



**SOUTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2010**

**PREPARED BY:**

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

**For the Year Ended June 30, 2010  
with  
Report of Certified Public Accountant**

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**Prepared By:  
Financial Services  
Marguerite S. Carroll, Chief Financial Officer**

**GRAND STRAND WATER & SEWER AUTHORITY**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2010**

**BOARD OF DIRECTORS**

SIDNEY F. THOMPSON, CHAIRMAN  
BENJY A. HARDEE, VICE-CHAIRMAN  
JOHN C. GRIGGS, SECRETARY  
DAVID F. SINGLETON, MEMBER  
ARNOLD T. JOHNSON, MEMBER  
ROBERT M. FLOYD, JR., MEMBER  
J. LISTON WELLS, MEMBER  
WILBUR M. JAMES, MEMBER  
ROBERT L. RABON, MEMBER

**CHIEF EXECUTIVE OFFICER**

**FRED R. RICHARDSON**

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**Comprehensive Annual Financial Report**  
**For the fiscal year ended June 30, 2010**

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**GRAND STRAND WATER AND SEWER AUTHORITY**  
**Comprehensive Annual Financial Report**  
**For the fiscal year ended June 30, 2010**

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## INTRODUCTORY SECTION

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October 19, 2010

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, 2010 is submitted for your review. This report was prepared by GSWSA's financial staff, 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). State Statutes require an annual audit of the financial records, transactions, and an internal control evaluation by independent certified public accountants. The GSWSA's independent Certified Public Accountants, Elliott Davis, LLC, audited the accompanying financial statements. Their unqualified report on the financial statement is included in the financial section of this report.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Elliott Davis, LLC 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, Elliott Davis, LLC examined on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; and evaluated the overall financial statement presentation.

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

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

## PROFILE OF GRAND STRAND WATER AND SEWER AUTHORITY

GWSA 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 GWSA 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 GWSA deems necessary. The service area of GWSA 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 City of Marion, Town of Sellers and Centenary area which are also located in South Carolina. GWSA 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 GWSA's financial planning and control. The Board of Directors is required to hold two public hearings on the proposed budget and adopt a final budget no later than June 30 of each year. GWSA implements a rolling two-year budget.

### LOCAL ECONOMY

Horry County is experiencing a deep recession with high unemployment and a severe downturn in the real estate market. However, prior to the recession the area was growing at a pace surpassed by only a few communities in the country. Horry County continues to be a major retirement area. Tourism has grown to become the county's largest employer even though the local tourism industry has slowed because of the national economy. The county still ranks first among the 46 counties in the state in tourism. It also ranks first in the state in production of tobacco, third in the sale of pork, and fourth in overall crop production.

The local economy served by GWSA has continued to decline but GWSA has seen stable growth during fiscal year 2010, with the addition of over 1,000 customers. The monthly average of submittals for new developer projects requiring water and sewer service was down from 9.7 projects in fiscal year 2009 to 7 projects in 2010. These projects submitted in 2010 will account for a monthly average of over 112 Residential Equivalent Units (REUs). This is a 28% decline from the monthly average of 155 REUs submitted in 2009. The number of new developer project submittals and REUs are lower than most recent historical data. Assets contributed to GWSA by developers during 2010 were \$4.2 million.

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

## MAJOR INITIATIVES FOR THE YEAR

GWSA spent over \$13.5 million for the acquisition of the City of Marion's water and wastewater system in 2010. GWSA spent \$3.6 million in its Rural Water and Sewer program to extend water and sewer lines to the rural community of Horry County. The Highway 501 to Highway 544 Force Main was installed to divert and re-route wastewater flows from the Carolina Forest and Highway 501 areas to the Schwartz Wastewater Treatment Plant. This diversion will help reduce pressures in the wastewater system and improve overall hydraulics. This project was completed at a cost of over \$1.6 million. The Myrtle Beach Wastewater Treatment Plant was upgraded to 22.4 million gallons a day from 17 million gallons a day, at a cost of \$8.9 million. GWSA also spent \$0.8 million on its Aquifer Storage Recovery program to upgrade existing water wells to be used in its treated surface water recovery program.

## 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. GWSA purchased the City of Myrtle Beach Water and Wastewater Treatment Plants and the City of Marion Water and Wastewater Systems and is looking at various options to upgrade existing water and wastewater facilities over the next few years to meet growing customer needs.

GWSA updated its 2030 Capital Improvement Plan in 2010 and plans to update it every 5 years. It also annually performs a comprehensive review of its rates, fees and charges to maintain a sufficient and equitable cost recovery system. GWSA has a policy of rate stability with gradual adjustments over time.

During 2010, GWSA implemented several policies aimed at reducing and/or maintaining expenses at the same level as 2009. No merit increases were given during the year and a temporary hiring freeze was put into place. Departments were required to monitor expenses over time and reduce costs as appropriate. Educational requests were deferred unless an employee was in the middle of program and out of state training was deferred unless absolutely necessary. Chemical usage for water and wastewater departments was also closely monitored and rebid to reduce cost.

As a matter of organizational philosophy, GWSA will continue to explore and implement innovative programs which will allow it to meet the area's water and wastewater needs in an efficient and environmentally safe manner. The challenge of meeting the utility needs of a 1,208 square mile service area of which only approximately 32% is developed requires continued pursuit of these objectives.

## INTERNAL CONTROL STRUCTURE

Management of GWSA is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the GWSA are protected from loss, theft, or misuses. It must also ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should ordinarily not exceed the benefits to be derived and (2) the valuation of cost and benefits requires estimates and judgments by management.

As a part of the GWSA's single audit, tests are made to determine the adequacy of the internal control structure, including those controls related to federal financial assistance programs, as well as to determine that the GWSA has complied with applicable laws and regulations.



In addition, the GSWSA maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by GSWSA's Board of Directors. The GSWSA prepares a 2-year Operating & Capital Annual Budget document. The Operating Budget is adopted on a basis that approximates generally accepted accounting principles except for debt service payments and capital expenses that are budgeted on a cash basis and the recognition of contributed capital as operating revenues or capital budget funding sources depending on their nature. The budgets are managed by each Division Chief with overall control and management being exercised by the Chief Executive Officer (CEO). The Chief Financial Officer and staff monitor line item accounts within each department so that departments do not overspend.

The Capital Budget is prepared on the cash basis. Capital projects for water and wastewater plants and systems, and general, engineering and other support capital assets construction and improvements are funded from contributed capital (i.e. federal grants, developer system contributions, and certain impact fees), revenue bonds, state revolving loan and other debt proceeds, special fees, investment income, and depreciation and replacement reserve accounts funded via operating revenues. Capital projects are budgeted over the projected term of construction or improvement, thus such term may exceed the budget period presented in the budget document.

The GSWSA also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end and are reinstated against the following year's appropriation.

The major budget policies of GSWSA are as follows:

- GSWSA will have a balanced budget.
- The CEO is authorized to transfer budgeted funds between departments and divisions in the current Operating Budget.
- The Board of Directors may authorize transfers of budgeted funds between capital projects in the Capital Budget by resolution.
- All unexpended and uncommitted budgeted funds in the current Operating Budget remaining at the end of the fiscal year lapse. No budgeted funds for a capital project in the Capital Budget lapses until the project scope has been accomplished or abandoned.

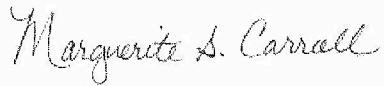
#### AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to GSWSA for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the 21st year that GSWSA applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, GSWSA had to publish an easily readable and efficiently organized comprehensive annual financial report. The report had to satisfy both generally accepted accounting principles and applicable legal requirements.

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

Preparation of this report on a timely basis was accomplished through the dedicated efforts of the Accounting Department staff under the guidance of Keri Squires, Accounting Manager. I would like to express my appreciation to all members of the Financial Services Division, Chiefs, and other GSWSA employees. I would also like to express my appreciation to the Board Members and you two gentlemen for assistance through the year in matters pertaining to financial affairs of GSWSA.

Respectfully submitted,

A handwritten signature in cursive script that reads "Marguerite S. Carroll".

Marguerite S. Carroll, CGFM  
Chief Financial Officer

# 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, 2009

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.



A stylized, handwritten signature in black ink.

President

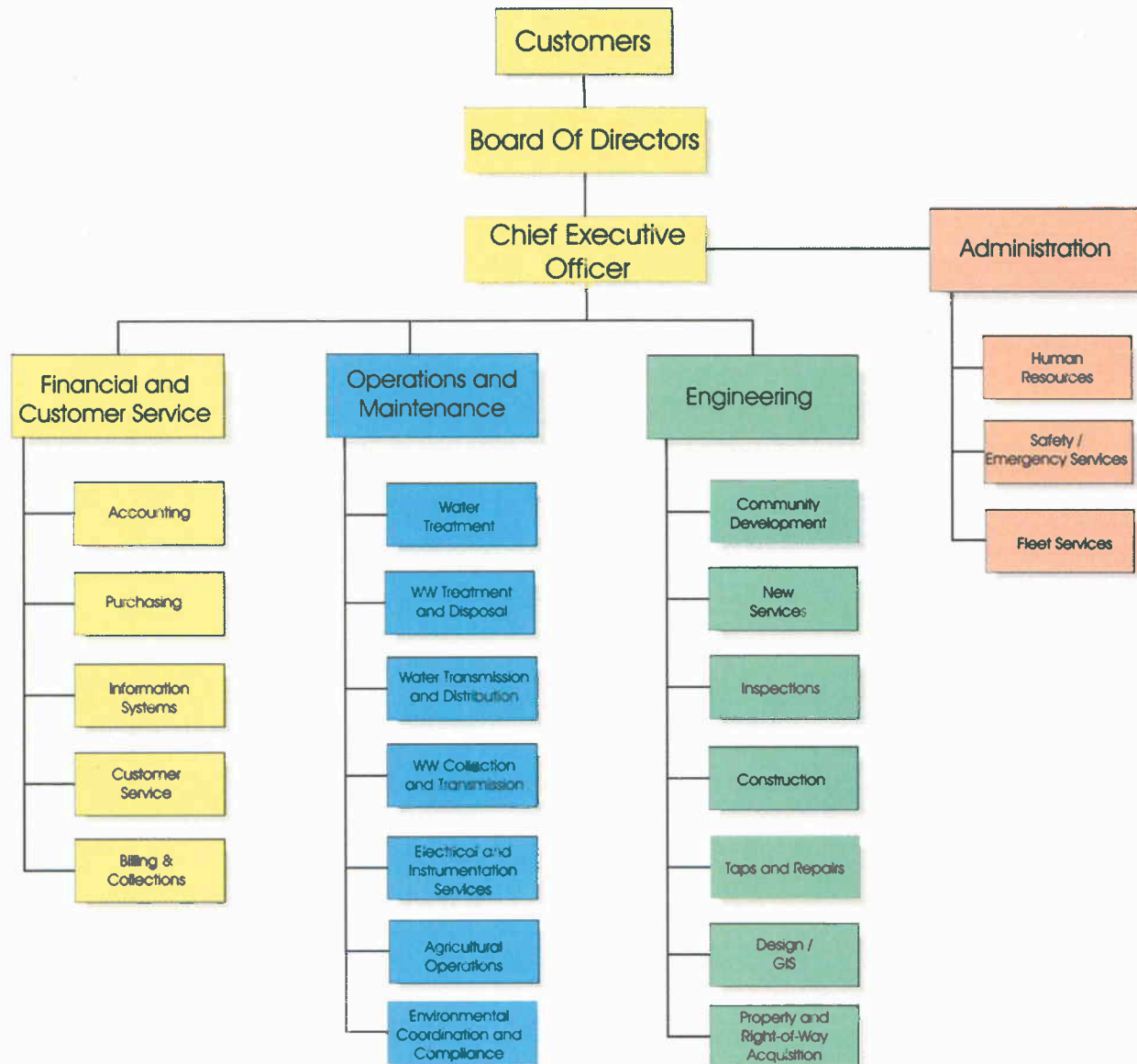
A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director



# GRAND STRAND WATER AND SEWER AUTHORITY

## Functional Organizational Chart



**GRAND STRAND WATER AND SEWER AUTHORITY  
LIST OF PRINCIPAL OFFICIALS  
June 30, 2010**

**BOARD OF DIRECTORS**

<b><u>Name</u></b>	<b><u>Date Term Expires</u></b>
Sidney F. Thompson, Chairman	August 20, 2011
Benjy A. Hardee, Vice Chairman	August 15, 2015
John C. Griggs, Secretary	August 15, 2015
David F. Singleton	August 15, 2013
Arnold T. Johnson	August 15, 2015
Robert M. Floyd, Jr.	August 15, 2013
J. Liston Wells	August 15, 2011
Wilbur M. James	August 15, 2013
Robert L. Rabon	August 15, 2011

**MANAGEMENT**

<b><u>Name</u></b>	<b><u>Position</u></b>
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

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## FINANCIAL SECTION

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of Grand Strand Water and Sewer Authority (the Authority) as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Authority as of and for the year ended June 30, 2009, were audited by other auditors, whose report dated September 23, 2009, expressed an unqualified opinion on those statements.

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

In our opinion, based on our audit and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2010, and the respective changes in financial position and cash flows for the year 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 October 19, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 to 12 and the schedule of funding progress for the other postemployment benefit plan on page 48, are not required parts of the basic financial statements but are 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 the Authority's basic financial statements. The introductory section, the supplementary schedule of cash receipts and disbursements for restricted accounts required by revenue bond and state revolving loan provisions, and the supplementary schedule of operating expenses by department, 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 expenses of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is 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.

*Elliott Davis, LLC*

Columbia, South Carolina  
October 19, 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**GRAND STRAND WATER AND SEWER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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The Management's Discussion and Analysis (MD&A) of Grand Strand Water and Sewer Authority (GSWSA), provides an overview and analysis of the financial activities for the fiscal years ended June 30, 2010 and 2009. This information serves as an introduction to the accompanied financial statements. The MD&A should be read in conjunction with the audited financial statements.

**FINANCIAL HIGHLIGHTS**

GSWSA's overall financial condition improved during fiscal year ended June 30, 2010. The following are the financial highlights for the fiscal year.

- Total assets at June 30, 2010 were \$672.7 million and exceeded liabilities by \$434 million (i.e. net assets). Of total net assets, \$90.3 million were unrestricted. Total assets increased from fiscal year 2009 to 2010 by \$5.7 million and total liabilities decreased by \$3.4 million.
- Total net assets for fiscal year 2009 were decreased by approximately \$5 million due to a prior period restatement as described at Note 13 to the financial statements.
- Operating revenues were approximately \$61.6 million in 2010, an increase of approximately \$1.8 million from 2009, or 3%. During 2010 the major increase in revenues was due to the increase in water and wastewater availability charges and surface water treatment plant contract water charges.
- Operating expenses before depreciation decreased by \$4.2 million or 10%, compared to an increase of 12.7% in 2009. The total operating expenses, including depreciation, decreased \$3.2 million or 5%. The reduction in operating expenses during 2010 is attributed to further optimizing the amount of chemicals used to treat water and wastewater flows, which were also down from 2009. In addition, during 2010, GSWSA began capitalizing its water and wastewater taps over their expected lives. As a result, less personnel and construction material costs were expensed in 2010.
- The operating income for fiscal year 2010 was slightly over \$3.1 million, a 266.2% increase from the previous fiscal year.
- There was a decrease in net assets, before capital contributions of \$374,806. There was an increase in net assets after capital contributions of \$9.5 million.
- Ratios of total operating revenues to total operating expenses were 1.05 for 2010 and 0.97 for 2009.
- Debt service coverage for 2010 increased to 189% from 167% in 2009. Debt service coverage required by the bond covenants is 110%, which is well within our current coverage.
- Cash capital contributions in 2010 were \$3.1 million, a decrease of 14.5% compared to year 2009. Developer contributions of facilities were \$4.2 million, a decrease of 77.6% from 2009.



## FINANCIAL HIGHLIGHTS, continued

- GSWSA treated and distributed over 13.8 billion gallons of water and collected and treated over 9.78 billion gallons of wastewater, a decrease from fiscal year 2009 of 4.5% for water and 1.5% for wastewater. Water consumption was down in all customer classes except for Bull Creek wholesale usage during 2010. Wastewater usage was down in all customer classes except for bulk wastewater flows which were up slightly from 2009. Wastewater rate increases in 2010 contract, bulk and wholesale wastewater customers accounted for the wastewater revenue increase.
- During 2010, GSWSA added 4,459 water and 4,109 wastewater net customers, which resulted in a net of 4,911 water and 4,548 wastewater residential equivalent units. During fiscal year 2009, GSWSA added a net of 173 customers resulting in 359 water and 321 wastewater residential equivalent units. The customer increase in 2010 was primarily due to the purchase of City of Marion's water and wastewater systems. This acquisition added approximately 3,400 new customers and the associated water and wastewater residential equivalent units, which will increase income approximately \$150,000 a month. The remaining additional new customers and residential equivalent units added were a result of a slight improvement in the economy.

## OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to and should be read in conjunction with the basic financial statements and supplementary information. The financial statements can be found on pages 20 to 47 of this report.

The financial statements report information about GSWSA using full accrual accounting methods; similar to those used by private sector utilities. However, GSWSA does not use rate-regulated accounting principles applicable to private sector utilities since it is a governmental utility. All activities of GSWSA are accounted for in a single proprietary (enterprise) fund. The financial statements include a 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. It presents information about GSWSA's assets and liabilities, with the difference being reported as net assets. 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.

The balance sheet provides information about GSWSA at year-end, while 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. 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 2009 and is updated annually. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The main objectives of the rate model are to provide equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for itself.



## OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

## FINANCIAL ANALYSIS

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

### **Condensed Balance Sheet**

	<b>2010</b>	<b>2009 (As Restated)</b>	<b>Variance \$</b>	<b>Variance %</b>
Current Assets	\$ 31,562,103	\$ 33,308,514	\$ (1,746,411)	-5.2%
Restricted Assets - Current	6,607,333	5,626,145	981,188	17.4%
Noncurrent Assets	75,713,481	80,872,170	(5,158,688)	-6.4%
Restricted Assets - Noncurrent	21,720,339	18,649,121	3,071,218	16.5%
Capital Assets	535,692,847	527,025,486	8,667,361	1.6%
Other Assets	1,385,724	1,504,223	(118,499)	-7.9%
<b>Total Assets</b>	<b>\$ 672,681,827</b>	<b>\$ 666,985,659</b>	<b>\$ 5,696,169</b>	<b>0.9%</b>
 Current Liabilities	 \$ 20,940,911	 \$ 20,414,531	 \$ 526,381	 2.6%
Long Term Liabilities	217,710,895	221,638,474	(3,927,579)	-1.8%
<b>Total Liabilities</b>	<b>238,651,806</b>	<b>242,053,005</b>	<b>(3,401,198)</b>	<b>-1.4%</b>
 Net Assets				
Net Invested in Capital Assets, Net of Related Debt	315,449,250	299,789,950	15,659,299	5.2%
Restricted for:				
Capital Activity	14,131,946	11,218,000	2,913,946	25.8%
Debt Service	14,195,727	13,057,266	1,138,461	8.7%
Unrestricted	90,253,098	100,867,438	(10,614,340)	-10.5%
<b>Total Net Assets</b>	<b>434,030,021</b>	<b>424,932,654</b>	<b>9,097,366</b>	<b>2.1%</b>
 Total Liabilities & Net Assets	 <b>\$ 672,681,827</b>	 <b>\$ 666,985,659</b>	 <b>\$ 5,696,168</b>	 <b>0.9%</b>

FINANCIAL ANALYSIS, continued

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

	<b>2010</b>	<b>2009 (As Restated)</b>	<b>Variance \$</b>	<b>Variance %</b>
Revenues				
Operating Revenues:				
Charges for Services	\$ 59,773,132	\$ 57,797,764	\$ 1,975,368	3.4%
Other Revenue	1,867,751	2,073,846	(206,095)	-9.9%
Nonoperating Revenue:				
Investment Income	6,470,394	6,962,758	(492,364)	-7.1%
Gain (Loss) on Disposal of Capital Assets	129,662	(51,610)	181,272	-351.2%
Capital Contributions	9,472,172	25,198,062	(15,725,890)	-62.4%
Total Revenues	<u>77,713,111</u>	<u>91,980,820</u>	<u>(14,267,709)</u>	<u>-15.5%</u>
Expenses				
Operating Expenses				
Before Depreciation	37,683,792	41,885,058	(4,201,266)	-10.0%
Depreciation	20,843,152	19,860,538	982,614	4.9%
Nonoperating Expenses:				
Amortization of Deferred				
Bond Costs	122,858	122,554	304	0.2%
Interest Expense	9,965,942	9,586,438	379,504	4.0%
Total Expenses	<u>68,615,744</u>	<u>71,454,588</u>	<u>(2,838,844)</u>	<u>-4.0%</u>
Increase in Net Assets	<u>9,097,367</u>	<u>20,526,232</u>	<u>(11,428,865)</u>	<u>-55.7%</u>
Beginning Net Assets	424,932,654	409,418,513	15,514,141	3.8%
Restatement	<u>-</u>	<u>(5,012,091)</u>	<u>5,012,091</u>	<u>0.0%</u>
Beginning Net Assets, Restated	<u>424,932,654</u>	<u>404,406,422</u>	<u>20,526,232</u>	<u>5.1%</u>
Ending Net Assets	<u><b>\$ 434,030,021</b></u>	<u><b>\$ 424,932,654</b></u>	<u><b>\$ 9,097,367</b></u>	<u><b>2.1%</b></u>

## FINANCIAL ANALYSIS, continued

### Selected Data for Analysis

	2010	2009	Variance Amount	Variance %
Employees at Year End	282	269	13	4.8%
Active Customers at Year End:				
Water Customers	64,901	60,333	4,568	7.6%
Wastewater Customers	61,301	57,148	4,153	7.3%
Water Sales for Fiscal Year (Billions of Gallons)	13.80	14.50	(0.70)	-4.8%
Wastewater Sales for Fiscal Year (Billions of Gallons)	9.78	9.93	(0.15)	-1.5%
Total Operating Revenues (Per Average Employees)	\$218,585	\$222,571	(\$3,986)	-1.8%
Total Operating Expenses (Per Average Employees)	\$207,542	\$229,538	(\$21,995)	-9.6%
Ratio of Operating Revenues to:				
Operating Expenses	1.053	0.970	0.083	8.6%
Operating Expenses Net of Depreciation	1.636	1.429	0.207	14.49%
Total Assets	0.092	0.090	0.002	2.22%
Debt Related Ratios:				
Debt to Net Assets	0.550	0.570	-0.020	-3.47%
Debt to Capital Assets	0.446	0.459	-0.014	-3.00%
Operating Coverage (Operating Cash Flow/Debt)	0.099	0.080	0.019	23.51%
Debt Ratio (Total Debt/Total Assets)	0.355	0.363	-0.008	-2.24%
Bond Coverage (Net Earnings/Debt Required)	1.89	1.67	0.220	13.17%
Liquidity Ratio (Current Assets/Current Liabilities)	1.823	1.907	-0.084	-4.40%
Asset Management Ratios:				
Days Sales Outstanding (Receivables/(Sales/360))	30	31	-1	-3.23%
Asset Turnover (Sales/Assets)	0.092	0.090	0.002	2.22%

## GENERAL TRENDS AND SIGNIFICANT EVENTS

While the economic environment over the last few years has caused customer growth and usage to decline, GSWSA's management has taken a proactive approach to planning for sustainability and preservation. Management of GSWSA has expanded its service area to include parts of Georgetown, Marion and Dillon Counties in South Carolina; as well as Columbus County, North Carolina. In addition, management and the rest of the staff at GSWSA have cut expenses, budgeted for lower revenue and deferred capital expenditures.

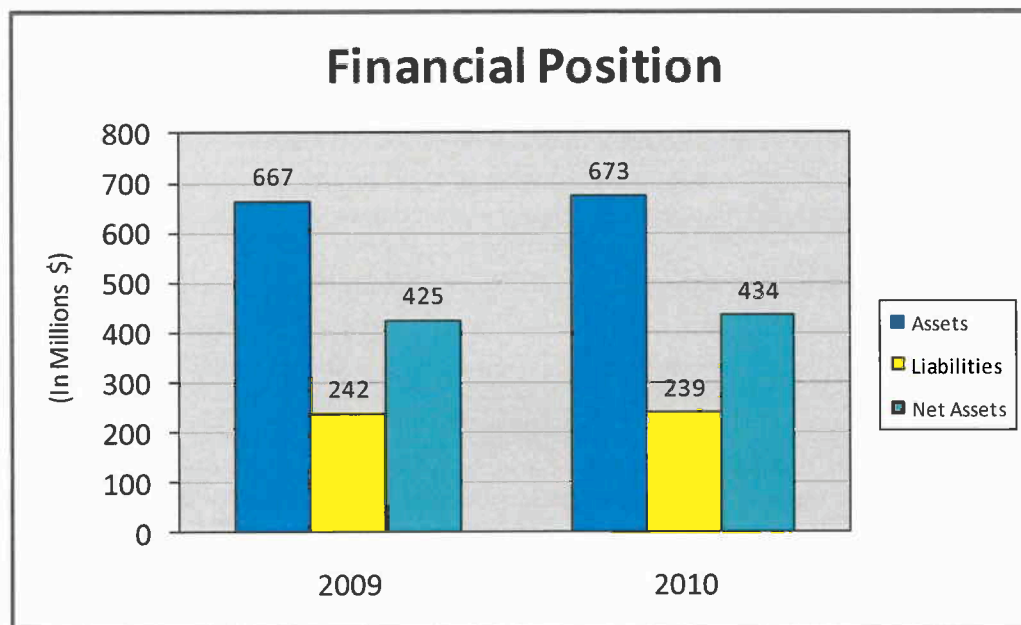
Weather temperatures during fiscal year 2010 were generally normal for the seasons. It was hotter during the summer than normal and it rained quite a bit less than it did in fiscal year 2009. Even though it rained 11" inches or 20% less in 2010 than 2009 water usage continued to decrease. The state of the local and national economy resulted in lower water usage than 2009.

The volume of water sold in fiscal year 2010 was 13.8 billion gallons, a decrease of 4.8% from fiscal year 2009. Retail customers purchased 35% of the total water sold and the wholesale customers purchased 65%.

The volume of treated wastewater sold in fiscal year 2010 was 9.78 billion gallons, a decrease of 1.5% from fiscal year 2009. GSWSA's total wastewater flows for 2010 were less than in 2009 with the bulk wastewater flows showing a slight increase over 2009. Retail customers purchased 46% and wholesale customers purchased 54% of the total treated wastewater.

## FINANCIAL CONDITION

Even though the condition of the national and local economy affected growth, 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, operating and long-term plans and the capabilities of technical support staff are well balanced and enable GSWSA to meet customer needs now and well into the future. The following chart summarizes the balance sheet.



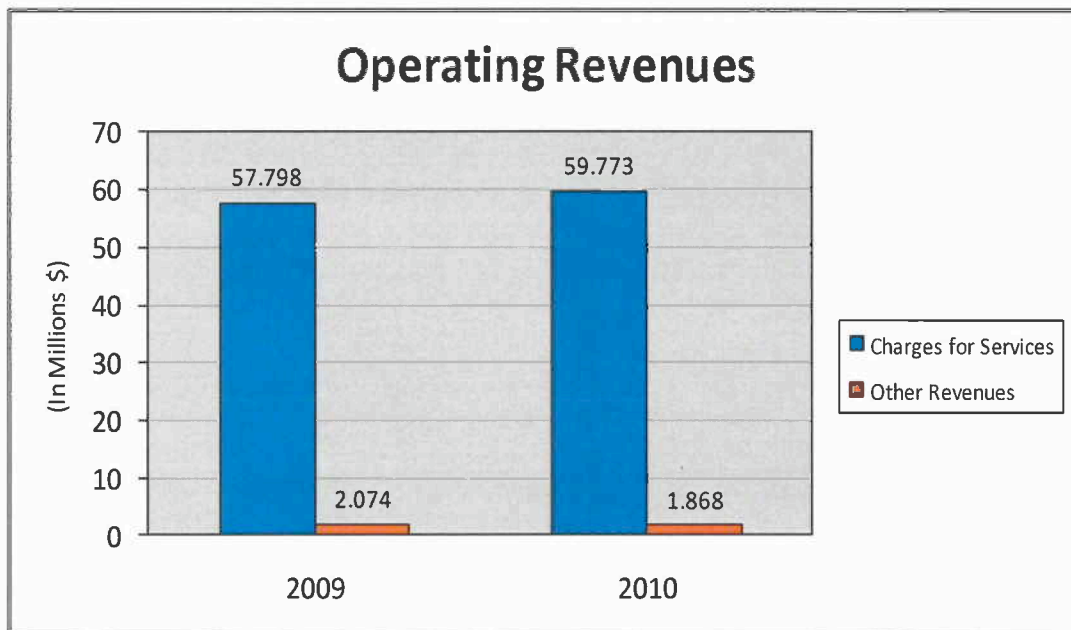
## FINANCIAL CONDITION, continued

During fiscal year 2010, total assets grew by \$5.7 million or 0.9% with approximately \$8.7 million represented by additions to capital assets. Net assets increased overall by \$9.1 million, with most of the change resulting from the addition of capital assets. Unrestricted net assets decreased \$10.6 million or 10.5% due primarily to GSWA using cash on hand to help finance the capital budget.

Accounts receivable for 2010, increased by approximately \$746,000 from 2009. The increase is mainly due to the June 30<sup>th</sup> accrual of water and wastewater volume sales billed in fiscal year 2011.

## RESULTS OF OPERATIONS

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

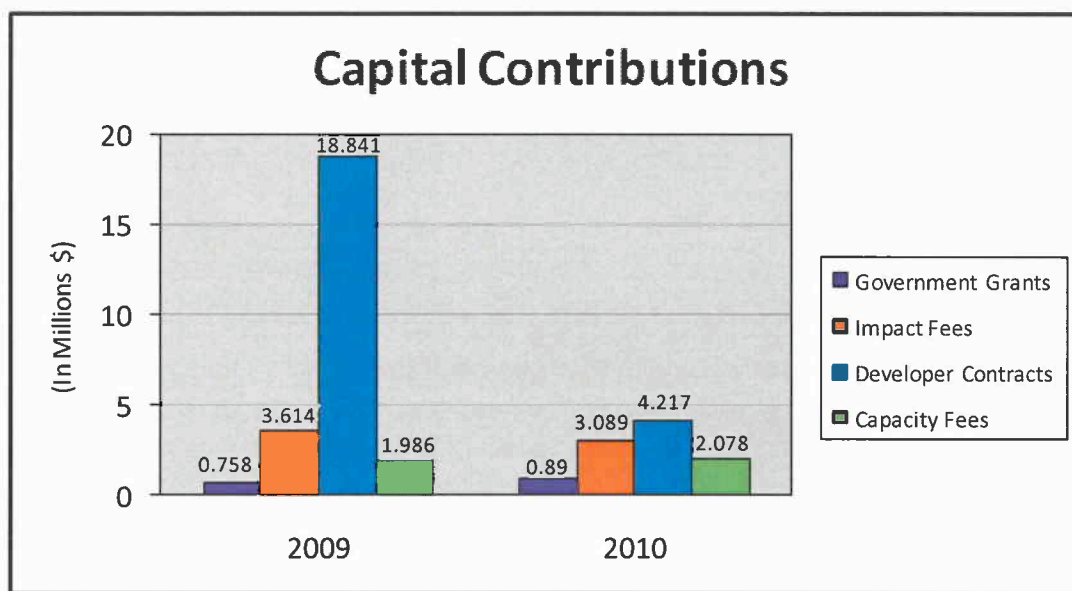


GSWA increased retail water and wastewater rates in 2010 by 2.62% and 2.20%, respectively. It did not increase wholesale water rates. Wholesale wastewater rates were increased by various percentages as specified by contract.

## RESULTS OF OPERATIONS, continued

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

The following chart depicts the capacity fee revenue activity.



Overall, capital contributions decreased \$15.7 million, or 62.4% during fiscal year 2010. Due to the economic downturn there has been a major decrease in the development of the local area, which accounted for the majority of the decrease in capital contributions. Developer contributions decreased approximately \$14.6 million from 2009. Government grants increased slightly from 2009. The majority of these funds were from the pre-disaster mitigation grant program to provide improvements at the Conway Wastewater Treatment Plant. Cash capital contributions (impact fees) were approximately \$3.1 million for 2010 compared to \$3.6 million for 2009. There was a slight increase in capacity fees from 2009 to 2010.



## RESULTS OF OPERATIONS, continued

**Expenses:** GSWSA operates and maintains both a potable water treatment and distribution system and a wastewater collection and treatment system. The water production occurs at its 40 and 45 million gallon per day surface water treatment plants. GSWSA has backup wells to use for peak management. The wastewater system includes ten wastewater treatment plants that range in size from 10,000 gallons per day to 22.4 million gallons per day.

Total operating expenses of GSWSA for 2010 decreased approximately \$3.2 million over fiscal year 2009, and operating revenues increased by approximately \$1.8 million. Operating expenses for water and wastewater operations for the last two years are listed below:

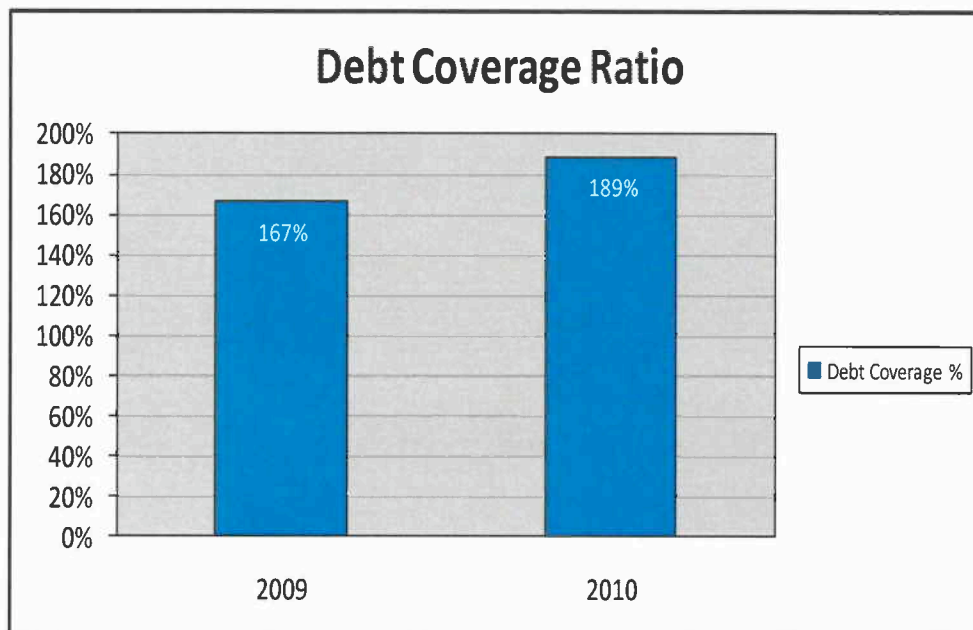
	<u>2010</u>	<u>%</u>	<u>2009</u>	<u>%</u>	<u>Variance</u>
Personnel costs	\$ 15,270,542	26.1%	\$ 16,072,133	26.0%	\$ (801,591)
Contractual services	12,150,141	20.8%	12,840,165	20.8%	(690,024)
Supplies and materials	8,033,877	13.7%	10,588,022	17.1%	(2,554,145)
Business and travel expenses	180,994	0.3%	155,152	0.3%	25,842
Depreciation (less business and travel)	20,843,152	35.6%	19,860,538	32.2%	982,614
Other expenses	<u>2,048,238</u>	<u>3.5%</u>	<u>2,229,586</u>	<u>3.6%</u>	<u>(181,348)</u>
Total operating expenses	<u>\$ 58,526,944</u>	<u>100.0%</u>	<u>\$ 61,745,596</u>	<u>100.0%</u>	<u>\$ (3,218,652)</u>

Personnel costs decreased \$801,591 or 5% from 2009 to 2010. GSWSA did not grant a merit increase during 2010 and put a freeze on hiring to help reduce personnel costs. The number of employees increased from 269 to 282 due to the purchase of the City of Marion water and wastewater systems. GSWSA picked up thirteen Marion employees as part of the contract. The overall decrease in personnel costs was mainly a result of the capitalization of salaries related to water and wastewater tap installations. Contractual services decreased \$690,024 or 5.4%, primarily as a result of a reduction in lease of equipment and general maintenance costs. Supplies and materials also decreased \$2,554,145 or 24.1% due to an decrease in chemicals needed to treat water and wastewater flows. Depreciation and amortization was up \$982,614 or 4.9% due to the addition of assets during fiscal year 2010. Other expenses were down by \$181,348 or 8.1% in 2010 due to an decrease in employee benefit costs.

## RATE COVENANT

In the Bond Resolution, GSWSA covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by GSWSA, together with other income, that will yield annual net earnings in the fiscal year equal to at least 110% of the sum of the annual debt service payments. Net earnings for debt service are defined as gross revenue including customer impact fees, less operating expenses adjusted for depreciation. The rate covenant in the Bond Resolution obligates GSWSA to review rates at least once a year and to revise such rates and charges as necessary to meet the coverage test. Revenue bond debt service coverage for fiscal years 2009 and 2010 were 167% and 189%, respectively.

#### RATE COVENANT, continued



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

#### CAPITAL ASSETS AND LONG-TERM DEBT

GSWSA increased plant and equipment by \$35.5 million during 2010. The acquisition of the City of Marion water and wastewater systems added over \$13.5 million in capital assets. Other wastewater additions included the Highway 501 to 544 Force Main for \$1.6 million, the Myrtle Beach Wastewater Treatment Plant Expansion for \$8.9 million, and the Rural Sewer projects at a cost of \$1.6 million. Water additions included the Aquifer Storage Recovery projects for \$0.8 million and the Rural Water projects at a cost of \$2 million. Developer contributions to capital assets were \$4.2 million and capitalized interest was \$107,649. Disposals for 2009 were \$0.6 million.

During fiscal years 2009 and 2010, GSWSA obtained State Revolving Fund loans for the Myrtle Beach Wastewater Treatment Plant Expansion, Conway Odor Control project, as well as the Highway 501 to Highway 544 force main project. As of June 30, 2010, the draws made on these loans and recorded debt was \$15.4 million. The ratio of total debt to capital assets was 45% for the fiscal year 2010.

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

#### CONTACTING THE GSWSA'S FINANCIAL MANAGEMENT

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



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## **BASIC FINANCIAL STATEMENTS**

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

	<u>JUNE 30</u>	
	<u>2010</u>	<u>2009</u> <u>(As Restated)</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 10,418,809	\$ 8,649,544
Investments	4,203,392	11,557,674
Investment in Real Estate	3,523,520	-
Prepaid Net OPEB Asset	69,169	-
Receivables		
Customer accounts, net of allowance of \$199,570 in 2010 and \$151,158 in 2009	8,134,312	7,388,287
Assessments	2,874,964	2,897,053
Interest	660,493	1,083,093
Grant	-	128,685
Other	58,571	46,263
Total receivables	11,728,340	11,543,381
Inventories	1,132,175	1,118,962
Prepays	486,698	438,953
Restricted assets		
Cash and cash equivalents	6,204,447	4,935,594
Investments	402,886	690,551
Total restricted assets	6,607,333	5,626,145
Total current assets	38,169,436	38,934,659
<b>Noncurrent assets</b>		
Investments	67,438,663	75,998,956
Deferred Cash Outflow	8,274,818	4,873,214
Restricted Investments	21,720,339	18,649,121
Deferred bond cost (net)	1,380,974	1,499,473
Container and security deposits	4,750	4,750
Capital assets		
Nondepreciable	51,145,033	57,751,197
Depreciable, net of depreciation	484,547,814	469,274,289
Total capital assets	535,692,847	527,025,486
Total noncurrent assets	634,512,391	628,051,000
Total assets	<u>\$ 672,681,827</u>	<u>\$ 666,985,659</u>

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

	JUNE 30	
	2010	2009 (As Restated)
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 2,506,002	\$ 2,168,658
Accrued salaries and benefits	442,747	416,953
Accrued compensated absences	409,638	361,830
Current portion of capital lease payable	108,838	105,023
Construction contracts payable	983,752	2,247,128
Current portion of revenue bonds	6,679,763	5,674,813
Current portion of notes payable	4,008,833	3,549,159
Accrued interest on revenue bonds	574,943	598,952
Accrued interest on notes payable	416,052	259,554
Customer security and tap deposits	4,730,548	4,688,676
Unearned customer contributions	79,795	343,785
Total current liabilities	<u>20,940,911</u>	<u>20,414,531</u>
<b>Noncurrent liabilities</b>		
Revenue bonds (net), less current portion	137,943,901	144,505,746
Notes payable, less current portion	64,629,827	65,416,187
Interest rate swap liability	8,274,818	4,873,214
Companion instrument debt	3,990,427	3,990,427
Accrued interest - companion instrument debt	1,018,426	761,482
Capital lease payable, less current portion	879,831	985,571
Accrued compensated absences	823,173	796,512
Embedded instrument liability (interest rate swap)	121,922	185,534
Arbitrage rebate	28,570	123,801
Total noncurrent liabilities	<u>217,710,895</u>	<u>221,638,474</u>
Total liabilities	<u>238,651,806</u>	<u>242,053,005</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	315,449,249	299,789,950
Restricted for:		
Capital projects	14,131,946	11,218,000
Debt service	14,195,728	13,057,266
Unrestricted	90,253,098	100,867,438
Total net assets	<u>434,030,021</u>	<u>424,932,654</u>
Total liabilities and net assets	<u><u>\$ 672,681,827</u></u>	<u><u>\$ 666,985,659</u></u>

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

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

	For the years ended June 30	
	2010	2009
<b>Operating revenues</b>		
Water and sewer volume and availability fees	\$ 45,921,594	\$ 44,766,504
Customer charges	4,618,838	4,352,846
Surface water charges	6,275,812	6,194,359
Surface water treatment plant contract revenues	2,956,888	2,484,055
Other revenue	1,867,751	2,073,846
Total operating revenues	61,640,883	59,871,610
<b>Operating expenses</b>		
Personnel costs	15,270,542	16,072,133
Contractual services	12,150,141	12,840,165
Supplies and materials	8,033,877	10,588,022
Depreciation on assets acquired with:		
Authority funds	11,586,544	11,220,437
Contributed capital	9,256,608	8,640,101
Other expenses	2,229,232	2,384,738
Total operating expenses	58,526,944	61,745,596
<b>Operating income (loss)</b>	3,113,939	(1,873,986)
<b>Non-operating revenues (expenses)</b>		
Investment income	6,470,394	6,962,758
Gain (loss) on disposal of capital assets	129,662	(51,610)
Amortization of deferred bond costs	(122,858)	(122,554)
Interest expense	(9,965,942)	(9,586,438)
Total non-operating expenses (net)	(3,488,744)	(2,797,844)
<b>Loss before contributions</b>	(374,805)	(4,671,830)
<b>Capital contributions</b>		
Surface water treatment plant capacity fees	2,078,076	1,985,592
Governments grants/contributions	89,046	757,542
Customer impact fees	3,088,548	3,614,012
Developer contributions	4,216,502	18,840,916
Total capital contributions	9,472,172	25,198,062
<b>Change in net assets</b>	9,097,367	20,526,232
<b>Beginning net assets, as previously reported</b>	424,932,654	409,418,513
Restatement	-	(5,012,091)
<b>Beginning net assets, as restated</b>	424,932,654	404,406,422
<b>Net assets, ending</b>	<b>\$ 434,030,021</b>	<b>\$ 424,932,654</b>

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

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

	For the years ended June 30	
	2010	2009
<b>Cash flows from operating activities</b>		
Cash received from customers and users	\$ 60,958,818	\$ 61,290,020
Cash paid to suppliers	(22,136,864)	(30,022,833)
Cash paid to employees	(14,646,652)	(11,864,721)
Cash paid to OPEB trust	(592,796)	-
Net cash provided by operating activities	<u>23,582,506</u>	<u>19,402,466</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(26,565,068)	(29,334,156)
Capital contributions	4,991,680	5,177,845
Collections of receivables - grants and other	116,377	128,857
Interest paid on debt	(9,734,627)	(9,454,130)
Proceeds from issuance of debt	3,147,393	20,564,149
Principal paid on debt	(9,151,459)	(8,806,624)
Principal payments on capital lease obligations	(105,023)	-
Bond issuance costs	118,499	(80,520)
Proceeds from sale of capital assets	<u>137,343</u>	<u>2,069,309</u>
Net cash and cash equivalents used by capital and related financing activities	<u>(37,044,885)</u>	<u>(19,735,270)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(53,445,777)	(66,132,559)
Proceeds from sale of investments	63,053,279	44,764,756
Interest and investment income received	<u>6,892,994</u>	<u>6,765,216</u>
Net cash and cash equivalents provided by (used for) investing activities	<u>16,500,496</u>	<u>(14,602,587)</u>
Net change in cash and cash equivalents	3,038,117	(14,935,391)
Cash and cash equivalents - beginning	<u>13,585,138</u>	<u>28,520,529</u>
Cash and cash equivalents - ending	<u><u>\$ 16,623,255</u></u>	<u><u>\$ 13,585,138</u></u>

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

	For the years ended June 30	
	2010	2009
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income (loss)	\$ 3,113,938	\$ (1,873,986)
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities		
Depreciation	20,843,152	19,860,538
(Increase) decrease in operating assets		
Receivables - customers and assessments	(723,936)	1,388,271
Prepaid net OPEB asset	(69,169)	-
Inventories	(13,213)	(74,719)
Prepays	(47,745)	(123,308)
Increase (decrease) in operating liabilities		
Accounts payable	337,344	9,568
Accrued salaries and compensated absences	100,263	185,963
Customer security and tap deposits	41,872	30,139
Net cash provided by operating activities	<u>\$ 23,582,506</u>	<u>\$ 19,402,466</u>
<b>Noncash capital and related financing activities</b>		
Developer contributions	\$ 4,216,502	\$ 18,840,916
Abandoned capital projects expensed	2,388,205	2,591,833
Capitalized interest expense	107,649	124,711
Unrealized appreciation (depreciation) in fair value of investments	799,512	(435,797)
Total noncash capital and related financing activities	<u>\$ 7,511,868</u>	<u>\$ 21,121,663</u>
<b>Reconciliation of cash and cash equivalents</b>		
Unrestricted cash and investments - beginning	\$ 96,206,174	\$ 78,001,468
Restricted cash and investments - beginning	24,275,266	36,047,559
	120,481,440	114,049,027
Investments with original maturity dates over ninety days	(106,896,301)	(85,528,498)
Cash and cash equivalents - beginning	<u>\$ 13,585,139</u>	<u>\$ 28,520,529</u>
Unrestricted cash and investments - ending	\$ 82,060,864	\$ 82,824,632
Restricted cash and investments - ending	28,327,672	37,656,807
	110,388,536	120,481,439
Investments with original maturity dates over ninety days	(93,765,280)	(106,896,301)
Cash and cash equivalents - ending	<u>\$ 16,623,256</u>	<u>\$ 13,585,138</u>

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

**GRAND STRAND WATER AND SEWER AUTHORITY  
STATEMENT OF FIDUCIARY NET ASSETS  
OTHER POSTEMPLOYMENT BENEFIT PENSION TRUST FUND  
JUNE 30, 2010**

**Assets**

Cash and Investments	\$ 1,100,829
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**Liabilities**

Benefits payable	<u>1,115</u>
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**Net Assets**

Held in trust for other post employment benefits	<u><u>\$ 1,099,714</u></u>
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The accompanying notes are an integral part of the financial statements.

**GRAND STRAND WATER AND SEWER AUTHORITY  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
OTHER POSTEMPLOYMENT BENEFIT PENSION TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

**Additions**

Investment income	
Net appreciation in fair value of investments	\$ 941
Interest income	<u>22,177</u>
Total investment income	<u>23,118</u>
Contributions	
Employer	<u>592,756</u>
Total additions	<u>615,874</u>

**Deductions**

Benefits	<u>90,781</u>
Change in net assets	525,093

**NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS,  
BEGINNING OF YEAR**

574,621

**END OF YEAR**

\$ 1,099,714

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



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Description of Government Unit*

The Grand Strand Water and Sewer Authority (GSWSA) was created pursuant to the provisions of Act No. 337 enacted during the 1971 Session of the General Assembly of the State of South Carolina 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. or (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 certain accounting standards related to the financial reporting entity. GSWSA's Board is appointed by the Governor of the State of South Carolina based upon recommendation by local delegation. Accordingly, an accountability perspective has been the basis for defining the financial reporting entity. These financial statements present the government and all of its activities for which GSWSA's Board is accountable. There are no other political subdivisions or entities which should be included in the reporting entity of GSWSA.

*Basis of Presentation, Accounting and Measurement Focus*

GSWSA's financial statements are presented on the full accrual basis in accordance with generally accepted accounting principles. GSWSA applies all relevant Government Accounting Standards Board (GASB) pronouncements, as well as when applicable, Financial Accounting Standards Board (FASB) pronouncements and Accounting 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 which relate to 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; net assets restricted for capital projects and for debt service; 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 a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, and accountability.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**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 non-operating revenues and expenses.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

GSWSA also uses a fiduciary fund to report certain other post employment benefits (OPEB). The OPEB Pension Trust Fund accounts for the activities of a pension trust fund that accumulates resources for the OPEB plan and pays benefits to qualified employees.

*Budgets and Budgetary Accounting*

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

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

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

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

*Deposits and Investments*

For purposes of reporting cash flows, GSWSA's policy is to include in cash and cash equivalents, all cash on hand, cash on deposit, and all investments maturing within 90 days.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Deposits and Investments (continued)*

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

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

GSWSA has funds invested in the South Carolina Local Government Investment Pool which is encouraged by the South Carolina State Treasurer. Funds deposited by legally defined entities into the pool are used to purchase investment securities as follows: direct obligations of U.S. Government securities; federal agency securities; repurchase agreements secured by the U.S. Government and/or federal agency securities; and A1/P1 commercial paper.

*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. Receivables include approximately \$5,971,652 in revenues earned through year end but not yet billed as of June 30, 2010. Recurring consumption and capacity fees from residential and commercial customers are recognized as operating revenues, whereas Bull Creek Surface Water Treatment Plant bulk consumption and capacity sales to other service providers (generally other local governments) are recognized as operating revenues and capital contributions.

*Inventories*

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

*Restricted Assets*

Restricted asset accounts were established to account for assets reserved for specific purposes. Funds designated by certain revenue bond indentures and revolving loan agreements are recorded as restricted assets. The bond and loan agreements require the establishment of construction accounts, current debt service accounts, future debt service accounts, and depreciation and contingent accounts. Deposits are made to restricted asset accounts in amounts determined by the bond indenture.

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.



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Capital Assets, Capacity Rights and Depreciation*

Capital assets 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 the engineers' estimated fair market value or cost to construct at the date of the contribution. Acquired utility systems assets from other service providers (typically local governments) are recorded at the lower of the prior service provider's net book value or fair value, with the cost and accumulated depreciation recorded. GSWSA allocates overhead to construction projects based on the direct labor charges to each project. GSWSA's policy is to capitalize assets in excess of \$2,500. Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Utility plant and equipment	8 - 45
Buildings and leaseholds	14 - 50
Vehicles	3 - 10
Machinery, equipment and furniture	5 - 10

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

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

GSWSA records the entire cost of water and wastewater systems which it owns, operates and controls. This includes the cost of certain capacity rights purchased from other utilities. The cost of these capacity rights are included in utility plant and are depreciated over a useful life of 8 - 45 years.

*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.

GSWSA entered into interest rate swap agreement to modify interest rates on outstanding debt. The fair value of the Swap and Swaption, fair value of the Embedded Instrument, the Companion Debt, and the Accrued Interest on the Companion Debt are reported in the financial statements.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Accrued Compensated Absences**

It is GSWSA's policy to permit its employees to accumulate earned but unused vacation benefits which will be paid to the employees upon separation from service to GSWSA. These vacation benefits are accrued in the period earned. The current portion of compensation for future absences liability is an estimate based upon the average annual payment to employees for vacation benefits.

**Non-exchange Transactions**

During the fiscal year ended June 30, 2001, GSWSA implemented the provisions of accounting standards related to accounting and financial reporting for non-exchange transactions. Non-exchange transactions involve financial or capital resources in which a government either gives value to another party without receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The standards established by the statement require that capital contributions, such as government grants, customer impact fees and developer contributions, be recorded in the financial statements as revenues.

**Revenues and the Rate Structure**

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

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

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

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

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**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 for capital projects and debt service; and, (3) unrestricted.

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

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

Unrestricted net assets consists of all other net assets not included in the above two categories. Unrestricted net assets at June 30, 2010 include \$3,206,286 maintained in a rate stabilization fund as designated by the Board of Directors. This fund consists of excess operating and maintenance revenues at year end which are not re-budgeted and may only be used or expended by the Board to provide for unanticipated emergencies (e.g. major natural disaster or loss of a major customer) which could otherwise result in spiked rate (i.e. revenue) increases. This fund is periodically reviewed to ensure that it is adequate.

**Comparative Data**

Some prior year amounts have been reclassified for comparative purposes.

**Subsequent Events**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 19, 2010, the date the financial statements were available for issue.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

Cash and cash equivalents consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Petty cash	\$ 4,500	\$ 3,350
Cash deposits	8,076,193	6,313,094
Repurchase agreements	462,984	51,236
Money market deposits	8,058,165	7,196,147
Investment pool deposits	<u>21,414</u>	<u>21,311</u>
Total cash and cash equivalents	<u><b>\$ 16,623,256</b></u>	<u><b>\$ 13,585,138</b></u>

**Deposits**

At June 30, 2010 and 2009, the carrying amount of GSWSA's deposits in financial institutions were \$16,134,358 and \$13,509,241. The financial institutions' balances totaled \$16,541,799 and \$13,728,873, respectively; all of which were insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with securities held by GSWSA's agents and/or held by pledging financial institutions trust departments or agents, both in GSWSA's name. Petty cash on hand was \$4,500 for fiscal year 2010 and \$3,350 for fiscal year 2009.

Custodial credit risk is the risk that in the event of a bank failure, GSWSA's deposits may not be returned to it. GSWSA'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 BASIC FINANCIAL STATEMENTS**

**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, 2010 and 2009, 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>2010 Fair Value</u>	<u>2009 Fair Value</u>
Federal Home Loan	\$ 14,747,715	\$ 21,591,850
Federal National Mortgage	16,584,214	23,235,265
Federal Farm Credit Banks	-	3,116,875

*Credit Risk* - As reflected below, as of June 30, 2010 and 2009, GSWSA had certain investments which were rated by Standard and Poor's.

*Concentration of Credit Risk.* As presented below, GSWSA had certain investments with issuers that were over 5% of their investment portfolio as of June 30, 2010 and 2009.

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 twelve years with the exception of mortgage pass through securities with normal maturities greater than ten years, if their average life is expected to be ten years or less.

As of June 30, 2010, GSWSA had the following investments and maturities.

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					<u>Credit rating</u>	<u>As a % of total investments</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>		
Repurchase Agreements	\$ 462,984	\$ 462,984	\$ -	\$ -	\$ -	Not rated	0.49%
U.S. Treasuries	45,880,902	1,273,503	25,529,072	19,078,327	-	AAA	48.69%
Federal Home Loan Mortgage Corporation	14,747,714	1,183,749	5,088,759	3,664,189	4,811,017	AAA	15.65%
Federal National Mortgage Association	16,584,214	2,149,026	2,643,118	3,087,856	8,704,214	AAA	17.60%
Federal Agricultural Mortgage Corporation	939,784	-	939,784	-	-	AAA	1.00%
Guaranteed Investment Contracts	7,588,394	-	-	783,930	6,804,464	Not rated	8.05%
Government National Mortgage Association	8,024,272	-	-	5,941	8,018,331	AAA	8.52%
	<u>\$ 94,228,264</u>	<u>\$ 5,069,262</u>	<u>\$ 34,200,733</u>	<u>\$ 26,620,243</u>	<u>\$ 28,338,026</u>		<u>100.00%</u>



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS, Continued**

As of June 30, 2009, GSWSA had the following investments and maturities.

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					<u>Credit rating</u>	<u>As a % of total investments</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>		
Repurchase Agreements	\$ 51,235	\$ 51,235	\$ -	\$ -	\$ -	Not rated	.05%
U.S. Treasuries	48,718,443	2,390,993	28,739,147	17,588,303	-	AAA	45.55%
Federal Home Loan Mortgage Corporation	21,591,850	3,382,493	10,130,265	4,143,838	3,935,254	AAA	20.19%
Federal National Mortgage Association	23,235,265	5,840,128	6,095,605	3,287,902	8,011,630	AAA	21.73%
Federal Farm Credit Banks	3,116,875	1,014,688	2,102,187	-	-	AAA	2.91%
Guaranteed Investment Contracts	7,431,121	-	-	783,930	6,647,191	Not rated	6.95%
Government National Mortgage Association	2,802,748	-	-	7,706	2,795,042	Not rated	2.62%
	<u>\$ 106,947,537</u>	<u>\$ 12,679,537</u>	<u>\$ 47,067,204</u>	<u>\$ 25,811,679</u>	<u>\$ 21,389,117</u>		<u>100.00%</u>

**Investment in Real Estate**

*Bucksport Marina* - On February 26, 2010, GSWSA acquired the Bucksport Marina for \$3,510,674 as an Investment in Real Estate. As of June 30, 2010, GSWSA had invested an additional \$12,846 to upgrade the facility. The investment is a joint effort with other local organizations to provide further economic development for the surrounding areas with a proposed Marine Park. The investment is recorded at acquisition cost plus the cost to upgrade.

Since GSWSA's core operations are primarily for water and wastewater, they entered into an agreement on June 2, 2010 with a company which will operate and manage the marina.

Due to the ownership and operation of the marina being unrelated to the utility operations of GSWSA, the State of South Carolina Insurance Reserve Fund could not provide coverage on the marina. Therefore, GSWSA acquired insurance from People's Underwriters, Inc. to cover General Liability & Docks, Property and Excess insurance coverage through an annual premium of approximately \$30,000.



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2010</u>
Capital assets not being depreciated					
Land and easements	\$ 47,944,912	\$ 810,896	\$ -	\$ -	\$ 48,755,808
Construction-in-progress	9,806,285	10,172,893	-	(17,589,953)	2,389,225
	<u>57,751,197</u>	<u>10,983,789</u>	<u>-</u>	<u>(17,589,953)</u>	<u>51,145,033</u>
Capital assets being depreciated					
Utility plant	624,062,710	17,631,133	(70,772)	17,589,953	659,213,024
Buildings and leaseholds	9,201,354	167,451	-	-	9,368,805
Vehicles	6,154,576	298,504	(297,285)	-	6,155,795
Machinery, equipment and furniture	<u>11,816,365</u>	<u>437,318</u>	<u>(239,602)</u>	<u>-</u>	<u>12,014,081</u>
	<u>651,235,005</u>	<u>18,534,406</u>	<u>(607,659)</u>	<u>17,589,953</u>	<u>686,751,705</u>
Accumulated depreciation for					
Utility plant	(168,052,303)	(18,912,917)	89,441	-	(186,875,779)
Buildings	(1,541,432)	(309,518)	-	-	(1,850,950)
Vehicles	(4,246,158)	(647,898)	297,284	-	(4,596,772)
Machinery, equipment and furniture	<u>(8,120,823)</u>	<u>(972,819)</u>	<u>213,252</u>	<u>-</u>	<u>(8,880,390)</u>
	<u>(181,960,716)</u>	<u>(20,843,152)</u>	<u>599,977</u>	<u>-</u>	<u>(202,203,891)</u>
	<u>\$ 527,025,486</u>	<u>\$ 8,675,042</u>	<u>\$ (7,682)</u>	<u>\$ -</u>	<u>\$ 535,692,847</u>

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2009</u>
Capital assets not being depreciated					
Land and easements	\$ 49,653,829	\$ 368,588	\$ (2,077,505)	\$ -	\$ 47,944,912
Construction-in-progress	6,721,189	27,291,732	-	(24,206,636)	9,806,285
	<u>56,375,018</u>	<u>27,660,320</u>	<u>(2,077,505)</u>	<u>(24,206,636)</u>	<u>57,751,197</u>
Capital assets being depreciated					
Utility plant	586,046,012	13,894,595	(92,081)	24,214,184	624,062,710
Buildings and leaseholds	6,465,014	2,747,068	(3,180)	(7,548)	9,201,354
Vehicles	5,509,841	713,712	(68,977)	-	6,154,576
Machinery, equipment and furniture	<u>10,909,869</u>	<u>979,944</u>	<u>(73,448)</u>	<u>-</u>	<u>11,816,365</u>
	<u>608,930,736</u>	<u>18,335,319</u>	<u>(237,686)</u>	<u>24,206,636</u>	<u>651,235,005</u>
Accumulated depreciation for					
Utility plant	(149,957,902)	(18,143,009)	48,608	-	(168,052,303)
Buildings	(1,317,695)	(229,916)	6,179	-	(1,541,432)
Vehicles	(3,769,838)	(545,297)	68,977	-	(4,246,158)
Machinery, equipment and furniture	<u>(7,248,117)</u>	<u>(942,316)</u>	<u>69,610</u>	<u>-</u>	<u>(8,120,823)</u>
	<u>(162,293,552)</u>	<u>(19,860,538)</u>	<u>193,374</u>	<u>-</u>	<u>(181,960,716)</u>
	<u>\$ 503,012,202</u>	<u>\$ 26,135,101</u>	<u>\$ (2,121,817)</u>	<u>\$ -</u>	<u>\$ 527,025,486</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - CAPITAL ASSETS AND DEPRECIATION, Continued**

Direct and indirect costs of GSWSA's construction and engineering departments were capitalized in the amount of \$2,752,295 and \$1,726,916 during 2010 and 2009, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$107,649 and \$124,711 during 2010 and 2009, 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.

**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.

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.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - CAPITAL ASSETS AND DEPRECIATION, Continued**

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.

**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.



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - CAPITAL ASSETS AND DEPRECIATION, Continued**

**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.

**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.

**Marion Systems** - During April 2010, GSWSA entered into a Grant of Franchise and Purchase and Sales Agreement with the City of Marion, South Carolina, whereby GSWSA acquired and assumed the operation of the Marion waterworks and sewer system assets resulting in an increase in capital assets of approximately \$13.5 million. GSWSA pays the City of Marion an annual fee of approximately \$150,000 for this exclusive franchise. GSWSA is generally obligated to charge Marion customers rates comparable to other GSWSA customers. GSWSA initially served approximately 3,400 additional customers as a result of this arrangement. GSWSA began providing water and wastewater services to the City of Marion as of May 1, 2010.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL LEASE**

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.

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2010 are as follows:

2011	\$ 144,352
2012	144,352
2013	144,352
2014	144,352
2015	144,352
2016-2019	<u>442,864</u>
Total minimum lease payments	1,164,624
Less:	
Amount representing interest	(151,171)
Unamortized deferral on refunding	<u>(24,784)</u>
Present value of minimum lease payments	<u><u>\$ 988,669</u></u>

**NOTE 5 - LONG-TERM DEBT**

The original amount of debt which has been issued, including prior years, by GSWSA was \$362,329,988. Bonds, notes and state revolving loans payable at June 30, 2010 and 2009 are composed of the following individual issues.

	<u>2010</u>	<u>2009</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 through 2015; interest at 5.55% per annum; due June 1 and December 1.	\$ 4,049,887	\$ 4,769,700
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.	5,830,000	8,485,000
Series 2001 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

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT, Continued**

	<u>2010</u>	<u>2009</u>
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 through 2019; interest at 5.0% to 5.375% per annum; due June 1.	27,470,000	27,470,000
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 through 2018; interest at 3.58 per annum; due June 1.	5,502,434	6,195,000
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 through 2021; interest at 3.75 per annum; due June 1 and December 1.	16,890,000	17,970,000
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 through 2023; interest at 3.73 per annum; due December 1.	8,960,000	9,490,000
Waterworks and Sewer System Improvement Revenue Bond, Series 2008. Secured by net revenues of the system. Current interest paying serial bond; due in thirteen annual principal installments of \$715,000 and one of \$705,000; interest at 3.36 per annum; due beginning December 1, 2009.	<u>10,000,000</u>	<u>10,000,000</u>
Total bonds payable	<u>145,882,320</u>	<u>151,559,700</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT, Continued**

	<u>2010</u>	<u>2009</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 are pledged for debt service.	101,192	132,840
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 are pledged for debt service.	834,135	912,261
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 are pledged for debt service.	888,316	965,839
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 are pledged for debt service.	659,866	701,937
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.	2,419,984	2,563,526
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.	10,339,486	11,118,710



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT, Continued**

	<u>2010</u>	<u>2009</u>
Note payable, including accrued interest of \$5,557, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$19,404 began August 1, 2001. Total approved loan is \$1,113,023. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	706,109	757,875
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 are pledged for debt service.	1,826,386	1,921,967
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 are pledged for debt service.	3,612,569	3,824,490
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 are pledged for debt service.	5,235,083	5,542,184
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 are pledged for debt service.	168,837	176,122
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 are pledged for debt service.	4,909,003	5,149,449



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT, Continued**

	<u>2010</u>	<u>2009</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 are pledged for debt service.	1,830,318	1,941,107
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 are pledged for debt service.	11,145,779	11,820,435
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 are pledged for debt service.	11,101,692	11,436,173
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.25%. Quarterly principal and interest payments of \$163,212 to begin March 1, 2010. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	8,602,348	7,075,501
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.25%. Quarterly principal and interest payments of \$58,031 to begin May 1, 2009. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	3,021,193	2,850,281

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT, Continued**

Note payable to South Carolina State Budget and Control Board for Clean Water State Revolving Fund at 1.84%. Quarterly principal and interest payments of \$26,103 to begin August 1, 2010. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.

<u>2010</u>	<u>2009</u>
<u>1,236,364</u>	<u>-</u>

Total notes payable

<u>68,638,660</u>	<u>68,890,697</u>
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Advances payable comprising companion instrument debt related to an interest rate swap. Payments of principal and interest ranging from \$29,481 to \$310,202 at a rate of 5.34% beginning June 1, 2013 with all unpaid principal and interest due in June 2031.

<u>3,990,427</u>	<u>3,990,427</u>
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Total debt, before deferrals

218,511,407	224,515,473
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Unamortized revenue bond discount (premium)

125,851	160,154
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Unamortized deferral on refunding (less portion attributable to capital lease)

<u>(1,384,507)</u>	<u>(1,539,295)</u>
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Total debt, net

217,252,751	223,136,332
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Less current portion

<u>(10,688,596)</u>	<u>(9,223,972)</u>
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Total long - term portion of debt

<u><b>\$ 206,564,155</b></u>	<u><b>\$ 213,912,360</b></u>
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Remaining debt service payments at June 30, 2010 are as follows:

<u>Date</u>	<u>Revenue Bonds</u>		<u>Companion Instrument Debt</u>		<u>State Revolving Loans</u>		<u>Total</u>	<u>Total Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2011	\$ 6,679,763	\$ 6,856,199	\$ -	\$ -	\$ 4,008,832	\$ 2,384,830	\$ 10,688,595	\$ 19,929,624
2012	7,171,930	6,526,898	-	-	4,155,650	2,238,013	11,327,580	20,092,491
2013	7,996,437	6,172,571	(1,190,096)	1,810,500	4,271,977	2,086,137	11,078,318	21,147,526
2014	8,343,414	5,810,215	336,931	277,195	4,416,091	1,930,174	13,096,436	21,114,020
2015	8,533,343	5,425,215	348,809	258,713	4,577,692	1,768,573	13,459,844	20,912,345
2016-2020	44,272,433	20,643,566	1,820,775	1,000,102	25,309,572	6,204,733	71,402,780	99,251,181
2021-2025	29,090,000	12,184,131	1,668,078	513,313	15,600,630	2,142,635	46,358,708	61,198,787
2026-2030	27,455,000	5,837,000	949,288	136,415	6,298,216	425,054	34,702,504	41,100,973
2031	6,340,000	317,000	56,642	2,320	-	-	6,396,642	6,715,962
	<u><b>\$ 145,882,320</b></u>	<u><b>\$ 69,772,795</b></u>	<u><b>\$ 3,990,427</b></u>	<u><b>\$ 3,998,558</b></u>	<u><b>\$ 68,638,660</b></u>	<u><b>\$ 19,180,147</b></u>	<u><b>\$ 218,511,407</b></u>	<u><b>\$ 311,462,909</b></u>

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT, Continued**

Remaining debt service payments at June 30, 2009 are as follows:

Date	Revenue Bonds		Companion Instrument Debt		State Revolving Loans		Total	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	
2010	\$ 5,674,813	\$ 7,150,351	-	-	\$ 3,549,159	\$ 2,230,270	\$ 9,223,972	\$ 18,604,593
2011	6,679,763	6,878,302	-	-	3,897,833	2,321,107	10,577,596	19,777,005
2012	7,171,930	6,549,540	-	-	4,041,772	2,176,213	11,213,702	19,939,455
2013	7,996,437	6,195,587	(1,190,096)	1,810,500	4,142,911	2,026,691	10,949,252	20,982,030
2014	8,343,414	5,833,604	336,931	277,195	4,295,686	1,872,894	12,976,031	20,959,724
2015-2019	47,508,343	23,001,305	1,805,395	1,098,483	23,948,042	6,850,020	73,261,780	104,211,588
2020-2024	29,660,000	13,569,314	1,740,635	606,994	18,110,327	2,597,690	49,510,962	66,284,960
2025-2029	26,145,000	7,144,250	1,133,278	195,574	6,680,782	564,282	33,959,060	41,863,166
2030-2031	12,380,000	936,000	164,284	9,812	298,834	3,234	12,843,118	13,792,164
	<u>\$ 151,559,700</u>	<u>\$ 77,258,253</u>	<u>\$ 3,990,427</u>	<u>\$ 3,998,558</u>	<u>\$ 68,965,346</u>	<u>\$ 20,642,401</u>	<u>\$ 224,515,473</u>	<u>\$ 326,414,685</u>

Long term liability activity including capital leases for the year ended June 30, 2010, was as follows:

	Balance June 30, 2009 As Restated	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Bonds payable	\$ 151,559,700	\$ -	\$ 5,677,380	\$ 145,882,320	\$ 6,679,763
Notes payable	68,965,346	3,147,393	3,474,079	68,638,660	4,008,832
Capital lease payable	1,118,476	-	105,023	1,013,453	108,835
Companion instrument debt - principal	3,990,427	-	-	3,990,427	-
Companion instrument debt - accrued interest	761,482	256,944	-	1,018,426	-
Total liabilities	226,395,431	3,404,337	9,256,482	220,543,286	10,797,431
Less deferred amounts:					
Issuance discounts/premiums	160,154	-	34,303	125,851	-
Loss on refunding	(1,567,177)	-	(157,886)	(1,409,291)	-
Total	<u>\$ 224,988,408</u>	<u>\$ 3,404,337</u>	<u>\$ 9,132,899</u>	<u>\$ 219,259,846</u>	<u>\$ 10,797,431</u>

Long term liability activity including capital leases for the year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Restatement	Balance June 30, 2008 As Restated	Additions	Reductions	Balance June 30, 2009	Due Within One Year
Bonds payable	\$ 146,951,665	\$ -	\$146,951,665	\$ 10,000,000	\$ 5,391,965	\$ 151,559,700	\$ 5,674,813
Notes payable	61,639,865	74,648	61,714,513	10,564,149	3,313,316	68,965,346	3,549,159
Capital lease payable	1,219,819	-	1,219,819	-	101,343	1,118,476	105,023
Companion instrument debt	-	3,990,427	3,990,427	-	-	3,990,427	-
Companion instrument accrued interest	-	526,720	526,720	243,762	-	761,482	-
Total liabilities	209,811,349	4,591,795	214,403,144	20,807,911	8,806,624	226,395,431	9,328,995
Less deferred amounts:							
Issuance discounts/premiums	194,457	-	160,154	-	34,303	160,154	-
Loss of refunding	(1,724,205)	-	(1,567,177)	-	(157,028)	(1,567,177)	-
	<u>\$ 208,281,601</u>	<u>\$ 4,591,795</u>	<u>\$ 212,873,396</u>	<u>\$ 20,807,911</u>	<u>\$ 8,683,899</u>	<u>\$ 224,988,408</u>	<u>\$ 9,328,995</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT, Continued**

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

1. Construction Accounts.
2. Current Debt Service Accounts - for payment of bond principal and interest.
3. Future Debt Service Accounts - a reserve for future payment of principal and interest.
4. Depreciation and Contingency Fund - for restoring depreciated or obsolete capital assets.
5. 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.
6. Rebate Account - for the estimated liability to the federal government for interest earnings in excess of interest expense on tax-free revenue bonds.

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.

On June 5, 2008, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina Water Quality Revolving Fund for \$9,573,418 at an interest rate of 3.25%. The loan will provide proceeds for the upgrade and expansion of the Myrtle Beach Wastewater Treatment Plant. As of June 30, 2010, GSWSA had received loan proceeds of \$8,602,348. The note became payable in quarterly installments of \$163,212 beginning March 1, 2010.

On December 19, 2008, Grand Strand Water and Sewer Authority issued the 2008 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.

On August 29, 2008, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina Water Quality Revolving Fund for \$3,403,900 at an interest rate of 3.25%. The loan will provide proceeds for the upgrade of the Conway Wastewater Treatment Plant. As of June 30, 2010, GSWSA received \$3,021,193. The note became payable in quarterly installments of \$58,031 on May 1, 2009.

On December 30, 2009, Grand Strand Water & Sewer Authority was approved for a note payable to the South Carolina Budget and Control Board from the Clean Water State Revolving Fund for \$1,743,868 at an interest rate of 1.84%. The loan will provide proceeds for the installation of force main to divert and re-route wastewater flows from the Carolina Forest and Highway 501 areas to the Schwartz Wastewater Treatment Plant.

**Derivatives:**

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



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT, Continued**

**Interest Rate Swaps**

Objective of the interest rate swap - To protect against the potential of rising interest costs, GSWSA has locked into a fixed rate in the current market for use at a later date for the Bonds of 2001 Swaption and has entered into floating-to-fixed interest rate swap for the Bonds of 2003 Swap.

Terms - The terms, fair value and credit ratings of the outstanding swaption and swap as of June 30, 2010 were as follows. The notional amounts match the principal amounts of the outstanding debt.

<u>Associated Bond Issue</u>	<u>2001 Bonds</u>	<u>2003 Bonds</u>
Notional amounts	\$ 66,710,000	\$ 10,000,000
Up front payment	\$ 4,388,000	-
Effective date	June 1, 2012*	April 1, 2003
Fixed payer date	4.700%	3.580%
Variable receiver rate	70.00% of LIBOR	61.75% of LIBOR + 80 BP
Fair value of swap	(\$7,849,818)	(\$425,000)
Termination date	June 1, 2031	June 1, 2018
Counterparty credit rating	A+	A+

\* Under the terms of the swaption, GSWSA granted the swap provider the option to enter into the swap with notice 90 calendar days prior to its effective date.

Fair value - Both of the swap agreements have negative fair values as of June 30, 2010. Due to the current low-interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceeded the variable receiver rates. These swaps are based on a different variable receiver rate, which is partially responsible for the difference in performance.

Swap payments and associated debt - Assuming that interest rates remain the same at June 30, 2010, the debt service requirements on the interest rate swaps would be as follows:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Fixed Rate</u>		<u>Interest Rate</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Swaps, Net</u>	
2011	\$ 720,000	\$ 197,079	\$ (62,678)	\$ 854,401
2012	440,000	171,303	(62,678)	548,625
2013	615,000	155,551	(62,678)	707,873
2014	640,000	133,534	(62,678)	710,856
2015	665,000	110,622	(62,678)	712,944
2016 - 2018	2,425,000	181,685	(188,033)	2,418,652

Credit risk - As of June 30, 2010, the fair value of the swaps were negative, therefore GSWSA is not subject to credit risk. However, at times when the fair values of the swaps are positive, GSWSA is exposed to credit risk in the amount of the derivative's fair value.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT, Continued**

Basis risk - GSWSA is exposed to basis risk on the swaps because the variable rate payments received by GSWSA on the derivative instruments are based on a rate or index other than the interest rates GSWSA pays.

- Bonds of 2001 Swap - Assuming the swap is exercised prior to June 1, 2012, GSWSA would be exposed to basis risk through the potential mismatch of 70.00% of LIBOR and the SIFMA rate. As a result, savings might not be realized. As of June 30, 2010, the one month LIBOR rate was 0.3487% which places the SIFMA at approximately 72% of one month LIBOR at that date.
- Bonds of 2003 Swap - Exposed to basis risk through the potential mismatch of 61.75% of LIBOR plus 80 basis points and the SIFMA rate. As a result, savings might not be realized. As of June 30, 2010, the one month LIBOR rate was 0.3487% which places the SIFMA at approximately 72% of one month LIBOR at that date.

Termination risk - The swap agreements will be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. The swap can be terminated due to illegality, a credit event upon merger, or an event of default and illegality. The swap can also be terminated if credit ratings fall below established levels.

Methods of evaluating effectiveness - Both swaps are effective hedges as of June 30, 2010.

Bonds of 2001 Swap - Regression analysis, a quantitative method, was used to determine that the Bonds of 2001 Swap is highly effective. The regression analysis method evaluates effectiveness by considering the statistical relationship between the cash flows or fair values of the companion debt instrument. The changes in cash flows or fair values of the companion debt instrument met or exceeded all the following criteria:

	Value	Test	Result
R <sup>2</sup>	0.93	> 0.80	PASS
F-Statistic	569	> 4.05	PASS
Regression Coefficient	0.92	0.80 to 1.25	PASS

Bonds of 2003 Swap - Consistent critical terms method was used to determine the effectiveness of the Bonds of 2003 Swap. The consistent critical terms method evaluates effectiveness by qualitative consideration of critical terms of the hedgeable item and the potential hedging derivative instrument. Based on management's evaluation, the critical terms of the 2003 bonds are consistent with the critical terms of the interest rate swap.

**NOTE 6 - DEBT DEFEASANCE**

On February 1, 2002, Grand Strand Water and Sewer Authority issued Waterworks and Sewer System Refunding Revenue Bonds, Series 2002 in order to defease the 2003 thru 2007 and 2013 thru 2019 series of the 1992 Refunding Waterworks and Sewer System Revenue Bonds in the amount of \$36,680,000. U.S. Government Securities were purchased and placed in an irrevocable trust for the purpose of generating resources to fully service the defeased bonds until the debt is called or defeased. As a result the 1992 Refunding Waterworks and Sewer System Revenue Bonds series 2003 thru 2007 and 2013 thru 2019 are considered defeased and GSWSA has removed the liabilities from its accounts. The un-matured and outstanding principal balance on the defeased bonds at June 30, 2010 and 2009 is \$26,875,000.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7 - NET ASSETS**

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

	<u>2010</u>	<u>2009</u>
Invested in capital assets, net of related debt:		
Net capital assets	\$ 535,692,847	\$ 527,025,486
Less:		
Revenue bonds payable, net	(144,623,664)	(150,180,559)
Companion instrument debt payable	(5,008,853)	(4,751,909)
Notes payable	(68,638,660)	(68,965,346)
Capital lease payable	(988,669)	(1,090,594)
Contractors payable	<u>(983,752)</u>	<u>(2,247,128)</u>
Total	<u>315,449,249</u>	<u>299,789,950</u>
Restricted for:		
Capital projects	14,131,946	11,218,000
Debt Service		
Debt service fund	14,336,086	13,146,104
Less accrued interest	<u>(140,358)</u>	<u>(88,838)</u>
Total	<u>14,195,728</u>	<u>13,057,266</u>
Unrestricted	<u>90,253,098</u>	<u>100,867,437</u>
Total net assets	<u><u>\$ 434,030,021</u></u>	<u><u>\$ 429,932,654</u></u>

**NOTE 8 - 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 2010 and 2009 for active members covered by the SCRS was \$11,271,275 and \$11,455,385, respectively. Annual covered payroll for fiscal years 2010 and 2009 for retired members was \$606,509 and \$494,158, 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.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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

Benefits of the SCRS are established by the state statutes. The required employer and employee obligations to contribute to the SCRS are 9.39% and 6.50%, respectively for fiscal year 2010 and 9.39% and 6.50%, respectively for fiscal year 2009. 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 9.24% 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 2010 were \$1,115,324 and \$772,056. GSWSA's contributions to the SCRS for the last three years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual Employer Contribution</u>	<u>Percentage Contributed Current Year</u>
June 30, 2008	\$ 1,030,564	100%
June 30, 2009	1,122,160	100%
June 30, 2010	1,115,324	100%

GSWSA provides post-employment healthcare benefits mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by GSWSA. At June 30, 2010 and 2009, no employees had elected coverage under the Act.

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



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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

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

**NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN**

**Plan Description** - The Grand Stand Water and Sewer Authority's health care plan is a single-employer defined benefit care plan administered by GSWSA. The plan provides medical and dental insurance benefits to eligible retirees. Benefits provisions are established and may be amended by GSWSA's Board of Directors. There are no other participating employers in the plan. Grand Strand Water and Sewer Authority issues a publicly available financial report that includes financial statements and required supplementary information for the health care plan. The financial report may be obtained by writing the Chief Financial Officer, Grand Strand Water and Sewer Authority, P.O. Box 2368, Conway, South Carolina 29528-2368.

**Funding Policy** - The contribution requirements of plan members and GSWSA are established and may be amended by the Board of Directors. GSWSA employees receiving benefits contribute \$139 per month for retiree only coverage and \$580 per month for retiree and spouse coverage to age 65, and thereafter. GSWSA has been contributing at a rate that is based on an actuarial valuation that is prepared in accordance with certain parameters.

**Annual OPEB Cost** - GSWSA's annual OPEB cost of \$583,000 is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of certain accounting standards related to accounting and financial reporting by employees for post employment benefits other than pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

GSWSA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net negative OPEB obligations for the 2010 fiscal years 2009 and 2010 were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net Negative OPEB Obligation</u>
2009	583,000	100%	-
2010	583,000	102%	(69,169)

Only two years of information is available as GSWSA implemented certain accounting standards related to accounting and financial reporting by employees for postemployment benefits other than pensions, beginning in fiscal year 2009.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued**

The components of GSWSA's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net negative OPEB obligation are as follows:

Annual required contribution	\$ 583,000
Interest on OPEB obligation	4,000
Adjustment to annual required contribution	<u>(63,412)</u>
Annual OPEB cost	523,588
Contributions made	<u>(592,757)</u>
Decrease in net OPEB obligation	(69,169)
Net obligation - beginning of year	<u>-</u>
Net negative obligation - end of year	<u><u>\$ (69,169)</u></u>

**Funded Status and Funding Progress** – The funded states of the plan as of July 1, 2009 was as follows:

Actuarial accrued liability (ALL)	\$ 6,838,000
Actuarial value of plan assets	<u>577,000</u>
Unfunded actuarial accrued liability	<u><u>\$ 6,261,000</u></u>
Funded ratio (actuarial value of plan assets (AAL)	8.4%
Covered payroll (active plan members)	\$ 11,264,000
UAAL as a percentage of covered payroll	55.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the entry age normal (level percent of pay) cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), and a medical trend rate of 10% initially decreasing at a rate of 0.50% until an ultimate rate of 5.0% is reached. Also, the actuarial assumptions included a 2.5% annual salary rate increase and 2.5% for an annual inflation rate. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2010 was 30 years.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued**

**Summary of Significant Accounting Policies** - The financial statements for the health care plan are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value.

**NOTE 10 - MAJOR CUSTOMER**

During fiscal year 2010, the following customers provided the indicated percentage of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 16.58%, City of Conway 5.35%, City of North Myrtle Beach 5.50%, and Little River Water and Sewerage Company 2.66%. No other customers provided more than 0.96%.

During fiscal year 2009, the following customers provided the indicated percentage of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 14.8%, City of Conway 4.0%, City of North Myrtle Beach 3.0%, and Little River Water and Sewerage Company 2.1%. No other customers provided more than .8%.

**NOTE 11 - RISK MANAGEMENT**

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

GSWSA acquires insurance from the State Accident Fund for job related injury and illness (Worker's Compensation) to its employees. Worker's Compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. Health insurance, from a private insurer 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, 2010, 2009 and 2008.

During 2010 and 2009, GSWSA did not experience any material uninsured claims. Accordingly, there was no liability or expense recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

**NOTE 12 - COMMITMENTS**

**Construction Contracts** - In the normal course of business, GSWSA enters into agreements with contractors for the construction and expansion of the system. At June 30, 2010, open contracts for construction totaled approximately \$3,311,749 with \$1,959,889 having been incurred during the year. At June 30, 2009, open contracts for construction totaled approximately \$9,007,484 with \$8,563,497 having been incurred during the year. The remaining commitments at June 30, 2010 and 2009 were \$1,351,860 and \$443,986, respectively.

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 13 - RESTATEMENT**

During fiscal year 2006, GSWSA received a \$4.4 million upfront payment as part of an interest rate swap agreement. This amount was erroneously recorded as interest income rather than as a debt obligation.

The following discloses the restatement of net assets as of the beginning of the fiscal year for the recognition of the Companion Debt Instrument and the associated accrued interest as long term debt. This restatement also includes the recognition of the negative fair value for the embedded derivative related to the swap as a noncurrent liability and an increase in notes payable resulting from capitalized interest that was credited to interest expense during fiscal year 2009 rather than to accrued interest.

<u>Year ended June 30, 2009</u>	
Net assets, beginning of year, as previously stated	\$ 409,418,513
Less: recognition of:	
Companion instrument debt - principal	3,990,427
Companion instrument debt - accrued interest	761,482
Embedded instrument - liability (interest rate swap)	185,534
Accrued interest on notes payable	<u>74,648</u>
	<u>5,012,091</u>
Net assets, beginning of year, as restated	<u><u>\$ 404,406,422</u></u>

The above restatement increased GSWSA's interest expense for the year ended June 30, 2009 by \$836,130.

**NOTE 14 - SUBSEQUENT EVENTS**

During April 2010, GSWSA entered into a Grant of Franchise and Purchase and Sale Agreement with the Town of Nichols to acquire the water and wastewater systems of Nichols at a cost of approximately \$375,000. GSWSA will provide direct retail water and wastewater services to approximately 240 customers as a result of this agreement.

On July 7, 2010, the Grand Strand Water and Sewer Authority issued the Bonds of 2010 for \$15,283,200. The proceeds were applied towards the payoff of three State Revolving Fund Notes Payable. They included the City of Myrtle Beach State Revolving Loan dated December 12, 2001 in the amount of \$11,081,200, City of Myrtle Beach State Revolving Loan dated December 12, 2001 in the amount of \$1,819,800, and the Bucksville East State Revolving Loan dated December 10, 1999 in the amount of \$2,382,200. The issuance of the 2010 bonds resulted in a net present value savings to GSWSA of \$704,032 and freed up debt service reserve funds of approximately \$1,676,766.

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## SCHEDULES

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**GRAND STRAND WATER AND SEWER AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT HEALTH CARE PLAN**  
**JUNE 30, 2010**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2007	\$ -	\$ 5,467,000	\$ 5,467,000	0.0%	\$ 10,548,000	51.8%
7/1/2009	577,000	6,838,000	6,261,000	8.4%	11,264,000	55.6%

GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS  
FOR THE YEAR ENDED JUNE 30, 2010

	1991 A State Revolving Loan Burgess			1992 Revenue Bonds				1998 State Revolving Loan Conway WWTP Upgrade			
	Current Debt Service	Future Debt Service		Current Debt Service	Future Debt Service	Arbitrage Rebate		Current Debt Service	Future Debt Service		
Cash and investments, Beginning of year	\$ -	\$ 50,097	\$	278,797	\$ 3,422,745	\$	124,452	\$ 9,456	\$	116,601	
Cash receipts:											
Transfers from operating cash	47,397	-		3,116,607	-		43,505	113,453	-		
Transfers from capital projects	-	-		-	-		-	-	-		
Interest earned	-	-		78,856	338,302		5	1	-		
Other transfers	-	-		-	-		-	-	-		
Cash disbursements:											
Principle and interest payments	(35,548)	-		(3,195,919)	-		-	(113,455)	-		
Renewals and replacements	-	-		-	-		-	-	-		
Transfers to operating cash	-	-		-	-		(139,390)	-	-		
Transfers to capital projects	-	-		-	-		-	-	-		
Other transfers	-	-		-	-		-	-	-		
Cash and investments, End of year	<u>\$ 11,849</u>	<u>\$ 50,097</u>	<u>\$</u>	<u>278,341</u>	<u>\$ 3,761,047</u>	<u>\$</u>	<u>28,572</u>	<u>\$ 9,455</u>	<u>\$</u>	<u>116,601</u>	



GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS  
FOR THE YEAR ENDED JUNE 30, 2010

	1999 State Revolving Loan			
	Aynor		Wampee	
	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service
Cash and investments, Beginning of year	\$ 18,388	\$ 110,468	\$ -	\$ 104,603
Cash receipts				
Transfers from operating cash	110,315	(151)	80,175	-
Transfers from capital projects	-	-	-	-
Interest earned	1	4,647	1	-
Other transfers	-	-	-	-
Cash disbursements				
Principle and interest payments	(110,317)	-	(60,131)	-
Renewals and replacements	-	-	-	-
Transfers to operating cash	-	(4,647)	-	-
Transfers to capital projects	-	-	-	-
Other transfers	-	-	-	-
Cash and investments, End of year	<u>\$ 18,387</u>	<u>\$ 110,317</u>	<u>\$ 20,045</u>	<u>\$ 104,603</u>

GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS  
FOR THE YEAR ENDED JUNE 30, 2010

	2000 State Revolving Loan					
	Bucksville			Tip Top		
	Current Debt Service	Future Debt Service		Current Debt Service	Future Debt Service	
Cash and investments, Beginning of year	\$ -	\$ 298,320	\$	193,056	\$	1,191,731
Cash receipts						
Transfers from operating cash	298,319	-		1,158,207	-	-
Transfers from capital projects	-	-		-	-	-
Interest earned	3	-		11	-	-
Other transfers	-	-		-	-	-
Cash disbursements						
Principle and interest payments	(223,739)	-		(1,158,226)	-	-
Renewals and replacements	-	-		-	-	-
Transfers to operating cash	-	-		-	-	-
Transfers to capital projects	-	-		-	-	-
Other transfers	-	-		-	-	-
Cash and investments, End of year	<u>\$ 74,583</u>	<u>\$ 298,320</u>	<u>\$</u>	<u>193,048</u>	<u>\$</u>	<u>1,191,731</u>

GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS  
FOR THE YEAR ENDED JUNE 30, 2010

	2001 State Revolving Loan					
	2000 Revenue Bonds		Buist NFM		Schwartz Imp.	
	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service
Cash and investments, Beginning of year	\$ 783,944	\$ 78,195	\$ 12,937	\$ 81,486	\$ -	\$ 195,802
Cash receipts						
Transfers from operating cash	-	988,584	-	-	-	-
Transfers from capital projects	-	-	-	-	193,601	-
Interest earned	-	40	1	-	1	-
Other transfers	-	-	-	-	-	-
Cash disbursements						
Principle and interest payments	-	(943,989)	-	-	(145,200)	-
Renewals and replacements	-	-	-	-	-	-
Transfers to operating cash	(15)	-	-	-	-	-
Transfers to capital projects	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-
Cash and investments, End of year	<u>\$ 783,929</u>	<u>\$ 122,830</u>	<u>\$ 12,938</u>	<u>\$ 81,486</u>	<u>\$ 48,402</u>	<u>\$ 195,802</u>

GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS  
FOR THE YEAR ENDED JUNE 30, 2010

	2001	2002 State Revolving Loan								
		Revenue Bonds		Conway		Vereen				
		Current		Current	Future	Current	Future			
		Debt Service		Debt Service	Debt Service	Debt Service	Debt Service			
Cash and investments, Beginning of year	\$	310,141	\$	58,736	\$	356,478	\$	85,116	\$	519,903
Cash receipts										
Transfers from operating cash	-			352,377	-			510,640		-
Transfers from capital projects	3,312,033			-	-			-		-
Interest earned	44,663			3	-			5		
Other transfers	-			-	-			-		-
Cash disbursements										
Principle and interest payments	(3,359,515)			(352,383)	-			(510,648)		-
Renewals and replacements	-			-	-			-		-
Transfers to operating cash	-			-	-			-		-
Transfers to capital projects	-			-	-			-		-
Other transfers	-			-	-			-		-
Cash and investments, End of year	\$	307,322	\$	58,733	\$	356,478	\$	85,113	\$	519,903

GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS  
FOR THE YEAR ENDED JUNE 30, 2010

	2002 State Revolving Loan			2002		2004A - Schwartz		
	319 FM			Revenue Bonds		WWTP Expansion-Phase I		
	Current	Future		Current		Current	Future	
	Debt Service	Debt Service		Debt Service		Debt Service	Debt Service	
Cash and investments,								
Beginning of year	\$ -	\$ 31,593	\$	126,050	\$	32,691	\$	392,248
Cash receipts								
Transfers from operating cash	16,228	-		1,456,384		392,237		-
Transfers from capital projects	-	-		-		-		-
Interest earned	-	-		20,078		4		-
Other transfers	-	-		-		-		-
Cash disbursements								
Principle and interest payments	(12,171)	-		(1,476,513)		(392,241)		-
Renewals and replacements	-	-		-		-		-
Transfers to operating cash	-	-		-		-		(7)
Transfers to capital projects	-	-		-		-		-
Other transfers	-	-		-		-		-
Cash and investments,								
End of year	<u>\$ 4,057</u>	<u>\$ 31,593</u>	<u>\$</u>	<u>125,999</u>	<u>\$</u>	<u>32,691</u>	<u>\$</u>	<u>392,241</u>



GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS  
FOR THE YEAR ENDED JUNE 30, 2010

	2001 A		2001B		2006	
	Myrtle Beach		Myrtle Beach		Revenue Bonds	
	Current	Future	Current	Future	Current	Future
	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service
Cash and investments,						
Beginning of year	\$ 189,591	\$ 1,141,984	\$ 31,134	\$ 187,533	\$ 800,116	\$ 857,265
Cash receipts						
Transfers from operating cash	1,132,872	-	186,036	-	1,702,924	-
Transfers from capital projects	-	-	-	-	-	-
Interest earned	11	1,874	1	307	59	1,388
Other transfers	-	-	-	-	-	-
Cash disbursements						
Principle and interest payments	(1,137,437)	-	(186,786)	-	(1,734,270)	-
Renewals and replacements	-	-	-	-	-	-
Transfers to operating cash	-	(42)	-	(5)	-	(14,926)
Transfers to capital projects	-	-	-	-	-	-
Other transfers	4,547	(4,547)	747	(747)	-	-
Cash and investments,						
End of year	<u>\$ 189,584</u>	<u>\$ 1,139,269</u>	<u>\$ 31,132</u>	<u>\$ 187,088</u>	<u>\$ 768,829</u>	<u>\$ 843,727</u>

GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS  
FOR THE YEAR ENDED JUNE 30, 2010

	2006					
	Schwartz WWTP		2008A		2008 MB WWTP	
	Expansion- Phase II	Current	MB WWTP SRF	Current	Upgrade Expansion	Future
	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service
Cash and investments, Beginning of year	\$ -	\$ -	\$ -	\$ -	\$ 655,320	\$ 232,394
Cash receipts						
Transfers from operating cash	842,361		388,075		-	-
Transfers from capital projects	-		-		-	-
Interest earned	8		5		1,076	383
Other transfers	-		-		-	-
Cash disbursements						
Principle and interest payments	(631,771)		(332,636)		-	-
Renewals and replacements	-		-		-	-
Transfers to operating cash	-		-		(2,473)	(1)
Transfers to capital projects	-		-		-	-
Other transfers	-		-		-	-
Cash and investments, End of year	<u>\$ 210,598</u>	<u>\$ 55,444</u>	<u>\$ 653,923</u>	<u>\$ 35,969</u>	<u>\$ 232,776</u>	<u>\$ 232,776</u>

GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS  
REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS  
FOR THE YEAR ENDED JUNE 30, 2010

	2008				Bull Creek		Depreciation and Contingency	
	Revenue Bonds		501 to 544		Depreciation and Contingency		Depreciation and Contingency	
	Current Debt Service		Current Debt Service	Future Debt Service				
Cash and investments, Beginning of year	\$ 28,000	\$ -	\$ -	-	\$ 2,477,288	\$ -	\$ 8,740,712	
Cash receipts								
Transfers from operating cash	747,250	17,400	104,401	104,401	400,085	3,700,413		
Transfers from capital projects	-	-	-	-	-	-		
Interest earned	-	-	190	190	-	-		
Other transfers	-	-	-	-	-	-		
Cash disbursements								
Principle and interest payments	(336,000)	-	-	-	-	-		
Renewals and replacements	-	-	-	-	(52,825)	(1,133,727)		
Transfers to operating cash	-	-	-	-	-	-		
Transfers to capital projects	-	-	-	-	-	-		
Other transfers	-	-	-	-	-	-		
Cash and investments, End of year	<u>\$ 439,250</u>	<u>\$ 17,400</u>	<u>\$ 104,591</u>	<u>\$ 104,591</u>	<u>\$ 2,824,548</u>	<u>\$ 11,307,398</u>		

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT**

	For the years ended	
	June 30	
	2010	2009
<b>Water plants</b>		
Personnel services	\$ 2,269,278	\$ 2,265,987
Contractual services	2,595,062	2,615,277
Supplies and materials	3,889,831	4,942,269
Business and travel expenses	5,995	6,723
Other expenses	1,630,025	1,634,107
Departmental transfers	780,513	495,865
Total water plants	11,170,704	11,960,228
<b>Water systems</b>		
Personnel services	1,925,697	2,274,050
Contractual services	1,657,723	1,054,145
Supplies and materials	1,019,629	1,789,711
Business and travel expenses	12,235	11,012
Other expenses	7,631	3,950
Total water systems	4,622,915	5,132,868
Total water	15,793,619	17,093,096
<b>Wastewater plants</b>		
Personnel services	4,311,171	4,377,166
Contractual services	3,714,217	4,093,696
Supplies and materials	1,411,136	2,136,428
Business and travel expenses	21,714	19,081
Other expenses	35,975	64,245
Departmental transfers	771,121	1,122,240
Total wastewater plants	10,265,334	11,812,856
<b>Wastewater systems</b>		
Personnel services	1,837,459	1,848,894
Contractual services	2,291,269	3,428,625
Supplies and materials	1,025,683	972,583
Other expenses	14,651	10,558
Total wastewater systems	5,169,062	6,260,660
Total wastewater	15,434,396	18,073,516

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT**

	For the years ended June 30	
	2010	2009
<b>General administration</b>		
Personnel services	651,584	617,215
Contractual services	552,865	235,464
Supplies and materials	33,327	35,678
Business and travel expenses	96,548	64,238
Other expenses	311,454	471,458
Total general administration	1,645,778	1,424,053
<b>Planning, engineering and construction</b>		
Personnel services	1,271,158	1,668,880
Contractual services	45,144	143,734
Supplies and materials	30,366	95,654
Business and travel expenses	9,619	11,380
Other expenses	1,705	325
Total planning, engineering and construction	1,357,992	1,919,973
<b>Financial services</b>		
Personnel services	1,905,930	1,879,038
Contractual services	1,100,286	991,895
Supplies and materials	126,849	155,713
Business and travel expenses	29,870	38,313
Other expenses	45,851	44,869
Total financial services	3,208,786	3,109,828
<b>High tech turf farm</b>		
Personnel services	1,098,265	1,140,903
Contractual services	193,575	277,329
Supplies and materials	497,056	459,986
Business and travel expenses	5,013	4,404
Other expenses	946	75
Departmental transfers	(1,551,634)	(1,618,105)
Total high tech turf farm	243,221	264,592
Depreciation	20,843,152	19,860,538
Total operating expenses	<u>\$ 58,526,944</u>	<u>\$ 61,745,596</u>



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## STATISTICAL SECTION

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## STATISTICAL SECTION (UNAUDITED)

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

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

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

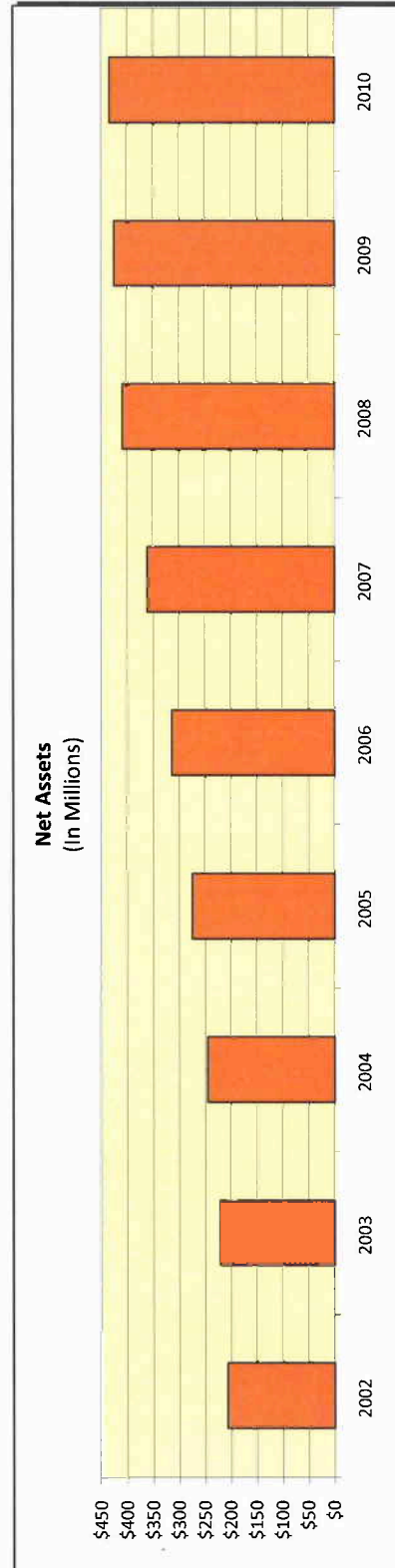
**Debt Capacity (*Schedules 12 and 13*)** - These schedules present information to help the reader assess the affordability of GSWSA's current levels of outstanding debt and their ability to issue additional debt in the future.

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

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

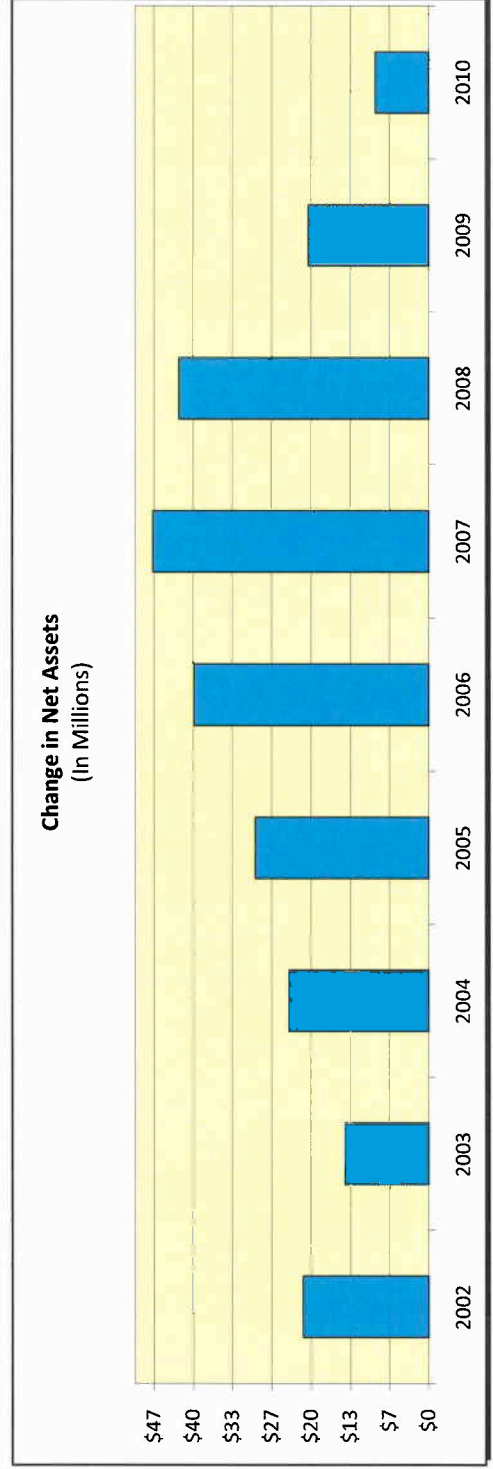
**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NET ASSETS BY COMPONENT**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Primary government</b>									
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	\$ 299,789,950	\$ 315,449,250
Restricted	30,455,007	29,910,278	29,089,789	27,535,216	25,980,196	30,231,725	30,716,584	24,275,266	28,327,673
Unrestricted	41,003,053	52,519,542	65,396,725	84,837,573	84,059,592	82,256,132	88,898,786	100,867,438	90,253,098
<b>Total primary government</b>									
net assets	<u>\$ 207,355,962</u>	<u>\$ 221,631,612</u>	<u>\$ 245,430,918</u>	<u>\$ 274,952,765</u>	<u>\$ 314,910,631</u>	<u>\$ 361,889,550</u>	<u>\$ 409,418,513</u>	<u>\$ 424,932,654</u>	<u>\$ 434,030,021</u>



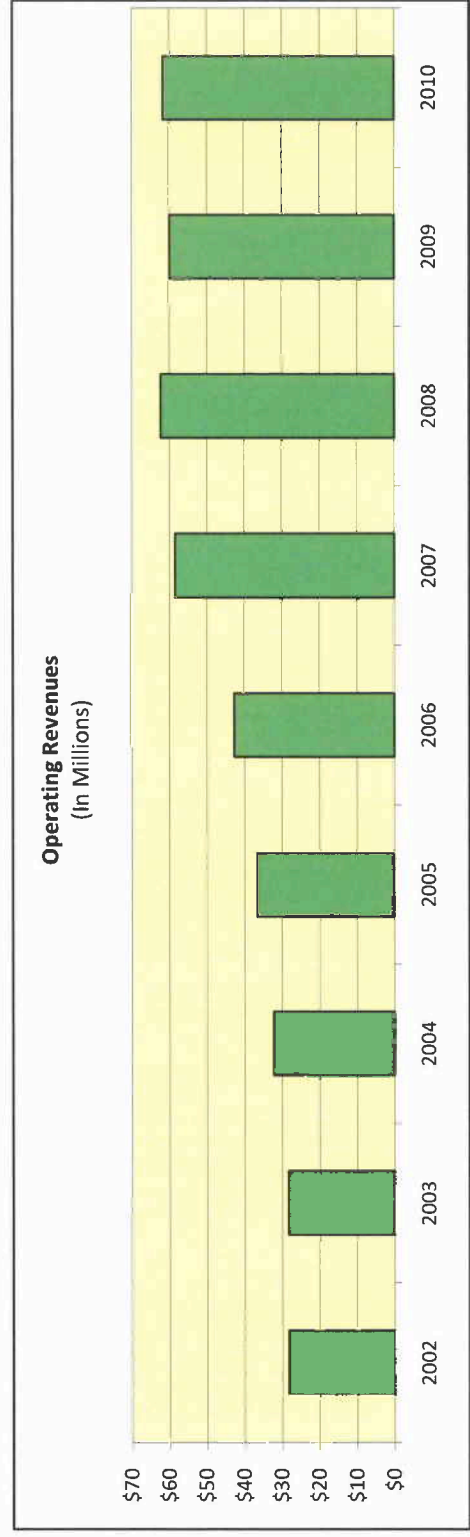
**GRAND STRAND WATER AND SEWER AUTHORITY**  
**CHANGES IN NET ASSETS**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income/(Loss)	Total Nonoperating Revenues/(Expenses)	Income/(Loss) Before Capital Contributions	Capital Contributions	Change in Net Assets
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	42,516,872
2009	59,871,611	61,745,596	(1,873,985)	(2,797,844)	(4,671,829)	25,198,062	20,526,233
2010	61,640,882	58,526,944	3,113,938	(3,488,744)	(374,806)	9,472,172	9,097,366



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**OPERATING REVENUES BY SOURCE**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

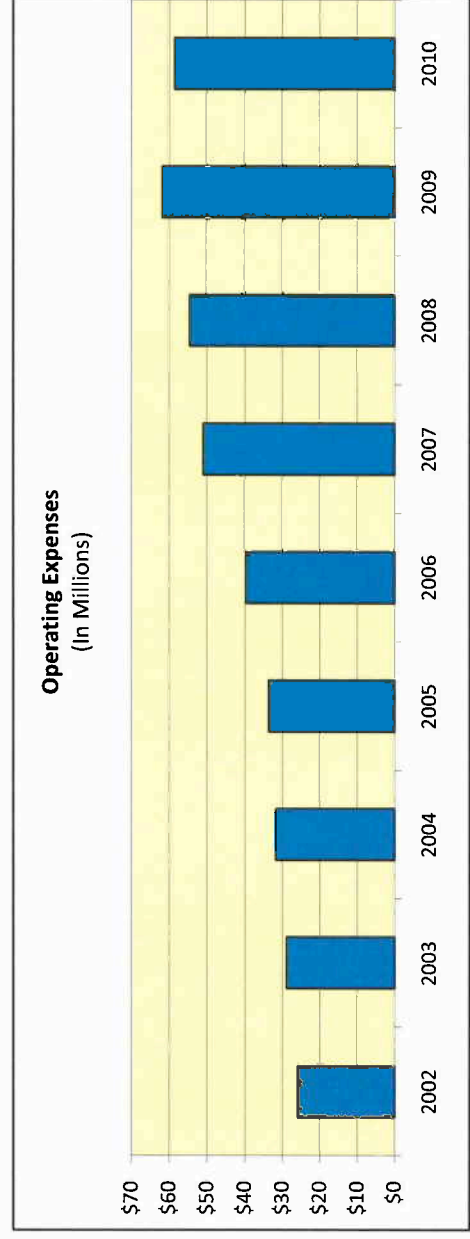
Fiscal Year	Water & Sewer Volume & Availability Fees	Customer Charges	Surface Water Charges	SWTP Contract Water Consumption	Other Revenue	Total Operating Revenue
2002	\$ 17,010,676	\$ 2,665,857	\$ 4,066,260	\$ 2,038,898	\$ 2,496,769	\$ 28,278,460
2003	17,303,689	2,820,313	4,223,574	1,697,260	2,288,286	28,333,122
2004	19,593,043	3,344,644	4,531,216	1,945,376	2,860,990	32,275,269
2005	21,033,852	4,747,399	4,904,977	2,150,031	3,734,768	36,571,027
2006	24,318,246	5,683,388	5,389,236	2,330,268	4,947,569	42,668,707
2007	40,342,471	4,932,195	5,713,617	2,316,629	5,113,046	58,417,958
2008	44,731,026	4,346,601	6,021,758	2,453,313	4,709,476	62,262,174
2009	44,766,505	4,352,846	6,194,359	2,484,055	2,073,846	59,871,612
2010	45,921,593	4,618,838	6,275,812	2,956,888	1,867,751	61,640,882





**GRAND STRAND WATER AND SEWER AUTHORITY**  
**OPERATING EXPENSES**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

<b>Fiscal Year</b>	<b>Personnel Costs</b>	<b>Contractual Services</b>	<b>Supplies and Materials</b>	<b>Depreciation</b>	<b>Other Expenses</b>	<b>Total Operating Expenses</b>
2002	\$ 5,860,665	\$ 4,391,714	\$ 4,020,883	\$ 9,937,536	\$ 1,678,363	\$ 25,889,161
2003	7,118,937	4,813,566	4,354,951	10,948,323	1,575,272	28,811,049
2004	7,512,449	5,944,673	4,624,503	11,895,849	1,781,888	31,759,362
2005	8,325,391	5,580,116	5,258,876	12,538,491	1,888,455	33,591,329
2006	8,958,676	8,545,559	7,021,438	13,323,239	1,880,681	39,729,593
2007	12,562,364	10,925,712	9,951,269	15,363,404	2,157,973	50,960,722
2008	14,443,846	10,885,255	9,785,172	17,400,238	2,041,682	54,556,193
2009	16,072,133	12,840,165	10,588,022	19,860,538	2,384,738	61,745,596
2010	15,270,542	12,150,141	8,033,877	20,843,152	2,229,232	58,526,944



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NONOPERATING REVENUES AND EXPENSES**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

Schedule 5

<u>Fiscal Year</u>	<u>Investment Income</u>	<u>Gain/(Loss) on Disposal of Capital Assets</u>	<u>Amortization of Deferred Bond Costs</u>	<u>Interest Expense</u>	<u>Total Nonoperating Revenues/ (Expenses)</u>
2002	\$ 4,232,862	\$ 120,624	\$ (173,579)	\$ (5,524,226)	\$ (1,344,319)
2003	5,062,406	63,772	(131,788)	(7,038,071)	(2,043,681)
2004	2,649,777	83,531	(97,313)	(7,012,690)	(4,376,695)
2005	4,760,648	(142,859)	(102,251)	(7,273,804)	(2,758,266)
2006	3,311,395	(541,197)	(102,251)	(7,936,226)	(5,268,279)
2007	6,200,184	48,862	(111,962)	(8,960,468)	(2,823,384)
2008	8,128,067	(1,037)	(113,717)	(9,498,645)	(1,485,332)
2009	6,962,758	(51,610)	(122,554)	(9,586,438)	(2,797,844)
2010	6,470,394	129,662	(122,858)	(9,965,942)	(3,488,744)

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**ANNUAL CAPITAL CONTRIBUTIONS BY SOURCE**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

Schedule 6

<u>Fiscal Year</u>	<u>SWTP Capacity Fees</u>	<u>Government Grants</u>	<u>Customer Impact Fees</u>	<u>Developer Contributions</u>	<u>Total</u>
2002	\$ 2,040,496	\$ 450,515	\$ 9,591,659	\$ 8,294,061	\$ 20,376,731
2003	2,010,464	1,446,361	5,017,572	8,322,861	16,797,258
2004	2,029,308	1,571,037	13,615,301	10,444,448	27,660,094
2005	1,918,047	284,906	11,544,330	15,553,042	29,300,325
2006	1,970,844	-	13,912,826	22,345,509	38,229,179
2007	1,970,844	-	9,827,621	30,546,602	42,345,067
2008	1,961,592	-	6,953,139	32,393,583	41,308,314
2009	1,985,592	757,542	3,614,012	18,840,916	25,198,062
2010	2,078,076	89,046	3,088,548	4,216,502	9,472,172

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

Fiscal Year	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
2002	7,283	7,006	277	3.80%	4,723	\$ 9.52	\$ 1.06	\$ 7.05	\$ 1.55
2003	6,929	6,357	572	8.26%	5,031	9.52	1.06	7.05	1.55
2004	7,569	7,019	550	7.27%	5,480	9.58	1.10	7.11	1.65
2005	7,524	6,705	819	10.89%	5,479	9.58	1.10	7.11	1.65
2006	8,632	7,815	817	9.46%	6,045	9.58	1.10	8.11	1.70
2007	15,536	14,214	1,322	8.51%	8,775	9.58	1.10	8.11	1.70
2008	16,140	15,625	515	3.19%	9,325	9.90	1.15	8.90	1.75
2009	14,909	14,478	431	2.89%	9,925	9.90	1.15	8.90	1.75
2010	14,904	13,823	1,081	7.25%	10,223	10.40	1.15	9.40	1.75

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**ANNUAL TAPS SOLD**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

Schedule 8

Fiscal Year	Taps Sold		
	Water Meter Taps	Sewer Taps	Total
2002	546	280	826
2003	541	271	812
2004	595	278	873
2005	705	257	962
2006	784	238	1022
2007	837	243	1080
2008	525	195	720
2009	314	162	476
2010	267	154	421



## Schedule 9

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**GRAND STRAND WATER AND SEWER AUTHORITY**  
**WATER AND SEWER RATES**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

Schedule 10

Fiscal Year	Water		Sewer	
	Base Rate	Usage Rate	Base Rate	Usage Rate
2002	\$ 9.52	\$ 1.06	\$ 7.05	\$ 1.55
2003	9.52	1.06	7.05	1.55
2004	9.58	1.10	7.11	1.65
2005	9.58	1.10	7.11	1.65
2006	9.58	1.10	8.11	1.70
2007	9.58	1.10	8.11	1.70
2008	9.90	1.15	8.90	1.75
2009	9.90	1.15	8.90	1.75
2010	10.40	1.15	9.40	1.75

Total Direct Rates comes from the Annual Budget  
Rate Resolution section

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**TEN LARGEST CUSTOMERS**  
**CURRENT YEAR AND NINE YEARS AGO**  
**(UNAUDITED)**

Schedule 11

Customer	Fiscal Year 2010		
	Water Revenue	Sewer Revenue	Total
City of Myrtle Beach	\$ 6,059,341	\$ 5,598,816	\$ 11,658,157
City of Conway	2,663,977	1,095,224	3,759,201
City of North Myrtle Beach	3,590,667	276,332	3,867,000
Little River Water and Sewerage Company	1,007,968	860,134	1,868,102
City of Loris	254,910	420,226	675,135
Ocean Lakes Utilities	147,833	270,319	418,152
Georgetown County Water and Sewer Authority	215,345	57,843	273,188
Myrtle Beach Resort	134,076	114,184	248,260
Ocean Side Village	149,074	166,369	315,444
Springmaid Beach Resort	103,868	103,325	207,194

Customer	Fiscal Year 2001		
	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
Ocean Side 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

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

Schedule 12

Fiscal Year	Revenue Bonds	Notes	Companion Debt	Revolving Fund Loans	Total	
					Amount	Per Capita
2002	\$ 123,761,717	\$ 111,022	\$ -	\$ 34,155,286	\$ 158,028,025	\$ 780
2003	132,034,514	60,224	-	35,499,152	167,593,890	804
2004	129,868,954	47,247	-	27,086,587	157,002,788	733
2005	127,404,847	32,971	-	38,030,781	165,468,599	751
2006	125,024,902	17,268	-	55,644,921	180,687,091	799
2007	141,587,770	-	-	61,696,450	203,284,220	876
2008	146,951,664	-	-	61,639,865	208,591,529	899
2009	151,559,700	-	3,990,427	68,890,697	224,440,824	872
2010	145,882,320	-	3,990,427	68,638,660	218,511,407	828

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**REVENUE BOND COVERAGE**  
**LAST NINE FISCAL YEARS**  
**(IN THOUSANDS)**  
**(UNAUDITED)**

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>
				Principal	Interest	
2002	\$ 44,144	\$ 15,897	\$ 28,247	\$ 3,651	\$ 6,649	2.74
2003	40,816	17,862	22,954	3,240	6,939	2.26
2004	50,884	19,863	31,021	3,745	6,955	2.90
2005	54,650	21,052	33,598	4,079	7,204	2.98
2006	65,380	26,406	38,974	4,117	7,883	3.25
2007	76,465	35,597	40,868	6,105	8,910	2.72
2008	79,304	37,156	42,148	7,599	9,462	2.47
2009	72,434	41,885	30,549	8,705	9,572	1.67
2010	73,408	37,684	35,724	9,151	9,742	1.89

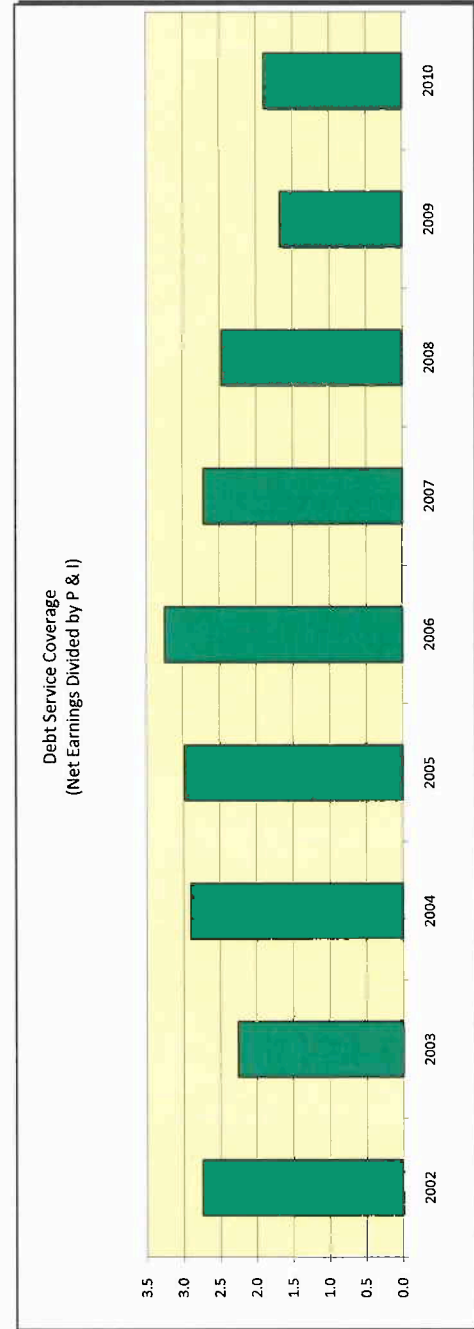
<sup>(1)</sup> Total Revenues Include Impact Fees and SWTP Treatment Capacity, and Excludes Developer Contributions.

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

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

<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.



**GRAND STRAND WATER AND SEWER AUTHORITY  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN CALENDAR YEARS  
(UNAUDITED)**

Schedule 14

Calendar Year	Population	Personal Income (Thousands of Dollars) <sup>(1)</sup>	Per Capita Personal Income <sup>(1)</sup>	Median Age <sup>(1)</sup>	Unemployment Rate <sup>(1)</sup>
2000	196,629	\$ 712,311	\$ 23,088	36.9	3.5
2001	202,528	712,311	23,088	38.3	4.9
2002	208,427	716,198	23,214	38.3	5.2
2003	214,326	719,314	23,315	38.3	5.7
2004	220,225	758,466	24,584	38.3	5.9
2005	226,124	779,506	25,266	38.3	5.8
2006	232,023	779,506	25,266	38.3	5.4
2007	237,922	779,506	25,266	37.1	5.0
2008	257,380	N/A	N/A	N/A	11.3
2009	263,868	N/A	N/A	N/A	14.5

**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



**GRAND STRAND WATER AND SEWER AUTHORITY**  
**NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY**  
**LAST NINE FISCAL YEARS**  
**(UNAUDITED)**

	Full-Time Equivalent Employees as of June 30								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Water</b>									
Water Plant Operations	14	14	15	14	13	24	23	23	25
Water Plant Maintenance	1	1	1	2	2	8	6	6	6
Water Systems Maintenance	16	18	17	17	17	15	15	13	14
Water Systems Operations	11	10	11	12	13	13	25	27	29
<b>Sewer</b>									
Sewer Plant Operations	16	18	18	18	18	32	39	39	45
Sewer Plant Maintenance	1	1	1	2	4	11	12	13	11
Sewer Systems Maintenance	30	34	33	34	35	38	36	38	37
<b>Biosolid / Sludge Disposal Operations</b>	14	16	16	16	18	22	25	23	27
<b>Engineering / Inspection / Construction</b>									
Engineering	12	13	12	12	7	15	16	15	14
Inspections	5	5	4	5	6	7	7	7	7
Construction	16	16	16	16	16	17	19	23	22
<b>Administration</b>									
Billing / Customer Service	12	13	13	14	15	16	16	18	23
Meter Reading	12	12	13	13	8	9	-	-	-
Human Resources	2	2	2	2	2	2	2	2	2
Finance and Accounting	5	5	5	5	5	5	6	6	6
Purchasing	3	4	4	4	4	4	4	4	4
Information Systems	2	2	2	2	2	3	4	4	4
Executive Administration	7	7	7	7	14	6	5	3	3
Fleet / Facilities Management	-	-	-	-	-	-	-	5	3
<b>Total</b>	<b>179</b>	<b>191</b>	<b>190</b>	<b>195</b>	<b>199</b>	<b>247</b>	<b>260</b>	<b>269</b>	<b>282</b>

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**MISCELLANEOUS STATISTICAL DATA**  
**JUNE 30, 2010**  
**(UNAUDITED)**

Schedule 16

**Sewer System Facts**

<u><b>Use of Sewer</b></u>	<u><b>2010</b></u>	<u><b>2009</b></u>
Sewer Customers, End of Period	61,301	57,192
Average Daily Consumption (Millions of Gallons)	26.81	27.19
Estimated Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	9.78	9.93

**System Facilities**

Total Miles of Sewer Lines	1,532 *	1,448 *
Number of Treatment Plants	10	9
Number of Pumping Stations	592	536
Number of Residential Effluent Pumping Stations	430	427
Number of Residential Grinder Pumping Stations	4,413	4,215

	774
*Force Main	<u>758</u>
Gravity	1532

**GRAND STRAND WATER AND SEWER AUTHORITY**  
**MISCELLANEOUS STATISTICAL DATA**  
**JUNE 30, 2010**  
**(UNAUDITED)**

Schedule 16

**Water System Facts**

	<u><b>2010</b></u>	<u><b>2009</b></u>
<u><b>Use of Water</b></u>		
Water Customers, End of Period	64,901	60,392
Average Daily Consumption (Millions of Gallons)	37.87	39.67
Estimated Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons)	13.82 *	14.48 *
 <u><b>System Facilities</b></u>		
Reservoirs	25 **	19 **
Storage Capacity (Millions of Gallons)	29 **	22.00 **
Auxiliary Deep Water Wells	41	33
Total Miles of Distribution Lines	1,613	1,514
Fire Hydrants	6,382	5,649

\* Includes SWTP Participant Sales

\*\* Includes SWTP Storage Tanks

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**SINGLE AUDIT SECTION**

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**GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF EXPENSES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA/ARRA Number</u>	<u>Grant Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Environmental Protection Agency:</b>				
Capitalization Grants for American Recovery and Reinvestment Act of 2009 Passed through S.C Budget and Control Board South Carolina Water Pollution Control Revolving Fund	66.458/ 2W-95426309	Highwa 501 to Highway 544 Force Main	S1-134-09-381-69	\$ 871,934
Capitalization Grants for Clean Water State Revolving Funds Passed through S.C Budget and Control Board South Carolina Water Pollution Revolving Fund	66.458	Myrtle Beach WWTP Upgrade and Expansion	1-114-08-381-66	239,318
<b>U.S. Department of Homeland Security / Federal Emergency Management Agency</b>				
Pre-disaster Mitigation Grant Program Passed through the South Carolina Emergency Management Division	97.017	Pre-Disaster Mitigation Grant Program	EMA-2007-PC-0008	89,046
<b>Total Expenditures of Federal Awards</b>				<b>\$ 1,200,298</b>

**Note 1 - BASIS OF PRESENTATION**

The schedule of expenses of federal awards includes the federal grant activity of Grand Strand Water and Sewer Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.



**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 accompanying financial statements of the business-type activities and the aggregate fund information of Grand Strand Water and Sewer Authority (GSWSA) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 19, 2010. 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 GSWSA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSWSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GSWSA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as Item 2010-1 in the accompanying schedule of findings and questioned costs to be a material weakness.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether GSWSA'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 others within GSWSA, and is not intended to be and should not be used by anyone other than these specified parties.

*Elliott Davis, LLC*

Columbia, South Carolina

October 19, 2010



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
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 (GSWSA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of GSWSA's major federal programs for the year ended June 30, 2010. GSWSA's major federal programs are 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 each of its major federal programs is the responsibility of GSWSA's management. Our responsibility is to express an opinion on GSWSA'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. 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 GSWSA'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 on GSWSA's compliance with those requirements.

In our opinion, GSWSA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

## Internal Control Over Compliance

The management of GSWSA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered GSWSA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 GSWSA's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 of GSWSA, the board of directors, others within GSWSA, 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.

*Elliott Davis, LLC*

Columbia, South Carolina  
October 19, 2010

**GRAND STRAND WATER AND SEWER AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?   X   yes        no

Significant deficiencies identified that are not considered to be material weaknesses?        yes   X   none reported

Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?        yes   X   no

Significant deficiency(ies) identified that are not considered to be material weaknesses?        yes   X   none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?        yes   X   no

Identification of major programs:

**CFDA Number**

66.458

**Name of Federal Program or Cluster**

U.S. Environmental Protection Agency, Capitalization  
Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee?   X   yes        no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2010-1: Restatement - Interest Rate Swap**

In 2006 the Authority entered into an interest rate swap agreement (the Agreement) in order to mitigate interest rate risk related to certain debt obligations. The structure of the agreement included the Authority receiving approximately \$4 million in swap payments in advance. Under GASB 53, such payments are to be recognized as debt to the receiving entity. However, the Authority had recorded these payments as investment income as of and for the year ended June 30, 2006. This error was identified during 2010 in the course of the Authority implementing GASB 53. The Authority has reported a restatement in which its net assets have been decreased by approximately \$5 million. This amount includes the \$4 million in advance payments plus approximately \$1 million in interest that has accrued on the debt obligation since 2006.

**SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS**

None reported