



**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2008**

**PREPARED BY:**

**FINANCIAL SERVICES DIVISION  
MARGUERITE S. CARROLL  
CHIEF FINANCIAL OFFICER**

**GRAND STRAND WATER & SEWER AUTHORITY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**BOARD OF DIRECTORS**

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JAMES B. DEWITT, SECRETARY  
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**CHIEF EXECUTIVE OFFICER**

FRED R. RICHARDSON

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## INTRODUCTORY SECTION

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**GRAND STRAND WATER AND SEWER AUTHORITY**

Page 1 of 2

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2008**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTORY SECTION</b>	
Table of Contents	i
Letter of Transmittal	iii
Certificate of Achievement	viii
Organizational Chart	ix
List of Principal Officials	x
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Balance Sheets	14
Statements of Revenues, Expenses and Changes in Net Assets	16
Statements of Cash Flows	18
Notes to Financial Statements	20
<b>SCHEDULES</b>	
Schedule of Cash Receipts and Disbursements for Restricted Accounts Required by Revenue Bond and State Revolving Loan Provisions	46
Schedule of Operating Expenses by Department	54
<b>STATISTICAL SECTION (UNAUDITED)</b>	
Schedule 1 Net Assets by Component - Last Seven Fiscal Years	56
Schedule 2 Changes in Net Assets - Last Seven Fiscal Years	57
Schedule 3 Operating Revenues by Source - Last Seven Fiscal Years	58
Schedule 4 Operating Expenses – Last Seven Fiscal Years	59
Schedule 5 Nonoperating Revenues and Expenses – Last Seven Fiscal Years	60
Schedule 6 Annual Capital Contributions by Source – Last Seven Fiscal Years	61
Schedule 7 Water Produced and Consumed and Wastewater Treated – Last Seven Fiscal Years	62
Schedule 8 Annual Taps Sold – Last Seven Fiscal Years	63
Schedule 9 Number of Water and Sewer Customers by Type – Last Seven Fiscal Years	64
Schedule 10 Water and Sewer Rates – Last Seven Fiscal Years	65
Schedule 11 Ten Largest Customers – Current year and Six Years Ago	66
Schedule 12 Ratios of Outstanding Debt by Type – Last Seven Fiscal Years	67
Schedule 13 Revenue Bond Coverage – Last Seven Fiscal Years	68
Schedule 14 Demographic and Economic Statistics – Last Ten Fiscal Years	69
Schedule 15 Number of Employees by Identifiable Activity – Last Seven Fiscal Years	70
Schedule 16 Miscellaneous Statistical Data	71

**GRAND STRAND WATER AND SEWER AUTHORITY**

Page 2 of 2

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2008**

**TABLE OF CONTENTS**

**SINGLE AUDIT SECTION**

Schedule of Expenses	74
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	75
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	77
Schedule of Findings and Questioned Costs	79

September 22, 2008

Mr. Sidney F. Thompson, Chairman  
Board of Directors  
Mr. Fred R. Richardson, Chief Executive Officer  
Grand Strand Water and Sewer Authority  
Conway, South Carolina

Gentlemen:

The Comprehensive Annual Financial Report of Grand Strand Water and Sewer Authority (GSWSA) for the fiscal year ended June 30, 2008 is submitted for your review. This report was prepared by GSWSA's financial staff and external auditors, and conforms to the guidelines of the Governmental Finance Officers Association and Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rest with GSWSA. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly state the financial position and results of operations of GSWSA as measured by the financial activity; and that all disclosures necessary to enable the reader to gain the maximum understanding of GSWSA's financial affairs have been included.

Smith, Sapp, Bookhout, Crumpler & Calliham, P.A. have audited the accompanying financial statements, and their unqualified opinion resulting from their audit is included in this comprehensive annual financial report. As part of their audit, Smith, Sapp, Bookhout, Crumpler & Calliham, P.A., examined on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; and evaluated the overall financial statement presentation.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. GSWSA's MD&A can be found in the Financial Section of the audit immediately following the report of the independent auditors.

This Comprehensive Annual Financial Report is reflective of GSWSA's continued emphasis on professional financial planning and management.

## **PROFILE OF GRAND STRAND WATER AND SEWER AUTHORITY**

GSWSA is a Special Purpose District. It was created pursuant to provisions of Act 337 enacted during the 1971 Session of the General Assembly of the State of South Carolina as a body politic and corporate. The principal functions of GSWSA are to acquire supplies of fresh water capable of being used for industrial and domestic purposes, to distribute such water for industrial and domestic use within its service area and to build, acquire, construct, operate and maintain such sewerage treatment and collection facilities as GSWSA deems necessary. The service area of GSWSA includes all of the area in Horry County except those areas served by municipalities and/or private water and/or sewer companies. It is located in the northeastern portion of the State of South Carolina. It also provides sewer service to the Town of Sellers which is also located in South Carolina. GSWSA provides limited sewer service to Tabor City and Columbus County, North Carolina through contractual agreements it has reached with these entities.

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

### **LOCAL ECONOMY**

The service area of GSWSA continues to remain stable, which reflects continued growth of the area. Horry County continues to be a major retirement area and the local tourism industry continues to thrive in spite of the state of the national economy. The County ranks first among the 46 counties in the State in tourism. It also ranks first in the State in production of tobacco and oats, and fourth in overall crop production. The County ranks 5<sup>th</sup> in the State in delivered value of timber.

The local economy served by GSWSA remained steady during fiscal year 2008. The monthly average of submittals for new developer projects requiring water and sewer service was down from 22 projects in fiscal year 2007 to 17.5 projects in 2008. These projects submitted in 2008 will account for over a monthly average of 440 Residential Equivalent Units (REUs). While this is a 53% decline from the monthly average of 950 REUs submitted in 2007, the REUs submitted in 2008 is 34% higher than those submitted in fiscal year 2003 at 330 REUs. Although the number of new developer project submittals and REUs are lower than most recent historical data, the local economy continues to experience steady growth. Assets contributed to GSWSA by developers during 2008 were well over \$32 million dollars.

Reflecting the growth of the county in general, GSWSA's growth remains strong, with economic indicators reinforcing continuing residential and commercial development. GSWSA's 2025 Capital Improvement Plan reflects this growth. The GSWSA service area remains strong in part due to its diversity, led by tourism and agriculture. In summary, GSWSA's financial stability is a direct reflection of the continued economic growth of the area and the Board of Director's commitment to provide quality service at the most affordable rates.

## **MAJOR INIATIVES FOR THE YEAR**

The GSWSA spent over \$8 million in its Rural Water and Sewer program to extend water and sewer lines to the rural community of Horry County during 2008. The Bucksport to Highway 701 Force Main project was completed at a total cost of \$2.5 million and the Schwartz Wastewater Treatment Plant was expanded to 19.5 million gallons a day at a cost \$12.5 million. GSWSA also spent over \$7 million to install new and upgrade existing water pump stations which will increase water pumping capacity.

## **LONG-TERM FINANCIAL PLANNING**

The cooperation of surrounding governmental jurisdictions has enabled Grand Strand Water and Sewer Authority to continue its efforts as a regional provider of water and sewer services. GSWSA purchased the City of Myrtle Beach Water and Wastewater Treatment Plants and is looking at various options to upgrade existing water and wastewater facilities over the next few years to meet growing customer needs.

GSWSA completed its 2025 Capital Improvement Plan and plans to update it every five years or as needed. It also biannually does a comprehensive review of its rates, fees and charges to maintain a sufficient and equitable cost recovery system. GSWSA has established the Rate Stabilization Reserve and the Water and Wastewater Impact accounts to stabilize rates and to ensure long-term financial stability.

GSWSA has a policy of rate stability with gradual adjustments over time. A Rate Stabilization Reserve Account was established with the purpose of ensuring stable rates during extraordinary circumstances such as natural disasters, a downturn in the economy, or other unforeseen contingencies affecting the revenue stream. This account is funded through the difference of actual revenues and expenses from budgeted amounts.

GSWSA's systematic and disciplined approach to funding the Rate Stabilization Reserve account is believed to be necessary and prudent. This substantial reserve can serve to significantly lessen the financial impact of any sudden loss of revenue or operating capability and the adverse rate increases which would normally accompany such losses.

The Water and Wastewater Impact Account was established to maintain capital reserve funds in excess of ongoing capital project expenses. Regular water and wastewater impact fees are used to recover the costs of capital improvements in the water and wastewater systems primarily associated with increasing capacity. A customer's impact fee is based on his residential equivalent unit (REU) factor multiplied by the Impact Fee Unit Charge (per REU). Impact fees apply to all retail service connections. Impact fees are divided into two categories, regular and special area impact fees. Special area impact fees apply to those areas that have been so designated due to additional capital costs required to provide facilities in those areas.



As a matter of organizational philosophy, GSWSA will continue to explore and implement innovative programs which will allow it to meet the area's water and wastewater needs in an efficient and environmentally safe manner. The challenge of

### **LONG-TERM FINANCIAL PLANNING** *(continued)*

meeting the utility needs of a 1,208 square mile service area of which only approximately 35% is developed requires continued pursuit of these objectives.

### **CASH MANAGEMENT POLICIES AND PRACTICES**

GSWSA pools substantially all cash and investments, except for those, which are maintained in accordance with legal restrictions. Each account's equity share of the total pooled cash and investments is included on the balance sheet.

GSWSA invests through various investment advisors, in a pool managed by the State Treasurer, certificates of deposits, repurchase agreements, guaranteed investment contracts and United States or State of South Carolina general obligations. All cash is invested in accordance with South Carolina state statutes. The average yield on all investments during 2008 was 6.82%. The market value of investments at June 30, 2008 was equal to the carrying value.

### **RISK MANAGEMENT**

Various risk control techniques, including employee accident prevention training via the GSWSA's Safety Committee, have been ongoing during the year to minimize accident related losses. Third-party coverage is currently maintained for workers' compensation claims and all other potential losses. A blanket fidelity bond in the amount of \$75,000 per employee covers all Authority employees. Tort liability covers all acts or incidents on behalf of GSWSA and its employees. All vehicles are covered with liability, collision and comprehensive insurance and buildings are covered with fire and extended coverage. Equipment is covered against property damage through Inland Marine and Data Processing coverage. GSWSA provides health insurance for every regular full time employee with dependent coverage available through payroll deduction.

### **PENSION AND OTHER POSTEMPLOYMENT BENEFITS**

The Grand Strand Water and Sewer Authority is a member of the South Carolina Retirement System (SCRS) and the South Carolina Deferred Compensation Commission. These two systems administer GSWSA's pension and deferred compensation plans. GSWSA provides medical insurance coverage for employees and Board Members and also for employees retiring through the SCRS. GSWSA also provides post employment healthcare benefits as mandated by Consolidated Omnibus Budget Reconciliation Act. For more detailed information on these programs, see footnote 7.

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to GSWSA for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the 19th year that GSWSA applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, GSWSA had to publish an easily readable and efficiently organized comprehensive annual financial report. The report had to satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. It is felt GSWSA's current comprehensive annual financial report, which is being submitted again for consideration, should continue to meet the Certificate of Achievement Program requirements.

Preparation of this report on a timely basis was accomplished through the dedicated efforts of the Accounting Department staff under the guidance of Rickey H. King, CMA. I would like to express my appreciation to all members of the Division, other Authority employees, and Smith, Sapp, Bookhout, Crumpler & Calliham, P.A. who assisted and contributed to its preparation.

Appreciation is also expressed to all Board Members, Chiefs and the entire staff, as well as you two gentlemen for assistance through the year in matters pertaining to the financial affairs of GSWSA.

Respectfully submitted,



Marguerite S. Carroll, CGFM  
Chief Financial Officer

MSC

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Grand Strand Water  
and Sewer Authority  
South Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Charles S. Cox*

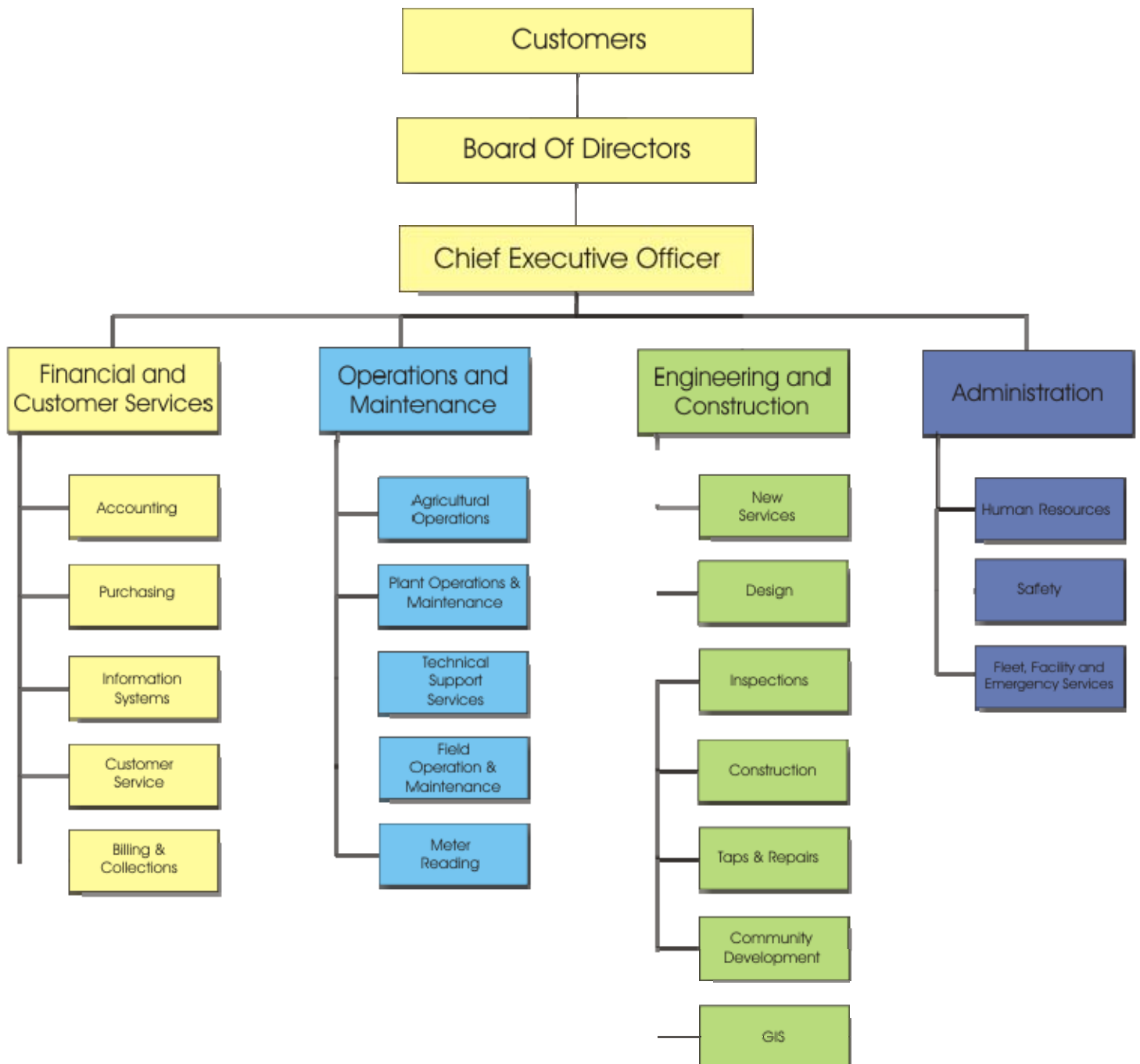
President

*Jeffrey R. Emery*

Executive Director

# GRAND STRAND WATER AND SEWER AUTHORITY

## Functional Organizational Chart



**GRAND STRAND WATER AND SEWER AUTHORITY  
LIST OF PRINCIPAL OFFICIALS  
JUNE 30, 2008**

BOARD OF DIRECTORS

<u>Name</u>	<u>Date Term Expires</u>
Sidney F. Thompson, Chairman	August 20, 2011
Benjy A. Hardee, Vice Chairman	August 15, 2009
James B. DeWitt, Secretary	August 15, 2005
John C. Griggs	August 15, 2009
Arnold T. Johnson	August 15, 2009
David F. Singleton	August 15, 2013
Robert M. "Bert" Floyd, Jr.	August 15, 2013
J. Liston Wells	August 15, 2011
Wilbur M. James	August 15, 2013

MANAGEMENT

<u>Name</u>	<u>Title</u>
Fred R. Richardson	Chief Executive Officer
Marguerite S. Carroll	Chief Financial Officer
Irvin D. Wooley	Chief of Utility Operations
Christina S. Everett	Chief of Engineering and Construction
Michael A. Shelley	Director of Fleet, Facility, and Emergency Services

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**FINANCIAL SECTION**

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**SMITH SAPP  
BOOKHOUT  
CRUMPLER  
& CALLIHAM**

Professional Association  
Certified Public Accountants & Consultants

MYRTLE BEACH

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Myrtle Beach, SC 29577

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Fax (843) 381-0027  
www.sccpa.com

PAWLEYS ISLAND

201 Business Center Drive  
Suite B  
Pawleys Island, SC 29585

Phone (843) 237-3453  
Fax (843) 237-4809  
www.sccpa.com

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying basic financial statements of the Grand Strand Water and Sewer Authority, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. The basic financial statements are the responsibility of the Grand Strand Water and Sewer Authority's management. Our responsibility is to express an opinion on the basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Grand Strand Water and Sewer Authority as of June 30, 2008 and 2007, and respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2008, on our consideration of Grand Strand Water and Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to disclose the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 – 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Grand Strand Water and Sewer Authority's basic financial statements. The introductory section, section of schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional

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analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Grand Strand Water and Sewer Authority. The section of schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



SMITH SAPP BOOKHOUT CRUMPLER & CALLIHAM

*Professional Association*

*Certified Public Accountants and Consultants*

Myrtle Beach, South Carolina  
September 16, 2008



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## GRAND STRAND WATER AND SEWER AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2008 and 2007

This section presents management's analysis of GSWSA's financial condition and activities for the fiscal years ended June 30, 2008 and 2007. This information should be read in conjunction with the letter of transmittal and the financial statements.

#### Financial Highlights

Management believes GSWSA's financial condition is strong. It is well within its debt covenants and the more stringent financial policies and guidelines set by the Board. The following are financial highlights for Fiscal Years 2008 and 2007.

- The overall financial condition of the GSWSA improved during the year ended June 30, 2008. Total assets at June 30, 2008 were over \$632.7 million and exceeded liabilities in the amount of \$409.4 million (i.e. net assets). Of the total net assets, \$88.9 million was unrestricted. Total assets increased from fiscal year end 2007 to 2008 by \$56.5 million and total liabilities increased by approximately \$9 million.
- Total assets at June 30, 2007 were over \$576 million and exceeded liabilities in the amount of \$361.9 million (i.e. net assets). Of the total net assets, \$82.2 million was unrestricted. Total assets increased from fiscal year end 2006 to 2007 by \$71.4 million and total liabilities increased \$24.4 million.
- At fiscal years ending 2008 and 2007, debt service coverage was 247% and 272%, respectively; which exceeds the 110% required by the Bond covenant.
- In fiscal year 2008, operating revenues were \$62.2 million, up from 2007 by \$3.8 million or 6.6%. In fiscal year 2007, operating revenues were \$58.4 million, up from 2006 by \$15.7 million or 36.9%.
- In fiscal year 2008, operating expenses before depreciation increased \$1.6 million or 4.4% compared to fiscal year 2007. Operating expenses including depreciation increased \$3.6 million or 7.1%. This increase was a result of the increase in water and wastewater services provided during 2008.
- In fiscal year 2007, operating expenses before depreciation increased \$9.2 million or 34.8% compared to fiscal year 2006. Operating expenses including depreciation increased \$11.2 million or 28.2%. This increase was directly related to the increase in water and wastewater revenues that resulted from the purchase of the City of Myrtle Beach Water and Wastewater Plants.
- Operating income for fiscal year 2008 was \$7.7 million representing a 3.3% increase from fiscal year 2007. The change in net assets, before and after capital contributions, increased \$1.6 and \$550,044, respectively from 2007.
- Operating income for fiscal year 2007 was \$7.5 million representing a 153.7% increase from fiscal year 2006. The change in net assets, before and after capital contributions, increased \$2.9 and \$7 million, respectively from 2006.
- Ratios of operating revenues to total operating expenses were 1.141 for 2008, 1.146 for 2007 and 1.074 for 2006.
- Cash capital contributions in 2008 were \$6.95 million, a decrease of 29.2% compared to year 2007. Developer contributions of facilities were \$32.4 million, an increase of 6% from 2007.
- Cash capital contributions in 2007 were \$9.8 million, a decrease of 29.4% compared to year 2006. Developer contributions of facilities were \$30.5 million, an increase of 36.7 % from 2006.

# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2008 and 2007

### Financial Highlights (continued)

- GSWSA treated and distributed over 15.6 billion gallons of water and collected and treated 10.5 billion gallons of wastewater, representing an increase from fiscal year 2007 of 10% for water and an increase in wastewater of 3%. Higher usage by retail customers accounted for most of the increase.
- During 2008, GSWSA added 2,163 new customers resulting in 2,366 water and 2,141 wastewater residential equivalent units. During fiscal year 2007, GSWSA added 3,914 new customers resulting in 4,833 water and 4,884 wastewater residential equivalent units.
- Due to more stringent EPA regulations and customer growth GSWSA upgraded the Schwartz Treatment Plant during 2008. The upgrade increased plant capacity from 14.3 to 19.5 million gallons per day.

### Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. Financial statements can be found on pages 14 to 45 of this report.

The financial statements report information about GSWSA using full accrual accounting methods; similar to those used by similar business activities in the private sector. However, GSWSA does not use rate-regulated accounting principles applicable to private sector utilities since it is a governmental utility. All activities of GSWSA are accounted for in a single proprietary (enterprise) fund.

The financial statements include a balance sheet, a statement of revenues, expenses and changes in net assets, a statement of cash flows, and notes to the financial statements. The balance sheet presents the financial position of GSWSA on the accrual basis. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about GSWSA's recovery of its costs. GSWSA's rates are based on a cost of service rate study that was completed in 2007 and is updated biannually. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objectives of the rate model are to provide equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for itself.

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

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about GSWSA's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information such as important debt coverage data is provided.

# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2008 and 2007

### Overview of Annual Financial Report (continued)

The financial statements were prepared by GSWSA's staff from the detailed books and records of GSWSA. The financial statements were audited and adjusted, if material, during the independent external audit process.

### Financial Analysis

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning.

#### Condensed Balance Sheet

	<u>2008</u>	<u>2007</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>	<u>2006</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>
Current Assets	\$92,062,590	\$84,931,812	\$7,130,778	8.4%	\$85,576,612	(\$644,800)	-0.8%
Noncurrent Assets							
Restricted Assets	\$36,047,559	\$35,773,480	\$274,079	0.8%	\$31,169,254	\$4,604,226	14.8%
Capital assets							
Producing Assets	\$496,291,013	\$440,666,731	\$55,624,282	12.6%	\$381,630,898	\$59,035,833	15.5%
Construction in Progress	6,721,189	13,235,420	(6,514,231)	-49.2%	4,907,316	8,328,104	169.7%
Other Assets	1,546,257	1,559,607	(13,350)	-0.9%	1,495,910	63,697	4.3%
<b>Total Assets</b>	<u>\$632,668,608</u>	<u>\$576,167,050</u>	<u>\$56,501,558</u>	<u>9.8%</u>	<u>\$504,779,990</u>	<u>\$71,387,060</u>	<u>14.1%</u>
Current Liabilities	\$23,657,058	\$18,698,845	\$4,958,213	26.5%	\$15,496,272	\$3,202,573	20.7%
Long Term Liabilities	<u>\$199,593,037</u>	<u>\$195,578,655</u>	<u>\$4,014,382</u>	<u>2.1%</u>	<u>\$174,373,087</u>	<u>\$21,205,568</u>	<u>12.2%</u>
<b>Total Liabilities</b>	<u>\$223,250,095</u>	<u>\$214,277,500</u>	<u>\$8,972,595</u>	<u>4.2%</u>	<u>\$189,869,359</u>	<u>\$24,408,141</u>	<u>12.9%</u>
Net Assets							
Net Invested in Capital Assets,							
Net of Related Debt	\$289,803,143	\$249,401,693	\$40,401,450	16.2%	\$204,870,843	\$44,530,850	21.7%
Restricted for Capital Activity,							
Debt Service, & Rate							
Stabilization	30,716,584	30,231,725	484,859	1.6%	25,980,196	4,251,529	16.4%
Unrestricted	<u>88,898,786</u>	<u>82,256,132</u>	<u>6,642,654</u>	<u>8.1%</u>	<u>84,059,592</u>	<u>(1,803,460)</u>	<u>-2.1%</u>
<b>Total Net Assets</b>	<u>\$409,418,513</u>	<u>\$361,889,550</u>	<u>\$47,528,963</u>	<u>13.1%</u>	<u>\$314,910,631</u>	<u>\$46,978,919</u>	<u>14.9%</u>
<b>Total Liabilities &amp; Net Assets</b>	<u>\$632,668,608</u>	<u>\$576,167,050</u>	<u>\$56,501,558</u>	<u>9.8%</u>	<u>\$504,779,990</u>	<u>\$71,387,060</u>	<u>14.1%</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**

**Financial Analysis (continued)**

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	<b>2008</b>	<b>2007</b>	<b>Variance \$</b>	<b>Variance %</b>	<b>2006</b>	<b>Variance \$</b>	<b>Variance %</b>
<b>Revenues</b>							
<b>Operating Revenues:</b>							
Charges for Services	\$58,056,010	\$53,936,482	\$4,119,528	7.6%	\$38,476,477	\$15,460,005	40.2%
Other Revenue	4,206,164	4,481,476	(275,312)	-6.1%	4,192,230	289,246	6.9%
<b>Nonoperating Revenue:</b>							
Investment Income	8,128,067	6,200,184	1,927,883	31.1%	3,311,395	2,888,789	87.2%
Other Revenue					4,057,942	(4,057,942)	-100.0%
Gain (Loss) on Disposal of Capital Assets	(1,037)	48,862	(49,899)	-102.1%	(541,197)	590,059	109.0%
Capital Contributions	41,308,314	42,345,067	(1,036,753)	-2.4%	38,229,179	4,115,888	10.8%
<b>Total Revenues</b>	<b>\$111,697,518</b>	<b>\$107,012,071</b>	<b>\$4,685,447</b>	<b>4.4%</b>	<b>\$87,726,026</b>	<b>\$19,286,045</b>	<b>22.0%</b>
<b>Expenses</b>							
<b>Operating Expenses</b>							
Before Depreciation	\$37,155,955	\$35,597,318	\$1,558,637	4.4%	\$26,406,354	\$9,190,964	34.8%
Depreciation	17,400,238	15,363,404	2,036,834	13.3%	13,323,239	2,040,165	15.3%
<b>Nonoperating Expenses:</b>							
<b>Amortization of Deferred</b>							
Bond Costs	113,717	111,962	1,755	1.6%	102,251	9,711	9.5%
Interest Expense	9,498,645	8,960,468	538,177	6.0%	7,936,226	1,024,242	12.9%
<b>Total Expenses</b>	<b>\$64,168,555</b>	<b>\$60,033,152</b>	<b>\$4,135,403</b>	<b>6.9%</b>	<b>\$47,768,070</b>	<b>\$12,265,082</b>	<b>25.7%</b>
<b>Increase in Net Assets</b>	<b>\$47,528,963</b>	<b>\$46,978,919</b>	<b>\$550,044</b>	<b>1.2%</b>	<b>\$39,957,956</b>	<b>\$7,020,963</b>	<b>17.6%</b>
<b>Beginning Net Assets</b>	<b>\$361,889,550</b>	<b>\$314,910,631</b>	<b>\$46,978,919</b>	<b>14.9%</b>	<b>\$274,952,675</b>	<b>\$39,957,956</b>	<b>14.5%</b>
<b>Ending Net Assets</b>	<b>\$409,418,513</b>	<b>\$361,889,550</b>	<b>\$47,528,963</b>	<b>13.1%</b>	<b>\$314,910,631</b>	<b>\$46,978,919</b>	<b>14.9%</b>

# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2008 and 2007

### Financial Analysis (continued)

#### Selected Data for Analysis

	<u>2008</u>	<u>2007</u>	<u>Variance Amount</u>	<u>Variance %</u>	<u>2006</u>	<u>Variance Amount</u>	<u>Variance %</u>
Employees at Year End	265	258	7	2.7%	195	63	32.3%
Customers at Year End:							
Water Customers	60,231	58,349	1,882	3.2%	54,768	3,581	6.5%
Wastewater Customers	57,009	55,389	1,620	2.9%	51,826	3,563	6.9%
Water Sales for Fiscal Year (Billions of Gallons)	15.63	14.21	1.42	10.0%	7.95	6.26	78.7%
Wastewater Sales for Fiscal Year (Billions of Gallons)	10.50	10.20	0.30	2.9%	6.05	4.15	68.6%
Total Operating Revenues (Per Average Employees)	\$234,951.60	\$226,426.19	\$8,525.41	3.8%	\$219,303.77	\$7,122.42	3.2%
Total Operating Expenses (Per Average Employees)	\$205,872.43	\$197,522.18	\$8,350.25	4.2%	\$204,231.39	(\$6,709.21)	-3.3%
Ratio of Operating Revenues to:							
Operating Expenses	1.141	1.146	-0.005	-0.44%	1.074	0.072	6.73%
Operating Expenses Net of Depreciation	1.676	1.641	0.035	2.11%	1.610	0.031	1.93%
Total Assets	0.098	0.101	-0.003	-2.94%	0.085	0.016	19.28%
Debt Related Ratios:							
Debt to Net Assets	0.545	0.592	-0.047	-7.91%	0.603	-0.011	-1.81%
Operating Coverage (Operating Cash Flow/Debt)	0.115	0.096	0.019	19.86%	0.084	0.012	14.15%

### General Trends and Significant Events

Weather temperatures during fiscal year 2008 were generally normal for the seasons. It was a little hotter during the summer than normal and it rained less than it did in fiscal year 2007. Overall it has rained 8.9 inches or 18% less in 2008. The decrease in rain and the additional customers added over the last three years resulted in higher water usage.

The volume of water sold in fiscal year 2008 was 15.63 billion gallons, an increase of 10% from fiscal year 2007. Retail customers purchased 35% of the total water sold and the wholesale customers purchased 65%.

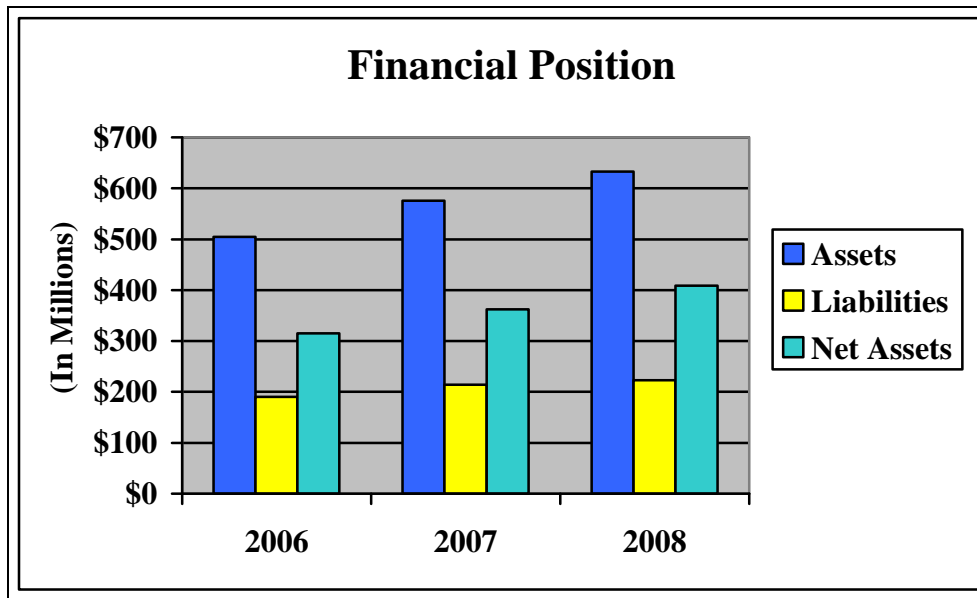
The volume of treated wastewater sold in fiscal year 2008 was 10.5 billion gallons, an increase of 2.9% from fiscal year 2007. GSWSA's wholesale wastewater customers actually produced less wastewater in 2008 than in 2007. Retail customers purchased 52% and wholesale customers purchased 48% of the total treated wastewater.

# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2008 and 2007

### Financial Condition

GSWSA's financial condition remained strong at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net assets. The current financial condition, technical support staff capabilities and operating and expansion plans to meet anticipated customer needs, are well balanced and enables the GSWSA to meet customer needs now and well into the future. The following charts summarize the balance sheet.



During fiscal year 2008, total assets grew \$56.5 million or 9.8% with \$49.1 million represented by additions to capital assets. Net assets increased \$47.5 million, with substantially all of the change resulting from capital contributions restricted to capital activity and debt service. Unrestricted net assets increased \$6.6 million or 8.1%.

During fiscal year 2007, total assets grew \$71.4 million or 14.1% with \$67.4 million represented by additions to capital assets. Net assets increased \$47 million, with substantially all of the change resulting from capital contributions restricted to capital activity and debt service. Unrestricted net assets decreased approximately \$3.3 million or 3.9%.

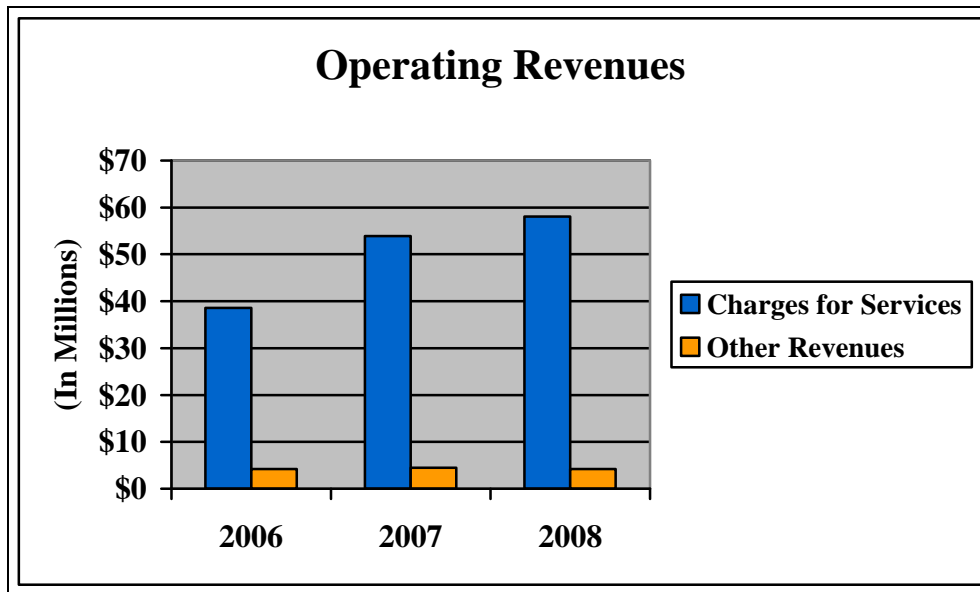
Accounts receivable at year-end, 2008, increased only \$209,542 from year-end 2007. Accounts receivable at June 30, 2007 were more than year-end 2006 by \$3.7 million dollars. This increase was due mainly to billing the City of Myrtle Beach and North Myrtle Beach water and wastewater billings on the 25<sup>th</sup> of June.

# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2008 and 2007

### Results of Operations

**Operating Revenues:** Revenues from operations fall into two general categories: (1) charges for services, which includes: water and wastewater volume, and availability fees, customer charges, surface water treatment plant charges, tap fees, sod sales and (2) other revenues, which includes: timber sales, engineering fees and miscellaneous fees. GSWSA has three classes of water and wastewater customers: wholesale, residential and commercial. The following chart depicts GSWSA revenues for the last three fiscal years.



GSWSA increased retail water rates by 3.9% and retail wastewater rates by 5.5% in 2008. It also increased wholesale water rates by 7.35% from \$.68 to \$.73. During 2007, GSWSA did not increase water and wastewater rates. During fiscal year 2006, GSWSA did not increase retail water or wastewater rates. However, it did increase wholesale water rates by 6.3% from \$.64 to \$.68.

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

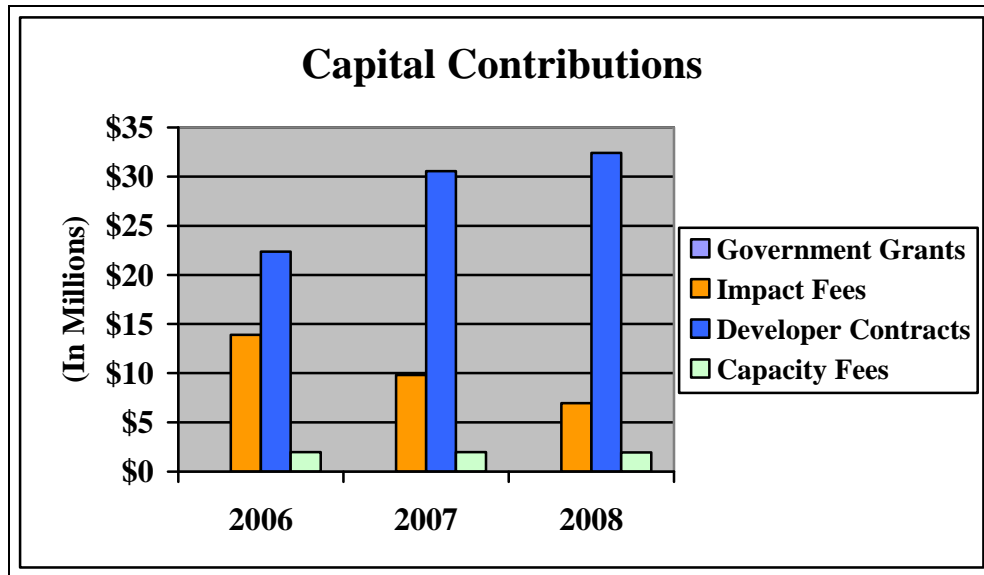
The following chart depicts the capacity fee revenue activity.



**GRAND STRAND WATER AND SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**

**Results of Operations** (continued)



Cash capital contributions (impact fees) were right at \$7 million for 2008 compared to \$9.8 million for 2007. Contributions were down in direct proportion to the decrease in the number of new customers added during 2008.

Cash capital contributions (impact fees) were \$9.8 million for 2007 compared to \$13.9 million for 2006. Contributions were down in direct proportion to the decrease in the number of new customers added during 2007.

**Expenses:** GSWSA operates and maintains a potable water treatment and distribution system and a wastewater collection and treatment system. The water production occurs at its 40 and 45 million gallon per day surface water treatment plants. GSWSA has backup wells to use for peak management. The wastewater system includes nine wastewater treatment plants that range in size from 10,000 gallons per day to 19.5 million gallons per day.

Total operating expenses of GSWSA increased \$3.6 million over fiscal year 2007, and operating revenues increased by over \$3.8 million. Operating expenses for water and wastewater operations for the last three years are listed below:

# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2008 and 2007

### Results of Operations (continued)

#### Operating Expenses

	<u>2008</u>	<u>%</u>	<u>2007</u>	<u>%</u>	<u>Variance</u>	<u>2006</u>	<u>%</u>	<u>Variance</u>
Personnel Costs	\$14,443,846	26.4%	\$12,562,364	24.7%	\$1,881,482	\$8,958,676	22.5%	\$3,603,688
Contractual Services	10,885,255	20.0%	10,925,712	21.4%	(40,457)	8,545,559	21.5%	2,380,153
Supplies and Materials	9,785,172	17.9%	9,951,269	19.5%	(166,097)	7,021,438	17.7%	2,929,831
Business and Travel Expenses	156,152	0.3%	110,575	0.2%	45,577	60,561	0.2%	50,014
Depreciation and Amortization	17,400,238	31.9%	15,363,404	30.2%	2,036,834	13,323,239	33.5%	2,040,165
Other Expenses	1,885,530	3.5%	2,047,398	4.0%	(161,868)	1,820,120	4.6%	227,278
Total Operating Expenses	<u>\$54,556,193</u>	<u>100.0%</u>	<u>\$50,960,722</u>	<u>100.0%</u>	<u>\$3,595,471</u>	<u>\$39,729,593</u>	<u>100.0%</u>	<u>\$11,231,129</u>

Personnel costs increased \$1,881,482 or 15% from 2007 to 2008. GSWSA granted an average merit increase of 4% during 2008 and the number of employees increased from 258 to 265. The increase in personnel costs was a result mainly of the merit and health insurance rate increases. Contractual services decreased \$40,457 or .37%, primarily as a result of equipment insurance rate decreases and a reduction in leases and facilities maintenance costs. Supplies and materials also decreased \$166,097 or 1.67% due to a reduction in chemical and facilities repair costs. Depreciation and amortization is up \$2,036,834 or 13.3% due to addition of assets during fiscal year 2008. Other expenses are down by \$161,868 or 7.9% in 2008 due to less costs being allocated as overhead to the wholesale customers.

Personnel costs increased \$3,603,688 or 40.2% from 2006 to 2007. GSWSA granted an average merit increase of 4% during 2007 and the number of employees increased from 195 to 258. The increase in personnel costs was a result mainly of the addition of 46 employees transferred from the City of Myrtle Beach. Contractual services increased \$2,380,153 or 27.9%, primarily as a result of the additional electricity used at the water and wastewater plants purchased from the City of Myrtle Beach. Supplies and materials also increased \$2,929,831 or 41.7% due to increased water and wastewater gallons treated as a result of the addition of the City of Myrtle Beach water and wastewater plants. Depreciation and amortization went up \$2,040,165 or 15.3% due to addition of assets during fiscal year 2007. Other expenses were up by \$227,278 or 12.5% in 2007 due to more costs being allocated as overhead to the wholesale customers.

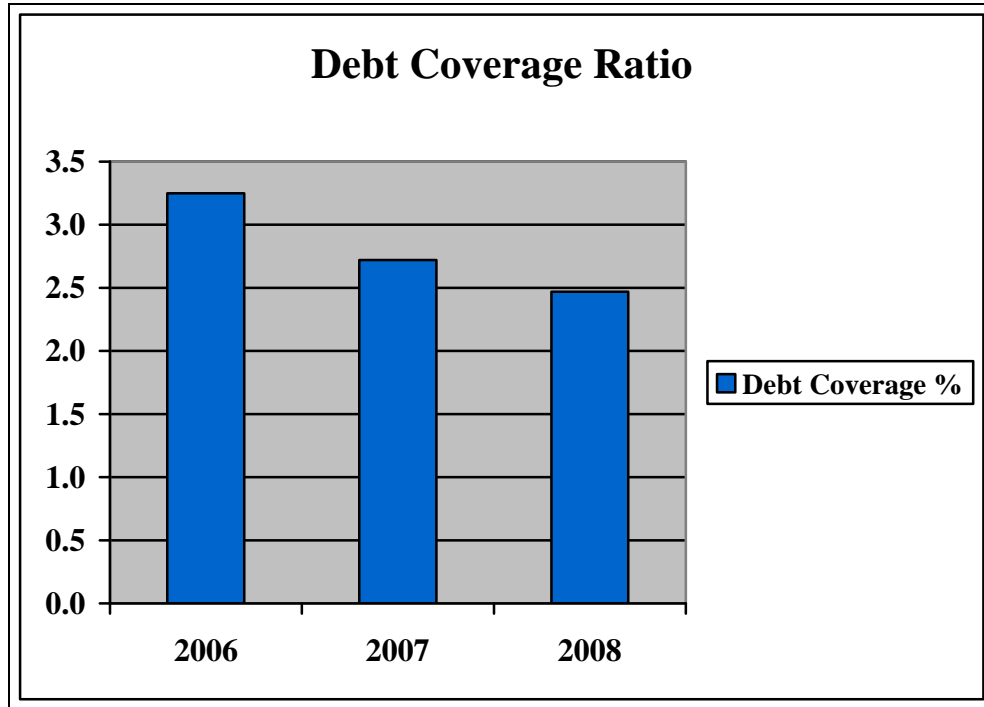
### Rate Covenant

In the Bond Resolution, GSWSA covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by GSWSA, together with other income, that will yield annual Net Earnings in the fiscal year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments. Net earnings for debt service are defined as gross revenue including customer impact fees, less operating expenses adjusted for depreciation. The rate covenant in the Bond Resolution obligates GSWSA to review rates not less than once a year and to revise such rates and charges as necessary to meet the coverage test. Revenue bond debt service coverage for fiscal years 2006, 2007 and 2008 were 325%, 272% and 247%, respectively.

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**

**Rate Covenant** (continued)



**Capital Assets and Long-Term Debt**

GWSA invested \$68.7 million in plant and equipment during 2008. Wastewater additions included the Bucksport to Hwy 701 Force Main for \$2.5 million, the Schwartz Treatment Plant Upgrade for \$12.5 million, the Vereen Treatment Plant Clarifier for \$3.0 million, and the Rural Sewer projects at a cost of \$6.0 million. Water additions included the Buist Tank for \$1.0 million, the BCI – Finish Water Pump Station for \$4.0 million, the BCI – Perry Rd Pump Station Upgrade for \$2 million, the Hwy 701 to Hwy 501 Hydraulic Upgrade for \$1 million, and the Rural Water projects at a cost of \$2.5 million. Developer contributions to capital assets were \$32.4 million and capitalized interest was \$169,746. Disposals for 2008 were \$0.9 million.

GWSA invested \$85.3 million in plant and equipment during 2007. Wastewater additions included the acquisition of the City of Myrtle Beach’s plant site land for \$27.7 million, the expansion of the Longs plant for \$0.9 million, and the Rural Sewer projects at a cost of \$6.2 million. Water additions included the upgrade to Green Sea Hydraulics for \$2.4 million, the design of the NMB booster pump station for \$0.5 million, the Bull Creek Security System for \$0.7 million, and the Rural Water projects at a cost of \$4.6 million. Developer contributions to capital assets were \$30.5 million and capitalized interest was \$74,188. Disposals for 2007 were \$0.3 million.

During fiscal years 2006, 2007, and 2008, GWSA obtained a State Revolving Fund loan for the phase two expansion of the Schwartz Wastewater Treatment Plant. As of June 30, 2008, the draws made on this loan and recorded debt was \$11.6 million. The ratio of total debt to capital assets was 47.2% for the fiscal year 2008. GWSA also obtained State Revolving Fund loans for the Myrtle Beach Wastewater Treatment Plant Expansion and the Conway Odor Control project; however there were no draw requests or recorded debt as of June 30, 2008.

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

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**

**Final Comments**

This financial report is designed to provide a general overview of GSWSA's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Grand Strand Water and Sewer Authority, P.O. Box 2368, Conway, SC 29528-2368.

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**BASIC FINANCIAL STATEMENTS**

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**GRAND STRAND WATER AND SEWER AUTHORITY  
BALANCE SHEETS**

Page 1 of 2

**June 30, 2008 and 2007**

**ASSETS**

	<u>2008</u>	<u>2007</u>
<b>Current Assets</b>		
Cash and Investments	\$ 78,001,468	\$ 71,316,582
Receivables		
Customer Accounts, net of allowance of \$150,140 in 2008 and \$108,802 in 2007	8,687,654	8,478,112
Assessments	2,730,689	2,597,268
Loans	262,173	363,133
Interest	885,551	665,385
Other	135,167	152,247
Inventories	1,044,243	833,854
Prepays	315,645	525,231
Total Current Assets	<u>\$ 92,062,590</u>	<u>\$ 84,931,812</u>
<b>Noncurrent Assets</b>		
Restricted Cash and Investments		
Deposits and Unearned Contributions	\$ 5,257,717	\$ 5,235,845
Capital Projects Fund	6,568,094	9,603,084
Debt Service Fund	12,597,459	11,382,639
Depreciation and Contingency Fund	8,438,584	6,148,740
Deferred Compensation Fund		231,805
Rate Stabilization Fund	3,185,705	3,171,367
Total Restricted Cash and Investments	<u>\$ 36,047,559</u>	<u>\$ 35,773,480</u>
Property, Plant, and Equipment		
Utility Plant in Service	\$ 586,046,012	\$ 516,978,586
Land and Easements	49,653,829	49,463,055
Buildings and Leasehold Improvements	6,465,014	6,532,511
Vehicles	5,509,841	5,088,198
Machinery, Equipment, and Office Furniture	10,909,869	8,375,276
Construction in Process	6,721,189	13,235,420
	<u>665,305,754</u>	<u>599,673,046</u>
Accumulated Depreciation	<u>(162,293,552)</u>	<u>(145,770,895)</u>
Total Property, Plant and Equipment	<u>\$ 503,012,202</u>	<u>\$ 453,902,151</u>
Deferred Bond Cost (Net)	\$ 1,541,507	\$ 1,554,857
Container and Security Deposits	4,750	4,750
Total Noncurrent Assets	<u>\$ 540,606,018</u>	<u>\$ 491,235,238</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 632,668,608</u></u>	<u><u>\$ 576,167,050</u></u>

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

**GRAND STRAND WATER AND SEWER AUTHORITY  
BALANCE SHEETS**

Page 2 of 2

**June 30, 2008 and 2007**

**LIABILITIES and NET ASSETS**

	<u>2008</u>	<u>2007</u>
<b>Current Liabilities</b>		
Accounts Payable	\$ 2,159,090	\$ 1,528,931
Accrued Salaries and Payroll Taxes	301,896	242,870
Accrued Compensated Absences	1,087,436	1,056,016
Loan Proceeds in Transit	262,173	363,133
Current Portion of Capital Lease Payable	101,342	97,790
Total Current Liabilities Payable From Current Assets	<u>\$ 3,911,937</u>	<u>\$ 3,288,740</u>
<b>Current Liabilities Payable from Restricted Assets</b>		
Construction Contracts	\$ 4,927,458	\$ 1,551,101
Current Portion of Revenue Bonds	5,391,964	4,636,106
Current Portion of Notes Payable	3,319,059	2,899,203
Accrued Interest on Revenue bonds	593,700	582,680
Accrued Interest on Notes Payable	255,223	343,007
Customer Security and Tap Deposits	4,658,537	4,403,209
Unearned Customer Contributions	599,180	994,799
Total Current Liabilities Payable from Restricted Assets	<u>\$ 19,745,121</u>	<u>\$ 15,410,105</u>
<b>Total Current Liabilities</b>	<u>\$ 23,657,058</u>	<u>\$ 18,698,845</u>
<b>Noncurrent Liabilities</b>		
Revenue Bonds (Net), Less Current Portion	\$ 140,060,933	\$ 135,333,270
Notes Payable, Less Current Portion	58,320,806	58,797,247
Capital Lease Payable, Less Current Portion	1,087,497	1,185,741
Arbitrage Rebate	123,801	30,592
Deferred Compensation Payable		231,805
Total Noncurrent Liabilities	<u>\$ 199,593,037</u>	<u>\$ 195,578,655</u>
<b>Total Liabilities</b>	<u>\$ 223,250,095</u>	<u>\$ 214,277,500</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	\$ 289,803,143	\$ 249,401,693
Restricted for		
Capital Projects	15,006,678	15,751,824
Debt Service	12,524,201	11,308,534
Rate Stabilization	3,185,705	3,171,367
Unrestricted	88,898,786	82,256,132
Total Net Assets	<u>\$ 409,418,513</u>	<u>\$ 361,889,550</u>
<b>TOTAL LIABILITIES and NET ASSETS</b>	<u>\$ 632,668,608</u>	<u>\$ 576,167,050</u>

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

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**

Page 1 of 2

**Years Ended June 30, 2008 and 2007**

	2008	2007
<b>Operating Revenues</b>		
Water and Sewer Volume and Availability Fees	\$ 44,731,026	\$ 40,342,471
Customer Charges	2,868,056	2,675,095
Surface Water Charges	6,021,758	5,713,617
Surface Water Treatment Plant (SWTP) Contract Water Consumption	2,453,313	2,316,629
Tap Fees	1,478,545	2,257,100
Sod Sales	503,312	631,570
Other Revenue	4,206,164	4,481,476
Total Operating Revenues	\$ 62,262,174	\$ 58,417,958
<b>Operating Expenses</b>		
Personnel costs	\$ 14,443,846	\$ 12,562,364
Contractual Services	10,885,255	10,925,712
Supplies and Materials	9,785,172	9,951,269
Business and Travel Expenses	156,152	110,575
Depreciation on Assets Acquired With:		
Authority Funds	9,673,553	8,923,586
Contributed Capital	7,726,685	6,439,818
Other Expenses	1,885,530	2,047,398
Total Operating Expenses	\$ 54,556,193	\$ 50,960,722
<b>Operating Income</b>	\$ 7,705,981	\$ 7,457,236
<b>Non-Operating Revenues (Expenses)</b>		
Investment Income	\$ 8,128,067	\$ 6,200,184
Gain (Loss) on Disposal of Capital Assets	(1,037)	48,862
Amortization of Deferred Bond Costs	(113,717)	(111,962)
Interest Expense	(9,498,645)	(8,960,468)
Total Non-Operating Revenues (Expenses)	\$ (1,485,332)	\$ (2,823,384)
<b>Income Before Contributions</b>	\$ 6,220,649	\$ 4,633,852
<b>Capital Contributions</b>		
SWTP Capacity Fees	\$ 1,961,592	\$ 1,970,844
Customer Impact Fees	6,953,139	9,827,621
Developer Contributions	32,393,583	30,546,602
Total Capital Contributions	\$ 41,308,314	\$ 42,345,067
<b>Change in Net Assets</b> (carried forward)	\$ 47,528,963	\$ 46,978,919

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



**GRAND STRAND WATER AND SEWER AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS**

Page 2 of 2

**Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Change in Net Assets</b> (brought forward)	\$ 47,528,963	\$ 46,978,919
<b>Net Assets, Beginning</b>	<u>361,889,550</u>	<u>314,910,631</u>
<b>Net Assets, Ending</b>	<u>\$ 409,418,513</u>	<u>\$ 361,889,550</u>

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

**GRAND STRAND WATER AND SEWER AUTHORITY  
STATEMENTS OF CASH FLOWS**

Page 1 of 2

**Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from Customers	\$ 62,325,040	\$ 55,482,202
Payments to Suppliers	(25,258,805)	(24,796,326)
Payments to Employees	(11,409,153)	(10,140,400)
<b>Net Cash and Cash Equivalents Provided by Operating Activities</b>	<u>\$ 25,657,082</u>	<u>\$ 20,545,476</u>
 <b>Cash Flows From Capital and Related Financing Activities</b>		
Purchase and Construction of Property, Plant, and Equipment	\$ (30,791,029)	\$ (51,958,644)
Proceeds from Sale of Equipment	49,642	48,862
Proceeds from Capital Debt	12,906,797	28,701,727
Principal Payments on Capital Debt	(7,697,277)	(6,198,960)
Interest Paid on Borrowings	(9,452,684)	(8,828,457)
Bond Issue Costs	(100,367)	(175,659)
Contributions from Customers	8,385,691	11,676,936
<b>Net Cash and Cash Equivalents (Used) by Capital and Related Financing Activities</b>	<u>\$ (26,699,227)</u>	<u>\$ (26,734,195)</u>
 <b>Cash Flows From Investing Activities</b>		
Proceeds from Sale of Investments	\$ 37,149,227	\$ 36,951,723
Purchase of Investments	(55,764,948)	(31,654,336)
Interest Received	8,001,110	6,416,963
<b>Net Cash and Cash Equivalents Provided (Used) by Investing Activities</b>	<u>\$ (10,614,611)</u>	<u>\$ 11,714,350</u>
 <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	\$ (11,656,756)	\$ 5,525,631
 <b>Cash and Cash Equivalents - Beginning</b>	<u>40,177,285</u>	<u>34,651,654</u>
 <b>Cash and Cash Equivalents - Ending</b>	<u><u>\$ 28,520,529</u></u>	<u><u>\$ 40,177,285</u></u>

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

**GRAND STRAND WATER AND SEWER AUTHORITY  
STATEMENTS OF CASH FLOWS**

Page 2 of 2

**Years Ended June 30, 2008 and 2007**

	2008	2007
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating Income	\$ 7,705,981	\$ 7,457,236
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities		
Depreciation	17,400,238	15,363,404
(Increase) in Customer Receivables and Other Receivables	(192,462)	(3,343,194)
Decrease (Increase) in Inventory	(210,389)	52,279
Decrease (Increase) in Prepaid Expenses	209,586	(243,641)
Increase in Accounts Payable	630,159	455,977
Increase (Decrease) in Accrued Salaries, Payroll Taxes, Deferred Compensation, and Compensated Absences	(141,359)	395,977
Increase in Customer Deposits	255,328	407,438
Net Cash Provided by Operating Activities	\$ 25,657,082	\$ 20,545,476

**Noncash Capital and Related Financing Activities**

Fair Value of Developer Contributed Utility Systems	\$ 32,393,583	\$ 30,546,602
Abandoned Capital Projects expensed	2,138,633	2,613,024
Capitalized Interest Expense	169,746	74,188
Unrealized Appreciation (Depreciation) in Fair Value of Investments	75,784	(1,417,044)

**Reconciliation of Cash and Cash Equivalents**

Unrestricted Cash and Investments - Beginning	\$ 71,316,582	\$ 75,692,564
Restricted Cash and Investments - Beginning	35,773,480	31,169,254
	\$ 107,090,062	\$ 106,861,818
Investments With Original Maturity Dates Over Ninety Days	(66,912,777)	(72,210,164)
Cash and Cash Equivalents - Beginning	\$ 40,177,285	\$ 34,651,654
Unrestricted Cash and Investments - Ending	\$ 78,001,468	\$ 71,316,582
Restricted Cash and Investments - Ending	36,047,559	35,773,480
	\$ 114,049,027	\$ 107,090,062
Investments With Original Maturity Dates Over Ninety Days	(85,528,498)	(66,912,777)
Cash and Cash Equivalents - Ending	\$ 28,520,529	\$ 40,177,285

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Government Unit

The Grand Strand Water and Sewer Authority (GSWSA) was created pursuant to the provisions of Act No. 337 enacted during the 1971 Session of the General Assembly of the State of South Carolina a body politic and corporate. The principal functions of GSWSA are to acquire supplies of fresh water, distribute the water for industrial and domestic use within its service area and to acquire, construct, operate and maintain sewage treatment and collection facilities as GSWSA deems necessary.

The service area of GSWSA is defined to include all of the geographic area of Horry County, South Carolina except for those areas (1) included within an incorporated municipality which owns and operates a water and/or sewer system, (2) included within the service area of Little River Water and Sewerage Company, Inc. and (3) included in the Bucksport Water System when water service was made available on April 1, 1986.

Reporting Entity

GSWSA has established criteria for determining the scope of the reporting entity for financial statement presentation, in accordance with GASB Statement No. 14 entitled, *The Financial Reporting Entity*. GSWSA's Board is appointed by the Governor of the State of South Carolina based upon recommendation by local delegation. Accordingly, an accountability perspective has been the basis for defining the financial reporting entity. These financial statements present the government and all of its activities for which GSWSA's Board is accountable. There are no other political subdivisions or entities which should be included in the reporting entity of GSWSA.

Basis of Presentation, Accounting and Measurement Focus

GSWSA's financial statements are presented on the full accrual basis in accordance with generally accepted accounting principles. GSWSA applies all relevant Government Accounting Standards Board (GASB) pronouncements, as well as when applicable, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements. GSWSA has elected not to adopt the provisions of FASB No. 71, *Accounting for the Effects of Certain Types of Regulation*.

The accounting and financial reporting treatment applied is determined by its measurement focus. The transactions of GSWSA are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with operations are included on the balance sheet. Net assets (i.e. total assets net of total liabilities) are segregated between net assets invested in capital assets, net of related debt and deferrals; restricted financial assets, net of related liabilities; and unrestricted net assets. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

All activities of GSWSA are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, and accountability.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Basis of Presentation, Accounting and Measurement Focus *(continued)*

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* revenues and expenses. Operating revenues and expenses generally result from providing services and producing or delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of GSWSA are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results could differ from those estimates.

Budgets and Budgetary Accounting

The Board of Directors adopts a non-appropriated current expense budget and a capital budget for GSWSA. The current expense budget details GSWSA's plans to receive and expend funds for charges incurred for operation, maintenance, interest and other charges for the ensuing fiscal year. The capital budget details the plan to receive and expend funds for capital projects. Prior to July 1, the budget is enacted by the passage of a resolution.

The Chief Executive Officer is authorized to transfer appropriations between departments and divisions in the current operating budget. Transfers of appropriations between capital projects in the capital budget may be authorized by the Board of Directors by resolution.

All unexpended and unencumbered appropriations in the current expense budget remaining at the end of the fiscal year lapse. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made, has been accomplished or abandoned.

Budgets are adopted on a basis which approximates generally accepted accounting principles, except for debt service payments, capital expenditures and departmental transfers which are budgeted on a cash basis.

Deposits and Investments

For purposes of reporting cash flows, GSWSA's policy is to include restricted and unrestricted cash on hand and on deposit, interests in the State Treasurer's Pool, certificates of deposit maturing within 90 days, repurchase agreements, and money market investments, and excludes other investments as presented in Note 2.

GSWSA temporarily invests through various investment advisors, and in a pool managed by the South Carolina State Treasurer, certificates of deposit, repurchase agreements, guaranteed investment contracts and United States or State of South Carolina general obligations.

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007****Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Deposits and Investments *(continued)*

GSWSA has adopted the provisions of GASB Statement No. 31 entitled, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As required by GASB Statement No. 31, investments are reported at fair value in the financial statements. Related changes in the fair value of investments are included as an element of investment income. The methods and assumptions used to estimate the fair value of investments are based upon quoted market prices.

The State Treasurer sells participation units in the South Carolina Local Government Investment Pool to political subdivisions of the State, of which GSWSA has invested funds. Funds deposited by legally defined entities into the pool are used to purchase investment securities as follows: direct obligations of U.S. Government securities; federal agency securities; repurchase agreements secured by the U.S. Government and/or federal agency securities; and A1/P1 commercial paper. The fair value of GSWSA's position in the pool is the same as the value of the pool shares.

Receivables

Customer receivables are reported net of allowances for doubtful accounts and represent various volume, availability and service fees earned but not yet collected. Cycle billings at year end are estimated to record revenues earned through year end. Recurring consumption and capacity fees from residential and commercial customers are recognized as operating revenues, whereas Bull Creek Surface Water Treatment Plant bulk consumption and capacity sales to other service providers (generally other local governments) are recognized as operating revenues and capital contributions.

Inventories

Materials and supply inventories are stated at the lower of average cost or market value.

Restricted Assets

Restricted asset accounts were established to account for assets reserved for specific purposes. The assets related to customer security and tap deposits, rate stabilization funds and funds designated by certain revenue bond indentures and revolving loan agreements are recorded as restricted assets. The bond and loan agreements require the establishment of construction accounts, current debt service accounts, future debt service accounts, capitalized interest accounts, a rebate account and depreciation and contingent accounts. Deposits are made to restricted asset accounts in amounts determined by the bond indenture or GSWSA's Board members.

The restricted capital projects account represent 1) impact fees charged to new customers to recover the costs associated with unutilized capacity in oversized facilities built to meet future needs, 2) special assessments to provide capital improvements, 3) related investment income on such accounts and the depreciation fund; and, 4) unearned customer contributions. The impact fees are restricted for use as authorized by the Board of Directors for capital improvements.

Property, Plant and Equipment, Capacity Rights and Depreciation

Property, plant and equipment are recorded at cost, if acquired by purchase or constructed by GSWSA. Assets acquired through contributions from developers or other entities are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Acquired utility systems assets from other service providers (typically local governments) are recorded at the lower of the prior

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Property, Plant and Equipment, Capacity Rights and Depreciation *(continued)*

service provider’s net book value or fair value, with the cost and accumulated depreciation recorded. GSWSA allocates overhead to construction projects based on the direct labor charges to each project. GSWSA’s policy is to capitalize assets in excess of \$2,500. Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Utility Plant and Equipment	8 - 45
Buildings	14 - 20
Machinery, Office Furniture & Equipment	5 - 10
Vehicles	3 - 10

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

Interest cost is capitalized on the construction of qualified property, plant and equipment, except for small (\$250,000) projects for which the construction period is less than six months. In regards to assets acquired with tax-exempt debt, the amount of interest to be capitalized is calculated by offsetting interest expense on the tax-exempt debt with interest earned on invested proceeds from the date of the borrowing until completion of the project. In regards to assets not acquired with tax-exempt debt, the amount of interest to be capitalized is the product of the average accumulated expenditures during the year for such assets and the weighted average interest rate on debt and is limited to the sum of interest expense on the tax-exempt debt not previously capitalized and all other interest expense. Interest is not capitalized on assets acquired or constructed with gifts and grants (e.g. contributions, special assessments, impact fees) that are restricted by the donor or grantor to acquisition of those assets to the extent that funds are available from such grants and gifts.

*Capacity Rights* – Sales of certain water and wastewater system capacity rights of GSWSA to other utilities are accounted for as non-operating revenues generally as earned and received over the period in which GSWSA delivers related service. GSWSA thus records the entire cost of water and wastewater systems which it owns, operates and controls. GSWSA’s purchase of system capacity rights from other utilities is accounted for as utility plant. Amortization of such intangibles is included as depreciation and amortization within the operating expenses.

Long-Term Obligations

Long-term obligations are reported at face value. Bond premiums and discounts, losses on refundings, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are recorded net of applicable premiums and discounts, and deferrals of losses on refundings occurring after June 30, 1994.

GSWSA entered into interest rate swap agreement to modify interest rates on outstanding debt. Other than the net interest expense resulting from this agreement, no amounts are recorded in the financial statements.

Compensation for Future Absences

It is GSWSA’s policy to permit its employees to accumulate earned but unused vacation benefits which will be paid to the employees upon separation from service to GSWSA. These vacation benefits are accrued in the period earned.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Non-exchange Transactions

During the fiscal year ended June 30, 2001, GSWSA implemented the provisions of GASB Statement No. 33 entitled, *Accounting and Financial Reporting for Non-exchange Transactions*. Non-exchange transactions involve financial or capital resources in which a government either gives value to another party without receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The standards established by the statement require that capital contributions, such as government grants, customer impact fees and developer contributions, be recorded in the financial statements as revenues.

Revenues and the Rate Structure

Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital costs related to nonreplacement oriented assets (utility plants), depreciation expense on capital replacement assets (vehicles, pumps, motors ), and principal and interest expenditures.

*Availability Fees* – This charge is related to the potential demand that each customer places on the system. The costs are allocated to non-bulk customers (residential and others) and bulk customers. Non-bulk customer's costs are divided by the appropriate number of resident equivalent units to arrive at a monthly availability charge. Net capital costs allocated to bulk customers are recovered through its volume charge. This is a monthly charge and provides no minimum usage allowance. The basic philosophy behind this charge is to equitably match cost with usage at lower consumption levels.

*Surface Water Charges* – During fiscal year 1988, GSWSA initiated the surface water charge to customers which represents a monthly fixed charge per residential equivalent unit to recover the cost of compliance with the Safe Drinking Water Act. The revenues are available for construction and operation of the Bull Creek Surface Water Treatment Plant and operation and maintenance of the system.

*Rate Stabilization Fund* – This fund represents Board of Director designated excess operating and maintenance revenues at year end which are not re-budgeted and may only be used or expended by the Board to provide for unanticipated emergencies (e.g. major natural disaster or loss of a major customer) which could otherwise result in spiked rate (i.e. revenue) increases. This fund is periodically reviewed to ensure that it is adequate. This fund is deemed restricted assets.

*Surface Water Treatment Plant Contract Water Revenues and Charges* – These sales represent water sales from GSWSA's Bull Creek Regional Water Treatment and Transmission System (referred to as the Surface Water Treatment Plant (SWTP)) to other local government utilities who resell water to their customers. Sales based on water consumption are recorded as operating revenues. Sales based on capacity sold to participants are recorded as non-operating revenues. The revenues have not been reduced for certain water sold back to GSWSA under transmission and distribution arrangements. Such repurchased water is recorded in the expense accounts.

Net Assets

Net assets comprise various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified into the following three components: (1) invested in capital assets, net of related debt; (2) restricted financial assets, net of related liabilities; and, (3) unrestricted.

Net assets invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt and other liabilities that are attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds is excluded from the determination.



NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Net Assets *(continued)*

Net assets restricted for capital projects, debt service, and rate stabilization consists of net assets for which constraints are placed thereon by external parties, such as lenders; services for grantors; contributors; and, laws, regulations, and enabling legislation, including self-imposed legal mandates.

Unrestricted net assets consists of all other net assets not included in the above two categories.

Comparative Data

Some prior year amounts have been reclassified for comparative purposes.

**Note 2 – DEPOSITS AND INVESTMENTS**

GWSA has deposits and investments with or managed by financial institutions, brokers and others specified by statute or the applicable bond indenture.

Repurchase agreements, money market investments and investments in the South Carolina Local Government Investment Pool shown below are reflected in the statement of cash flows as cash equivalents because they meet the criteria under guidance established by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. GWSA’s policy for reporting cash flows is described in Note 1.

Cash and cash equivalents consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Petty cash	\$ 3,000	\$ 3,000
Cash deposits	2,837,704	6,282,423
Repurchase agreements	2,844,173	652,252
Money market investments	19,313,011	11,234,596
Investment pool	<u>3,522,641</u>	<u>22,005,014</u>
Total Cash and Cash Equivalents	<u>\$ 28,520,529</u>	<u>\$ 40,177,285</u>

Deposits

At June 30, 2008 and 2007, the carrying amount of GWSA’s deposits in financial institutions were \$2,837,704 and \$6,282,423 and the financial institutions’ balances totaled \$3,426,883 and \$6,246,549, respectively; all of which were insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with securities held by GWSA’s agents and/or held by pledging financial institutions trust departments or agents, both in GWSA’s name. Petty cash on hand was \$3,000 for fiscal years 2008 and 2007.

Custodial credit risk is the risk that in the event of a bank failure, GWSA’s deposits may not be returned to it. GWSA’s deposit policy for custodial credit risk is that no cash balances exceed the amount covered by FDIC insurance or collateralized with securities.

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**Note 2 – DEPOSITS AND INVESTMENTS** *(continued)*

Investments

*Custodial credit risk.* For an investment, this is the risk that, in the event of the failure of the counterparty, they will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2008 and 2007, GSWSA had the following investments which were uninsured, unregistered and held by GSWSA's brokerage firm which is also the counterparty for those particular securities.

<u>Investment Type</u>	<u>2008 Fair Value</u>	<u>2007 Fair Value</u>
Federal Home Loan Mortgage Corporation	\$ 17,591,693	\$ 9,737,950
Federal National Mortgage Association	23,280,519	25,373,007
Municipal Bonds	4,064,468	

*Credit Risk.* At June 30, 2008 and 2007, GSWSA had the following investments which were rated by Standard and Poor's as follows:

<u>Investment Type</u>	<u>2008</u>		<u>2007</u>	
	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Federal Home Loan Mortgage Corporation	\$ 15,167,091	AAA	\$ 7,548,624	AAA
Federal National Mortgage Association	20,139,013	AAA	23,107,040	AAA
Money Market Obligation Trusts	4,486,605	AAA	3,552,774	AAA
Municipal Bonds	1,911,460	AAA		
Municipal Bonds	2,153,008	AA+		
Federal Home Loan Mortgage Association	2,424,602	Not Rated	2,189,326	Not Rated
Federal National Mortgage Corporation	3,141,506	Not Rated	2,265,967	Not Rated
Guaranteed Investment Contracts	7,431,916	Not Rated	7,712,361	Not Rated
State Investment Pool	3,522,641	Not Rated	22,005,013	Not Rated
Money Market Fund			231,805	Not Rated
Money Market Obligation Trusts	14,826,406	Not Rated	7,952,729	Not Rated

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**Note 2 – DEPOSITS AND INVESTMENTS** *(continued)*

Investments *(continued)*

*Concentration of Credit Risk.* GSWSA has the following investment with issuers that are over 5% of their investment portfolio:

	<u>2008</u>	<u>2007</u>
Federal Home Loan Mortgage Corporation	15.82%	9.0%
Federal National Mortgage Association	20.93%	25.44%
Guaranteed Investment Contracts	6.68%	7.65%

GSWSA’s investment policy does not address custodial credit risk, credit risk, or concentration of credit risk as these pertain to their total investment portfolio.

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, GSWSA’s investment policy permits investment terms ranging from overnight to ten years with the exception of mortgage pass through securities with normal maturities greater than ten years, if their average life is expected to be ten years or less.

As of June 30, 2008, GSWSA had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
Repurchase Agreements	\$ 2,844,173	\$ 2,844,173	\$	\$	\$
U.S. Treasuries	31,893,677	540,197	23,931,303	7,422,177	
Federal Home Loan Mortgage Corporation	17,339,193	183,021	10,261,229	4,328,298	2,566,645
Federal National Mortgage Association	23,533,018	1,893,214	7,788,614	5,306,936	8,544,254
Municipal Bonds	4,064,468		4,064,468		
Government National Mortgage Association	<u>1,266,225</u>		<u>103,710</u>	<u>10,507</u>	<u>1,152,008</u>
	<u>\$ 80,940,754</u>	<u>\$ 5,460,605</u>	<u>\$46,149,324</u>	<u>\$17,067,918</u>	<u>\$12,262,907</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**Note 2 – DEPOSITS AND INVESTMENTS** *(continued)*

Investments *(continued)*

As of June 30, 2007, GSWSA had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
Repurchase Agreements	\$ 652,252	\$ 652,252	\$	\$	\$
U.S. Treasuries	21,964,398	4,250,750	13,305,331	4,408,317	
Federal Home Loan Mortgage Corporation	9,737,950	691,091	4,116,400	1,378,597	3,551,862
Federal National Mortgage Association	25,373,007	1,827,771	10,598,537	2,182,170	10,764,529
Government National Mortgage Association	<u>1,627,023</u>	<u></u>	<u>136,868</u>	<u>13,629</u>	<u>1,476,526</u>
	<u>\$ 59,354,630</u>	<u>\$ 7,421,864</u>	<u>\$ 28,157,136</u>	<u>\$ 7,982,713</u>	<u>\$ 15,792,917</u>

**Note 3 – PROPERTY, PLANT, AND EQUIPMENT AND CAPACITY SALES AND PURCHASES**

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Balance 6/30/07</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance 6/30/08</u>
Capital Assets not being Depreciated					
Land and Easements	\$ 49,463,055	\$ 190,773	\$	\$	\$ 49,653,828
Construction-in-Progress	<u>13,235,420</u>	<u>37,948,797</u>	<u>(2,138,633)</u>	<u>(42,324,395)</u>	<u>6,721,189</u>
	<u>\$ 62,698,475</u>	<u>\$ 38,139,570</u>	<u>\$ (2,138,633)</u>	<u>\$ (42,324,395)</u>	<u>\$ 56,375,017</u>
Capital Assets being Depreciated					
Utility Plant	\$ 516,978,586	\$ 26,826,149	\$ (83,118)	\$ 42,324,395	\$ 586,046,012
Buildings and Leaseholds	6,532,511	21,958	(89,454)		6,465,015
Vehicles	5,088,198	902,839	(481,196)		5,509,841
Machinery, Equipment and Furniture	<u>8,375,276</u>	<u>2,809,086</u>	<u>(274,493)</u>	<u></u>	<u>10,909,869</u>
	<u>\$ 536,974,571</u>	<u>\$ 30,560,032</u>	<u>\$ (928,261)</u>	<u>\$ 42,324,395</u>	<u>\$ 608,930,737</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

**Note 3 – PROPERTY, PLANT, AND EQUIPMENT AND CAPACITY SALES AND PURCHASES (continued)**

	<u>Balance 6/30/07</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance 6/30/08</u>
Accumulated Depreciation for					
Utility Plant	\$ (133,958,417)	\$ (16,048,912)	\$ 49,427	\$	\$ (149,957,902)
Buildings	(1,217,126)	(190,023)	89,454		(1,317,695)
Vehicles	(3,821,280)	(419,722)	471,164		(3,769,838)
Machinery, Equipment and Furniture	<u>(6,774,072)</u>	<u>(741,627)</u>	<u>267,582</u>		<u>(7,248,117)</u>
	<u>\$ (145,770,895)</u>	<u>\$ (17,400,284)</u>	<u>\$ 877,627</u>	<u>\$</u>	<u>\$ (162,293,552)</u>
	<u>\$ 453,902,151</u>	<u>\$ 51,299,318</u>	<u>\$ 2,189,267</u>	<u>\$</u>	<u>\$ 503,012,202</u>

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Balance 6/30/06</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance 6/30/07</u>
Capital Assets not being Depreciated					
Land and Easements	\$ 21,693,286	\$ 27,769,769	\$	\$	\$ 49,463,055
Construction-in-Progress	<u>4,907,316</u>	<u>27,208,365</u>	<u>(2,613,024)</u>	<u>(16,267,237)</u>	<u>13,235,420</u>
	<u>\$ 26,600,602</u>	<u>\$ 54,978,134</u>	<u>\$ (2,613,024)</u>	<u>\$ (16,267,237)</u>	<u>\$ 62,698,475</u>
Capital Assets being Depreciated					
Utility Plant	\$ 471,490,644	\$ 29,220,705	\$	\$ 16,267,237	\$ 516,978,586
Buildings and Leaseholds	6,449,794	82,717			6,532,511
Vehicles	4,795,334	528,772	(257,292)	21,384	5,088,198
Machinery, Equipment and Furniture	<u>7,883,744</u>	<u>530,828</u>	<u>(39,296)</u>		<u>8,375,276</u>
	<u>\$ 490,619,516</u>	<u>\$ 30,363,022</u>	<u>\$ (296,588)</u>	<u>\$ 16,288,621</u>	<u>\$ 536,974,571</u>
Accumulated Depreciation for					
Utility Plant	\$ (119,725,203)	\$ (14,233,214)	\$	\$	\$ (133,958,417)
Buildings	(1,029,691)	(187,435)			(1,217,126)
Vehicles	(3,706,302)	(350,886)	257,292	(21,384)	(3,821,280)
Machinery, Equipment and Furniture	<u>(6,220,708)</u>	<u>(591,869)</u>	<u>38,505</u>		<u>(6,774,072)</u>
	<u>\$ (130,681,904)</u>	<u>\$ (15,363,404)</u>	<u>\$ 295,797</u>	<u>\$ (21,384)</u>	<u>\$ (145,770,895)</u>
	<u>\$ 386,538,214</u>	<u>\$ 69,977,752</u>	<u>\$ (2,613,815)</u>	<u>\$</u>	<u>\$ 453,902,151</u>

Direct and indirect costs of GSWSA's construction and engineering departments were capitalized in the approximate amount of \$1,543,514 and \$1,435,742 during 2008 and 2007, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$169,746 and \$74,188 during 2008 and 2007, respectively.

Utility plant includes all of GSWSA's water and wastewater systems, including the following systems for which capacity rights or systems have been purchased or sold.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

**Note 3 – PROPERTY, PLANT, AND EQUIPMENT AND CAPACITY SALES AND PURCHASES** *(continued)*

Surface Water Treatment Plant and System – During 1989 through 2002, GSWSA constructed the Bull Creek Regional Water Treatment and Transmission System (referred to as the Surface Water Treatment Plant (SWTP)) for a total cost of \$56,653,554 including construction of certain supporting facilities. \$1,685,487 of total costs were for repairs paid from depreciation funds. Operations and depreciation began during September 1991. During 1990, GSWSA entered into the Bull Creek Project Service Contact with the City of Conway, Town of Surfside Beach and Little River Water & Sewerage Company, Inc. (The Charter Participants) and similar agreements with the City of Loris, Town of Aynor and Georgetown County Water & Sewer District. As of July 1, 1995 and January 1, 1998, Grand Strand Water and Sewer Authority consolidated water and wastewater services with the Town of Surfside Beach and the Town of Aynor, respectively. Therefore, the Town of Surfside Beach and the Town of Aynor are no longer participants. Under the contracts, each Participant purchases from GSWSA certain allocated capacity in the treatment plant transmission lines and pays a monthly service charge comprised of a capital component based on capacity purchased, and an operation and maintenance component based on water consumption.

Surface Water Treatment Plant and System

As of June 30, 2003, the Participants had contracted to acquire capacity rights which will result in approximately 30% of the systems cost being recovered over the next 18 years via capital charges to the Participants. Additional capacity charges apply if participants consume water in excess of their purchased capacity. During the fiscal years 2004 and 2003, the Participants consumed approximately 25% of the total water produced by the system.

Payments by Participants are dependent upon the production and transmission of water supply capacity by GSWSA. All Participants are committed to maintain rates and charges for all services furnished by their systems sufficient to satisfy their obligations.

During Fiscal Year 1996, GSWSA began the expansion of the SWTP to increase water capacity production from 21 to 26 MGD. The actual cost was \$2,243,843. Effective July 1, 1996, Little River Water and Sewerage Company, the City of Conway, the City of Loris, the Town of Aynor and Georgetown County Water and Sewer District, agreed to acquire additional capacity, which will result in the recovery of approximately 25 – 30% of the debt service payments on the \$10 million 1995 bond. As of January 1, 1998, the Town of Aynor's capacity was consolidated with Grand Strand Water and Sewer Authority.

During Fiscal Year 2000, GSWSA began the expansion of the SWTP to increase water capacity production from 26 MGD to 46 MGD which included the addition of the Bucksville Waterline Transmission. During the fiscal years 2000 through 2002, \$18,500,000 was incurred on this project.

During the Fiscal Year 1998, GSWSA acquired the Town of Aynor's Water and Sewer System, which totaled \$628,570 in fixed assets and consisted of 65,380 feet of waterlines and 11,945 feet of sewer lines.

GSWSA signed a contract on September 23, 1996 with Tabor City, North Carolina to supply the City with 100,000 gallons per day of drinking water and installed a waterline from Loris to Tabor City to deliver the water.

Numerous deep water wells previously relied upon by GSWSA as its primary source, now serve as backup to the SWTP. A cooperative agreement with the South Carolina Department of Water Resources and the City of Myrtle Beach resulted in the aquifer storage utilization study implemented at the Bay Road Well during 1995. In 1996 and 1997, three additional wells were included in the utilization study. In 1998, the Garden City Well was deleted and the Long Bay Well was added.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

**Note 3 – PROPERTY, PLANT, AND EQUIPMENT AND CAPACITY SALES AND PURCHASES** *(continued)*

George R. Vereen Plant: This wastewater plant was completed in 1991 for a total cost of \$7,037,202. An EPA Grant funded approximately 75% of the cost with Little River Water and Sewerage Company Inc. (Little River) funding approximately 52% of the remaining amount. GSWSA sold 52% of the wastewater treatment capacity rights of this plant to Little River for a period of 40 years. During 1992 and 1993, GSWSA received a prorata contribution from Little River and has recorded such amounts as customer contributions. General bulk rates charged to commercial customers, excluding debt service components, have been established for actual wastewater service less than or equal to 52%. Full bulk rates apply for service in excess of 52% of capacity.

During May 1994, GSWSA entered into an agreement with the City of North Myrtle Beach, South Carolina whereby GSWSA reserves up to 500,000 gallons per day of Vereen Plant wastewater treatment capacity and 3,600,000 gallons per day capacity in the transmission system in exchange for the City reimbursing GSWSA \$231,043 during the year ended June 30, 1995 for the cost of a transmission line from the plant to a specific location on the inland side of the Intracoastal Waterway. The City will be charged for its proportionate share of the operating costs of the plant and transmission line. Additionally, various provisions exist as to future plant expansion and the parties' sharing of the construction costs.

J. Lambert Schwartz Wastewater Treatment Plant and Transmission System – This wastewater plant and related transmission system was completed in 1981 as part of the 201 Wastewater Facilities Plan implemented from 1977 – 1986 at a cost of approximately \$32,000,000. An EPA Grant funded approximately 75% of the original construction. As a part of the EPA Grant, participants were required to pay a prorata share of the facilities construction. Georgetown County Water & Sewer District, Conway Wastewater Treatment Plant and the Myrtle Beach Air Force Base have contracted for approximately 12.3% of the capacity. The City of Myrtle Beach contracted for 12.5 million gallons per day of the Schwartz effluent line capacity. The Air Force Base participation is being phased out and Georgetown County Water & Sewer District has abandoned all but 39% of its original capacity.

The expansion of the Schwartz Plant, including the Turf Farm expansion and certain line extensions, was completed and began operations primarily in April 1993 for a total cost of \$8,850,336, including capitalized interest of \$650,496 in 1994 and \$383,570 incurred during Fiscal Year 1993. These projects were primarily funded by a State Revolving Loan, representing EPA funds passed through the State. GSWSA incurred approximately \$67,740 of depreciation expense during the initial months of operation.

Conway Loop – From 1990 through April 1992, GSWSA and the City of Conway jointly constructed the Conway Loop, a transmission line from the Conway reservoir and booster pump station circling around the City. Conway owns and controls the loop. GSWSA managed the construction and contributed approximately 44% of the approximate \$1,285,000 construction cost. GSWSA has recorded its costs of approximately \$584,980 (with capitalized interest of \$75,000) as a capacity right which is included in utility plant assets and is being depreciated over forty years. GSWSA's purchase of these rights enable it to serve various customers on the other side of the City. GSWSA reacquires from Conway the water received from the SWTP at consumption rates equivalent to those charged to Conway. GSWSA pays a prorata share of repairs to the loop.

Aynor to Conway Force Main – GSWSA constructed the Aynor to Conway force main in 1997 for a total cost of \$1,073,650 of which \$337,288 was given to the City of Conway along with 23,320 feet of 12" force main.

GSWSA constructed the East Country Club Drive force main in 1998 for a total cost of \$346,486 and it was given to the City of Conway along with 15,450 feet of 10 inch force main and 2,100 feet of 12 inch force main.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

**Note 3 – PROPERTY, PLANT, AND EQUIPMENT AND CAPACITY SALES AND PURCHASES** *(continued)*

Surfside Systems – During March 1994, GSWSA entered into an Agreement of Consolidation and Transfer with the Town of Surfside Beach (Surfside), South Carolina, whereby GSWSA acquired (and assumed operation of) the Surfside waterworks and sewer system assets (\$4,864,574 net book value) including receipt of certain reserved or restricted utility fund cash and investments (\$781,988) and assumption of related bonded indebtedness (\$2,062,549) and customer deposits (\$177,872); resulting in a net contribution to capital of approximately \$3,400,000. GSWSA pays Surfside an annual fee of approximately \$180,000 for this exclusive franchise. GSWSA is generally obligated to charge Surfside customers' rates comparable to other GSWSA customers. GSWSA initially served approximately 2,470 additional customers as a result of this arrangement.

The agreement is effective for 30 years, with renewal for successive 30 year periods, unless cancelled by Surfside at the end of any 30 year period. As a result of the consolidation and acquisition, Surfside's reserve capacity interest in the Schwartz Wastewater Treatment Plant were conveyed to GSWSA.

Conway Wastewater Treatment Plant – Effective November 1, 1994, the City of Conway conveyed its wastewater treatment plant to GSWSA. The resulting increase in the net book value of the property, plant and equipment, and contributed capital was \$1,025,362. During fiscal year 2000, the fees were \$.78 and the debt service charges were \$.35 per thousand gallons (approximately \$66,146 per month) with future rate changes indexed to other specified GSWSA rates. Conway remains responsible for all customer metering, billing, collection and other administrative and accounting activities. A \$2,000,000 upgrade to increase the capacity of the wastewater treatment plant from 2.0 MGD to 3.2 MGD was ready for its intended use in October 1996. Approximately \$2,848,262 was expended for construction on this project.

Loris Wastewater Treatment Plant – Effective July 1, 2001, the City of Loris leased its wastewater treatment plant to GSWSA. As further provided for in the lease between the City and GSWSA, GSWSA shall have the option to purchase the plant from the City at a price equal to the percentage attributable to the plant (72.592%) of the total outstanding principal and interest owed by the City to the United States Department of Agriculture. The value of the property, plant and equipment acquired was \$1,678,800.

Myrtle Beach Water and Wastewater Plant – On June 30, 2006, GSWSA purchased from the City of Myrtle Beach the Myrtle Beach Water and Wastewater Plant for approximately \$43 million. GSWSA began providing wholesale water and wastewater services to the City of Myrtle Beach July 1, 2006.

**Note 4 – CAPITAL LEASES**

GSWSA entered into a lease agreement (as described above in Note 3.) as lessee for financing the acquisition of the Loris Wastewater Treatment Plant. The lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The capitalized cost of the asset was \$1,678,800. Related amortization of \$16,205 has been included with depreciation expense.

During fiscal year 2004, GSWSA renegotiated the terms of this lease. The term of the lease was reduced by eleven years and the interest rate was lowered from 5.9% to 3.6%, saving GSWSA \$1,073,691.



**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**Note 4 – CAPITAL LEASES** *(continued)*

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2008 are as follows:

2009	\$	144,352
2010		144,352
2011		144,352
2012		144,352
2013– 2017		721,760
2018 – 2019		<u>154,163</u>
Total Minimum Lease Payments	\$	1,453,331
Less: Amount Representing Interest		(233,512)
Unamortized Deferral on Refunding		<u>(30,978)</u>
Present Value of Minimum Lease Payments	\$	<u><u>1,188,841</u></u>

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2007 are as follows:

2008	\$	144,352
2009		144,352
2010		144,352
2011		144,352
2012– 2016		721,760
2017 – 2019		<u>298,515</u>
Total Minimum Lease Payments	\$	1,597,683
Less: Amount Representing Interest		(280,075)
Unamortized Deferral on Refunding		<u>(34,077)</u>
Present Value of Minimum Lease Payments	\$	<u><u>1,283,531</u></u>

**Note 5 – LONG-TERM DEBT**

The original amount of debt which has been issued, including prior years, by GSWSA was \$333,534,946. Bonds, notes and state revolving loans payable at June 30, 2008 and 2007 are composed of the following individual issues.

	<u>2008</u>	<u>2007</u>
Waterworks and Sewer System Improvement Revenue Bond, Series 2000. Secured by gross revenues from Utility system. Current interest paying serial bonds; due in annual principal installments ranging from \$485,000 to \$943,000 during 2001 through 2015; interest at 5.55% per annum; due June 1 and December 1.	\$ 5,451,664	\$ 6,097,770

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

Note 5 – LONG-TERM DEBT (continued)

	<u>2008</u>	<u>2007</u>
Waterworks and Sewer Systems Revenue Bond, Refunding Series 1992. All revenues from the applicable SWTP are pledged for debt service.		
Current interest paying term bonds; principal due 2012 with annual sinking fund requirements beginning in 2008; interest at 6.375% per annum; due June 1 and December 1.	10,980,000	13,335,000
Waterworks and Sewer System Revenue Bonds, Series 2001. Secured by gross revenues from Utility System.		
Current interest paying serial bonds; due in annual principal installments ranging from \$470,000 to \$4,295,000 during 2012 through 2023; interest at 4.0% to 5.25% per annum; due June 1.	12,780,000	12,780,000
Current interest paying term bonds; principal due 2022 with annual sinking fund requirements beginning in 2018; interest at 5.0% per annum; due June 1.	11,370,000	11,370,000
Current interest paying term bonds; principal due 2026 with annual sinking fund requirements beginning in 2024; interest at 5.0% per annum; due June 1.	14,205,000	14,205,000
Current interest paying term bonds; principal due 2031 with annual sinking fund requirements beginning in 2027; interest at 5.0% per annum; due June 1.	<u>28,825,000</u>	<u>28,825,000</u>
Total Series 2001 Bonds	<u>67,180,000</u>	<u>67,180,000</u>
Waterworks and Sewer System Refunding Revenue Bonds, Series 2002. Secured by gross revenues from Utility System. Current interest paying serial bonds; due in annual principal installments of \$1,040,000 to \$4,565,000 during 2003 to 2019; interest at 5.0% to 5.375% per annum; due June 1.	27,470,000	27,470,000

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**Note 5 – LONG-TERM DEBT** *(continued)*

	<u>2008</u>	<u>2007</u>
Waterworks and Sewer System Refunding Revenue Bonds, Series 2003. Secured by gross revenues from Utility System. Current interest paying serial bonds; due in annual principal installments ranging from \$150,000 to \$920,000 during 2003 through 2018; interest at 3.58 per annum; due June 1.	6,860,000	7,505,000
Waterworks and Sewer System Improvement Revenue Bond, Series 2006. Secured by net revenues of the system. Current interest paying serial bond; due in annual principal installments ranging from \$990,000 to \$1,730,000 during 2008 through 2021; interest at 3.75 per annum; due June 1 and December 1.	19,010,000	20,000,000
Waterworks and Sewer System Improvement Revenue Bond, Series 2007. Secured by net revenues of the system. Current interest paying serial bond; due in annual principal installments ranging from \$510,000 to \$850,000 during 2009 to 2023; interest at 3.73 per annum; due December 1.	<u>10,000,000</u>	
Total Bonds Payable	<u>\$ 146,951,664</u>	<u>\$ 141,587,770</u>
 Note payable, including accrued interest, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 4.25%. Quarterly principal and interest payments of \$11,849 began on October 1, 1992. Total loan is \$636,424. All revenue from the applicable systems is pledged for debt service.	 \$ 173,506	 \$ 212,488
 Note payable, including accrued interest of \$7,975, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 4.00%. Quarterly principal and interest payments of \$28,364 began June 1, 1999. Total approved loan is \$1,556,830. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	 987,339	 1,059,488

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

**Note 5 – LONG-TERM DEBT** *(continued)*

	<u>2008</u>	<u>2007</u>
<p>Note payable, including accrued interest of \$2,182, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$27,579 began November 1, 1999. Total approved loan is \$1,581,949. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.</p>	1,040,707	1,113,011
<p>Note payable, including accrued interest of \$5,896, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$20,044 began January 1, 2000. Total approved loan is \$1,149,705. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.</p>	756,349	808,897
<p>Note payable, including accrued interest of \$13,747, to South Carolina State Budget and Control Board for the South Carolina Infrastructure Facilities Authority at 4.25%. Quarterly principal and interest payments of \$74,580 began July 1, 2000.</p>	2,747,970	2,924,779
<p>Note payable, including accrued interest of \$337,554, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$289,557 began May 1, 2001.</p>	11,871,248	12,598,013
<p>Note payable, including accrued interest of \$5,557, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$19,404 began August 1, 2001. Total approved loan is \$1,113,023. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.</p>	807,867	856,148

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

Note 5 – LONG-TERM DEBT (continued)

	<u>2008</u>	<u>2007</u>
Note payable, including accrued interest of \$3,124 to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$48,400 began January 1, 2002. Total approved loan is \$2,776,238. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	2,045,583	2,164,965
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$89,119 to begin August 1, 2003. Total approved loan is \$5,000,000. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	4,028,647	4,225,324
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$129,975 to begin August 1, 2003. Total approved loan is \$7,162,425. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	5,838,034	6,123,045
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$7,898 to begin April 1, 2005. Total approved loan is \$227,611. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	185,524	194,581
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.00%. Quarterly principal and interest payments of \$96,339 to begin June 1, 2006. Total approved loan is \$5,779,833. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	5,382,814	5,609,308

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**Note 5 – LONG-TERM DEBT** *(continued)*

	<u>2008</u>	<u>2007</u>
Note payable to South Carolina State Budget and Control Board for South Carolina Drinking Water Revolving Loan Fund at 4%. Quarterly principal and interest payments of \$46,696 to begin August 1, 2006. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	2,047,574	2,149,886
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 4%. Quarterly principal and interest payments of \$284,359 to begin August 1, 2006. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	12,468,765	13,091,799
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.5%. Quarterly principal and interest payments of \$213,458 to begin January 1, 2008. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	<u>11,257,938</u>	<u>8,564,718</u>
Total Notes Payable	\$ <u>61,639,865</u>	\$ <u>61,696,450</u>
Total Debt, before deferrals	\$ 208,591,529	\$ 203,284,220
Unamortized Revenue Bond Discount/Premium	194,458	228,760
Unamortized Deferral on Refunding	<u>(1,693,225)</u>	<u>(1,847,154)</u>
Total Debt, Net	\$ 207,092,762	\$ 201,665,826
Less Current Portion	<u>(8,711,023)</u>	<u>(7,535,309)</u>
Total Long – Term Portion of Debt	\$ <u>198,381,739</u>	\$ <u>194,130,517</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**Note 5 – LONG-TERM DEBT** *(continued)*

Remaining debt service payments at June 30, 2008, including annual sinking fund payments beginning in 2009 are as follows:

<u>Date</u>	<u>Revenue Bonds</u>		<u>State Revolving Loans</u>		<u>Total Principal</u>	<u>Total Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2009	\$ 5,391,964	\$ 7,102,770	\$ 3,319,059	\$ 2,209,601	\$ 8,711,023	\$ 18,023,394
2010	5,674,813	6,831,151	3,442,875	2,085,782	9,117,688	18,034,621
2011	5,974,763	6,542,302	3,571,348	1,957,312	9,546,111	18,045,725
2012	6,456,930	6,237,228	3,704,648	1,824,013	10,161,578	18,222,819
2013	7,281,437	5,907,299	3,794,802	1,686,461	11,076,239	18,669,999
2014-2018	42,426,757	24,065,831	21,204,725	6,201,587	63,631,482	93,898,900
2019-2023	30,715,000	14,601,308	19,332,855	2,192,857	50,047,855	66,842,020
2024-2028	24,900,000	8,389,250	3,269,553	166,687	28,169,553	36,725,490
2029-2031	<u>18,130,000</u>	<u>1,842,500</u>	<u>                    </u>	<u>                    </u>	<u>18,130,000</u>	<u>19,972,500</u>
Totals	<u>\$ 146,951,664</u>	<u>\$ 81,519,639</u>	<u>\$ 61,639,865</u>	<u>\$ 18,324,300</u>	<u>\$ 208,591,529</u>	<u>\$ 308,435,468</u>

Remaining debt service payments at June 30, 2007, including annual sinking fund payments beginning in 2008 are as follows:

<u>Date</u>	<u>Revenue Bonds</u>		<u>State Revolving Loans</u>		<u>Total Principal</u>	<u>Total Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2008	\$ 4,636,106	\$ 6,973,567	\$ 2,899,203	\$ 2,074,254	\$ 7,535,309	\$ 16,583,130
2009	4,881,964	6,731,878	3,159,907	2,112,183	8,041,871	16,885,932
2010	5,144,813	6,477,174	3,278,079	1,994,008	8,422,892	16,894,074
2011	5,424,763	6,208,094	3,400,708	1,871,382	8,825,471	16,904,947
2012	5,886,930	5,923,535	3,527,957	1,744,134	9,414,887	17,082,556
2013-2017	36,938,194	24,733,412	19,460,425	6,663,036	56,398,619	87,795,067
2018-2022	31,350,000	15,613,506	20,096,239	2,840,448	51,446,239	69,900,193
2023-2027	23,715,000	9,575,000	5,579,176	419,398	29,294,176	39,288,574
2028-2031	<u>23,610,000</u>	<u>3,023,000</u>	<u>294,756</u>	<u>3,874</u>	<u>23,904,756</u>	<u>26,931,630</u>
Totals	<u>\$ 141,587,770</u>	<u>\$ 85,259,166</u>	<u>\$ 61,696,450</u>	<u>\$ 19,722,717</u>	<u>\$ 203,284,220</u>	<u>\$ 308,266,103</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**Note 5 – LONG-TERM DEBT** *(continued)*

Long term liability activity including capital leases for the year ended June 30, 2008, was as follows:

	Balance 6/30/07	Additions	Reductions	Balance 6/30/08	Due Within One Year
Bonds Payable	\$ 141,587,770	\$ 10,000,000	\$ 4,636,105	\$ 146,951,665	\$ 5,391,964
Notes Payable	61,696,450	2,906,797	2,963,382	61,639,865	3,319,059
Capital Leases	<u>1,317,609</u>		<u>97,790</u>	<u>1,219,819</u>	<u>101,342</u>
Total Liabilities	\$ 204,601,829	\$ 12,906,797	\$ 7,697,277	\$ 209,811,349	\$ 8,812,365
Less Deferred Amounts:					
Issuance discounts/premiums	228,760		34,303	194,457	
Loss on Refunding	<u>(1,881,232)</u>		<u>(157,027)</u>	<u>(1,724,205)</u>	
Total	<u>\$ 202,949,357</u>	<u>\$ 12,906,797</u>	<u>\$ 7,574,553</u>	<u>\$ 208,281,601</u>	<u>\$ 8,812,365</u>

Long term liability activity including capital leases for the year ended June 30, 2007, was as follows:

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07	Due Within One Year
Bonds Payable	\$ 125,024,902	\$ 20,000,000	\$ 3,437,132	\$ 141,587,770	\$ 4,636,106
Notes Payable	55,662,188	8,701,727	2,667,465	61,696,450	2,899,203
Capital Leases	<u>1,411,971</u>		<u>94,362</u>	<u>1,317,609</u>	<u>97,790</u>
Total Liabilities	\$ 182,099,061	\$ 28,701,727	\$ 6,198,960	\$ 204,601,829	\$ 7,633,099
Less Deferred Amounts:					
Issuance discounts/premiums	263,064		34,302	228,760	
Loss on Refunding	<u>(2,038,261)</u>		<u>(157,028)</u>	<u>(1,881,232)</u>	
Total	<u>\$ 180,323,864</u>	<u>\$ 28,701,727</u>	<u>\$ 6,076,234</u>	<u>\$ 202,949,357</u>	<u>\$ 7,633,099</u>

During 1992, GSWSA issued \$63,345,000 in Waterworks and Sewer System Revenue Bonds, Refunding Series 1992 with interest rates ranging from 3.0% to 6.4%. Its purpose was to advance refund a) \$10,720,000 Waterworks and Sewer system Refunding and Improvements Revenue Bonds, Series 1988; b) \$50,176,541 Waterworks and Sewer System Improvement Revenue Bonds, Series 1989; and, c) Premium bond insurance, reserve requirements under bond resolution and incidental costs for issuance of the 1992 bonds. The net proceeds of \$59,987,627 (net of \$1,017,399 in issuance costs and bond issue discount of \$2,339,973) is applicable to the advance refunding. A portion of the proceeds amounting to \$59,985,070 was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 and 1989 bonds. As a result, the 1988 and 1989 bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet. During June 30, 1999, the escrow for the 1988 and 1989 bonds was paid out. GSWSA advance refunded these bonds to reduce its total debt service payments over the next twenty seven years by \$8,746,471 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$888,583.

On November 1, 2001, GSWSA issued \$67,180,000 of Waterworks and Sewer System Revenue Bonds, Series 2001, for a current refunding of the 1995 and 1997 revenue bonds in the amount of \$7,096,775 and \$7,999,999, respectively. The refunding was undertaken to improve GSWSA's cash flow and to provide additional funding for



NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**Note 5 – LONG-TERM DEBT** *(continued)*

future capital projects. The reacquisition price equaled the carrying value of the old debt. The transaction resulted in an increase of total debt service payments of \$4,108,179 and an economic loss of \$43,698.

During 2002, GSWSA issued \$34,155,000 of Waterworks and Sewer System Refunding Revenue Bonds, Series 2002, with interest rates ranging from 5.0% to 5.375%. Its purpose was to advance refund the bonds of 1992 and provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of \$36,680,000 on the 1992 bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the carrying value of the old debt by \$2,682,991. This amount is being netted against the new debt and being amortized over the remaining life of the new debt issued. The advance refunding was undertaken to reduce total debt service payments over the next 17 years by \$5,993,283 and resulted in an economic gain of \$3,073,727.

On April 1, 2003, GSWSA issued \$10,000,000 of Waterworks and Sewer System Revenue Bonds, Series 2003A. The GSWSA paid off two South Carolina Water Quality Revolving Fund notes payable totaling \$6,129,588. The remaining proceeds of \$3,870,412 were restricted for issuance costs and construction projects. Along with the issuance of the 2003A Waterworks and Sewer System Revenue Bonds, GSWSA entered into a fifteen year interest rate swap agreement. Based on the agreement, GSWSA owes interest calculated at a fixed rate of 3.58% to the counterparty. In return, the counterparty owes GSWSA interest based on a variable rate that matches the rate required by the bonds. Only the difference in interest payments is actually exchanged with the counterparty. The \$10 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

GSWSA continues to pay interest to the bondholder of the 2003A issue at the variable rate provided by the bonds. However, during the term of the swap agreement, GSWSA effectively pay a fixed rate on the bonds. The debt service requirements to maturity for these bonds are based on a fixed rate of 3.58%. GSWSA will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in GSWSA's making or receiving a termination payment.

Revenue bonds are collateralized by an irrevocable pledge of income and revenues derived from the operation of the systems and a mortgage lien on the water and sewer systems. The revenues derived from the operation of the respective systems are to be used for the expenses in connection with the administration and operation of the systems. The revenue bonds also require the establishment of the following restricted asset bank accounts (See Schedule 1):

- A. Construction Accounts.
- B. Current Debt Service Accounts – for payment of bond principal and interest.
- C. Future Debt Service Accounts – a reserve for future payment of principal and interest.
- D. Depreciation and Contingent Fund – for restoring depreciated or obsolete fixed assets.
- E. Capitalized Interest Account – for payment of bond interest until the project is completed at which time the current debt service will be used to pay principal and interest.
- F. Rebate Account – for the estimated liability to the federal government for interest earnings in excess of interest expense on tax-free revenue bonds.

In June 2004, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina Water Pollution Revolving Loan Fund for \$5,779,833 at an interest rate of 3.0%. The loan will provide funds for the Schwartz Wastewater Treatment Plant Expansion project. As of June 30, 2006, GSWSA has received a \$5,746,061 in loan proceeds. The note became payable in quarterly installments of \$96,339 on June 1, 2006.

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**Note 5 – LONG-TERM DEBT** *(continued)*

On June 30, 2006, Grand Strand Water and Sewer Authority assumed two notes payable to the South Carolina State Budget and Control Board for the South Carolina Drinking Water Revolving Loan Fund for \$15,938,727 at an interest rate of 4%. These notes were assumed in conjunction with the purchase of a water and wastewater plant from the City of Myrtle Beach. The notes are payable in quarterly installments totaling \$331,055.

On September 11, 2006, Grand Strand Water and Sewer Authority entered into a note payable to the South Carolina State Budget and Control Board from the South Carolina Water Pollution Revolving Loan Fund for \$12,000,000 at an interest rate of 3.5%. As of June 30, 2008, GSWA has received \$11,471,515 in loan proceeds. The note payable became due in quarterly installments of \$213,458 on January 1, 2008.

On November 30, 2006, Grand Strand Water and Sewer Authority issued the 2006 Waterworks and Sewer System Improvement Bond in the amount of \$20,000,000. The proceeds were applied towards the \$43 million purchase of the Myrtle Beach Water and Wastewater Treatment Plants that took place June 30, 2006.

On December 4, 2007, Grand Strand Water and Sewer Authority issued the 2007 Waterworks and Sewer System Improvement Revenue Bond in the amount of \$10,000,000. The proceeds were applied towards the purchase of the Myrtle Beach Water and Wastewater Treatment Plants that took place June 30, 2006.

**Note 6 – NET ASSETS**

Net assets represent the difference between assets and liabilities. Net asset amounts were as follows at June 30:

	<u>2008</u>	<u>2007</u>
Invested in Capital Assets, net of related debt:		
Net property, plant and equipment	\$ 503,012,202	\$ 453,902,151
Less: Revenue bonds payable, net	(145,452,897)	(139,969,376)
Notes payable	(61,639,865)	(61,696,450)
Capital lease payable	(1,188,839)	(1,283,531)
Accounts payable for capital items	(4,927,458)	(1,551,101)
Total	<u>\$ 289,803,143</u>	<u>\$ 249,401,693</u>
Restricted for:		
Capital Projects		
Contingent and Depreciation Fund	\$ 8,438,584	\$ 6,148,740
Capital Projects Fund	<u>6,568,094</u>	<u>9,603,084</u>
Total	<u>\$ 15,006,678</u>	<u>\$ 15,751,824</u>
Debt Service		
Debt Service Fund	\$ 12,597,459	\$ 11,382,639
Less: Accrued Interest	<u>(73,258)</u>	<u>(74,105)</u>
Total	<u>\$ 12,524,201</u>	<u>\$ 11,308,534</u>
Rate Stabilization	<u>\$ 3,185,705</u>	<u>\$ 3,171,367</u>
Unrestricted	<u>\$ 88,898,786</u>	<u>\$ 82,256,132</u>
Total Net Assets	<u>\$ 409,418,513</u>	<u>\$ 361,889,550</u>

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

**Note 7 – EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN**

All permanent employees participate in the South Carolina Retirement System (SCRS) a cost-sharing, multiple-employer public employee retirement system. The SCRS was established, effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws. Benefit provisions and both employee and employer contribution rates are established and amended under authority of Title 9 of the South Carolina Code of Laws. Annual covered payroll for fiscal years 2008 and 2007 for active members covered by the SCRS was \$10,738,130 and \$9,904,943, respectively. Annual covered payroll for fiscal years 2008 and 2007 for retired members was \$451,488 and \$200,825, respectively. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29221-1960.

Benefits of the SCRS are established by the state statutes. The required employer and employee obligations to contribute to the SCRS are 9.21% and 6.50%, respectively. All full time employees are covered under the plan beginning with the effective date of employment unless specifically exempted by legislation. Under current statutes, membership in the SCRS is required as a condition of employment. Vesting of the employee portion of contributions occurs following at least 5 years of creditable service. An employee with at least 5 years of service who terminates employment has the right to leave his contribution on deposit in the system and will receive a reduced monthly retirement allowance beginning at age 60 or at age 55 with at least 25 years of creditable service reduced 4% for each year of service under 30 years. If a vested member applies for a refund following termination, he or she is eligible for a refund of the total employee contributions plus interest. Member employees who retire at age 65 or after 28 years of credited service are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.70% of the employee’s annual average final compensation (average compensation over the last three years of credited service) for each year of credited service. Member employees who are at least 60 years of age may elect early retirement in which case the full service benefit is reduced by 5% for each year the employee’s age at retirement is less than 65. In either case, any unrecovered contributions are payable upon death and benefit payments increase 4% each year following an increase in the consumer Price Index of at least 3%. Full service or early retirees may elect other optional methods of benefit distributions, including lump sum distributions, benefit levels coordinated with the retiree’s social security benefits and distributions to a named beneficiary. Benefits are fully vested on reaching five years of service. The SCRS also provides death and disability benefits to all member employees.

State statutes determine the levels of contributions required. GSWSA is required to contribute at the actuarially determined rates. SCRS member employees are required to contribute 6.50% of all compensation. GSWSA is required to contribute 9.06% of each member employee’s compensation. In addition to the above rates, GSWSA has elected to contribute 0.15% of each member employee’s compensation to provide group life insurance benefits for their participants. The contributions to the SCRS for employer and employee portions for 2008 were \$1,030,564 and \$719,639. GSWSA’s contributions to the SCRS for the last three years is as follows:

THREE YEAR TREND INFORMATION

Fiscal Year Ended	Annual Employer Contribution	Percentage Contributed For Current Year
June 30, 2006	\$617,710	100%
June 30, 2007	\$837,950	100%
June 30, 2008	\$1,030,564	100%

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

**Note 7 – EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN** *(continued)*

GWSA provides post-employment healthcare benefits mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by GWSA. At June 30, 2008 and 2007, no employees had elected coverage under the Act.

GWSA offers a deferred compensation plan to its employees under a plan administered by the South Carolina Deferred Compensation Commission and established in accordance with Internal Revenue Code Section 457. Employees are permitted to defer portions of their salaries until future years. Only upon termination, retirement, disability, death or an approved hardship is the deferred compensation available to an employee.

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

GWSA also provides medical insurance coverage for employees retiring through the SCRS under the following guidelines: (1) the retiring employee has 20 years of service with GWSA; or (2) the retiring employee has over 10 years of service with GWSA and becomes disabled. All medical insurance for retirees will become secondary insurance when the retiree becomes eligible for Medicare. GWSA had 8 employees at June 30, 2008, and 7 employees at June 30, 2007, eligible to receive benefits. The total cost of medical insurance paid for the retired employees during the years ended June 30, 2008 and 2007 were \$45,067 and \$35,229, respectively.

**Note 8 – MAJOR CUSTOMER**

During fiscal year 2008, the following customers provided the indicated percentage of GWSA's combined operating revenues and capital contributions: City of Myrtle Beach 12.2%, City of North Myrtle Beach 3.3%, City of Conway 3.1%, and Little River Water and Sewerage Company 1.5%. No other customers provided more than .8%.

During fiscal year 2007, the following customers provided the indicated percentage of GWSA's combined operating revenues and capital contributions: City of Myrtle Beach 12.0%, City of North Myrtle Beach 3.1%, City of Conway 3.0%, and Little River Water and Sewerage Company 1.7%. No other customers provided more than .8%.

**Note 9 – RISK MANAGEMENT**

GWSA is exposed to various risks of loss relating to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters. To insure against casualty risks GWSA is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments in South Carolina. GWSA pays annual premiums to the State Insurance Reserve Fund for its general insurance. The State Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

**Note 9 – RISK MANAGEMENT** *(continued)*

GSWSA acquires insurance from the State Accident Fund for job related injury and illness (Worker's Compensation) to its employees. Worker's Compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. Health insurance, from a private insurer of up to \$2,000,000 of lifetime claims per employee, was in place. General blanket fidelity bond insurance in the amount of \$75,000 per employee was also maintained. There were no significant reductions in insurance coverage from the previous year and no settlements have exceeded insurance coverage for the past three fiscal years ended June 30, 2008, 2007 and 2006.

During 2008 and 2007, GSWSA did not experience any uninsured claims. Accordingly, there was no liability or expense recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

**Note 10 – COMMITMENTS**

Construction Contracts – In the normal course of business, GSWSA enters into agreements with contractors for the construction and expansion of the system. At June 30, 2008, open contracts for construction totaled approximately \$12,669,095 with \$7,980,036 having been incurred during the year. At June 30, 2007, open contracts for construction totaled approximately \$11,889,803 with \$10,061,211 having been incurred during the year. The remaining commitments at June 30, 2008 and 2007 were \$4,689,059 and \$1,828,592, respectively.

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## SCHEDULES

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**GRAND STRAND WATER AND SEWER AUTHORITY**

**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS**

Year Ended June 30, 2008

	1991 A State Revolving Loan		1992 Revenue Bonds		
	Burgess		Current Debt Service	Future Debt Service	Arbitrage Rebate
	Current Debt Service	Future Debt Service			
Cash and Investments, Beginning	\$ 139	\$ 50,097	\$ 267,092	\$ 3,329,361	\$ 30,840
Cash Receipts					
Transfers From Operating Cash	47,139		3,164,669	244,062	92,159
Transfers From Capital Projects					
Interest Earned	179	2,125	45,841	2,888	965
Other Transfers					
Cash Disbursements					
Principle and Interest Payments	(47,397)		(3,205,106)		
Renewals and Replacements					
Transfers to Operating Cash		(2,125)		(370,031)	
Transfers to Capital Projects					
Other Transfers					
Cash and Investments, Ending	\$ <u>60</u>	\$ <u>50,097</u>	\$ <u>272,496</u>	\$ <u>3,206,280</u>	\$ <u>123,964</u>

Note: The Depreciation and Contingency Account is Required by all Indentures.  
Such Amounts are not Separately Determined for Each Bond Issue.

1998 State Revolving Loan Conway WWTP Upgrade		1999 State Revolving Loan			
		Aynor		Wampee	
<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>
\$ 9,622	\$ 116,602	\$ 18,821	\$ 110,323	\$ 235	\$ 104,603
113,067		109,676		79,736	
411	4,946	437	4,674	304	4,437
(113,454)		(110,317)		(80,175)	
	(4,947)		(4,831)		(4,438)
<u>9,646</u>	<u>116,601</u>	<u>18,617</u>	<u>110,166</u>	<u>100</u>	<u>104,602</u>



**GRAND STRAND WATER AND SEWER AUTHORITY**

**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS**

Year Ended June 30, 2008

	2000 State Revolving Loan			
	Bucksville		Tip Top	
	<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>
Cash and Investments, Beginning	\$ 872	\$ 298,336	\$ 197,599	\$ 1,191,742
Cash Receipts				
Transfers From Operating Cash	296,718	12,636	1,151,511	
Transfers From Capital Projects				
Interest Earned	1,125	4	4,577	50,551
Other Transfers				
Cash Disbursements				
Principle and Interest Payments	(298,344)		(1,158,226)	
Renewals and Replacements				
Transfers to Operating Cash		(13,074)		(50,564)
Transfers to Capital Projects				
Other Transfers				
Cash and Investments, Ending	\$ <u>371</u>	\$ <u>297,902</u>	\$ <u>195,461</u>	\$ <u>1,191,729</u>

Note: The Depreciation and Contingency Account is Required by all Indentures.  
Such Amounts are not Separately Determined for Each Bond Issue.

2000 Revenue Bonds		2001 State Revolving Loan			
		Buist NFM		Schwartz Imp.	
<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>
\$ 810,728	\$ 83,409	\$ 13,243	\$ 81,486	\$ 566	\$ 195,803
	925,121	77,165		192,545	
53,499	9,561	308	3,456	731	8,305
	(932,701)	(77,617)		(193,601)	
(80,297)			(3,456)		(8,305)
<u>\$ 783,930</u>	<u>\$ 85,390</u>	<u>\$ 13,099</u>	<u>\$ 81,486</u>	<u>\$ 241</u>	<u>\$ 195,803</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS**

Year Ended June 30, 2008

	2001	2002 State Revolving Loan			
	Revenue Bonds	Conway		Vereen	
	Current Debt Service	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service
Cash and Investments, Beginning	\$ 304,479	\$ 60,119	\$ 356,481	\$ 87,121	\$ 519,920
Cash Receipts					
Transfers From Operating Cash		350,338		507,685	
Transfers From Capital Projects	3,309,912				
Interest Earned	53,711	1,394	15,121	2,018	22,053
Other Transfers					
Cash Disbursements					
Principle and Interest Payments	(3,359,515)	(352,383)		(510,648)	
Renewals and Replacements					
Transfers to Operating Cash			(15,125)		(22,072)
Transfers to Capital Projects					
Other Transfers					
Cash and Investments, Ending	\$ <u>308,587</u>	\$ <u>59,468</u>	\$ <u>356,477</u>	\$ <u>86,176</u>	\$ <u>519,901</u>

Note: The Depreciation and Contingency Account is Required by all Indentures.  
Such Amounts are not Separately Determined for Each Bond Issue.

<u>2002 State Revolving Loan</u> <u>319 FM</u>		<u>2002</u> <u>Revenue Bonds</u>	<u>2004A - Schwartz</u> <u>WWTP Expansion - Phase I</u>		<u>2001A</u> <u>MBCH</u>
<u>Current</u> <u>Debt Service</u>	<u>Future</u> <u>Debt Service</u>	<u>Current</u> <u>Debt Service</u>	<u>Current</u> <u>Debt Service</u>	<u>Future</u> <u>Debt Service</u>	<u>Current</u> <u>Debt Service</u>
\$ 48	\$ 31,594	\$ 124,028	\$ 34,122	\$ 392,497	\$ 190,123
16,138		1,454,752	390,031		1,134,270
62	1,340	22,485	1,436	16,554	4,397
(16,227)		(1,476,512)	(392,241)		(1,137,437)
	(1,341)			(16,601)	
<u>21</u>	<u>31,593</u>	<u>124,753</u>	<u>33,348</u>	<u>392,450</u>	<u>191,353</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS**

Year Ended June 30, 2008

	2001A MBCH	2001B MBCH		2006 Revenue Bonds	
	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>
Cash and Investments, Beginning	\$ 1,184,183	31,221	\$ 194,414	\$ 96,929	863,841
Cash Receipts					
Transfers From Operating Cash		186,265		2,173,952	
Transfers From Capital Projects					
Interest Earned	34,377	723	5,646	14,512	25,806
Other Transfers					
Cash Disbursements					
Principle and Interest Payments	(46,746)	(186,786)	(7,630)	(1,589,389)	
Renewals and Replacements					
Transfers to Operating Cash					
Transfers to Capital Projects					
Other Transfers					
Cash and Investments, Ending	\$ <u>1,171,814</u>	<u>31,423</u>	\$ <u>192,430</u>	\$ <u>696,004</u>	<u>889,647</u>

Note: The Depreciation and Contingency Account is Required by all Indentures.  
Such Amounts are not Separately Determined for Each Bond Issue.

Schwartz WWTP Expansion - Phase II <u>Current Debt Service</u>	2008 Revenue Bonds <u>Future Debt Service</u>	Bull Creek Depreciation & <u>Contingency</u>	Depreciation & <u>Contingency</u>	<u>Total</u>
\$ 0	\$ 0	\$ 2,076,493	\$ 4,072,247	\$ 17,531,379
355,763	652,850	395,479	3,124,040	17,055,222
549	574			3,502,457
				422,082
				0
(355,763)				(15,648,215)
		(232,906)	(996,769)	(1,229,675)
				(597,207)
				0
				0
<u>\$ 549</u>	<u>\$ 653,424</u>	<u>\$ 2,239,066</u>	<u>\$ 6,199,518</u>	<u>\$ 21,036,043</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT**  
**Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Water Plants</b>		
Personnel Services	\$ 1,999,394	\$ 2,151,134
Contractual Services	2,328,624	2,329,778
Supplies and Materials	2,816,255	3,630,795
Business and Travel Expenses	15,926	10,419
Other Expenses	1,441,680	1,656,896
Departmental Transfers	317,186	
Total Water Plants	<u>\$ 8,919,065</u>	<u>\$ 9,779,022</u>
<b>Water Systems</b>		
Personnel Services	\$ 2,108,054	\$ 1,193,541
Contractual Services	1,083,415	1,116,027
Supplies and Materials	2,667,461	2,359,334
Business and Travel Expenses	10,538	7,639
Other Expenses	2,494	3,516
Total Water Systems	<u>\$ 5,871,962</u>	<u>\$ 4,680,057</u>
Total Water	<u>\$ 14,791,027</u>	<u>\$ 14,459,079</u>
<b>Wastewater Plants</b>		
Personnel Services	\$ 3,918,139	\$ 3,502,112
Contractual Services	3,251,782	3,137,726
Supplies and Materials	2,314,062	2,541,666
Business and Travel Expenses	17,606	15,997
Other Expenses	64,481	58,525
Departmental Transfers	1,426,723	
Total Wastewater Plants	<u>\$ 10,992,793</u>	<u>\$ 9,256,026</u>
<b>Wastewater Systems</b>		
Personnel Services	\$ 1,584,791	\$ 1,414,640
Contractual Services	2,686,390	3,011,295
Supplies and Materials	1,077,383	832,637
Business and Travel Expenses		
Other Expenses	13,658	33,367
Total General Administration	<u>\$ 5,362,222</u>	<u>\$ 5,291,939</u>
Total Wastewater Systems	<u>\$ 16,355,015</u>	<u>\$ 14,547,965</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT**  
**Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>General Administration</b>		
Personnel Services	\$ 566,197	\$ 432,269
Contractual Services	351,339	358,690
Supplies and Materials	42,310	38,728
Business and Travel Expenses	66,815	40,683
Other Expenses	293,628	231,365
Total General Administration	\$ <u>1,320,289</u>	\$ <u>1,101,735</u>
<b>Planning, Engineering, and Construction</b>		
Personnel Services	\$ 1,512,814	\$ 1,294,807
Contractual Services	61,788	57,475
Supplies and Materials	125,080	71,267
Business and Travel Expenses	16,846	18,431
Other Expenses	460	454
Total Planning, Engineering, and Construction	\$ <u>1,716,988</u>	\$ <u>1,442,434</u>
<b>Financial Services</b>		
Personnel Services	\$ 1,714,330	\$ 1,900,871
Contractual Services	878,989	716,330
Supplies and Materials	156,391	171,943
Business and Travel Expenses	23,680	14,555
Other Expenses	69,116	62,953
Total Financial Services	\$ <u>2,842,506</u>	\$ <u>2,866,652</u>
<b>High Tech Turf Farm</b>		
Personnel Services	\$ 1,040,127	\$ 672,989
Contractual Services	242,211	198,390
Supplies and Materials	587,666	304,898
Business and Travel Expenses	4,022	2,851
Other Expenses	13	325
Departmental Transfers	(1,743,909)	
Total High Tech Turf Farm	\$ <u>130,130</u>	\$ <u>1,179,453</u>
<b>Depreciation</b>		
	\$ <u>17,400,238</u>	\$ <u>15,363,404</u>
<b>Total Operating Expenses</b>	\$ <u><u>54,556,193</u></u>	\$ <u><u>50,960,722</u></u>



## STATISTICAL SECTION (UNAUDITED)

This part of Grand Strand Water and Sewer Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and supplementary information says about its overall financial health. Except where noted, the information in these schedules is derived from Grand Strand Water and Sewer Authority's comprehensive annual financial reports for the relevant year. Grand Strand Water and Sewer Authority implemented GASB Statement 34 in 2002; schedules presenting information from the basic financial statements begin in that year.

**Financial Trends (*Schedules 1 through 6*)** - These schedules contain trend information to help the reader understand how Grand Strand Water and Sewer Authority's financial performance and well-being have changed over time.

**Revenue Capacity (*Schedules 7 through 11*)** - These schedules contain information to help the reader assess the factors affecting Grand Strand Water and Sewer Authority's ability to generate water and sewer charges.

**Debt Capacity (*Schedules 12 and 13*)** - These schedules present information to help the reader assess the affordability of Grand Strand Water and Sewer Authority's current levels of outstanding debt and their ability to issue additional debt in the future.

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

**Operating Information (*Schedules 15 and 16*)** - These schedules contain information about Grand Strand Water and Sewer Authority's operations and resources to help the reader understand how Grand Strand Water and Sewer Authority's financial information relates to the services it provides and the activities it performs.

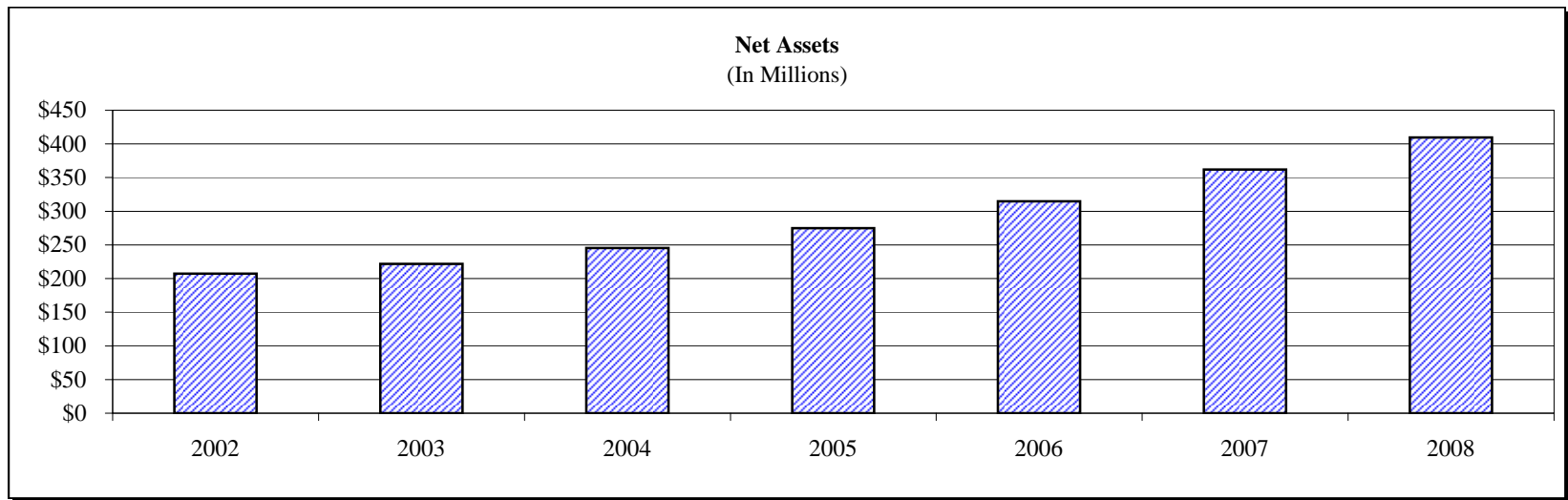
**Schedule 1**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NET ASSETS BY COMPONENT  
Last Seven Fiscal Years**

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Primary government							
Invested in capital assets, net of related debt	\$ 135,897,902	\$ 139,201,792	\$ 150,944,404	\$ 162,579,976	\$ 204,870,843	\$ 249,401,693	\$ 289,803,143
Restricted	30,455,007	29,910,278	29,089,789	27,535,216	25,980,196	30,231,725	30,716,584
Unrestricted	41,003,053	52,519,542	65,396,725	84,837,573	84,059,592	82,256,132	88,898,786
<b>Total primary government net assets</b>	<b>\$ 207,355,962</b>	<b>\$ 221,631,612</b>	<b>\$ 245,430,918</b>	<b>\$ 274,952,765</b>	<b>\$ 314,910,631</b>	<b>\$ 361,889,550</b>	<b>\$ 409,418,513</b>

-56-



**UNAUDITED**

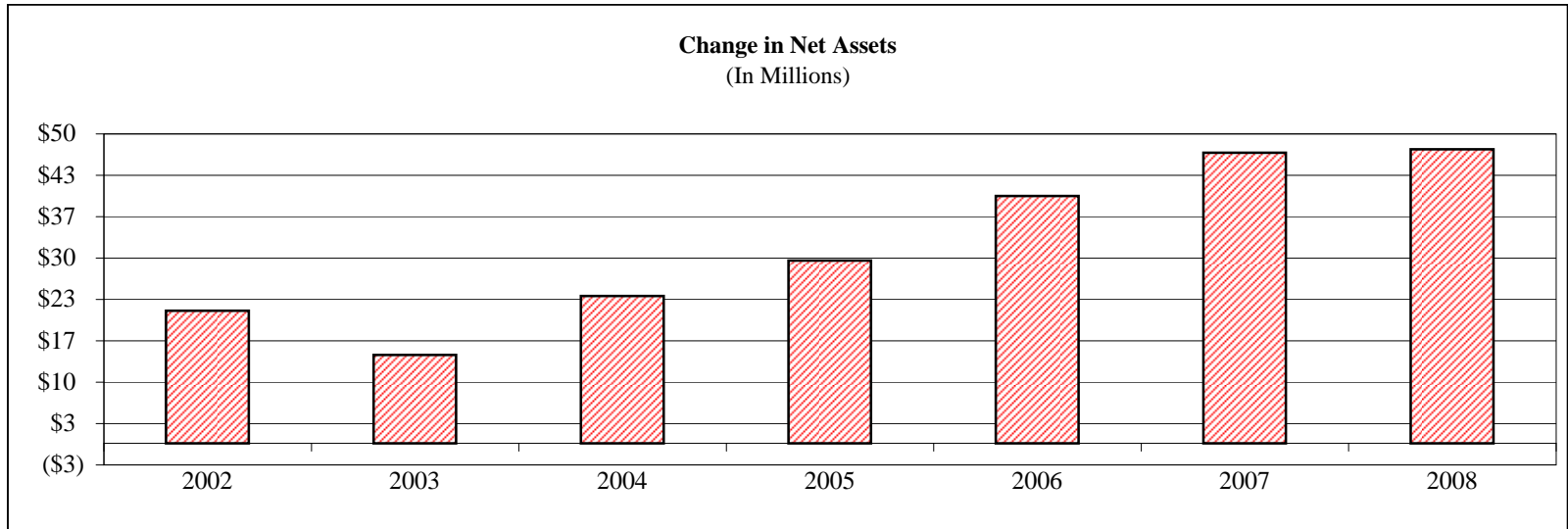
**Schedule 2**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**CHANGES IN NET ASSETS  
Last Seven Fiscal Years**

<u>Fiscal Year Ended</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Operating Income/(Loss)</u>	<u>Total Nonoperating Revenues/ (Expenses)</u>	<u>Income/(Loss) before Capital Contributions</u>	<u>Capital Contributions</u>	<u>Change in Net Assets</u>
2002	\$ 28,278,460	\$ 25,889,161	\$ 2,389,299	\$ (1,344,319)	\$ 1,044,980	\$ 20,376,731	\$ 21,421,711
2003	28,333,122	28,811,049	(477,927)	(2,043,681)	(2,521,608)	16,797,258	14,275,650
2004	32,275,269	31,759,362	515,907	(4,376,695)	(3,860,788)	27,660,094	23,799,306
2005	36,571,027	33,591,329	2,979,698	(2,758,266)	221,432	29,300,325	29,521,757
2006	42,668,707	39,729,593	2,939,114	(1,210,337)	1,728,777	38,229,179	39,957,956
2007	58,417,958	50,960,722	7,457,236	(2,823,384)	4,633,852	42,345,067	46,978,919
2008	62,262,174	54,556,193	7,705,981	(1,485,332)	6,220,649	41,308,314	47,528,963

-57-



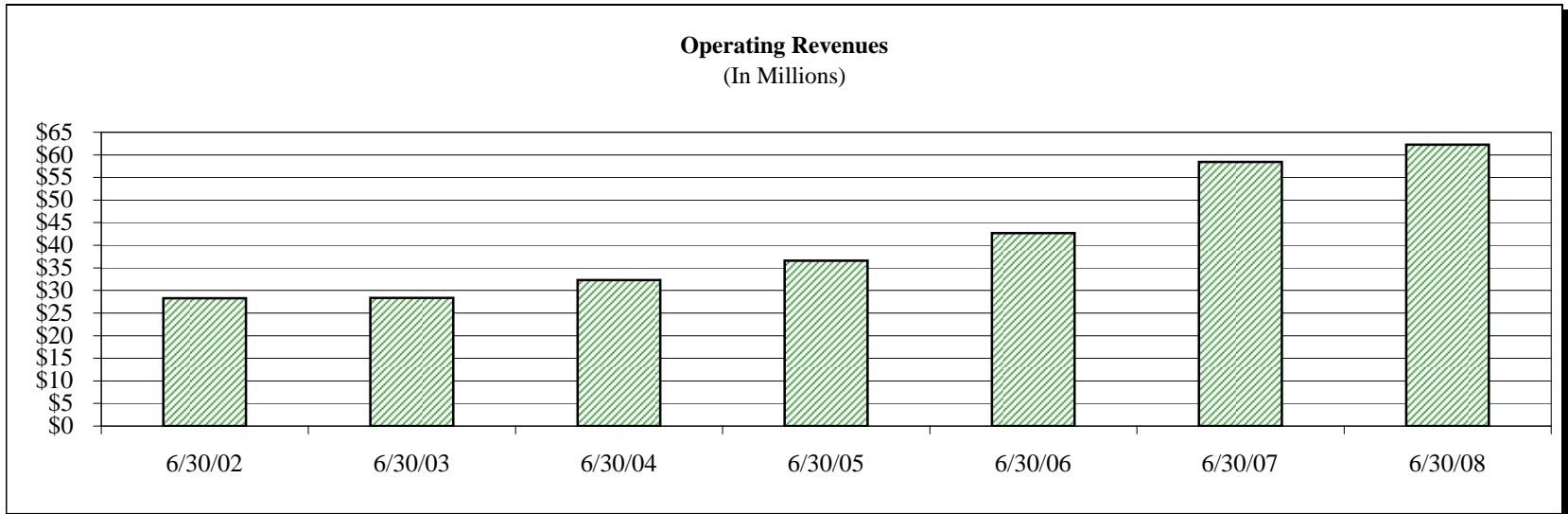
**Schedule 3**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**OPERATING REVENUES BY SOURCE  
Last Seven Fiscal Years**

<u>Fiscal Year Ended</u>	<u>Water &amp; Sewer Volume &amp; Availabilty Fees</u>	<u>Customer Charges</u>	<u>Surface Water Charges</u>	<u>SWTP Contract Water Consumption</u>	<u>Tap Fees</u>	<u>Sod Sales</u>	<u>Other Revenue</u>	<u>Total Operating Revenue</u>
6/30/02	\$ 17,010,676	\$ 1,690,938	\$ 4,066,260	\$ 2,038,898	\$ 974,919	\$ 556,470	\$ 1,940,299	\$ 28,278,460
6/30/03	17,303,689	1,829,192	4,223,574	1,697,260	991,121	581,316	1,706,970	28,333,122
6/30/04	19,593,043	2,018,543	4,531,216	1,945,376	1,326,101	714,309	2,146,681	32,275,269
6/30/05	21,033,852	2,215,852	4,904,977	2,150,031	2,531,547	768,556	2,966,212	36,571,027
6/30/06	24,318,246	2,558,681	5,389,236	2,330,268	3,124,707	755,339	4,192,230	42,668,707
6/30/07	40,342,471	2,675,095	5,713,617	2,316,629	2,257,100	631,570	4,481,476	58,417,958
6/30/08	44,731,026	2,868,056	6,021,758	2,453,313	1,478,545	503,312	4,206,164	62,262,174

- 58 -



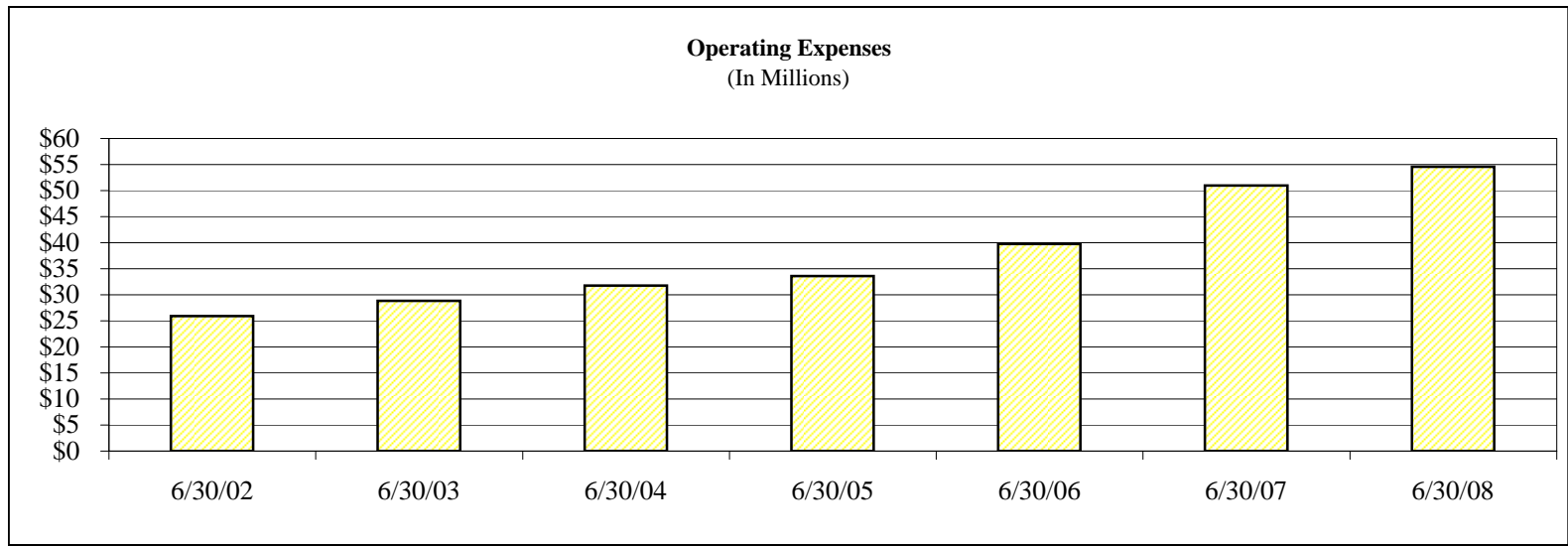
**Schedule 4**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**OPERATING EXPENSES  
Last Seven Fiscal Years**

<u>Fiscal Year Ended</u>	<u>Personnel Costs</u>	<u>Contractual Services</u>	<u>Supplies and Materials</u>	<u>Business and Travel</u>	<u>Depreciation</u>	<u>Other Expenses</u>	<u>Total Operating Expenses</u>
6/30/02	\$ 5,860,665	\$ 4,391,714	\$ 4,020,883	\$ 70,946	\$ 9,937,536	\$ 1,607,417	\$ 25,889,161
6/30/03	7,118,937	4,813,566	4,354,951	110,841	10,948,323	1,464,431	28,811,049
6/30/04	7,512,449	5,944,673	4,624,503	65,029	11,895,849	1,716,859	31,759,362
6/30/05	8,325,391	5,580,116	5,258,876	96,632	12,538,491	1,791,823	33,591,329
6/30/06	8,958,676	8,545,559	7,021,438	60,561	13,323,239	1,820,120	39,729,593
6/30/07	12,562,364	10,925,712	9,951,269	110,575	15,363,404	2,047,398	50,960,722
6/30/08	14,443,846	10,885,255	9,785,172	156,152	17,400,238	1,885,530	54,556,193

- 59 -



**UNAUDITED**

Schedule 5

GRAND STRAND WATER & SEWER AUTHORITY

NONOPERATING REVENUES AND EXPENSES  
Last Seven Fiscal Years

<u>Fiscal Year Ended</u>	<u>Investment Income</u>	<u>Other Revenue</u>	<u>Gain (Loss) on Disposal of Capital Asset</u>	<u>Amortization of Deferred Bond Costs</u>	<u>Interest Expense</u>	<u>Total Nonoperating Revenues (Expenses)</u>
6/30/02	\$ 4,232,862	\$	\$ 120,624	\$ (173,579)	\$ (5,524,226)	\$ (1,344,319)
6/30/03	5,062,406		63,772	(131,788)	(7,038,071)	(2,043,681)
6/30/04	2,649,777		83,531	(97,313)	(7,012,690)	(4,376,695)
6/30/05	4,760,648		(142,859)	(102,251)	(7,273,804)	(2,758,266)
6/30/06	3,311,395	4,057,942	(541,197)	(102,251)	(7,936,226)	(1,210,337)
6/30/07	6,200,184		48,862	(111,962)	(8,960,468)	(2,823,384)
6/30/08	8,128,067		(1,037)	(113,717)	(9,498,645)	(1,485,332)

UNAUDITED

**Schedule 6**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**ANNUAL CAPITAL CONTRIBUTIONS BY SOURCE**

**Last Seven Fiscal Years**

<u>Fiscal Year Ended</u>	<u>SWTP Capacity Fees</u>	<u>Government Grants</u>	<u>Customer Impact Fees</u>	<u>Developer Contributions</u>	<u>Total</u>
6/30/02	\$ 2,040,496	\$ 450,515	\$ 9,591,659	\$ 8,294,061	\$ 20,376,731
6/30/03	2,010,464	1,446,361	5,017,572	8,322,861	16,797,258
6/30/04	2,029,308	1,571,037	13,615,301	10,444,448	27,660,094
6/30/05	1,918,047	284,906	11,544,330	15,553,042	29,300,325
6/30/06	1,970,844		13,912,826	22,345,509	38,229,179
6/30/07	1,970,844		9,827,621	30,546,602	42,345,067
6/30/08	1,961,592		6,953,139	32,393,583	41,308,314

**UNAUDITED**

**Schedule 7**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED  
Last Seven Fiscal Years**

Fiscal Year Ended	Gallons of Water Produced	Gallons of Water Consumed	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated	Total Direct Rate			
						Water		Sewer	
						Base Rate	Usage Rate	Base Rate	Usage Rate
6/30/02	7,283	7,006	277	3.80%	4,723	\$ 9.52	\$ 1.06	\$ 7.05	1.55
6/30/03	6,929	6,357	572	8.26%	5,031	9.52	1.06	7.05	1.55
6/30/04	7,569	7,019	550	7.27%	5,480	9.58	1.10	7.11	1.65
6/30/05	7,524	6,705	819	10.89%	5,479	9.58	1.10	7.11	1.65
6/30/06	8,632	7,815	817	9.46%	6,045	9.58	1.10	8.11	1.70
6/30/07	15,536	14,214	1,322	8.51%	10,198	9.58	1.10	8.11	1.70
6/30/08	16,140	15,625	515	3.19%	10,499	9.90	1.15	8.90	1.75



**Schedule 8**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**ANNUAL TAPS SOLD  
Last Seven Fiscal Years**

<u>Fiscal Year Ended</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps Sold</u>
6/30/02	546	280	826
6/30/03	541	271	812
6/30/04	595	278	873
6/30/05	705	257	962
6/30/06	784	238	1,022
6/30/07	837	243	1,080
6/30/08	525	195	720

**UNAUDITED**

**Schedule 9**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NUMBER OF WATER AND SEWER CUSTOMERS BY TYPE  
Last Seven Fiscal Years**

Fiscal Year Ended	Water Only			Sewer Only			Water & Sewer			Total		
	Retail	Wholesale	Other	Retail	Wholesale	Other	Retail	Wholesale	Other	Water Only	Sewer Only	Water & Sewer
6/30/02	6,153	46	20	3,061	8	26	33,188	-	1	6,219	3,095	33,189
6/30/03	6,301	42	22	3,184	8	26	35,186	-	1	6,365	3,218	35,187
6/30/04	6,528	50	22	3,426	8	26	38,116	-	1	6,600	3,460	38,117
6/30/05	6,752	53	20	3,741	8	27	42,742	-	-	6,825	3,776	42,742
6/30/06	7,041	54	19	4,137	8	27	47,654	-	-	7,114	4,172	47,654
6/30/07	7,393	54	19	4,471	8	26	50,883	-	-	7,466	4,505	50,883
6/30/08	7,937	52	19	4,752	7	27	52,223	-	-	8,008	4,786	52,223

**Schedule 10**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**WATER AND SEWER RATES  
Last Seven Fiscal Years**

Fiscal Year Ended	Water		Sewer	
	Base Rate	Usage Rate	Base Rate	Usage Rate
6/30/02	9.52	1.06	7.05	1.55
6/30/03	9.52	1.06	7.05	1.55
6/30/04	9.58	1.10	7.11	1.65
6/30/05	9.58	1.10	7.11	1.65
6/30/06	9.58	1.10	8.11	1.70
6/30/07	9.58	1.10	8.11	1.70
6/30/08	9.90	1.15	8.90	1.75

**UNAUDITED**

**Schedule 11**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**TEN LARGEST CUSTOMERS  
Current Year and Six Years Ago**

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

Customer	Fiscal Year 2002		
	Water Revenue	Sewer Revenue	Total
City of Conway	\$ 1,974,470	\$ 498,588	2,473,058
Little River Water and Sewerage Company	730,560	313,864	1,044,424
City of Myrtle Beach	1,041,794		1,041,794
Ocean Lakes Campground	124,823	154,883	279,706
Georgetown County Water and Sewer Authority	189,250	82,320	271,570
Oceanside Village	139,920	88,871	228,791
Conway Hospital	76,722	92,179	168,901
Pirateland Campground	93,206	74,831	168,037
Springmaid Beach	74,087	90,364	164,451
Town of Loris	152,299		152,299

**UNAUDITED**

**Schedule 12**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**RATIOS OF OUTSTANDING DEBT BY TYPE  
Last Seven Fiscal Years**

Fiscal Year Ended	Revenue Bonds	Notes	Revolving Fund Loans	Total	
				Amount	Per Capita
6/30/02	\$ 123,761,717	\$ 111,022	\$ 34,155,286	\$ 158,028,025	\$ 780
6/30/03	132,034,514	60,224	35,499,152	167,593,890	804
6/30/04	129,868,954	47,247	27,086,587	157,002,788	733
6/30/05	127,404,847	32,971	38,030,781	165,468,599	751
6/30/06	125,024,902	17,268	55,644,921	180,687,091	799
6/30/07	141,587,770		61,696,450	203,284,220	876
6/30/08	146,951,664		61,639,865	208,591,529	899

**UNAUDITED**

**Schedule 13**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**REVENUE BOND COVERAGE**

**Last Seven Fiscal Years**

(In Thousands)

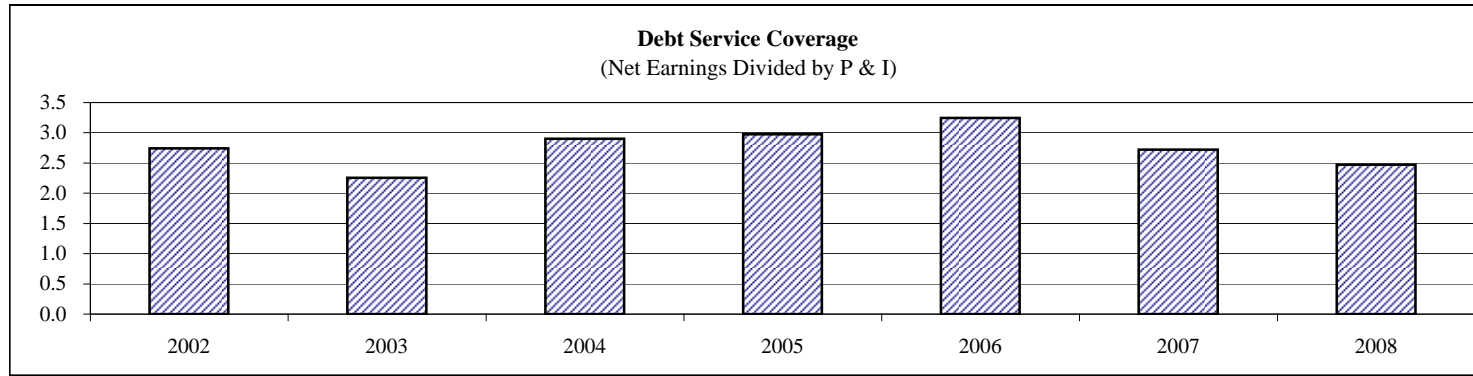
Fiscal Year	Gross Revenues <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Earnings Available for Debt Service	Debt Service Requirements <sup>(3)</sup>			Coverage <sup>(4)</sup>
				Principle	Interest	Total	
2002	\$ 44,144	\$ 15,897	\$ 28,247	\$ 3,651	\$ 6,649	\$ 10,300	2.74
2003	40,816	17,862	22,954	3,240	6,939	10,179	2.26
2004	50,884	19,863	31,021	3,745	6,955	10,700	2.90
2005	54,650	21,052	33,598	4,079	7,204	11,283	2.98
2006	65,380	26,406	38,974	4,117	7,883	12,000	3.25
2007	76,465	35,597	40,868	6,105	8,910	15,015	2.72
2008	79,304	37,156	42,148	7,599	9,462	17,061	2.47

<sup>(1)</sup> Total Revenues Include Impact Fees and SWTP Treatment Capacity, and Excludes Developer Contributions.

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

<sup>(2)</sup> Total Operating Expenses Excluding Depreciation and Certain Other Adjustments.

<sup>(4)</sup> Equals Net Earnings Divided by P&I. Bond Resolution was Adopted During 2002, Changing the Minimum Coverage From 1.2 to 1.1.



**Schedule 14**

**GRAND STRAND WATER AND SEWER AUTHORITY  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last Ten Calendar Years**

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income (Thousands of Dollars)<sup>(1)</sup></u>	<u>Per Capita Personal Income<sup>(1)</sup></u>	<u>Median Age<sup>(1)</sup></u>	<u>Unemployment Rate<sup>(1)</sup></u>
1998	174,762	\$ 592,975	\$ 19,220	33.8	4.08 %
1999	178,550	592,975	19,220	33.8	4.25
2000	196,629	712,311	23,088	36.9	3.76
2001	202,528	712,311	23,088	38.3	4.86
2002	208,427	716,198	23,214	38.3	5.48
2003	214,326	719,314	23,315	38.3	4.64
2004	220,225	758,466	24,584	38.3	6.00
2005	226,124	779,506	25,266	38.3	5.30
2006	232,023	779,506	25,266	38.3	5.40
2007	237,922	N/A	N/A	N/A	N/A

**Sources:** Myrtle Beach and South Carolina Grand Strand Demographic Profile, South Carolina Statistical Abstract and Places Rated Almanac.

<sup>(1)</sup> Data presented is Horry County statistics.

NA - Not Available

**UNAUDITED**

**Schedule 15**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY  
Last Seven Fiscal Years**

	Full-Time Equivalent Employees as of June 30						
	2002	2003	2004	2005	2006	2007	2008
<b>Water</b>							
Water Plant Operations	14	14	15	14	13	24	23
Water Plant Maintenance	1	1	1	2	2	8	6
Water Systems Maintenance	16	18	17	17	17	15	15
Water Systems Operations	11	10	11	12	13	13	25
<b>Sewer</b>							
Sewer Plant Operations	16	18	18	18	18	32	39
Sewer Plant Maintenance	1	1	1	2	4	11	12
Sewer Systems Maintenance	30	34	33	34	35	38	36
<b>Biosolid / Sludge Disposal</b>							
Operations	14	16	16	16	18	22	25
<b>Engineering / Inspection / Construction</b>							
Engineering	12	13	12	12	7	15	16
Inspections	5	5	4	5	6	7	7
Construction	16	16	16	16	16	17	19
<b>Administration</b>							
Billing / Customer Service	12	13	13	14	15	16	16
Meter Reading	12	12	13	13	8	9	0
Human Resources	2	2	2	2	2	2	2
Finance and Accounting	5	5	5	5	5	5	6
Purchasing	3	4	4	4	4	4	4
Information Systems	2	2	2	2	2	3	4
Executive Administration	7	7	7	7	14	6	5

**UNAUDITED**



**Schedule 16**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MISCELLANEOUS STATISTICAL DATA**

**June 30, 2008**

Sewer System Facts

	<u>2008</u>	<u>2007</u>
<u>Use of Sewer</u>		
Sewer Customers, End of Period	57,009	55,389
Average Daily Consumption (Millions of Gallons)	28.76	27.94
Estimated Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	10.50	10.20
<u>System Facilities</u>		
Total Miles of Sewer Lines	1,201	1,098
Number of Treatment Plants	9	9
Number of Pumping Stations	512	468
Number of Residential Effluent Pumping Stations	418	404
Number of Residential Grinder Pumping Stations	4,020	3,658

**UNAUDITED**

Schedule 16

GRAND STRAND WATER AND SEWER AUTHORITY

MISCELLANEOUS STATISTICAL DATA

June 30, 2008

Water System Facts

	<u>2008</u>	<u>2007</u>
<u>Use of Water</u>		
Water Customers, End of Period	60,231	58,349
Average Daily Consumption (Millions of Gallons)	42.81	38.94
Estimated Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons)	15.63 *	14.21 *
<u>System Facilities</u>		
Reservoirs	17 **	17 **
Storage Capacity (Millions of Gallons)	21.55 **	21.55 **
Auxiliary Deep Water Wells	33	31
Total Miles of Distribution Lines	1,402	1,314
Fire Hydrants	5,391	5,049

\* Includes SWTP Participant Sales

\*\* Includes SWTP Storage Tanks

UNAUDITED

**Schedule 16**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MISCELLANEOUS STATISTICAL DATA**

**June 30, 2008**

Year Established	June 2, 1971
Type of Government Entity	Special Purpose District
Governing Body	Board of Directors (9)
Service Area	1,208 Square Miles
Number of Employees	
Salary	47
Hourly	<u>218</u>
Total	<u><u>265</u></u>

**UNAUDITED**

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**SINGLE AUDIT SECTION**

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**GRAND STRAND WATER AND SEWER AUTHORITY**

**SCHEDULE OF EXPENSES OF FEDERAL AWARDS**

**Year Ended June 30, 2008**

<b>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant Title</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Environmental Protection Agency:</b>				
Capitalization Grants for Clean Water State Revolving Funds Passed through S.C Budget and Control Board South Carolina Water Pollution Revolving Fund	66.458	Schwartz Wastewater Treatment Plant Expansion - Phase II	1-103-06-381-63	\$ <u>1,641,776</u>
<b>Total Expenditures of Federal Awards</b>				\$ <u><u>1,641,776</u></u>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Grand Strand Water and Sewer Authority

We have audited the basic financial statements of Grand Strand Water and Sewer Authority as of and for the year ended June 30, 2008, and have issued our report thereon dated September 16, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grand Strand Water and Sewer Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grand Strand Water and Sewer Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Grand Strand Water and Sewer Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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American Institute of Certified Public Accountants - Private Companies Practice Section

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grand Strand Water and Sewer Authority's financial statements are free of 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*.

This report is intended solely for the information and use of management, the board of directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SMITH SAPP BOOKHOUT CRUMPLER & CALLIHAM  
*Professional Association*  
*Certified Public Accountants and Consultants*

Myrtle Beach, South Carolina  
September 16, 2008



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Grand Strand Water and Sewer Authority

Compliance

We have audited the compliance of Grand Strand Water and Sewer Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. Grand Strand Water and Sewer Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Grand Strand Water and Sewer Authority's management. Our responsibility is to express an opinion on Grand Strand Water and Sewer Authority's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Grand Strand Water and Sewer 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 for our opinion. Our audit does not provide a legal determination of Grand Strand Water and Sewer Authority's compliance with those requirements.

In our opinion, Grand Strand Water and Sewer Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Grand Strand Water and Sewer Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Grand Strand Water and Sewer Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Grand Strand Water and Sewer Authority's internal control over compliance.

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A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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Myrtle Beach, South Carolina  
September 16, 2008

**GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2008**

**Summary of Auditors' Results**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Grand Strand Water and Sewer Authority.
2. No significant deficiencies in internal control were disclosed during the audit of the basic financial statements of the Grand Strand Water and Sewer Authority.
3. No instances of noncompliance material to the basic financial statements of the Grand Strand Water and Sewer Authority were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award program of the Grand Strand Water and Sewer Authority expresses an unqualified opinion on the major federal program.
6. There are no audit findings for the major program, which are required to be reported.
7. The program tested as a major program was:

U.S. Environmental Protection Agency, Capitalization Grants for Clean Water State Revolving Funds - CFDA No. 66.458
8. The threshold for distinguishing between type A and B programs was \$300,000.
9. The Authority was not concerned a low risk auditee.

**Findings - Financial Statement Audit**

None

**Findings and Questioned Costs - Major Federal Award Program Audit**

None