when available.

### **Capital Assets and Debt Administration**

**Capital Assets:** The Authority's investment in capital assets was \$3,528,627 as of September 30, 2017. This represents a 71% increase in the Authority's capital asset balance of \$2,062,475. These investments in capital assets include buildings, vehicles and equipment.

During fiscal year 2017 with approved FTA and SCDOT grant funding, the Authority purchased capital assets in the amount of \$2,027,436.

Additional information on the Authority's capital assets can be found in the Notes to the financial statements.

**Debt Administration:** The Authority's outstanding short-term note payable increased from \$151,176 at September 30, 2016 to \$250,000 as of September 30, 2017. The note payable will be retired in fiscal year 2018. Additionally, the Authority's obligation to the South Carolina Department of Transportation decreased by \$137,488 in 2017 with final maturity in the Authority's fiscal year 2020.

### **Single Audit**

The Authority had projects which were audited for compliance as required by the Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). These audits report on the Authority's compliance with laws, regulations, contracts and grants applicable to major federal programs through which the Authority received grant revenues. The auditor's report on compliance did not identify any material weaknesses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Economic Factors and Next Year's Budget**

The fiscal year 2017 budget was approved at an Authority Board meeting on September 28, 2016, and a revised version of the fiscal year 2017 budget was approved on March 29, 2017.

The fiscal year 2017 operating & maintenance budget was \$5.4 million which is 10% less than the \$6.0 million budget in fiscal year 2016. However, fiscal year 2016 was a 15-month period as the Authority transitioned from a July-June to an October-September fiscal year end. When compared to 80% (12/15ths) of the fiscal year 2016 budget, fiscal year 2017 was 12.5% higher. These budget increases can be attributed to anticipated cost increases for fuel, maintenance and our fringe benefit package (2% across the board increase in pension contributions by the Authority). The Authority was also planning on opening a new passenger facility in Myrtle Beach which required additional staffing and operating expense.

The \$2.2 million capital budget for fiscal year 2017 was significantly higher than fiscal year 2016 because of a major bus buy (\$1.7 million) and several anticipated planning projects.

Farebox revenues were consistent from year to year and are expected to continue on that trend.

Fiscal year 2018 is expected to see modest increases in service (added two limited routes in August 2017), continued advancement of the Bus Stop Designation Program, additional vehicle replacements and initiation of due diligence for new operating & maintenance facility.

### **Requests for Information**

This financial overview is designed to provide readers with a general overview of the Authority's finances, and to show accountability. If you have questions or would like further information about this financial report, you may contact the Authority's Chief Financial Officer, 1418 Third Avenue, Conway, SC 29526.

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## STATEMENT OF NET POSITION SEPTEMBER 30, 2017

<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 139,535
Receivables:	
Ridership	6,557
Intergovernmental	284,032
Prepaid expenses	85,534
Inventory	137,525
Total current assets	<u>653,183</u>
<b>Noncurrent assets</b>	
Capital assets:	
Capital assets - nondepreciable	140,000
Capital assets - depreciable, net	3,388,627
Total noncurrent assets	<u>3,528,627</u>
Total assets	<u>4,181,810</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension	<u>1,370,351</u>
Total deferred outflows of resources	<u>1,370,351</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	247,750
Accrued payroll and withholdings	149,171
Accrued compensated absences, due within one year	74,195
Due to South Carolina Department of Transportation, due within one year	137,488
Note payable, due within one year	250,000
Unearned revenue	58,750
Total current liabilities	<u>917,354</u>
<b>Noncurrent liabilities</b>	
Accrued compensated absences, net of current portion	28,052
Due to South Carolina Department of Transportation, net of current portion	177,134
Due to Federal Transit Administration	338,515
Net pension liability	5,310,263
Total non-current liabilities	<u>5,853,964</u>
Total liabilities	<u>6,771,318</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension	<u>185,361</u>
Total deferred inflows of resources	<u>185,361</u>
<b>NET POSITION</b>	
Net investment in capital assets	3,278,627
Restricted for transit operations	60,000
Unrestricted	(4,743,145)
Total net position	<u>\$ (1,404,518)</u>

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

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

<b>Operating revenues</b>	
Cash fares	\$ 496,576
Advertising	49,410
Total operating revenues	<u>545,986</u>
<b>Operating expenses</b>	
Salaries and wages	2,514,714
Fringe benefits	1,881,563
Fuel, materials, and supplies	905,605
Insurance	180,699
Professional fees	53,647
Utilities and telephone	75,566
Advertising	77,625
Printing and supplies	60,920
Travel and training	33,765
Repairs and maintenance	104,792
Non-capital equipment	58,590
Other operating expenses	71,650
Depreciation expense	550,986
Total operating expenses	<u>6,570,122</u>
Operating loss	<u>(6,024,136)</u>
<b>Non-operating revenues (expenses)</b>	
Intergovernmental revenues - local assistance	1,654,972
Intergovernmental revenues - state assistance	936,947
Intergovernmental revenues - federal assistance	2,485,909
Gain on disposal of assets	976
Other non-operating revenues	67,056
Interest expense	(4,641)
Total non-operating revenues, net	<u>5,141,219</u>
<b>Capital contributions</b>	
Capital contributions - local appropriations	396,810
Capital contributions - state grants	54,618
Capital contributions - federal grants	981,191
Total capital contributions	<u>1,432,619</u>
<b>Change in net position</b>	549,702
<b>Net position, beginning of year</b>	<u>(1,954,220)</u>
<b>Net position, end of year</b>	<u>\$ (1,404,518)</u>

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

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 752,273
Payments to suppliers	(1,535,362)
Payments to employees	(3,864,000)
Net cash used in operating activities	<u>(4,647,089)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Intergovernmental receipts	4,921,713
Other non-operating receipts	67,056
Net cash provided by non-capital financing activities	<u>4,988,769</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition or construction of capital assets	(2,027,436)
Proceeds from the sale of capital assets	11,274
Capital grants	1,432,619
Proceeds from notes payable	1,510,172
Principal paid on notes payable	(1,411,348)
Interest paid on notes payable	(4,641)
Principal paid on capital leases payable	(34,651)
Net cash used in capital and related financing activities	<u>(524,011)</u>
Decrease in cash and cash equivalents	(182,331)
<b>Cash and cash equivalents:</b>	
Beginning of year	<u>321,866</u>
End of year	<u>\$ 139,535</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (6,024,136)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	550,986
(Increase) decrease in:	
Receivables:	
Ridership	14,326
Intergovernmental	191,961
Prepaid expenses	15,509
Inventory	8,337
Deferred outflows of resources - pension	(767,297)
Increase (decrease) in:	
Accounts payable	63,651
Accrued payroll and withholdings	11,797
Accrued compensated absences	(22,825)
Deferred inflows of resources - pension	(433,307)
Net pension liability	1,743,909
Net cash used in operating activities	<u>\$ (4,647,089)</u>

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



# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Reporting Entity**

The Waccamaw Regional Transportation Authority (the "Authority"), is a public entity created in 2003 under Section 58-25 of the South Carolina Code of Laws, Regional Transit Authority Enabling Act. The governing body of the Authority consists of an eleven-member board of directors. It provides substantially all the public and human service transportation services along the Grand Strand in Georgetown and Horry counties of South Carolina. The Authority has separate legal standing from all other units of government and is fiscally independent of all other units of local government. The Authority's Board of Directors has the sole authority to determine financial programs, establish fare, and issue bonded debt.

#### **Fund Accounting**

The Authority uses one fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The fund presented in this report is a Proprietary Fund Type - Enterprise Fund. Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

#### **Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the Statement of Net Position. Net position is segregated into net investment in capital assets and restricted and unrestricted net position components. Proprietary fund operating statements present increases (revenues) and decreases (expenses) in total net position. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of Presentation**

In accounting and reporting for its proprietary operations, the Authority applies all Governmental Accounting Standards Board (GASB) pronouncements. The Authority's financial statements include the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and, Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

#### **Management 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 that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

#### **Deposits and Investments**

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Authority.

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with an original maturity date of three months or less, and customer deposits to be cash equivalents.

Investments are stated at fair value. Increases or decreases in the fair value during the year are recognized as a component of interest income.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond September 30, 2017, are recorded as prepaid expenses.

#### Inventory

Inventories consist primarily of replacement parts for transit equipment and fuel. Amounts are stated at the lower of cost or market using a first in first out method. Reportable inventory expenses are recognized when inventories are consumed.

#### Accounts Receivable

Accounts receivable consist mainly of receivables from ridership and grants receivable from other governments. Management considers all accounts receivable to be fully collectible as of September 30, 2017.

#### Restricted Assets

The Authority's policy is to first apply restricted resources when an expense is incurred for which both restricted and unrestricted net position are available.

#### Capital Assets

Capital assets are carried at cost. Donated capital assets are recorded at their acquisition value. Capital assets are capitalized if (1) have a useful life of more than one year and a unit cost of more than \$5,000, (2) have a unit cost of \$5,000 or less, but which is part of a larger asset setup, or (3) have a unit cost of \$500 or more and were purchased with grant money. These assets are depreciated over the estimated useful life using the straight-line method as follows:

<u>Assets</u>	<u>Years</u>
Buildings	10 - 30
Vehicles	5 - 12
Fare boxes	3 - 5
Communications equipment	3 - 5
Maintenance equipment	3 - 5
Furniture and fixtures	3 - 5

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Capital Assets (Continued)

Maintenance and repairs of capital assets are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of capital assets, the cost and accumulated depreciation are eliminated from the accounts, and a gain or loss is recognized. Sales of assets acquired with federal funds may require the Authority to repay the funding source a percentage of the proceeds received if the asset sold has a fair market value of \$5,000 or more, if sold asset is a vehicle carrying 14 passengers and smaller with less than 150,000 miles, a vehicle carrying 27-28 passengers with less than 250,000 miles, or a vehicle carrying 31-41 passengers with less than 500,000 miles. Vehicles purchased with federal funds have no liens and the Authority holds the titles for these vehicles.

#### Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees of the Authority may carry over a maximum of two weeks of vacation to the next year, which may be taken either as time off or as pay upon termination. There is no liability for nonvesting accumulated rights to receive sick pay benefits. All vacation pay is accrued when incurred in the financial statements.

#### 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 future period(s) and so will not be recognized as an outflow of resources (expense) until then. Five items relating to the Authority's Retirement Plans qualify for reporting in this category and are combined in the Statement of Net Position under the heading "Pension". The first item, experience losses, results from periodic studies by the actuary of the Retirement Plan, which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience losses are recorded as deferred outflows of resources and are amortized into pension expense over the expected remaining service lives of the plan members. The second item, differences between projected investment return on pension investments and actual return on those investments, is deferred and amortized against pension expense over a five-year period, resulting in recognition as a deferred outflow of resources. The third item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions. These changes are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in future years. The fourth item, changes in the actuarial assumptions, adjust the net pension liabilities are amortized into pension expense over the expected remaining service lives of plan members.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Deferred Outflows/Inflows of Resources (Continued)

Additionally, any contributions made by the Authority to the pension plan before year-end but subsequent to the measurement date of the Authority's net pension liability are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability during the year ended September 30, 2017.

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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Two items relating to the Authority's Retirement Plans qualify for reporting in this category and are combined in the Statement of Net Position under the heading "Pension". The first item, experience gains relating to the Authority's Retirement Plan qualified for reporting in this category and is recorded in the Statement of Net Position under the heading "Pension". Experience gains result from periodic studies by the actuary of the Retirement Plan, which adjust the net pension liability for actual experience for certain trend information that was previously assumed. These gains are recorded as deferred inflows of resources and are amortized into pension expense over the expected remaining lives of the plan members. The second item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions.

#### Unearned Revenue

Certain assets are not recognized in connection with a transaction before the earnings process is complete. These assets are generally offset by a corresponding liability, entitled deferred or unearned revenue.

#### Long-term Obligations

Long-term debt and obligations financed by the Authority are reported as liabilities in the Statement of Net Position. Additionally, the Authority reports amounts due to other governments as long-term debt for the recapture portion of certain federal and state grants initially used to acquire capital assets, but due to subsequent disposal or retirement of the applicable capital assets, such amounts are subject to being refunded or applied against future grant awards.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Net Position Classification

Net position is classified and displayed in three components within the Statement of Net Position. These three classifications are as follows:

- a) Investment in capital assets 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 improvements of those assets.
- b) Restricted net position consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position consists of all other net position that does not meet the definition of "restricted" or "investment in capital assets".

#### Capital Contributions

Capital contributions consist of capital grants or contributions typically from other governments.

#### Operating and Non-operating Revenues and Expenses

Operating revenues and expenses in the financial statements are those that result from providing services and producing and delivering goods and/or services. Also included are all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### Budget and Budgetary Basis of Accounting

The Authority is required under Section 58-25 of the Code of Laws of South Carolina to prepare an annual budget prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with U. S. generally accepted accounting principles, except for the exclusion of certain income and expenses. For 2017, these excluded amounts include provision for depreciation.

The initial budget is prepared using the actual results from the prior year, except when there are known increases or decreases in line items. The Board will review the budget, when grant requests are finalized and approve amendments to the budget. Management does not have any requirements to prevent overages in individual line items of the budget as long as the overall expenditures stay below the budgeted net change.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2. DEPOSITS

At September 30, 2017, the Authority had cash on hand of \$300 and deposits with financial institutions of \$139,235 which are classified in the Statement of Net Position as "Cash and Cash Equivalents".

**Custodial Credit Risk – Deposits.** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of September 30, 2017, all the Authority's funds which were covered under federal deposit as required by South Carolina state statutes and as defined by GASB pronouncements.

### NOTE 3. RECEIVABLES

Intergovernmental receivables consisted of the following at September 30, 2017:

Intergovernmental receivables:	
Federal	\$ 188,563
State	37,539
Local and other	<u>57,930</u>
Total intergovernmental receivables	<u><u>\$ 284,032</u></u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2017, is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 140,000	\$ -	\$ -	\$ -	\$ 140,000
Construction in progress	11,930	-	-	(11,930)	-
Total	<u>151,930</u>	<u>-</u>	<u>-</u>	<u>(11,930)</u>	<u>140,000</u>
Capital assets, being depreciated:					
Buildings	1,610,030	91,861	(72,412)	-	1,629,479
Vehicles	3,217,514	1,870,350	(1,052,810)	-	4,035,054
Fare boxes	752,770	-	-	-	752,770
Communications equipment	135,625	14,825	-	5,415	155,865
Maintenance equipment	125,159	5,837	-	-	130,996
Furniture and fixtures	251,064	44,563	-	6,515	302,142
Total	<u>6,092,162</u>	<u>2,027,436</u>	<u>(1,125,222)</u>	<u>11,930</u>	<u>7,006,306</u>
Less accumulated depreciation for:					
Buildings	(970,108)	(88,710)	72,412	-	(986,406)
Vehicles	(2,445,323)	(313,685)	1,042,512	-	(1,716,496)
Fare boxes	(405,840)	(75,277)	-	-	(481,117)
Communications equipment	(82,218)	(32,933)	-	-	(115,151)
Maintenance equipment	(102,752)	(4,534)	-	-	(107,286)
Furniture and fixtures	(175,376)	(35,847)	-	-	(211,223)
Total	<u>(4,181,617)</u>	<u>(550,986)</u>	<u>1,114,924</u>	<u>-</u>	<u>(3,617,679)</u>
Total capital assets, being depreciated, net	<u>1,910,545</u>	<u>1,476,450</u>	<u>(10,298)</u>	<u>11,930</u>	<u>3,388,627</u>
Total capital assets, net	<u>\$ 2,062,475</u>	<u>\$ 1,476,450</u>	<u>\$ (10,298)</u>	<u>\$ -</u>	<u>\$ 3,528,627</u>



## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. LONG-TERM LIABILITIES

The following is a summary of long-term debt activity for the Authority for the fiscal year ended September 30, 2017:

	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Capital lease payable	\$ 34,651	\$ -	\$ (34,651)	\$ -	\$ -
Compensated absences	125,072	132,632	(155,457)	<b>102,247</b>	74,195
Due to South Carolina					
Department of Transportation	452,110	-	(137,488)	<b>314,622</b>	137,488
Due to Federal Transit					
Administration	388,542	-	(50,027)	<b>338,515</b>	-
Net pension liability - SCRS	3,511,649	1,909,581	(110,967)	<b>5,310,263</b>	-
Net pension liability - PORS	54,705	-	(54,705)	-	-
	<u>\$ 4,566,729</u>	<u>\$ 2,042,213</u>	<u>\$ (543,295)</u>	<u>\$ 6,065,647</u>	<u>\$ 211,683</u>

#### Capital Lease Obligation

The Authority entered into an installment purchase financing arrangement (lease agreement) as lessee with the South Carolina Department of Health and Human Services (DHHS) for the acquisition of certain vehicles. This lease agreement qualified as a capital lease for accounting purposes, and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception. The lease requires monthly payments of \$2,500 at 0% interest. As of September 30, 2017, the Authority had completely satisfied its obligation to DHHS in accordance with the terms of the agreement.

#### Due to South Carolina Department of Transportation

As a result of various audits by the South Carolina Department of Transportation (SCDOT), the Authority received notice that certain State Mass Transit Funds (SMTF) received in prior periods must be returned back to the awarding agency, or be accounted for against future grant awards. The repayment terms established with SCDOT has resulted in the reduction of future SMTF grants, totaling \$314,622 at September 30, 2017, for the following events.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

#### Due to South Carolina Department of Transportation (Continued)

On September 30, 2009, the Authority and the SCDOT entered into an agreement whereby the Authority is obligated for certain costs that were determined not to be allowable under the STMF program for periods prior to year 2007. The unallowable (or recoverable) amount due back to SCDOT totaled \$305,526 and is to be amortized annually over a nine (9) year period against future SMTF grants: \$34,924 for the first eight (8) years with the final year equaling \$26,134. The balance outstanding as of September 30, 2017, is \$61,058.

During fiscal year 2012, the Authority recorded a liability of \$161,944 for early disposal of the six (6) Blue Bird buses that were purchased with STMF grant funds. On August 1, 2012, the Authority held a public auction to reduce the reimbursable amount on the six (6) Blue Bird vehicles. Auction proceeds received totaled \$26,624 and was paid to SCDOT leaving a remaining balance of \$135,320. Subsequently, the Authority and the SCDOT entered into an agreement whereby the SCDOT will reduce funding under the STMF program over a five (5) year period of \$27,064 per year. The balance outstanding as of September 30, 2017, is \$27,064.

By letter dated December 31, 2014, the Authority was notified by SCDOT of certain costs totaling \$377,500 associated with the Bus Shelter and Signage Project capital projects that were determined not to be allowable under the STMF program. As a result, the Authority and the SCDOT entered into an agreement whereby the recoverable amount is to be amortized annually over a five (5) year period against future SMTF grants of \$75,500 per year. The balance outstanding as of September 30, 2017, is \$226,500.

The remaining amortization of SCDOT grant reimbursements at September 30, 2017, follows:

Fiscal Year Ending September 30,	2009 Disallowed Costs	2012 Bus Disposal	2014 Bus Shelter Costs	Totals
2018	\$ 34,924	\$ 27,064	\$ 75,500	\$ 137,488
2019	26,134	-	75,500	101,634
2020	-	-	75,500	75,500
Total	<u>\$ 61,058</u>	<u>\$ 27,064</u>	<u>\$ 226,500</u>	<u>\$ 314,622</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

#### Due to Federal Transit Administration

Pursuant to federal award guidelines, any capital asset previously acquired with the use of federal award funds is to be identified as to the federal funded portion and returned back to the awarding agency, or (if allowed) be accounted for against future federal grant awards. Based on agreements reached with the respective agency, these amounts have been accounted for at September 30, 2017 as "Due to Federal Transit Administration" on the Statement of Net Position. The total due to the U.S. Department of Federal Transit Administration (FTA) for the federal interest in vehicles and equipment equals \$338,515 at September 30, 2017, and consists of the following events.

In August 2011, a 40-foot bus (#835), was destroyed by fire. The value of the bus after the fire damage was determined to be \$7,196, and the federal interest in the bus was calculated to be \$5,757. The Authority received permission to carry over the disposed-asset's federal interest against future federal award(s) to effectively reduce future grant funds by this amount.

In June 2015, the Authority disposed of a 2002 Opus bus (#811) with a remaining federal interest of \$88,942. Subsequent to the sale, the Authority received permission to carry over the disposed-asset's federal interest against future federal award(s) to effectively reduce future grant funds by this amount.

In June 2015, the Authority removed two 2011 International buses from service due to potential mechanical defects that could cause the buses to operate unsafely. Both buses were acquired with FTA grant funds for a total acquisition price of \$407,852 on December 20, 2011 with a seven (7) year estimated useful life established for each bus. As of September 30, 2017, the Authority has recognized impairment losses for the remaining adjusted total net book value totaling \$213,637 for both buses. The Authority management also believes the net book value approximates the remaining federal interest in both buses and has informed FTA of the current situation and status of these buses.

Additionally, the Authority received insurance proceeds from prior-year fire damage of two fare boxes totaling \$21,942. The federal interest in the insurance recoveries is 100%. The Authority intends to use these funds in future period(s) to acquire similar assets, or has received permission to carryover the disposed-asset's federal interest against future federal award(s) to effectively reduce future grant funds by this amount.

Finally, the Authority disposed of an engine during fiscal year 2017 with a net book value of \$10,296. The federal interest in the engine was valued at \$8,237 or 80% of the net book value of the asset at the date of disposal. The Authority intends to use these funds in future period(s) to acquire similar assets, or has received permission to carryover the disposed-asset's federal interest against future federal award(s) to effectively reduce future grant funds by this amount.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. SHORT-TERM LIABILITIES

The Authority has entered into a line of credit agreement with a local financial institution in order to sustain the necessary cash flows resulting from its operations in anticipation of grant award reimbursements. At September 30, 2017, the Authority had two outstanding loans associated with its line of credit agreement with a total balance of \$250,000. The outstanding balances are due and payable in October and December 2018 in accordance with the respective agreements. Interest is charged at a rate of 5.75% which is due at maturity. The following is a summary of short-term debt activity for the Authority for the fiscal year ended September 30, 2017:

	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Note payable	\$ 151,176	\$ 1,510,172	\$ (1,411,348)	\$ 250,000	\$ 250,000
	<u>\$ 151,176</u>	<u>\$ 1,510,172</u>	<u>\$ (1,411,348)</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>

### NOTE 7. RETIREMENT SYSTEM

#### Overview

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the systems and serves as a co-trustee of the systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (RSIC) as co-trustees of the Retirement Trust Funds. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement System's Pension Trust Funds.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Plan Description

The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. 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.

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. In addition to the SCRS pension plan, the Authority contributes to the South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan. The plan was established effective July 1, 1962 pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

#### Membership

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

**South Carolina Retirement System** – Generally, all employees of covered employers are required to participate in and contribute to the SCRS as a condition of employment. This plan covers general employees, 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.

**South Carolina Police Officers Retirement System** – To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. 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.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Benefits

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

**South Carolina Retirement System** – 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 or retired members of employees who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or \$500 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.

**South Carolina Police Officers Retirement System** – 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 55 or with 25 years of service regardless of age. 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 at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or \$500 every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9% of earnable compensation for SCRS and 5% for PORS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of 1% in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of 1% per year.

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 90%, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 90%. Any decrease in contribution rates must maintain the 2.9% and 5% differentials between the SCRS and PORS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 90%, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90%.

The Retirement System Funding and Administration Act increases employer contribution rates to 13.26% for SCRS and 16.24% for PORS, effective July 1, 2017. It also removes the 2.9% and 5% differential and increases and establishes a ceiling on employee contribution rates at 9% and 9.75% for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1% through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56% for SCRS and 21.24% for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eight-five.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Contributions (Continued)

Required employee contribution rates for the fiscal year ended September 30, 2017, are as follows:

##### **South Carolina Retirement System**

8.66% of earnable compensation from October 1st through June 30th.

9.00% of earnable compensation from July 1st through September 30th.

##### **South Carolina Police Officers' Retirement System**

9.24% of earnable compensation from October 1st through June 30th.

9.75% of earnable compensation from July 1st through September 30th.

Required employer contribution rates for the year ended September 30, 2017, are as follows:

##### **South Carolina Retirement System**

11.41% of earnable compensation from October 1st through June 30th.

13.41% of earnable compensation from July 1st through September 30th.

##### **South Carolina Police Officers' Retirement System**

13.84% of earnable compensation from October 1st through June 30th.

15.84% of earnable compensation from July 1st through September 30th.

Employer incidental death benefit: 0.20% of earnable compensation

#### Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2015, and the next experience study is scheduled to be conducted after the June 30, 2020 annual valuation is complete.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Actuarial Assumptions and Methods (Continued)

The June 30, 2017 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, 2016, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2016. 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 the following schedules is based on the certification provided by GRS.

The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

Assumptions and methods used in the July 1, 2016 valuation for the System are as follows:

	<u>SCRS</u>	<u>PORS</u>
	Entry Age	Entry Age
Actuarial cost method		
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	3.0% to 12.5% (varies by service)	3.5% to 9.5% (varies by service)
Includes inflation at	2.25%	2.25%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumption, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Actuarial Assumptions and Methods (Continued)

Assumptions used in the July 1, 2016 valuations for SCRS and PORS are as follows:

Former Job Class	Males	Females
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30-year capital market assumptions. The actuarial long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year of the Systems. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes a 5% real rate of return and a 2.25% inflation component.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Actuarial Assumptions and Methods (Continued)

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
<b>Global Equity</b>	<b>45.0%</b>		
Global public equity	31.0%	6.72%	2.08%
Private equity	9.0%	9.60%	0.86%
Equity options securities	5.0%	5.91%	0.30%
<b>Real assets</b>	<b>8.0%</b>		
Real estate (private)	5.0%	4.32%	0.22%
Real estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
<b>Opportunistic</b>	<b>17.0%</b>		
GTAA/Risk parity	10.0%	4.16%	0.42%
Hedge funds (non-PA)	4.0%	3.82%	0.15%
Other opportunistic strategies	3.0%	4.16%	0.12%
<b>Diversified credit</b>	<b>18.0%</b>		
Mixed credit	6.0%	3.92%	0.24%
Emerging markets	5.0%	5.01%	0.25%
Private debt	7.0%	4.37%	0.31%
<b>Conservative fixed income</b>	<b>12.0%</b>		
Core fixed income	10.0%	1.60%	0.16%
Cash and short duration (net)	2.0%	0.92%	0.01%
	100%		
		Total expected real return	5.31%
		Inflation for actuarial purposes	2.25%
		Total expected nominal return	7.56%

#### Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Discount Rate (Continued)

The following tables present the sensitivity of the net pension liability to changes in the discount rate.

<u>South Carolina Retirement System</u>			
<u>Sensitivity of the Net Position Liability to Changes in the Discount Rate</u>			
<u>Fiscal</u>	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
<u>Year</u>	<u>(6.25%)</u>	<u>Discount Rate</u>	<u>(8.25%)</u>
<u>2017</u>	<u>\$ 6,844,200</u>	<u>\$ 5,310,263</u>	<u>\$ 4,379,524</u>

#### Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of September 30, 2017, for SCRS is presented below. During the plan year ended June 30, 2016, the Authority had one member of the PORS plan who left the employment of the Authority during that time period. As a result, for the plan year ended June 30, 2017 and the Authority's fiscal year ended September 30, 2017, the net pension liability of the Authority relative to the PORS plan was reduced to \$0.

For the Authority's fiscal ending September 30, 2017, the net pension liability for the South Carolina Retirement System is as follows:

	<u>2017</u>	
Total pension liability	\$ 11,380,380	
Plan fiduciary net position	<u>6,070,117</u>	
Employers' net pension liability	<u>\$ 5,310,263</u>	
Plan fiduciary net position as a percentage of the total pension liability	53.3%	

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Net Pension Liability (Continued)

As of September 30, 2017, the changes in the net pension liability for the SCRS Plan is calculated as follows:

<b>Total pension liability</b>	
Service cost	\$ 189,669
Interest	782,695
Difference between actual and expected experience	12,876
Assumption changes	412,017
Benefit payments	(715,954)
<b>Net change in total pension liability</b>	<u>681,303</u>
<b>Total pension liability - beginning</b>	<u>10,699,077</u>
<b>Total pension liability - ending</b>	<u><u>11,380,380</u></u>
<b>Plan fiduciary net position</b>	
Contributions - employer	275,719
Contributions - member	194,973
Refunds of contributions to members	(24,808)
Retirement benefits	(685,796)
Death benefits	(5,349)
Net investment income	658,420
Administrative expense	(3,177)
Net transfers to affiliated systems	(366)
<b>Net change in Plan fiduciary net position</b>	<u>409,615</u>
<b>Plan fiduciary net position - beginning</b>	<u>5,660,502</u>
<b>Plan fiduciary net position - ending</b>	<u><u>6,070,117</u></u>
<b>Net pension liability</b>	<u><u>\$ 5,310,263</u></u>

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 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.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the Authority recognized pension expense of \$642,622 for the SCRS plan and \$(13,024) for the PORS plan. At September 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>South Carolina Retirement System</b>		
Differences between expected and actual experience	\$ 23,673	\$ 2,943
Changes of assumptions	310,859	-
Net difference between projected and actual earnings on pension plan investments	148,238	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	574,600	149,438
Employer contributions subsequent to the measurement date	307,402	-
Total	\$ 1,364,772	\$ 152,381
 <b>South Carolina Police Officers' Retirement System</b>		
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 5,579	\$ 32,980
Total	\$ 5,579	\$ 32,980

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. RETIREMENT SYSTEM (CONTINUED)

#### Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Authority contributions subsequent to the measurement date of \$307,402 for the SCRS plan and \$0 for the PORS plan are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended September 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

#### South Carolina Retirement System

Year ended September 30:		
2018	\$	570,381
2019		224,636
2020		150,999
2021		(41,027)

#### South Carolina Police Officers' Retirement System

Year ended September 30:		
2018	\$	(27,401)

#### Additional Financial and Actuarial Information

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

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 8. COMMITMENTS AND CONTINGENCIES**

Grant income from local governments and state and federal grantor agencies for the year ended September 30, 2017, totaled \$2,051,782, \$991,565 and \$3,467,100, respectively. These amounts constitute a significant portion of the change in net position and are expected to recur in an unpredictable pattern directly related to successful grant awards.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

A \$60,000 advance was received from the South Carolina Department of Transportation when the Authority was initially formed under an agreement, to be used as a revolving fund for financial assistance. This advance can be used in operations, if assets are restricted equal to funds spent from the revolving fund account. At September 30, 2017, the Authority has recognized restricted net position in an amount equal to the initial advance.

### **NOTE 9. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to: torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a participant in the South Carolina Insurance Reserve Fund, which is a cooperative group of governmental entities joining together to finance insurance exposure, liability, and risk. The Authority's risks covered within this pool are property (both building and personal), data processing equipment, business interruption, builder's risk, inland marine, torts, and automobile.

The South Carolina Insurance Reserve Fund does not cover risks associated with a whistle-blower action, breaches of contract, debt guarantee of others, property tax appeals, automobile/aircraft/watercraft in excess of 26 feet in length, liability from pre-arranged speed contest, pollution liability (except sudden and accidental), war, workers' compensation, bodily injury to fellow employees, and professional liability of medical practitioners and architects.

Expenses for coverage through the South Carolina Insurance Reserve Fund for the year ended September 30, 2017, totaled \$180,699.

For all covered risks, the transfer of risk culminates upon filing a claim. Consequently, for items not covered, the members separately purchase policies to bear the risk up to policy premiums. For the year ended September 30, 2017, there were no liabilities which exceeded the coverage available through the South Carolina Insurance Reserve Fund and separate purchased carriers.



**REQUIRED SUPPLEMENTARY INFORMATION**

**WACCAMAW REGIONAL TRANSPORTATION AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Authority's Proportionate Share of the Net Pension Liability**  
**For the Fiscal Year Ended September 30,**

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**South Carolina Retirement System**

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Fiscal Year Ended September 30,	Authority's proportion of the net pension liability	Authority's proportionate share of the net pension liability	Authority's covered employee payroll	Authority's share of the net pension liability as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.023589%	\$ 5,310,263	\$ 2,380,082	223.1%	52.9%
2016	0.018516%	\$ 3,511,649	\$ 2,099,336	167.3%	57.0%
2015	0.021456%	\$ 3,694,012	\$ 1,734,709	212.9%	59.9%

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**South Carolina Police Officers Retirement System**

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Fiscal Year Ended September 30,	Authority's proportion of the net pension liability	Authority's proportionate share of the net pension liability	Authority's covered employee payroll	Authority's share of the net pension liability as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.00000%	\$ -	\$ -	0.0%	60.5%
2016	0.00251%	\$ 54,705	\$ 6,483	843.8%	64.6%
2015	0.01880%	\$ 34,441	\$ 31,143	110.6%	67.5%

**Notes to the Schedule:**

The schedule will present 10 years of information once it is accumulated.

**WACCAMAW REGIONAL TRANSPORTATION AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION  
Schedule of Authority Contributions  
For the Fiscal Year Ended September 30,**

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**South Carolina Retirement System**

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Fiscal Year Ended September 30,	Actuarially required contribution	Contributions in relation to the actuarially required contribution	Contribution deficiency (excess)	Authority's covered employee payroll	Contributions as a percentage of covered employee payroll
2017	\$ 307,402	\$ 307,402	\$ -	\$ 2,536,681	12.12%
2016	\$ 297,045	\$ 297,045	\$ -	\$ 2,650,827	11.21%
2015	\$ 138,777	\$ 138,777	\$ -	\$ 1,734,709	8.00%

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**South Carolina Police Officers Retirement System**

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Fiscal Year Ended September 30,	Actuarially required contribution	Contributions in relation to the actuarially required contribution	Contribution deficiency (excess)	Authority's covered employee payroll	Contributions as a percentage of covered employee payroll
2017	\$ -	\$ -	\$ -	\$ -	-
2016	\$ 891	\$ 891	\$ -	\$ 6,483	13.74%
2015	\$ 2,475	\$ 2,475	\$ -	\$ 31,143	7.95%

**Notes to the Schedule:**

The schedule will present 10 years of information once it is accumulated.

## **SUPPLEMENTARY INFORMATION**

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BUDGET (NON-GAAP BASIS) AND ACTUAL FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	Actual	Final Budget	Variance with Budget
<b>Revenues</b>			
Cash fares	\$ 496,576	\$ 500,000	\$ (3,424)
Advertising	49,410	25,000	24,410
Intergovernmental revenues - local assistance	1,654,972	1,843,375	(188,403)
Intergovernmental revenues - state assistance	936,947	872,786	64,161
Intergovernmental revenues - federal assistance	2,485,909	2,390,000	95,909
Gain on disposal of assets	976	-	976
Other non-operating revenues	67,056	7,500	59,556
Local appropriations	396,810	397,000	(190)
State capital grants	54,618	55,000	(382)
Federal capital grants	981,191	1,483,712	(502,521)
Total revenues	7,124,465	7,574,373	(449,908)
<b>Operating expenses</b>			
Salaries and wages	2,514,714	2,571,610	56,896
Fringe benefits	1,881,563	1,362,547	(519,016)
Fuel, materials, and supplies	905,605	744,000	(161,605)
Insurance	180,699	177,750	(2,949)
Professional fees	53,647	87,790	34,143
Utilities and telephone	75,566	73,200	(2,366)
Advertising	77,625	67,000	(10,625)
Printing and supplies	60,920	60,900	(20)
Travel and training	33,765	19,395	(14,370)
Repairs and maintenance	104,792	137,500	32,708
Non-capital equipment	58,590	20,000	(38,590)
Other operating expenses	71,650	60,532	(11,118)
Total operating expenses	6,019,136	5,382,224	(636,912)
<b>Other expenses</b>			
Debt service - interest	4,641	6,000	1,359
	4,641	6,000	1,359
Total operating, capital, and other expenses	6,023,777	5,388,224	(635,553)
Revenues over expenses	\$ 1,100,688	\$ 2,186,149	\$ 1,085,461
<b>Reconciliation of revenues over expenses to change in net position:</b>			
Change in net position	\$ 549,702		
Depreciation	550,986		
Revenues over expenses	\$ 1,100,688		

**WACCAMAW REGIONAL TRANSPORTATION AUTHORITY**

**SCHEDULE OF BUDGETED TO ACTUAL COSTS - SCDOT GRANTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

SMT Contract #		PT-70999-55				
Contract Period		July 1, 2016 - June 30, 2017				
Actual Cost	Contract Budget	Section 5307	SMTF	Local	Total Program Variance	
	July 2017 through June 2018	October 1, 2016 through September 30, 2017	October 1, 2016 through September 30, 2017	October 1, 2016 through September 30, 2017		
Performance period:						
Administration						
Indirect Cost Allocation	\$ 518,517	\$ 230,658	\$ -	\$ 170,134	\$ 117,725	
Total Administration	\$ 518,517	\$ 230,658	\$ -	\$ 170,134	\$ 117,725	
Operations						
Miscellaneous Operating	\$ 1,341,660	\$ 562,885	\$ -	\$ 592,090	\$ 186,685	
Total Operations	\$ 1,341,660	\$ 562,885	\$ -	\$ 592,090	\$ 186,685	
Capital						
Preventative Maintenance	\$ 592,551	\$ 525,709	\$ -	\$ 143,065	\$ (76,223)	
Total Capital	\$ 592,551	\$ 525,709	\$ -	\$ 143,065	\$ (76,223)	
Approved Budget	\$ 2,452,728					
Total Current Year Federal Costs	1,319,252					
Total Current Year Local Costs	905,289					
Budget over Actual	<u>\$ 228,187</u>					

**WACCAMAW REGIONAL TRANSPORTATION AUTHORITY**

**SCHEDULE OF BUDGETED TO ACTUAL COSTS - SCDOT GRANTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

SMT Contract #		PT-80999-67				
Contract Period		July 1, 2017 - June 30, 2018				
Actual Cost	Contract Budget	Section 5307	SMTF	Local	Total Program Variance	
	July 2017 through June 2018	October 1, 2016 through September 30, 2017	October 1, 2016 through September 30, 2017	October 1, 2016 through September 30, 2017		
Performance period:						
Administration						
Indirect Cost Allocation	\$ 95,586	\$ 80,338	\$ -	\$ 58,935	\$ (43,687)	
Total Administration	\$ 95,586	\$ 80,338	\$ -	\$ 58,935	\$ (43,687)	
Operations						
Miscellaneous Operating	\$ 364,602	\$ 203,905	\$ 29,206	\$ 174,700	\$ (43,209)	
Total Operations	\$ 364,602	\$ 203,905	\$ 29,206	\$ 174,700	\$ (43,209)	
Funds to Offset Operations **	\$ -	\$ -	\$ 137,488	\$ -	\$ (137,488)	
Total Operations Net Cost	\$ 364,602	\$ 203,905	\$ 166,694	\$ 174,700	\$ (180,697)	
Capital						
Preventative Maintenance	\$ 116,366	\$ 236,436	\$ 11,637	\$ 47,471	\$ (179,178)	
Total Capital	\$ 116,366	\$ 236,436	\$ 11,637	\$ 47,471	\$ (179,178)	
Approved Budget	\$ 576,554					
Total Current Year Federal Costs	\$ 520,679					
Total Current Year State Costs	\$ 178,331					
Total Current Year Local Costs	\$ 281,106					
Actual over Budget	\$ (403,562)					

\*\* Amount represents recognition of SCDOT disallowed costs from previous years, offsetting current year reimbursable SCDOT expenses.

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF BUDGETED TO ACTUAL COSTS - SCDOT GRANTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	PT-80911-12				
Contract Period	April 1, 2017 - June 30, 2018				
Actual Cost	WRTA Budget	Section 5311	SMTF	Local	
Performance period:	October 2016 through September 2017	October 1, 2016 through September 30,	October 1, 2016 through September 30,	October 1, 2016 through September 30,	Total Program Variance
Capital					
Bus Standard 40 ft. (Replacement)	\$ 27,500	\$ -	\$ 13,750	\$ 4,945	\$ 8,805
ADA Capital Charges 85%					
Bus Standard 40 ft. (Replacement)	1,741,895	807,500	548,750	385,645	-
Total Capital	\$ 1,769,395	\$ 807,500	\$ 562,500	\$ 390,590	\$ 8,805
Approved Budget	\$ 1,769,395				
Total Federal Costs		807,500			
Total State Costs		562,500			
Total Local Costs		390,590			
Budget over Actual	\$ 8,805				



# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF BUDGETED TO ACTUAL COSTS - SCDOT GRANTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	PT-70911-22				
OPT Contract #					
Contract Period	July 1, 2016 - June 30, 2017				
Actual Cost	WRTA Budget	Section 5311	SMTF	Local	Total Program Variance
Performance period:	July 2016 through June 2017	October 1, 2016 through September 30,	October 1, 2016 through September 30,	October 1, 2016 through September 30,	Total Program Variance
<b>Administration</b>					
Indirect Cost Allocation	\$ 340,991	\$ 128,507	\$ -	\$ 74,350	\$ 138,134
Total Administration	\$ 340,991	\$ 128,507	\$ -	\$ 74,350	\$ 138,134
<b>Operations</b>					
Miscellaneous Operating	\$ 878,575	\$ 127,543	\$ 104,353	\$ 244,908	\$ 401,771
Total Operations	\$ 878,575	\$ 127,543	\$ 104,353	\$ 244,908	\$ 401,771
<b>Capital</b>					
Preventive Maintenance	\$ 375,620	\$ 193,264	\$ 12,186	\$ 56,951	\$ 113,219
Total Capital	\$ 375,620	\$ 193,264	\$ 12,186	\$ 56,951	\$ 113,219
Approved Budget	\$ 1,595,186				
Total Federal Costs	449,314				
Total State Costs	116,539				
Total Local Costs	376,209				
Budget over Actual	<u>\$ 653,124</u>				

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF BUDGETED TO ACTUAL COSTS - SCDOT GRANTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	PT-80911-60				
Contract Period	July 1, 2017 - June 30, 2018				
Actual Cost	WRTA Budget	Section 5311	SMTF	Local	
Performance period:	July 2017 through June 2018	October 1, 2016 through September 30,	October 1, 2016 through September 30,	October 1, 2016 through September 30,	Total Program Variance
Administration					
Indirect Cost Allocation	\$ 312,392	\$ 64,286	\$ 16,072	\$ 15,186	\$ 216,848
Total Administration	\$ 312,392	\$ 64,286	\$ 16,072	\$ 15,186	\$ 216,848
Operations					
Miscellaneous Operating	\$ 685,404	\$ 73,703	\$ 87,328	\$ 85,835	\$ 438,538
Total Operations	\$ 685,404	\$ 73,703	\$ 87,328	\$ 85,835	\$ 438,538
Capital					
Preventive Maintenance	\$ 465,323	\$ 123,178	\$ 30,795	\$ -	\$ 311,350
Total Capital	\$ 465,323	\$ 123,178	\$ 30,795	\$ -	\$ 311,350
Approved Budget	\$ 1,463,119				
Total Federal Costs	261,167				
Total State Costs	134,195				
Total Local Costs	101,021				
Budget over Actual	<u>\$ 966,736</u>				

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF BUDGETED TO ACTUAL COSTS - GSATS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

FTA Contract #	SC-2016-010-00				
Contract Period	October 1, 2016 - September 30, 2018				
Direct Recipient	Grand Strand Area Transportation Study (GSATS)				
Administrator	Waccamaw Regional Council of Governments				
CFDA No. and Program Title	CFDA #20.526 - Section 5339 Bus and Bus Facilities Formula Program				
Actual Cost	WRTA Budget	Section 5339	SMTF	Local	Total Program Variance
Performance period:	October 2016 through September 2018	October 1, 2016 through September 30,	October 1, 2016 through September 30,	October 1, 2016 through September 30,	
Capital					
Two ADA Paratransit Vehicles	\$ 129,896	\$ 109,188	\$ -	\$ 19,268	\$ 1,440
Total Capital	\$ 129,896	\$ 109,188	\$ -	\$ 19,268	\$ 1,440
Approved Budget	\$ 129,896				
Total Current Year Federal Costs		109,188			
Total Current Year Local Costs		19,268			
Budget over Actual					<u>\$ 1,440</u>

## **COMPLIANCE SECTION**

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor	Federal CFDA Number	Agency Grant Number	Expenditures	Passed through to Subrecipients
U.S. Department of Transportation:				
Federal Transit Administration				
Federal Transit Cluster				
Federal Transit Formula Grant				
Urbanized Area Grant (Section 5307)	20.507	SC-2016-017-00	\$ 1,812,305	\$ -
Urbanized Area Grant (Section 5307)	20.507	SC-2016-017-01	27,626	-
Total Federal Transit Formula Grants			1,839,931	-
Bus and Bus Facilities Formula Program				
Passed through the Waccamaw Regional				
Council of Governments d/b/a Grand Strand				
Area Transportation Study (GTATS)				
Section 5339	20.526	SC-2016-010-01/ SC-34006-111-A1	109,188	-
Total Federal Transit Cluster			1,949,119	-
Formula Grants for Rural Areas - Rural Area Program				
Passed through the South Carolina Department				
of Transportation - OPT				
Section 5311	20.509	PT-70911-22	449,314	-
Section 5311	20.509	PT-80911-60	261,167	-
Section 5311	20.509	PT-80911-12	807,500	-
Passed through the South Carolina Department				
of Transportation - Division of Intermodal and				
Freight Programs				
Rural Transportation Assistance Program (RTAP)	20.509	SC 18-X038	2,981	-
Total Rural Area Program			1,520,962	-
Total U.S. Department of Transportation Grant Programs			3,470,081	-
<b>Total Federal Expenditures</b>			<b>\$ 3,470,081</b>	<b>\$ -</b>

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting.

#### **Measurement Focus**

The determination of when an award is expended is based on when the activity related to the award occurred.

#### **Program Type Determination**

Type A programs are defined as federal programs with federal expenditures exceeding the larger of \$750,000 or 3% of total federal expenditures. The threshold of \$750,000 was used in distinguishing between Type A and Type B programs.

#### **Method of Major Program Selection**

The risk based approach was used in the selection of federal programs to be tested as major programs. The Authority did not qualify as a low-risk auditee for the fiscal year ended September 30, 2017.

#### **De-Minimis Indirect Cost Rate**

During the year ended September 30, 2017, the Authority did not use the de-minimis indirect cost rate.



**INDEPENDENT AUDITOR'S 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***

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To the Board of Directors of the  
Waccamaw Regional Transportation Authority  
Conway, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Waccamaw Regional Transportation Authority (the "Authority") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 2, 2018.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

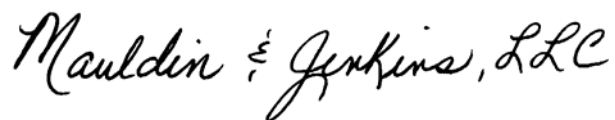
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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

The image shows a handwritten signature in cursive script that reads "Mauldin & Jenkins, LLC". The signature is written in black ink and is positioned to the right of the date and location information.

Columbia, South Carolina  
March 2, 2018





## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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To the Board of Directors of the  
Waccamaw Regional Transportation Authority  
Conway, South Carolina

### **Report on Compliance For Each Major Federal Program**

We have audited the Waccamaw Regional Transportation Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis of our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

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### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Mauldin & Jenkins, LLC*

Columbia, South Carolina  
March 2, 2018

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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### SECTION I SUMMARY OF AUDIT RESULTS

#### **Financial Statements**

Type of auditor's report issued Unmodified

Internal control over financial reporting:  
Material weaknesses identified?  Yes  No

Significant deficiencies identified not considered  
to be material weaknesses?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

#### **Federal Awards**

Internal control over major programs:  
Material weaknesses identified?  Yes  No

Significant deficiencies identified not considered  
to be material weaknesses?  Yes  None Reported

Type of auditor's report issued on compliance for  
major programs Unmodified

Any audit findings disclosed that are required to  
be reported in accordance with the Uniform  
Guidance?  Yes  No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.507 and 20.526	U.S. Department of Transportation; Federal Transit Cluster; Section 5307 Urbanized Area Grant and Section 5339 Bus and Bus Facilities Formula Program

Dollar threshold used to distinguish between  
Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  Yes  No

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

None reported

### SECTION III FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF PRIOR FINDINGS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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### SECTION IV STATUS OF PRIOR YEAR AUDIT FINDINGS

#### 2016-001. Cash Management

**Criteria:** The Authority is the recipient of capital, operating, and preventive maintenance (capital) grant funds from a variety of direct federal, pass-through federal, state, and pass-through local funds. In accordance with the OMB grant management rules and federal regulations, entities other than states, receiving reimbursement under grants and cooperative agreements are required to identify and maintain supporting documentation showing that the costs for which reimbursement is requested from a specific grant award were paid or incurred in the appropriate request period. A complete understanding of agreements, contracts and grant awards is fundamental to an internal control system to support both internal and external accounting and financial reporting requirements. Furthermore, federal regulations and Government Auditing Standards (GAS) requires management to not only provide for an effective internal control environment, but be responsible for the completeness and timeliness of the general ledger, its supporting subsidiary ledgers and related reports.

**Condition:** There were instances in FY 2016, where the Authority was not in compliance with drawdown calculations for federal reimbursement of costs. There were two months (May/June 2016) where the drawdown calculations for preventive maintenance under grant number SC-2016-017-00 did not include the use of the provisional indirect cost rate of 32.15%. Secondly, the Authority incorrectly drew 80% of non-fixed route ADA operating assistance under grant number SC90-X282-01. Thirdly, supporting documentation for expenses did not indicate proper account coding on the source document. All three of these deficiencies were identified, among other findings, in the "Full Scope Systems Review" performed under the Financial Management Oversight (FMO) program for the USDOT, FTA dated October 25, 2016.

**Status:** Resolved.

#### 2016-002. Cash Management

**Criteria:** The Authority is the recipient of capital, operating, and preventive maintenance (capital) grant funds from a variety of direct federal, pass-through federal, state, and pass-through local funds. In accordance with the OMB grant management rules and federal regulations, and SCDOT grant award requirements, WRTA is required to identify and maintain supporting documentation including budget-to-actual reports showing that costs for which reimbursement is requested from a specific grant award were paid or incurred for that grant award in the appropriate request period.

**Condition:** The Authority did not develop the required SCDOT, Office of Public Transit, (OPT) schedules correctly in two ways. Actual costs were distributed between line items using blended percentages from period ending trial balances rather than using layered monthly draw calculations. Secondly, the federal portion by line items were developed from budgetary amounts found in the specific contracts for each respective OPT schedule rather than federal amounts used in monthly draw calculations. Accordingly, OPT schedules did not correspond to federal amounts reported in the Schedule of Expenditures of Federal Awards (SEFA) and vice-versa.

**Status:** Resolved.

# WACCAMAW REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF PRIOR FINDINGS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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### SECTION IV STATUS OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

#### **2016-003. Internal Control Surrounding Capital Asset Accounting**

**Criteria:** An effective general ledger and capital assets system is fundamental to an internal control system to support both internal and external accounting and financial reporting requirements. Generally accepted account principles (GAAP) along with *Governmental Accounting Standards Board (GASB)* pronouncements requires all financially-related transactions be recorded in the general ledger timely, completely, and at proper values. Furthermore, federal regulations and Government Auditing Standards (GAS) requires management to not only provide for an effective internal control environment, but be responsible for the completeness and timeliness of the general ledger and its supporting subsidiary ledgers.

**Condition:** There were instances where the Authority capital assets accounting system was not used to produce a comprehensive schedule of asset costs and related depreciation to support amounts recorded in the general ledger. Additionally, there were instances where the reconciliation between the capital asset system and general ledger was either not completed or not reviewed.

Furthermore, WRTA received a "Full-Scope Systems Review" performed under the Financial Management Oversight (FMC) program for the U.S. Department of Transportation, Federal Transit Administration (FTA), dated October 25, 2016. The report cited, among other findings, significant deficiencies that the Authority did not maintain adequate procedures to ensure that capital asset data entered into the capital assets accounting system was complete and accurate, and that it was independently reviewed. Additionally, the report cited a significant deficiency surrounding required FTA information, (i.e., grant number, funding percentage, and holder of title, etc.), which was not specifically identified in the Authority's capital asset accounting system.

**Status:** Resolved.