



**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2007**

**PREPARED BY**

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

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**GRAND STRAND WATER & SEWER AUTHORITY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**BOARD OF DIRECTORS**

SIDNEY F. THOMPSON, CHAIRMAN  
BENJY A. HARDEE, VICE CHAIRMAN  
JAMES B. DEWITT, SECRETARY  
ROBERT FLOYD, JR., MEMBER  
JOHN C. GRIGGS, MEMBER  
KRISTIN O. HARDEE, MEMBER  
ARNOLD T. JOHNSON, MEMBER  
DAVID F. SINGLETON, MEMBER  
J. LISTON WELLS, MEMBER

**CHIEF EXECUTIVE OFFICER**

FRED R. RICHARDSON

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**INTRODUCTORY SECTION**

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**GRAND STRAND WATER AND SEWER AUTHORITY**

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Year Ended June 30, 2007**

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September 24, 2007

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, 2007 is submitted for your review. This report was prepared by GSWSA's financial staff and external auditors, and conforms to the guidelines of the Governmental Finance Officers Association and Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rest with GSWSA. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly state the financial position and results of operations of GSWSA as measured by the financial activity; and that all disclosures necessary to enable the reader to gain the maximum understanding of GSWSA's financial affairs have been included.

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

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

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

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

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

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

### **LOCAL ECONOMY**

Horry County continues to be a major retirement area and the local tourism industry continues to thrive in spite of the state of the national economy.

The local economy served by GSWSA remained strong during fiscal year 2007. The monthly average of submittals for new developer projects requiring water and sewer service was only slightly down from 23 projects in fiscal year 2006 to 22 projects in 2007. These projects submitted in 2007 will account for over 950 Residential Equivalent Units (REUs). While this is a slight decline from 1038 REUs submitted in 2006, the REUs submitted in 2007 is over 31% higher than those submitted in fiscal year 2005 at 725 REUs. The number of new developer project submittals and REUs remain higher than most recent historical data indicating a continued strong local economy.

Even with the national economic slowdown, according to the Grand Strand Economic Outlook, Summer 2007 prepared by Dr. Don Schunk, Coastal Federal Center for Economic and Community Development, Coastal Carolina University, all indicators point toward a continuation of residential and commercial development. Reflecting the growth of the county in general, GSWSA's growth remains strong, with economic indicators reinforcing continuing residential and commercial development. GSWSA's 2025 Capital Improvement Plan reflects this growth. In summary, GSWSA's financial stability is a direct reflection of the continued economic growth of the area and the Board of Director's commitment to provide quality service at the most affordable rates.

## **LONG-TERM FINANCIAL PLANNING**

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

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

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

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

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

As a matter of organizational philosophy, GSWSA will continue to explore and implement innovative programs which will allow it to meet the area's water and wastewater needs in an efficient and environmentally safe manner. The challenge of meeting the utility needs of a 1,208 square mile service area of which only approximately 35% is developed requires continued pursuit of these objectives.



## **CASH MANAGEMENT POLICIES AND PRACTICES**

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

GWSA invests through various investment advisors, in a pool managed by the State Treasurer, certificates of deposits, repurchase agreements, guaranteed investment contracts and United States or State of South Carolina general obligations. All cash is invested in accordance with South Carolina state statutes. The yield on maturing investments during the month of June 2007 was 5.39%. The market value of investments at June 30, 2007 was equal to the carrying value.

## **RISK MANAGEMENT**

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

## **PENSION AND OTHER POSTEMPLOYMENT BENEFITS**

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

## **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to GWSA for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the 18th year

**AWARDS AND ACKNOWLEDGEMENTS** *(continued)*

that GSWSA applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, GSWSA had to publish an easily readable and efficiently organized comprehensive annual financial report. The report had to satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,



Marguerite S. Carroll, CGFM  
Chief Financial Officer

MSC

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Grand Strand Water  
and Sewer Authority  
South Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

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.

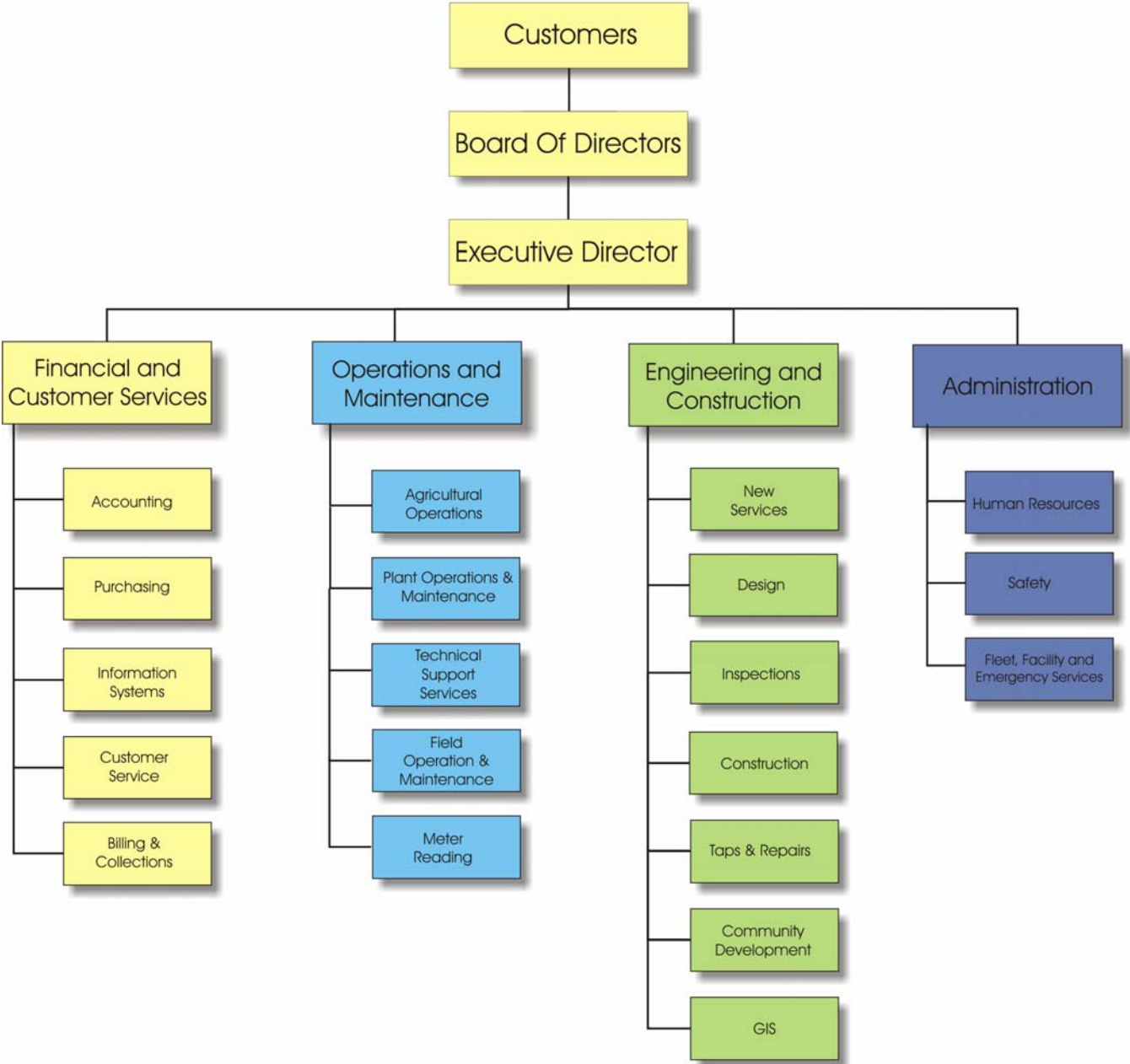


President

Executive Director

# GRAND STRAND WATER AND SEWER AUTHORITY

## Functional Organizational Chart



**GRAND STRAND WATER AND SEWER AUTHORITY  
LIST OF PRINCIPAL OFFICIALS  
JUNE 30, 2007**

BOARD OF DIRECTORS

<u>Name</u>	<u>Date Term Expires</u>
Sidney F. Thompson, Chairman	August 20, 2011
Benjy A. Hardee, Vice Chairman	August 15, 2009
James B. DeWitt, Secretary	August 15, 2005
Kristin O. Hardee	August 15, 2007
John C. Griggs	August 15, 2009
Arnold T. Johnson	August 15, 2009
J. Liston Wells	August 15, 2011
Robert M. "Bert" Floyd, Jr.	August 15, 2013
David F. Singleton	August 15, 2013

MANAGEMENT

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

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**FINANCIAL SECTION**

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**SMITH SAPP  
BOOKHOUT  
CRUMPLER  
& CALLIHAM**

Professional Association  
Certified Public Accountants & Consultants

MYRTLE BEACH

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Myrtle Beach, SC 29577

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Fax (843) 626-7363  
www.sccpa.com

CONWAY

1109 Main Street  
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Conway, SC 29526

Phone (843) 248-5284  
Fax (843) 381-0027  
www.sccpa.com

PAWLEYS ISLAND

201 Business Center Drive  
Suite B  
Pawleys Island, SC 29585

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

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying basic financial statements of the Grand Strand Water and Sewer Authority, as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. The basic financial statements are the responsibility of the Grand Strand Water and Sewer Authority's management. Our responsibility is to express an opinion on the basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Grand Strand Water and Sewer Authority as of June 30, 2007 and 2006, and respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 – 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Grand Strand Water and Sewer Authority's basic financial statements. The introductory section, section of schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, section of schedules, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Myrtle Beach, South Carolina  
September 18, 2007

*Trusted Advisors For Over 50 Years*

South Carolina Association of Certified Public Accountants  
American Institute of Certified Public Accountants - Private Companies Practice Section

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## GRAND STRAND WATER AND SEWER AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2007 and 2006

This section presents management's analysis of GSWSA's financial condition and activities for the fiscal years ended June 30, 2007 and 2006. This information should be read in conjunction with the letter of transmittal and the financial statements.

#### Financial Highlights

Management believes GSWSA's financial condition is strong. It is well within its debt covenants and the more stringent financial policies and guidelines set by the Board. The following are financial highlights for Fiscal Years 2007 and 2006.

- Total assets at June 30, 2007 were over \$576 million and exceeded liabilities in the amount of \$361.9 million (i.e. net assets). Of the total net assets, \$83.8 million was unrestricted. Total assets increased from fiscal year end 2006 to 2007 by \$71.4 million and total liabilities increased \$24.4 million.
- Total assets at June 30, 2006 were over \$504 million and exceeded liabilities in the amount of \$315 million (i.e. net assets). Of the total net assets, \$85.6 million was unrestricted. Total assets increased from fiscal year end 2005 to 2006 by \$54.7 million and total liabilities increased \$14.7 million.
- At fiscal years ending 2007 and 2006, debt service coverage was 272% and 325%, respectively; which exceeds the 110% required by the Bond covenant.
- In fiscal year 2007, operating revenues were approximately \$58.5 million, up from 2006 by \$15.8 million or 36.8%. In fiscal year 2006, operating revenues were approximately \$42.8 million, up from 2005 by \$6.1 million or 16.7%.
- In fiscal year 2007, operating expenses before depreciation increased \$9.2 million or 34.7% compared to fiscal year 2006. Operating expenses including depreciation increased \$11.2 million or 28.2%. This increase was directly related to the increase in water and wastewater revenues that resulted from the purchase of the City of Myrtle Beach Water and Wastewater Plants.
- In fiscal year 2006, operating expenses before depreciation increased \$5.4 million or 25.5% compared to fiscal year 2005. Operating expenses including depreciation increased \$6.2 million or 18.3%. This increase was directly related to the increase in water and wastewater revenues for the period and the expensing of approximately \$2.5 million capital projects funded through the capital budget.
- Operating income for fiscal year 2007 was \$7.5 million representing a 153.7% increase from fiscal year 2006. Net assets, before and after capital contributions, increased \$2.9 and \$7 million, respectively from 2006.
- Operating income for fiscal year 2006 was \$2.9 million representing a 1.4% decrease from fiscal year 2005. Net assets, before and after capital contributions, increased \$1.5 and \$10.4 million, respectively from 2005.
- Ratios of operating income to total operating expenses were 1.146 for 2007, 1.074 for 2006 and 1.089 for 2005.
- Cash capital contributions in 2007 were \$9.8 million, a decrease of 29.4% compared to year 2006. Developer contributions of facilities were \$30.5 million, an increase of 36.7% from 2006.
- Cash capital contributions in 2006 were \$13.9 million, an increase of 20.5% compared to year 2005. Developer contributions of facilities were \$22.3 million, an increase of 43.7 % from 2005.

## GRAND STRAND WATER AND SEWER AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2007 and 2006

#### Financial Highlights (continued)

- GSWSA treated and distributed over 13.35 billion gallons of water and collected and treated 10.2 billion gallons of wastewater, representing an increase from fiscal year 2006 of 68% for water and an increase in wastewater of 69%. The purchase of the City of Myrtle Beach's Water and Wastewater Plants accounted for most of the increase.
- During 2007, GSWSA added 3,914 new customers resulting in 4,833 water and 4,884 wastewater residential equivalent units. During fiscal year 2006, GSWSA added 5,597 new customers resulting in 6,835 water and 7,469 wastewater residential equivalent units.
- Due to more stringent EPA regulations and customer growth GSWSA plans to upgrade the Schwartz Treatment Plant during 2007. The upgrade will increase plant capacity from 14.3 to 19.5 million gallons per day.
- During 2007, GSWSA purchased 114.46 acres of land from Burroughs and Chapin Company for \$27.6 million. This land is located in the heart of the City of Myrtle Beach and GSWSA's Water and Wastewater Treatment Plants which serve the City of Myrtle Beach are located on this property.

#### Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basis financial statements and supplementary information. Financial statements can be found on pages 13 to 44 of this report.

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

The financial statements include a balance sheet, a statement of revenues, expenses and changes in net assets, a statement of cash flows, and notes to the financial statements. The balance sheet presents the financial position of GSWSA on the accrual basis. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about GSWSA's recovery of its costs. GSWSA's rates are based on cost of service rate study that was completed in 2005 and is updated biannually. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objectives of the rate model are to provide equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for itself.

# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2007 and 2006

### Overview of Annual Financial Report (continued)

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

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

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

### Financial Analysis

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

#### Condensed Financial Statements Condensed Balance Sheet

	<u>2007</u>	<u>2006</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>	<u>2005</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>
Current assets	\$ 84,931,812	\$ 85,576,612	\$ (644,800)	(.8)%	\$ 87,677,457	\$ (2,100,845)	(2.4)%
Noncurrent assets							
Restricted assets	35,773,480	31,169,254	4,604,226	14.8%	39,469,190	(8,299,936)	(21.0)%
Capital assets:							
Producing assets	440,666,731	381,630,898	59,035,833	15.5%	309,732,366	71,898,532	23.2%
Construction in progress	13,235,420	4,907,316	8,328,104	169.7%	11,631,205	(6,723,889)	(57.8)%
Other assets	<u>1,559,607</u>	<u>1,495,910</u>	<u>63,697</u>	<u>4.3%</u>	<u>1,598,161</u>	<u>(102,251)</u>	<u>(6.4)%</u>
Total assets	<u>\$576,167,050</u>	<u>\$504,779,990</u>	<u>\$ 71,387,060</u>	<u>14.1%</u>	<u>\$450,108,379</u>	<u>\$ 54,671,611</u>	<u>12.1%</u>
Current liabilities	\$ 18,698,845	\$ 15,496,272	\$ 3,202,573	20.7%	\$ 14,034,750	\$ 1,461,522	10.4%
Long term liabilities	<u>195,578,655</u>	<u>174,373,087</u>	<u>21,205,568</u>	<u>12.2%</u>	<u>161,120,954</u>	<u>13,252,133</u>	<u>8.2%</u>
Total liabilities	<u>\$214,277,500</u>	<u>\$189,869,359</u>	<u>\$ 24,408,141</u>	<u>12.9%</u>	<u>\$175,155,704</u>	<u>\$ 14,713,655</u>	<u>8.4%</u>
Net assets:							
Net invested in capital assets, net of related debt	\$247,846,836	\$203,379,683	\$44,467,153	21.9%	\$160,986,565	\$42,393,118	26.3%
Restricted for capital activity, debt service, and rate stabilization	30,231,725	25,980,196	4,251,529	16.4%	27,535,126	(1,554,930)	(5.6)%
Unrestricted	<u>83,810,989</u>	<u>85,550,752</u>	<u>(1,739,763)</u>	<u>(2.0)%</u>	<u>86,430,984</u>	<u>(880,232)</u>	<u>(1.0)%</u>
Total net assets	<u>\$361,889,550</u>	<u>\$314,910,631</u>	<u>\$ 46,978,919</u>	<u>14.9%</u>	<u>\$274,952,675</u>	<u>\$ 39,957,956</u>	<u>14.5%</u>
Total liabilities and net assets	<u>\$576,167,050</u>	<u>\$504,779,990</u>	<u>\$ 71,387,060</u>	<u>14.1%</u>	<u>\$450,108,379</u>	<u>\$ 54,671,611</u>	<u>12.1%</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2007 and 2006**

**Financial Analysis (continued)**

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

	<u>2007</u>	<u>2006</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>	<u>2005</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>
<b>Revenues</b>							
Operating revenues							
Charges for services	\$ 54,041,100	\$ 38,572,006	\$ 15,469,094	40.1%	\$ 33,677,381	\$ 4,894,625	14.5%
Other revenue	4,481,476	4,192,230	289,246	6.9%	2,966,212	1,226,018	41.3%
Nonoperating revenue							
Investment income	6,200,184	3,311,395	2,888,789	87.2%	4,760,648	(1,449,253)	(30.4)%
Other revenue		4,057,942	(4,057,942)			4,057,942	
Gain (loss) on disposal of capital assets	48,862	(541,197)	590,059	109.0%	(142,859)	(398,338)	(278.8)%
Capital contributions	<u>42,345,067</u>	<u>38,229,179</u>	<u>4,115,888</u>	<u>10.8%</u>	<u>29,300,325</u>	<u>8,928,854</u>	<u>30.5%</u>
Total revenues	<u>\$ 107,116,689</u>	<u>\$ 87,821,555</u>	<u>\$ 19,295,134</u>	<u>22.0%</u>	<u>\$ 70,561,707</u>	<u>\$ 17,259,848</u>	<u>24.5%</u>
<b>Expenses</b>							
Operating expenses							
before depreciation	\$ 35,701,936	\$ 26,501,883	\$ 9,200,053	34.7%	\$ 21,125,404	\$ 5,376,479	25.5%
Depreciation	15,363,404	13,323,239	2,040,165	15.3%	12,538,491	784,748	6.3%
Nonoperating expenses							
Amortization of deferred bond costs	111,962	102,251	9,711	9.5%	102,251		
Interest expense	<u>8,960,468</u>	<u>7,936,226</u>	<u>1,024,242</u>	<u>12.9%</u>	<u>7,273,804</u>	<u>662,422</u>	<u>9.1%</u>
Total expenses	<u>\$ 60,137,770</u>	<u>\$ 47,863,599</u>	<u>\$ 12,274,171</u>	<u>25.6%</u>	<u>\$ 41,039,950</u>	<u>\$ 6,823,649</u>	<u>16.6%</u>
Increase in net assets	\$ 46,978,919	\$ 39,957,956	\$ 7,020,963	17.6%	\$ 29,521,757	\$ 10,436,199	35.4%
Beginning net assets	<u>314,910,631</u>	<u>274,952,675</u>	<u>39,957,956</u>	<u>14.5%</u>	<u>245,430,918</u>	<u>29,521,757</u>	<u>12.0%</u>
Ending net assets	<u>\$ 361,889,550</u>	<u>\$ 314,910,631</u>	<u>\$ 46,978,919</u>	<u>14.9%</u>	<u>\$ 274,952,675</u>	<u>\$ 39,957,956</u>	<u>14.5%</u>

# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2007 and 2006

### Financial Analysis (continued)

#### Selected Data for Analysis

	<u>2007</u>	<u>2006</u>	<u>Change Amount</u>	<u>Change %</u>	<u>2005</u>	<u>Change Amount</u>	<u>Change %</u>
Employees at year end	258	195	63	32.3%	192	3	1.6%
Water and wastewater customers at year end							
Water customers	58,349	54,768	3,581	6.53%	49,567	5,201	10.5%
Wastewater customers	55,389	51,826	3,563	6.87%	46,526	5,300	11.4%
Water sales for fiscal year (billions of gallons)	13.35	7.95	5.40	68%	7.28	.67	9.2%
Wastewater sales for fiscal year (billions of gallons)	10.20	6.05	4.15	68.5%	5.48	.57	10.4%
Per average employees							
Total operating revenues	\$226,831.70	\$219,303.77	\$7,527.93	3.4%	\$190,852.05	\$28,451.72	14.9%
Total operating expenses	\$197,927.67	\$204,231.39	(\$6,303.72)	( 3.1)%	\$175,332.79	\$28,898.60	16.5%
Ratio of operating revenue to Operating expenses	1.146	1.074	.072	6.7%	1.088	(.014)	(1.3)%
Operating expenses net of Depreciation	1.64	1.61	.0255	1.58%	1.73	(.12)	(6.9)%
Total assets	.102	.085	.017	19.92%	.081	.004	4.9%
Debt related ratios							
Debt to net assets	.592	.603	(.011)	( 1.8)%	.637	(.034)	(5.3) %
Operating coverage (operating cash flow/debt)	.096	.084	.011	13.5%	.09	(.006)	(6.7)%

### General Trends and Significant Events

Weather temperatures during fiscal year 2007 were generally normal for the seasons. It was a little hotter during the summer than normal. It rained much less than in fiscal year 2006. Overall it has rained 16 inches below normal during the first eight months of 2007. In fact, a moderate drought was declared in June and upgraded to severe in September. The decrease in rain, the addition of City of Myrtle Beach and North Myrtle Beach as wholesale customers through the purchase of City of Myrtle Beach's water plant, and the additional customers added over the last two years resulted in much higher water usage.

The volume of water sold in fiscal year 2007 was 13.35 billion gallons, an increase of 68% more than fiscal year 2006 primarily a result of the purchase of the City of Myrtle Beach's water plant and the City of Myrtle Beach and North Myrtle Beach becoming wholesale water customers of GSWSA. Retail customers purchased 37% of the total water sold and the wholesale customers purchased 63%.

# GRAND STRAND WATER AND SEWER AUTHORITY

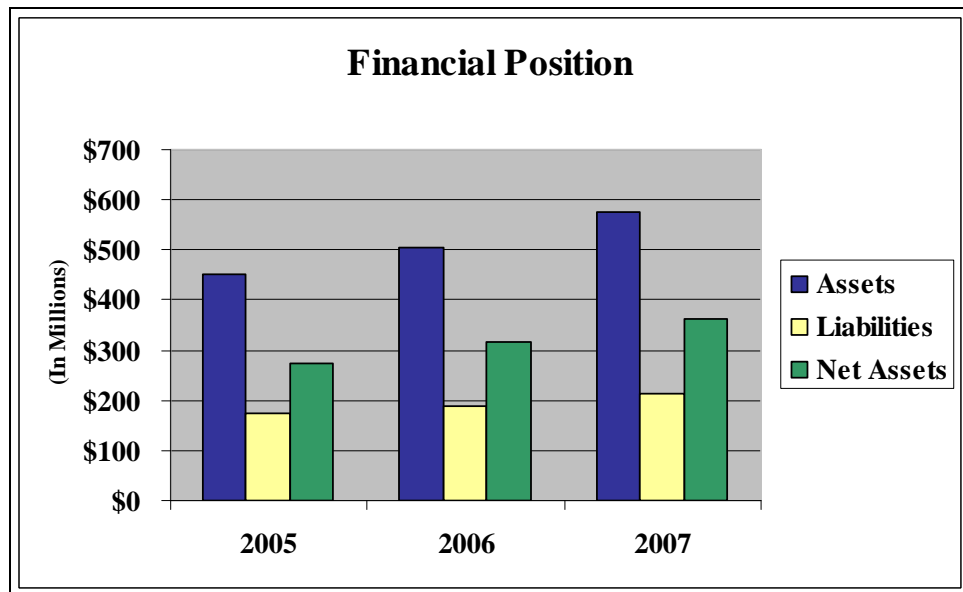
## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2007 and 2006

### General Trends and Significant Events (continued)

The volume of wastewater treated in fiscal year 2007 was 10.2 billion gallons, an increase of 69% from fiscal year 2006. Retail customers purchased 53% and wholesale customers purchased 47% of the total treated wastewater.

### Financial Condition

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



During fiscal year 2007, total assets grew \$71.4 million or 14.1% with \$67.4 million represented by additions to capital assets. Net assets increased \$47 million, with substantially all of the change resulting from capital contributions restricted to capital activity and debt service. Unrestricted net assets decreased \$1.7 million or 2%.

During fiscal year 2006, total assets grew \$54.7 million or 12.1% with \$65.2 million represented by additions to capital assets. Net assets increased approximately \$40 million, with substantially all of the change resulting from capital contributions restricted to capital activity and debt service. Unrestricted net assets decreased approximately \$1 million or 1%.

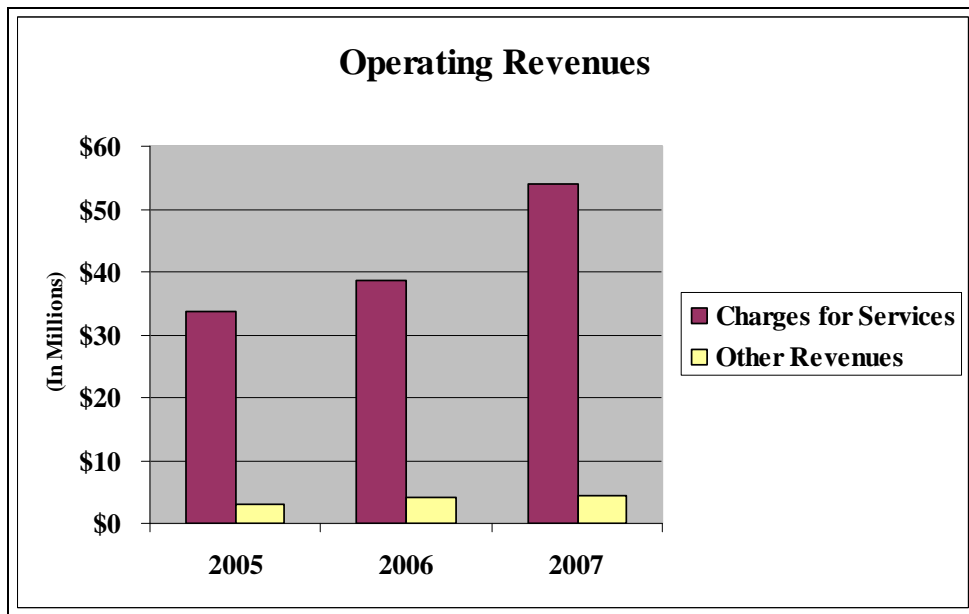
Accounts receivable at year-end, 2007, increased over \$3.7 million more than year-end 2006. This increase was due mainly to billing the City of Myrtle Beach and North Myrtle Beach water and wastewater billings on the 25<sup>th</sup> of June. Accounts receivable at June 30, 2006 were more than year-end 2005. This increase was due mainly to the increase in operating revenues for the year associated with new customers added over the last two years.

# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2007 and 2006

### Results of Operations

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



GSWSA did not increase water or wastewater rates in 2007. During 2006, GSWSA did not increase retail water rates. However, it did increase retail wastewater rates by 4.6%. The wholesale water rate increased by 6.3% from \$.64 to \$.68 per thousand gallons from 2005 to 2006. During fiscal year 2005, GSWSA did not increase water or wastewater rates.

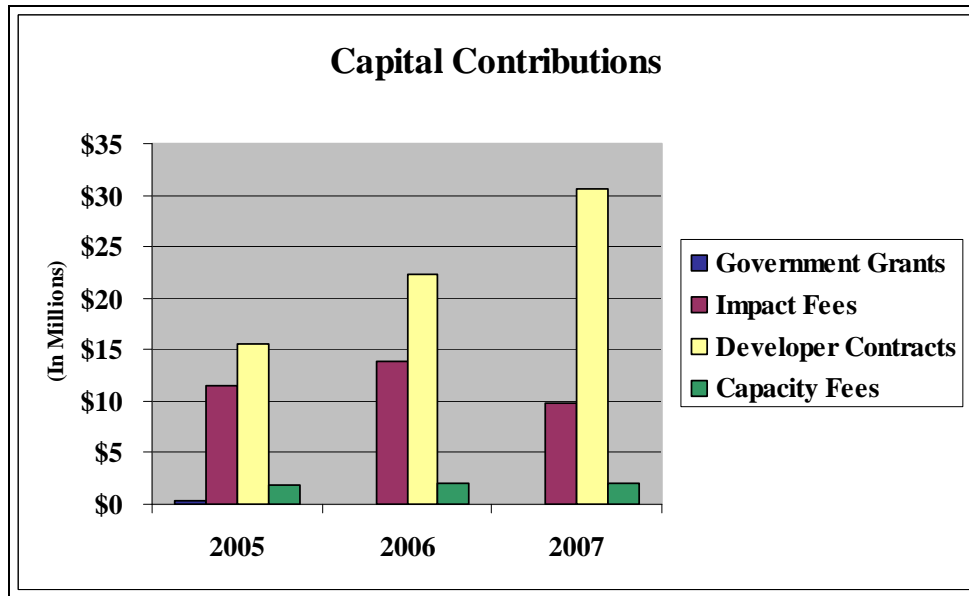
**Capital Contributions:** GSWSA collects water and wastewater capacity fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent on a residential equivalent unit basis the cost of the water and/or wastewater capacity represented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

The following chart depicts the capacity fee revenue activity.

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2007 and 2006**

**Results of Operations** (continued)



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

Cash capital contributions (impact fees) were \$13.9 million for 2006 compared to \$11.5 million for 2005. Most of this difference was a result of the increase in the number of new customers added during the year.

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

Total operating expenses of GSWSA increased \$11.2 million over fiscal year 2006, and operating revenues increased by over \$15.8 million. Operating expenses for water and wastewater operations for the last three years are listed below:



# GRAND STRAND WATER AND SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Years Ended June 30, 2007 and 2006

### Results of Operations (continued)

#### Operating Expenses

	<u>2007</u>	<u>%</u>	<u>2006</u>	<u>%</u>	<u>Variance</u>	<u>2005</u>	<u>%</u>	<u>Variance</u>
Personnel costs	\$ 12,562,364	24.6%	\$ 8,958,676	22.5%	\$ 3,603,688	\$ 8,325,391	24.7%	\$ 633,285
Contractual services	10,925,712	21.4%	8,545,559	21.4%	2,380,153	5,580,115	16.6%	2,965,444
Supplies and materials	9,951,269	19.5%	7,021,438	17.6%	2,929,831	5,258,876	15.6%	1,762,562
Business and travel expenses	110,575	.2%	60,561	.2%	50,014	96,632	.3%	(36,071)
Depreciation and amortization	15,363,404	30.1%	13,323,239	33.5%	2,040,165	12,538,492	37.3%	784,747
Bad debts	104,618	.2%	95,529	.2%	9,089	72,566	.2%	22,963
Other expenses	2,047,398	4.0%	1,820,120	4.6%	227,278	1,791,823	5.3%	28,297
Total operating expenses	<u>\$ 51,065,340</u>	<u>100.0%</u>	<u>\$ 39,825,122</u>	<u>100.0%</u>	<u>\$ 11,240,218</u>	<u>\$ 33,663,895</u>	<u>100.0%</u>	<u>\$ 6,161,227</u>

Personnel costs increased \$3,603,688 or 40.2% from 2006 to 2007. GSWSA granted an average merit increase of 4% during 2007 and the number of employees increased from 195 to 258. The increase in personnel costs was a result mainly of the addition of 46 employees transferred from the City of Myrtle Beach. Contractual services increased \$2,380,153 or 27.8%, primarily as a result of the additional electricity used at the water and wastewater plants purchased from the City of Myrtle Beach. Supplies and materials also increased \$2,929,831 or 41.7% due to increased water and wastewater gallons treated as a result of the addition of the City of Myrtle Beach water and wastewater plants. Depreciation and amortization is up \$2,040,165 or 15.3% due to addition of assets during fiscal year 2007. Bad debt expense is up \$9,089 in 2007. Other expenses are up by \$227,278 or 12.6% in 2007 due to more costs being allocated as overhead to the wholesale customers.

Personnel costs increased \$633,285 or 7.6% from 2005 to 2006. GSWSA granted an average merit increase of 4% during 2006 and the average number of employees increased from 189 to 195. Contractual services increased \$2,965,444 or 53.1%, primarily as a result of expensing of over \$1,716,932 more in capital projects during Fiscal Year 2006 as compared to \$796,778 in 2005. Supplies and materials also increased \$1,762,562 or 33.5% due to increased water and wastewater gallons treated and the increase in fuel costs in 2006. Depreciation and amortization is up \$784,747 or 6.2% due to addition of assets during fiscal year 2006. Bad debt expense is up \$22,963 in 2006 due to a detailed review of accounts outstanding during 2006. Other expenses are up by \$28,297 or 1.6% in 2006 due to more costs being allocated to Bull Creek.

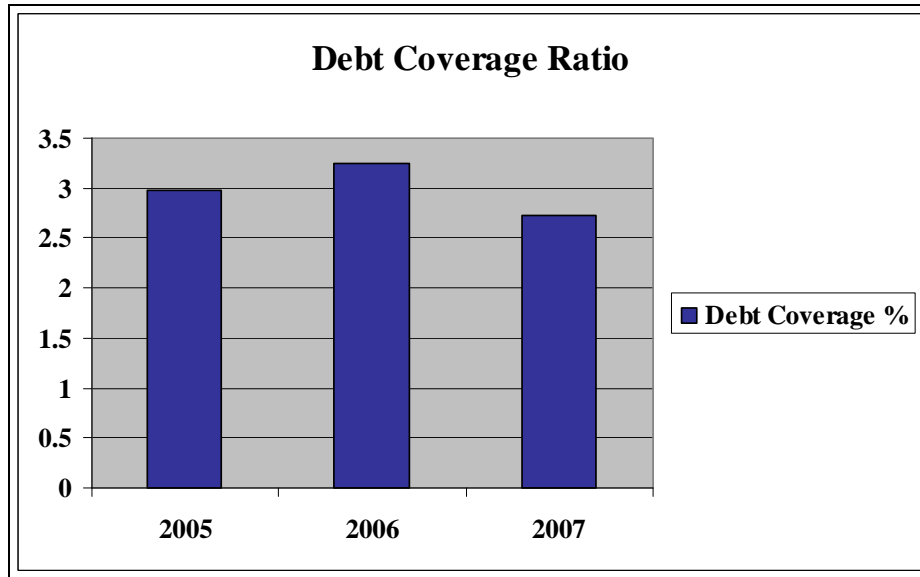
### Rate Covenant

In the Bond Resolution, GSWSA covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by GSWSA, together with other income, that will yield annual Net Earnings in the fiscal year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments. Net earnings for debt service are defined as gross revenue including customer impact fees, less operating expenses adjusted for depreciation. The rate covenant in the Bond Resolution obligates GSWSA to review rates not less than once a year and to revise such rates and charges as necessary to meet the coverage test. Revenue bond debt service coverage for fiscal years 2005, 2006 and 2007 were 298%, 325% and 272%, respectively.

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2007 and 2006**

**Rate Covenant** *(continued)*



**Capital Assets and Long-Term Debt**

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

GSWSA invested \$81.7 million in plant and equipment during 2006. Wastewater additions included the upgrade to the Schwartz Wastewater Treatment Plant for \$5.2 million and the Rural Sewer projects at a cost of \$5.5 million. Water additions included the Administrative Office Building for \$4.8 million, the Automatic Meter Reading Project for \$1.5 million, and the Rural Water projects at a cost of \$2.8 million. Developer contributions to capital assets were \$22.3 million and capitalized interest was \$215,032. Disposals for 2006 were \$2.6 million.

During fiscal years 2005, 2006, and 2007, GSWSA obtained state revolving fund loans for the expansion of the Vereen and Schwartz wastewater treatment plants. As of June 30, 2007, the draws made on these loans and recorded debt was \$20.3 million. The ratio of total debt to capital assets was 47.2% for the fiscal year 2007.

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

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2007 and 2006**

**Final Comments**

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

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**BASIS FINANCIAL STATEMENTS**

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

Page 1 of 2

**June 30, 2007 and 2006**

**ASSETS**

	2007	2006
<b>Current Assets</b>		
Cash and Investments	\$ 71,316,582	\$ 75,692,564
Receivables		
Customer Accounts, net of allowance of \$108,802 in 2007 and \$87,058 in 2006	8,478,112	4,718,756
Assessments	2,597,268	2,541,775
Loans	363,133	137,009
Interest	665,385	854,994
Other	152,247	463,791
Inventories	833,854	886,133
Prepays	525,231	281,590
Total Current Assets	\$ 84,931,812	\$ 85,576,612
<b>Noncurrent Assets</b>		
Restricted Cash and Investments		
Deposits and Unearned Contributions	\$ 5,235,845	\$ 4,924,534
Capital Projects Fund	9,603,084	5,604,333
Debt Service Fund	11,382,639	10,430,584
Depreciation and Contingency Fund	6,148,740	6,858,414
Deferred Compensation Fund	231,805	190,419
Rate Stabilization Fund	3,171,367	3,160,970
Total Restricted Cash and Investments	\$ 35,773,480	\$ 31,169,254
Property, Plant, and Equipment		
Utility Plant in Service	\$ 516,978,586	\$ 471,490,644
Land and Easements	49,463,055	21,693,286
Buildings and Leasehold Improvements	6,532,511	6,449,794
Vehicles	5,088,198	4,795,334
Machinery, Equipment, and Office Furniture	8,375,276	7,883,744
Construction in Process	13,235,420	4,907,316
	599,673,046	517,220,118
Accumulated Depreciation	(145,770,895)	(130,681,904)
Total Property, Plant and Equipment	\$ 453,902,151	\$ 386,538,214
Deferred Bond Cost (Net)	1,554,857	1,491,160
Container and Security Deposits	4,750	4,750
Total Noncurrent Assets	\$ 491,235,238	\$ 419,203,378
<b>TOTAL ASSETS</b>	<b>\$ 576,167,050</b>	<b>\$ 504,779,990</b>

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

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

Page 2 of 2

**June 30, 2007 and 2006**

**LIABILITIES and NET ASSETS**

	<u>2007</u>	<u>2006</u>
<b>Current Liabilities</b>		
Accounts Payable	\$ 1,528,931	\$ 1,072,954
Accrued Salaries and Payroll Taxes	242,870	179,674
Accrued Compensated Absences	1,056,016	723,235
Loan Proceeds in Transit	363,133	137,009
Current Portion of Capital Lease Payable	97,790	94,362
Total Current Liabilities Payable From Current Assets	<u>\$ 3,288,740</u>	<u>\$ 2,207,234</u>
<b>Current Liabilities Payable from Restricted Assets</b>		
Construction Contracts	\$ 1,551,101	\$ 1,343,505
Current Portion of Revenue Bonds	4,636,106	3,437,132
Current Portion of Notes Payable	2,899,203	2,667,466
Accrued Interest on Revenue bonds	582,680	533,552
Accrued Interest on Notes Payable	343,007	382,849
Customer Security and Tap Deposits	4,403,209	3,995,771
Unearned Customer Contributions	994,799	928,763
Total Current Liabilities Payable from Restricted Assets	<u>\$ 15,410,105</u>	<u>\$ 13,289,038</u>
<b>Total Current Liabilities</b>	<u>\$ 18,698,845</u>	<u>\$ 15,496,272</u>
<b>Noncurrent Liabilities</b>		
Revenue Bonds (Net), Less Current Portion	\$ 135,333,270	\$ 119,849,750
Notes Payable, Less Current Portion	58,797,247	52,994,723
Capital Lease Payable, Less Current Portion	1,185,741	1,280,433
Arbitrage Rebate	30,592	57,762
Deferred Compensation Payable	231,805	190,419
Total Noncurrent Liabilities	<u>\$ 195,578,655</u>	<u>\$ 174,373,087</u>
<b>Total Liabilities</b>	<u>\$ 214,277,500</u>	<u>\$ 189,869,359</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	\$ 247,846,836	\$ 203,379,683
Restricted for		
Capital Projects	15,751,824	12,462,747
Debt Service	11,308,534	10,356,479
Rate Stabilization	3,171,367	3,160,970
Unrestricted	83,810,989	85,550,752
Total Net Assets	<u>\$ 361,889,550</u>	<u>\$ 314,910,631</u>
<b>TOTAL LIABILITIES and NET ASSETS</b>	<u>\$ 576,167,050</u>	<u>\$ 504,779,990</u>

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

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

Page 1 of 2

**Years Ended June 30, 2007 and 2006**

	2007	2006
<b>Operating Revenues</b>		
Water and Sewer Volume and Availability Fees	\$ 40,447,089	\$ 24,413,775
Customer Charges	2,675,095	2,558,681
Surface Water Charges	5,713,617	5,389,236
Surface Water Treatment Plant (SWTP) Contract Water Consumption	2,316,629	2,330,268
Tap Fees	2,257,100	3,124,707
Sod Sales	631,570	755,339
Other Revenue	4,481,476	4,192,230
Total Operating Revenues	\$ 58,522,576	\$ 42,764,236
<b>Operating Expenses</b>		
Personnel costs	\$ 12,562,364	\$ 8,958,676
Contractual Services	10,925,712	8,545,559
Supplies and Materials	9,951,269	7,021,438
Business and Travel Expenses	110,575	60,561
Depreciation on Assets Acquired With:		
Authority Funds	8,923,586	7,721,728
Contributed Capital	6,439,818	5,601,511
Bad Debts	104,618	95,529
Other Expenses	2,047,398	1,820,120
Total Operating Expenses	\$ 51,065,340	\$ 39,825,122
<b>Operating Income</b>	\$ 7,457,236	\$ 2,939,114
<b>Non-Operating Revenues (Expenses)</b>		
Investment Income	\$ 6,200,184	\$ 3,311,395
Other Revenue		4,057,942
Gain (Loss) on Disposal of Capital Assets	48,862	(541,197)
Amortization of Deferred Bond Costs	(111,962)	(102,251)
Interest Expense	(8,960,468)	(7,936,226)
Total Non-Operating Revenues (Expenses)	\$ (2,823,384)	\$ (1,210,337)
<b>Income Before Contributions</b>	\$ 4,633,852	\$ 1,728,777
<b>Capital Contributions</b>		
SWTP Capacity Fees	\$ 1,970,844	\$ 1,970,844
Customer Impact Fees	9,827,621	13,912,826
Developer Contributions	30,546,602	22,345,509
Total Capital Contributions	\$ 42,345,067	\$ 38,229,179
<b>Change in Net Assets</b> (carried forward)	\$ 46,978,919	\$ 39,957,956

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

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

Page 2 of 2

**Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Change in Net Assets</b> (brought forward)	\$ 46,978,919	\$ 39,957,956
<b>Net Assets, Beginning</b>	<u>314,910,631</u>	<u>274,952,675</u>
<b>Net Assets, Ending</b>	<u>\$ 361,889,550</u>	<u>\$ 314,910,631</u>

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



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

Page 1 of 2

**Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from Customers	\$ 55,482,202	\$ 42,552,506
Payments to Suppliers	(24,796,326)	(18,652,549)
Payments to Employees	(10,140,400)	(7,860,387)
<b>Net Cash and Cash Equivalents Provided by Operating Activities</b>	<u>\$ 20,545,476</u>	<u>\$ 16,039,570</u>
 <b>Cash Flows From Capital and Related Financing Activities</b>		
Purchase and Construction of Property, Plant, and Equipment	\$ (51,958,644)	\$ (56,899,461)
Proceeds from Sale of Equipment	48,862	
Proceeds from Capital Debt	28,701,727	19,335,930
Principal Payments on Capital Debt	(6,198,960)	(4,208,494)
Interest Paid on Borrowings	(8,828,457)	(7,604,209)
Bond Issue Costs	(175,659)	
Contributions from Customers	11,676,936	16,473,587
<b>Net Cash and Cash Equivalents (Used) by Capital and Related Financing Activities</b>	<u>\$ (26,734,195)</u>	<u>\$ (32,902,647)</u>
 <b>Cash Flows From Investing Activities</b>		
Proceeds from Sale of Investments	\$ 72,844,683	\$ 45,711,567
Purchase of Investments	(67,547,296)	(34,574,098)
Interest Received	6,416,963	7,522,271
<b>Net Cash and Cash Equivalents Provided by Investing Activities</b>	<u>\$ 11,714,350</u>	<u>\$ 18,659,740</u>
 <b>Net Increase in Cash and Cash Equivalents</b>	<u>\$ 5,525,631</u>	<u>\$ 1,796,663</u>
 <b>Cash and Cash Equivalents - Beginning</b>	<u>34,651,654</u>	<u>32,854,991</u>
 <b>Cash and Cash Equivalents - Ending</b>	<u><u>\$ 40,177,285</u></u>	<u><u>\$ 34,651,654</u></u>

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

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

Page 2 of 2

**Years Ended June 30, 2007 and 2006**

	2007	2006
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating Income	\$ 7,457,236	\$ 2,939,114
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities		
Depreciation	15,363,404	13,323,239
Provision for Bad Debts	104,618	95,529
(Increase) in Customer Receivables and Other Receivables	(3,447,812)	(774,389)
Decrease in Inventory	52,279	197,407
(Increase) in Prepaid Expenses	(243,641)	(47,485)
Increase (Decrease) in Accounts Payable	455,977	(100,681)
Increase (Decrease) in Accrued Salaries, Payroll Taxes, and Compensated Absences	395,977	(155,823)
Increase in Customer Deposits	407,438	562,659
Net Cash Provided by Operating Activities	\$ 20,545,476	\$ 16,039,570

**Noncash Capital and Related Financing Activities**

Fair Value of Developer Contributed Utility Systems	\$ 30,546,602	\$ 22,345,509
Abandoned Capital Projects expensed	296,588	2,529,811
Capitalized Interest Expense	74,188	215,032
Unrealized Appreciation (Depreciation) in Fair Value of Investments	(14,796,913)	(16,680,170)

**Reconciliation of Cash and Cash Equivalents**

Unrestricted Cash and Investments - Beginning	\$ 75,692,564	\$ 76,733,434
Restricted Cash and Investments - Beginning	31,169,254	39,469,190
	\$ 106,861,818	\$ 116,202,624
Investments With Original Maturity Dates Over Ninety Days	(72,210,164)	(83,347,633)
Cash and Cash Equivalents - Beginning	\$ 34,651,654	\$ 32,854,991
Unrestricted Cash and Investments - Ending	\$ 71,316,582	\$ 75,692,564
Restricted Cash and Investments - Ending	35,773,480	31,169,254
	\$ 107,090,062	\$ 106,861,818
Investments With Original Maturity Dates Over Ninety Days	(66,912,777)	(72,210,164)
Cash and Cash Equivalents - Ending	\$ 40,177,285	\$ 34,651,654

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

Description of Government Unit

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

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

Reporting Entity

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

Basis of Presentation, Accounting and Measurement Focus

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

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

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

Basis of Presentation, Accounting and Measurement Focus *(continued)*

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

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

Budgets and Budgetary Accounting

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

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

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

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

Deposits and Investments

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

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Deposits and Investments *(continued)*

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

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

Receivables

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

Inventories

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

Restricted Assets

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

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

Property, Plant and Equipment, Capacity Rights and Depreciation

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

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

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

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

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

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

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

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

Long-Term Obligations

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

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

Compensation for Future Absences

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Non-exchange Transactions

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

Revenues and the Rate Structure

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

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

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

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

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

Net Assets

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

Net Assets *(continued)*

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

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

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

**Note 2 – DEPOSITS AND INVESTMENTS**

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

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

Cash and cash equivalents consisted of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Petty cash	\$ 3,000	\$ 1,850
Cash deposits	6,282,423	11,017,484
Repurchase agreements	652,252	1,313,743
Money market investments	11,234,596	6,251,758
Investment pool	<u>22,005,014</u>	<u>16,066,819</u>
Total Cash and Cash Equivalents	<u>\$ 40,177,285</u>	<u>\$ 34,651,654</u>

Deposits

At June 30, 2007 and 2006, the carrying amount of GSWSA's deposits in financial institutions were \$6,282,423 and \$11,017,484 and the financial institutions' balances totaled \$6,246,549 and \$11,635,027, 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 \$3,000 for fiscal year 2007 and \$1,850 for fiscal year 2006.

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 FINANCIAL STATEMENTS**

**June 30, 2007 and 2006**

**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, 2007 and 2006, 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>2007 Fair Value</u>	<u>2006 Fair Value</u>
Federal Home Loan Mortgage Corporation	\$ 9,737,950	\$ 8,236,545
Federal National Mortgage Association	25,373,007	26,586,603

*Credit Risk.* At June 30, 2007 and 2006, GSWSA had the following investments which were rated by Standard and Poor's as follows:

<u>Investment Type</u>	<u>2007</u>		<u>2006</u>	
	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Federal Home Loan Mortgage Corporation	\$ 7,548,624	AAA	\$ 7,000,514	AAA
Federal National Mortgage Association	23,107,040	AAA	24,484,312	AAA
Money Market Obligation Trusts	3,552,774	AAA	3,055,339	AAA
Federal Home Loan Mortgage Corporation			249,141	AA-
Federal Home Loan Mortgage Association	2,189,326	Not Rated	986,890	Not Rated
Federal National Mortgage Corporation	2,265,967	Not Rated	2,102,291	Not Rated
Guaranteed Investment Contracts	7,712,361	Not Rated	12,711,835	Not Rated
State Investment Pool	22,005,013	Not Rated	16,066,819	Not Rated
Money Market Fund	231,805	Not Rated	190,419	Not Rated
Money Market Obligation Trusts	7,952,729	Not Rated	3,847,206	Not Rated

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**

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

Investments *(continued)*

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

	<u>2007</u>	<u>2006</u>
Federal Home Loan Mortgage Corporation	9.0%	8.73%
Federal National Mortgage Association	25.44%	28.19%
Guaranteed Investment Contracts	7.65 %	13.48%

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

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

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

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007 and 2006**

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

Investments *(continued)*

As of June 30, 2006, GSWSA had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
Repurchase Agreements	\$ 1,313,743	\$ 1,313,743	\$	\$	\$
U.S. Treasuries	21,689,117	4,642,384	9,400,630	7,646,103	
Federal Home Loan Mortgage Corporation	8,236,545		1,817,563	2,669,293	3,749,689
Federal National Mortgage Association	26,586,603	1,061,249	12,126,791	2,035,691	11,362,872
Government National Mortgage Association	<u>2,150,746</u>	<u></u>	<u>168,610</u>	<u></u>	<u>1,982,136</u>
	<u>\$ 59,976,754</u>	<u>\$ 7,017,376</u>	<u>\$ 23,513,594</u>	<u>\$ 12,351,087</u>	<u>\$ 17,094,697</u>

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

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

	<u>Balance 6/30/06</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance 6/30/07</u>
Capital Assets not being Depreciated					
Land and Easements	\$ 21,693,286	\$ 27,769,769	\$	\$	\$ 49,463,055
Construction-in-Progress	<u>4,907,316</u>	<u>27,208,365</u>	<u>(2,613,024)</u>	<u>(16,267,237)</u>	<u>13,235,420</u>
	<u>\$ 26,600,602</u>	<u>\$ 54,978,134</u>	<u>\$ (2,613,024)</u>	<u>\$ (16,267,237)</u>	<u>\$ 62,698,475</u>
Capital Assets being Depreciated					
Utility Plant	\$ 471,490,644	\$ 29,220,705	\$	\$ 16,267,237	\$ 516,978,586
Buildings and Leaseholds	6,449,794	82,717			6,532,511
Vehicles	4,795,334	528,772	(257,292)	21,384	5,088,198
Machinery, Equipment and Furniture	<u>7,883,744</u>	<u>530,828</u>	<u>(39,296)</u>	<u></u>	<u>8,375,276</u>
	<u>\$ 490,619,516</u>	<u>\$ 30,363,022</u>	<u>\$ (296,588)</u>	<u>\$ 16,288,621</u>	<u>\$ 536,974,571</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007 and 2006**

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

	<u>Balance</u> <u>6/30/06</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>6/30/07</u>
Accumulated Depreciation for					
Utility Plant	\$ (119,725,203)	\$ (14,233,214)	\$	\$	\$ (133,958,417)
Buildings	(1,029,691)	(187,435)			(1,217,126)
Vehicles	(3,706,302)	(350,886)	257,292	(21,384)	(3,821,280)
Machinery, Equipment and Furniture	<u>(6,220,708)</u>	<u>(591,869)</u>	<u>38,505</u>		<u>(6,774,072)</u>
	<u>\$ (130,681,904)</u>	<u>\$ (15,363,404)</u>	<u>\$ 295,797</u>	<u>\$ (21,384)</u>	<u>\$ (145,770,895)</u>
	<u>\$ 386,538,214</u>	<u>\$ 69,977,752</u>	<u>\$ (2,613,815)</u>	<u>\$</u>	<u>\$ 453,902,151</u>

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>6/30/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>6/30/06</u>
Capital Assets not being Depreciated					
Land and Easements	\$ 21,472,971	\$ 444,156	\$ (223,841)	\$	\$ 21,693,286
Construction-in-Progress	<u>11,631,205</u>	<u>16,751,408</u>	<u>(2,529,811)</u>	<u>(20,945,486)</u>	<u>4,907,316</u>
	<u>\$ 33,104,176</u>	<u>\$ 17,195,564</u>	<u>\$ (2,753,652)</u>	<u>\$ (20,945,486)</u>	<u>\$ 26,600,602</u>
Capital Assets being Depreciated					
Utility Plant	\$ 392,563,277	\$ 58,543,113	\$ (561,232)	\$ 20,945,486	\$ 471,490,644
Buildings and Leaseholds	1,486,932	4,989,174	(26,312)		6,449,794
Vehicles	4,711,718	497,939	(414,323)		4,795,334
Machinery, Equipment and Furniture	<u>8,829,101</u>	<u>427,622</u>	<u>(1,372,979)</u>		<u>7,883,744</u>
	<u>\$ 407,591,028</u>	<u>\$ 64,457,848</u>	<u>\$ (2,374,846)</u>	<u>\$ 20,945,486</u>	<u>\$ 490,619,516</u>
Accumulated Depreciation for					
Utility Plant	\$ (107,903,209)	\$ (12,153,748)	\$ 331,754	\$	\$ (119,725,203)
Buildings	(887,164)	(162,339)	19,812		(1,029,691)
Vehicles	(3,731,775)	(388,830)	414,303		(3,706,302)
Machinery, Equipment and Furniture	<u>(6,809,485)</u>	<u>(618,322)</u>	<u>1,207,099</u>		<u>(6,220,708)</u>
	<u>\$ (119,331,633)</u>	<u>\$ (13,323,239)</u>	<u>\$ 1,972,968</u>	<u>\$</u>	<u>\$ (130,681,904)</u>
	<u>\$ 321,363,571</u>	<u>\$ 68,330,173</u>	<u>\$ (3,155,530)</u>	<u>\$</u>	<u>\$ 386,538,214</u>

Direct and indirect costs of GSWSA's construction and engineering departments were capitalized in the approximate amount of \$1,435,742 and \$1,369,445 during 2007 and 2006, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$74,188 and \$215,032 during 2007 and 2006, respectively.

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

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

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

Surface Water Treatment Plant and System

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**Note 3 – PROPERTY, PLANT, AND EQUIPMENT AND CAPACITY SALES AND PURCHASES** *(continued)*

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

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

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

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

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

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

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

**Note 4 – CAPITAL LEASES**

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

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

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**

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

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

2008	\$	144,352
2009		144,352
2010		144,352
2012		144,352
2013– 2017		721,760
2018 – 2019		<u>298,515</u>
Total Minimum Lease Payments	\$	1,597,683
Less: Amount Representing Interest		(280,075)
Unamortized Deferral on Refunding		<u>(34,077)</u>
Present Value of Minimum Lease Payments	\$	<u>1,283,531</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2006 are as follows:

2007	\$	144,352
2008		144,352
2009		144,352
2010		144,352
2011– 2015		721,760
2016 – 2019		<u>442,867</u>
Total Minimum Lease Payments	\$	1,742,035
Less: Amount Representing Interest		(330,064)
Unamortized Deferral on Refunding		<u>(37,176)</u>
Present Value of Minimum Lease Payments	\$	<u>1,374,795</u>

**Note 5 – LONG-TERM DEBT**

The original amount of debt which has been issued, including prior years, by GSWSA was \$320,628,149. Bonds, notes and state revolving loans payable at June 30, 2007 and 2006 are composed of the following individual issues.

	<u>2007</u>	<u>2006</u>
Waterworks and Sewer System Improvement Revenue Bond, Series 2000 Secured by gross revenues from Utility system. Current interest paying serial bonds; due in annual principal installments ranging from \$485,000 to \$943,000 during 2001 through 2015; interest at 5.55% per annum; due June 1 and December 1.	\$ 6,097,770	\$ 6,709,902



**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**

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

	<u>2007</u>	<u>2006</u>
Waterworks and Sewer Systems Revenue Bond, Refunding Series 1992. All revenues from the applicable SWTP are pledged for debt service.		
Current interest paying term bonds; principal due 2012 with annual sinking fund requirements beginning in 2008; interest at 6.375% per annum; due June 1 and December 1.	13,335,000	13,335,000
Waterworks and Sewer System Revenue Bonds, Series 2001. Secured by gross revenues from Utility System.		
Current interest paying serial bonds; due in annual principal installments ranging from \$470,000 to \$4,295,000 during 2012 through 2023; interest at 4.0% to 5.25% per annum; due June 1.	12,780,000	12,780,000
Current interest paying term bonds; principal due 2022 with annual sinking fund requirements beginning in 2018; interest at 5.0% per annum; due June 1.	11,370,000	11,370,000
Current interest paying term bonds; principal due 2026 with annual sinking fund requirements beginning in 2024; interest at 5.0% per annum; due June 1.	14,205,000	14,205,000
Current interest paying term bonds; principal due 2031 with annual sinking fund requirements beginning in 2027; interest at 5.0% per annum; due June 1.	<u>28,825,000</u>	<u>28,825,000</u>
Total Series 2001 Bonds	<u>67,180,000</u>	<u>67,180,000</u>
Waterworks and Sewer System Refunding Revenue Bonds, Series 2002. Secured by gross revenues from Utility System. Current interest paying serial bonds; due in annual principal installments of \$1,040,000 to \$4,565,000 during 2003 to 2019; interest at 5.0% to 5.375% per annum; due June 1.	27,470,000	29,675,000

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**

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

	<u>2007</u>	<u>2006</u>
Waterworks and Sewer System Refunding Revenue Bonds, Series 2003. Secured by gross revenues from Utility System. Current interest paying serial bonds; due in annual principal installments ranging from \$150,000 to \$920,000 during 2003 through 2018; interest at 3.58 per annum; due June 1.	7,505,000	8,125,000
Waterworks and Sewer System Improvement Revenue Bond, Series 2006. Secured by net revenues of the system. Current interest paying serial bond; due in annual principal installments ranging from \$990,000 to \$1,730,000 during 2008 through 2021; interest at 3.75 per annum; due June 1 and December 1.	<u>20,000,000</u>	
Total Bonds Payable	<u>\$ 141,587,770</u>	<u>\$ 125,024,902</u>
 Note payable to individual at 10% for the mortgage of 84 acres in Socastee, payable in twenty equal annual payments of principal and interest in the sum of \$19,000; matures November 21, 2007.	 \$	 \$ 17,268
Note payable, including accrued interest, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 4.25%. Quarterly principal and interest payments of \$11,849 began on October 1, 1992. Total loan is \$636,424. All revenue from the applicable systems is pledged for debt service.	212,488	249,857
Note payable, including accrued interest of \$7,975, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 4.00%. Quarterly principal and interest payments of \$28,364 began June 1, 1999. Total approved loan is \$1,556,830. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	1,059,488	1,128,821

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007 and 2006**

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

	<u>2007</u>	<u>2006</u>
Note payable, including accrued interest of \$2,182, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$27,579 began November 1, 1999. Total approved loan is \$1,581,949. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	1,113,011	1,182,838
Note payable, including accrued interest of \$5,896, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$20,044 began January 1, 2000. Total approved loan is \$1,149,705. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	808,897	859,645
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.	2,924,779	3,094,269
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.	12,598,013	13,299,889
Note payable, including accrued interest of \$5,557, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$19,404 began August 1, 2001. Total approved loan is \$1,113,023. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	856,148	902,775

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

Note 5 – LONG-TERM DEBT (continued)

	<u>2007</u>	<u>2006</u>
Note payable, including accrued interest of \$3,124 to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$48,400 began January 1, 2002. Total approved loan is \$2,776,238. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	2,164,965	2,280,259
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$89,119 to begin August 1, 2003. Total approved loan is \$5,000,000. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	4,225,324	4,414,796
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$129,975 to begin August 1, 2003. Total approved loan is \$7,162,425. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	6,123,045	6,397,614
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly principal and interest payments of \$7,898 to begin April 1, 2005. Total approved loan is \$227,611. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	194,581	203,307
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.00%. Quarterly principal and interest payments of \$96,339 to begin June 1, 2006. Total approved loan is \$5,779,833. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	5,609,308	5,692,124

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**

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

	<u>2007</u>	<u>2006</u>
Note payable to South Carolina State Budget and Control Board for South Carolina Drinking Water Revolving Loan Fund at 4%. Quarterly principal and interest payments of \$46,696 to begin August 1, 2006. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	2,149,886	2,248,206
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 4%. Quarterly principal and interest payments of \$284,359 to begin August 1, 2006. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	13,091,799	13,690,521
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 \$209,205 to begin January 1, 2008. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	<u>8,564,718</u>	<u>                    </u>
Total Notes Payable	\$ <u>61,696,450</u>	\$ <u>55,662,189</u>
Total Debt, before deferrals	\$ 203,284,220	\$ 180,687,091
Unamortized Revenue Bond Discount/Premium	228,760	263,064
Unamortized Deferral on Refunding	<u>(1,847,154)</u>	<u>(2,001,084)</u>
Total Debt, Net	\$ 201,665,826	\$ 178,949,071
Less Current Portion	<u>(7,535,309)</u>	<u>(6,104,598)</u>
Total Long – Term Portion of Debt	<u>\$ 194,130,517</u>	<u>\$ 172,844,473</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**

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

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

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

Remaining debt service payments at June 30, 2006, including annual sinking fund payments beginning in 2008 are as follows:

<u>Date</u>	<u>Revenue Bonds</u>		<u>Notes Payable</u>		<u>State Revolving Loans</u>		<u>Total Principal</u>	<u>Total Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2007	\$ 3,437,132	\$ 6,402,624	\$ 17,268	\$ 1,732	\$ 2,650,198	\$ 1,918,373	\$ 6,104,598	\$ 14,427,327
2008	3,646,106	6,241,408			2,749,805	1,925,022	6,395,911	14,562,341
2009	3,841,964	6,037,819			2,853,187	1,821,643	6,695,151	14,554,613
2010	4,064,813	5,822,904			2,960,480	1,714,345	7,025,293	14,562,542
2011	4,304,763	5,595,115			3,071,848	1,602,982	7,376,611	14,574,708
2012-2016	28,185,124	24,034,271			16,977,787	6,206,773	45,162,911	75,403,955
2017-2021	26,130,000	16,179,558			19,134,976	2,798,719	45,264,976	64,243,253
2022-2026	22,590,000	10,704,500			5,246,640	270,604	27,836,640	38,811,744
2027-2031	<u>28,825,000</u>	<u>4,464,250</u>					<u>28,825,000</u>	<u>33,289,250</u>
Totals	<u>\$ 125,024,902</u>	<u>\$ 85,482,449</u>	<u>\$ 17,268</u>	<u>\$ 1,732</u>	<u>\$55,644,921</u>	<u>\$18,258,461</u>	<u>\$ 180,687,091</u>	<u>\$ 284,429,733</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**

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

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

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07	Due Within One Year
Bonds Payable	\$ 125,024,902	\$ 20,000,000	\$ 3,437,132	\$ 141,587,770	\$ 4,636,106
Notes Payable	55,662,188	8,701,727	2,667,465	61,696,450	2,899,203
Capital Leases	<u>1,411,971</u>		<u>94,362</u>	<u>1,317,609</u>	<u>97,790</u>
Total Liabilities	\$ 182,099,061	\$ 28,701,727	\$ 6,198,960	\$ 204,601,829	\$ 7,633,099
Less Deferred Amounts:					
Issuance discounts/premiums	263,064		34,302	228,760	
Loss on Refunding	<u>(2,001,084)</u>		<u>(153,930)</u>	<u>(1,847,154)</u>	
Total	<u>\$ 180,361,041</u>	<u>\$ 28,701,727</u>	<u>\$ 6,079,332</u>	<u>\$ 202,983,435</u>	<u>\$ 7,633,099</u>

Long term liability activity including capital leases for the year ended June 30, 2006, was as follows:

	Balance 6/30/05	Additions	Reductions	Balance 6/30/06	Due Within One Year
Bonds Payable	\$ 127,404,847		\$ 2,379,945	\$ 125,024,902	\$ 3,437,132
Notes Payable	38,063,752	19,335,930	1,737,494	55,662,188	2,667,466
Capital Leases	<u>1,503,026</u>		<u>91,055</u>	<u>1,411,971</u>	<u>94,362</u>
Total Liabilities	\$ 166,971,625	\$ 19,335,930	\$ 4,208,494	\$ 182,099,061	\$ 6,198,960
Less Deferred Amounts:					
Issuance discounts/premiums	297,368		34,303	263,064	
Loss on Refunding	<u>(2,155,014)</u>		<u>(153,929)</u>	<u>(2,001,084)</u>	
Total	<u>\$ 165,113,979</u>	<u>\$ 19,335,930</u>	<u>\$ 4,088,868</u>	<u>\$ 180,361,041</u>	<u>\$ 6,198,960</u>

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

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**Note 5 – LONG-TERM DEBT** *(continued)*

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

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

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

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

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

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

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



**GRAND STRAND WATER AND SEWER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007 and 2006**

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

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

On September 11, 2006, Grand Strand Water and Sewer Authority entered into a note payable to the South Carolina State Budget and Control Board from the South Carolina Water Pollution Revolving Loan Fund for \$12,000,000 at an interest rate of 3.5%. As of June 30, 2007, GSWSA has received \$8,564,718 in loan proceeds. The note payable becomes due in quarterly installments of \$209,205 on January 1, 2008.

**Note 6 – NET ASSETS**

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

	<u>2007</u>	<u>2006</u>
Invested in Capital Assets, net of related debt:		
Net property, plant and equipment	\$ 453,902,151	\$ 386,538,214
Less: Revenue bonds payable, net	(139,969,376)	(123,286,882)
Deferred Bond Costs	(1,554,857)	(1,491,160)
Notes payable	(61,696,450)	(55,662,189)
Capital lease payable	(1,283,531)	(1,374,795)
Accounts payable for capital items	(1,551,101)	(1,343,505)
Total	<u>\$ 247,846,836</u>	<u>\$ 203,379,683</u>
Restricted for:		
Capital Projects		
Contingent and Depreciation Fund	\$ 6,148,740	\$ 6,858,414
Capital Projects Fund	<u>9,603,084</u>	<u>5,604,333</u>
Total	<u>\$ 15,751,824</u>	<u>\$ 12,462,747</u>
Debt Service		
Debt Service Fund	\$ 11,382,639	\$ 10,430,584
Less: Accrued Interest	<u>(74,105)</u>	<u>(74,105)</u>
Total	<u>\$ 11,308,534</u>	<u>\$ 10,356,479</u>
Rate Stabilization	<u>\$ 3,171,367</u>	<u>\$ 3,160,970</u>
Unrestricted	<u>\$ 83,810,989</u>	<u>\$ 85,550,752</u>
Total Net Assets	<u>\$ 361,889,550</u>	<u>\$ 314,910,631</u>

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

All permanent employees participate in the South Carolina Retirement System (SCRS) a cost-sharing, multiple-employer public employee retirement system. The SCRS was established, effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws. Benefit provisions and both employee and employer contribution rates are established and amended under authority of Title 9 of the South Carolina Code of Laws. Annual

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

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

covered payroll for fiscal years 2007 and 2006 for active members covered by the SCRS was \$9,904,943 and \$7,757,765, respectively. Annual covered payroll for fiscal years 2007 and 2006 for retired members was \$200,825 and \$256,114, respectively. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29221-1960.

Benefits of the SCRS are established by the state statutes. The required employer and employee obligations to contribute to the SCRS are 8.20% and 6.50%, respectively. All full time employees are covered under the plan beginning with the effective date of employment unless specifically exempted by legislation. Under current statutes, membership in the SCRS is required as a condition of employment. Vesting of the employee portion of contributions occurs following at least 5 years of creditable service. An employee with at least 5 years of service who terminates employment has the right to leave his contribution on deposit in the system and will receive a reduced monthly retirement allowance beginning at age 60 or at age 55 with at least 25 years of creditable service reduced 4% for each year of service under 30 years. If a vested member applies for a refund following termination, he or she is eligible for a refund of the total employee contributions plus interest. Member employees who retire at age 65 or after 28 years of credited service are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.70% of the employee’s annual average final compensation (average compensation over the last three years of credited service) for each year of credited service. Member employees who are at least 60 years of age may elect early retirement in which case the full service benefit is reduced by 5% for each year the employee’s age at retirement is less than 65. In either case, any unrecovered contributions are payable upon death and benefit payments increase 4% each year following an increase in the consumer Price Index of at least 3%. Full service or early retirees may elect other optional methods of benefit distributions, including lump sum distributions, benefit levels coordinated with the retiree’s social security benefits and distributions to a named beneficiary. Benefits are fully vested on reaching five years of service. The SCRS also provides death and disability benefits to all member employees.

State statutes determine the levels of contributions required. GSWSA is required to contribute at the actuarially determined rates. SCRS member employees are required to contribute 6.50% of all compensation. GSWSA is required to contribute 8.05% 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 2007 were \$837,950 and \$656,875. GSWSA’s contributions to the SCRS for the last three years is as follows:

THREE YEAR TREND INFORMATION

Fiscal Year Ended	Annual Employer Contribution	Percentage Contributed For Current Year
June 30, 2005	\$487,931	100%
June 30, 2006	\$617,710	100%
June 30, 2007	\$837,950	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, 2007 and 2006, no employees had elected coverage under the Act.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

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

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

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

The GWSA also maintains a non-qualified deferred compensation plan for the benefit of a former employee of the GWSA. These funds are held in a separate account and are available to the former employee at any time upon request.

GWSA also provides medical insurance coverage for employees retiring through the SCRS under the following guidelines: (1) the retiring employee has 20 years of service with GWSA; or (2) the retiring employee has over 10 years of service with GWSA and becomes disabled. Retiring Board Members are also eligible for retiree insurance upon completion of 8 years on the Board of Directors. All medical insurance for retirees will become secondary insurance when the retiree becomes eligible for Medicare. GWSA had 7 employees at June 30, 2007, and 5 employees at June 30, 2006, eligible to receive benefits. The total cost of medical insurance paid for the retired employees during the years ended June 30, 2007 and 2006 were \$35,229 and \$21,838, respectively.

**Note 8 – MAJOR CUSTOMER**

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

During fiscal year 2006, the following customers provided the indicated percentage of GWSA's combined operating revenues and capital contributions: City of Conway 3.5%, City of North Myrtle Beach 1.3% and Little River Water and Sewerage Company 1.8%. No other customers provided more than .8%.

**Note 9 – RISK MANAGEMENT**

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006**

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

GSWSA acquires insurance from the State Accident Fund for job related injury and illness (Worker's Compensation) to its employees. Worker's Compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. Health insurance, from a private insurer of up to \$2,000,000 of lifetime claims per employee, was in place. General blanket fidelity bond insurance in the amount of \$75,000 per employee was also maintained. There were no significant reductions in insurance coverage from the previous year and no settlements have exceeded insurance coverage for the past three fiscal years ended June 30, 2007, 2006 and 2005.

During 2007 and 2006, GSWSA did not experience any uninsured claims. Accordingly, there was no liability or expense recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

**Note 10 – COMMITMENTS**

Construction Contracts – In the normal course of business, GSWSA enters into agreements with contractors for the construction and expansion of the system. At June 30, 2007, open contracts for construction totaled approximately \$11,889,803 with \$10,061,211 having been incurred during the year. At June 30, 2006, open contracts for construction totaled approximately \$1,261,949 with \$649,053 having been incurred during the year. The remaining commitments at June 30, 2007 and 2006 were \$1,828,592 and \$612,896, respectively.

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## SCHEDULES

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**GRAND STRAND WATER AND SEWER AUTHORITY**

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

Year Ended June 30, 2007

	1991 A State Revolving Loan		1992 Revenue Bonds		
	Burgess		Current Debt Service	Future Debt Service	Arbitrage Rebate
	Current Debt Service	Future Debt Service			
Cash and Investments, Beginning	\$ 110	\$ 50,097	\$ 77,716	\$ 3,328,758	\$ 57,884
Cash Receipts					
Transfers From Operating Cash	47,153		1,027,430		13,481
Transfers From Capital Projects					
Interest Earned	273	2,119	12,052	245,890	2,361
Other Transfers					
Cash Disbursements					
Principle and Interest Payments	(47,397)		(850,106)		
Renewals and Replacements					
Transfers to Operating Cash		(2,119)		(245,287)	(42,886)
Transfers to Capital Projects					
Other Transfers					
Cash and Investments, Ending	\$ <u>139</u>	\$ <u>50,097</u>	\$ <u>267,092</u>	\$ <u>3,329,361</u>	\$ <u>30,840</u>

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

1998 State Revolving Loan Conway WWTP Upgrade		1999 State Revolving Loan			
		Aynor		Wampee	
<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>
\$ 9,745	\$ 116,602	\$ 18,711	\$ 110,166	\$ 187	\$ 104,603
112,731		109,784	151	79,761	
601	4,932	643	4,666	462	4,425
(113,455)		(110,317)		(80,175)	
	(4,932)		(4,660)		(4,425)
<u>\$ 9,622</u>	<u>\$ 116,602</u>	<u>\$ 18,821</u>	<u>\$ 110,323</u>	<u>\$ 235</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**

Year Ended June 30, 2007

	2000 State Revolving Loan			
	Bucksville		Tip Top	
	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service
Cash and Investments, Beginning	\$ 693	\$ 297,902	\$ 196,438	\$ 1,191,742
Cash Receipts				
Transfers From Operating Cash	296,787	417	1,152,645	
Transfers From Capital Projects				
Interest Earned	1,714	12,618	6,742	50,410
Other Transfers				
Cash Disbursements				
Principle and Interest Payments	(298,322)		(1,158,226)	
Renewals and Replacements				
Transfers to Operating Cash		(12,601)		(50,410)
Transfers to Capital Projects				
Other Transfers				
Cash and Investments, Ending	\$ <u>872</u>	\$ <u>298,336</u>	\$ <u>197,599</u>	\$ <u>1,191,742</u>

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



2000 Revenue Bonds		2001 State Revolving Loan			
Current Debt Service	Future Debt Service	Buist NFM		Schwartz Imp.	
		Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service
\$ 784,030	\$ 113,613	\$ 13,165	\$ 81,486	\$ 450	\$ 195,803
	879,321	77,242		192,604	
53,438	17,973	453	3,447	1,113	8,282
	(927,498)	(77,617)		(193,601)	
(26,740)			(3,447)		(8,282)
<u>\$ 810,728</u>	<u>\$ 83,409</u>	<u>\$ 13,243</u>	<u>\$ 81,486</u>	<u>\$ 566</u>	<u>\$ 195,803</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

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

Year Ended June 30, 2007

	2001	2002 State Revolving Loan			
	Revenue Bonds	Conway		Vereen	
	Current Debt Service	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service
Cash and Investments, Beginning	\$ 305,805	\$ 59,765	\$ 356,481	\$ 87,807	\$ 519,920
Cash Receipts					
Transfers From Operating Cash		350,685		506,970	
Transfers From Capital Projects	3,307,126				
Interest Earned	51,063	2,052	15,079	2,992	21,992
Other Transfers					
Cash Disbursements					
Principle and Interest Payments	(3,359,515)	(352,383)		(510,648)	
Renewals and Replacements					
Transfers to Operating Cash			(15,079)		(21,992)
Transfers to Capital Projects					
Other Transfers					
Cash and Investments, Ending	\$ <u>304,479</u>	\$ <u>60,119</u>	\$ <u>356,481</u>	\$ <u>87,121</u>	\$ <u>519,920</u>

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

<u>2002 State Revolving Loan</u>		<u>2002</u> <u>Revenue Bonds</u>	<u>2004A - Schwartz</u> <u>WWTP Expansion - Phase I</u>		<u>2001A</u>
<u>319 FM</u>			<u>Current</u> <u>Debt Service</u>	<u>Current</u> <u>Debt Service</u>	<u>Future</u> <u>Debt Service</u>
<u>Current</u> <u>Debt Service</u>	<u>Future</u> <u>Debt Service</u>				
\$ 49	\$ 31,594	\$ 355,807	\$ 33,166	\$ 385,363	\$ 189,573
16,132		3,475,782	390,934	6,879	1,133,314
95	1,336	84,201	2,263	16,556	4,673
(16,228)		(3,791,762)	(392,241)		(1,137,437)
	(1,336)			(16,301)	
<u>48</u>	<u>31,594</u>	<u>124,028</u>	<u>34,122</u>	<u>392,497</u>	<u>190,123</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

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

Year Ended June 30, 2007

	<u>2001A MBCH</u>	<u>2001B MBCH</u>	<u>2006 Revenue Bonds</u>	<u>2006 Revenue Bonds</u>	<u>2006 Revenue Bonds</u>
	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>
Cash and Investments, Beginning	\$ 1,137,437	31,131	\$ 186,785	\$ 0	0
Cash Receipts					
Transfers From Operating Cash		186,119		471,819	836,819
Transfers From Capital Projects					
Interest Earned	46,746	757	7,629	2,565	27,022
Other Transfers					
Cash Disbursements					
Principle and Interest Payments		(186,786)		(377,455)	
Renewals and Replacements					
Transfers to Operating Cash					
Transfers to Capital Projects					
Other Transfers					
Cash and Investments, Ending	\$ <u>1,184,183</u>	<u>31,221</u>	\$ <u>194,414</u>	\$ <u>96,929</u>	<u>863,841</u>

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

<u>Bull Creek Depreciation &amp; Contingency</u>	<u>Depreciation &amp; Contingency</u>	<u>Total</u>
\$ 3,208,306	\$ 3,650,108	\$ 17,288,998
508,418	2,696,734	14,377,508 3,499,730 721,635 0
(1,640,231)	(2,274,595)	(13,981,169) (3,914,826) (460,497) 0 0
<u>\$ 2,076,493</u>	<u>\$ 4,072,247</u>	<u>\$ 17,531,379</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT**  
**Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Water Plants</b>		
Personnel Services	\$ 2,151,134	\$ 914,626
Contractual Services	2,329,778	1,358,243
Supplies and Materials	3,630,795	1,764,906
Business and Travel Expenses	10,419	7,004
Other Expenses	<u>1,656,896</u>	<u>1,462,968</u>
Total Water Plants	\$ <u>9,779,022</u>	\$ <u>5,507,747</u>
<b>Water Systems</b>		
Personnel Services	\$ 1,193,541	\$ 1,032,806
Contractual Services	1,116,027	1,025,164
Supplies and Materials	2,359,334	2,299,269
Business and Travel Expenses	7,639	5,628
Other Expenses	<u>3,516</u>	<u>29,080</u>
Total Water Systems	\$ <u>4,680,057</u>	\$ <u>4,391,947</u>
Total Water	\$ <u>14,459,079</u>	\$ <u>9,899,694</u>
<b>Wastewater Plants</b>		
Personnel Services	\$ 3,502,112	\$ 1,664,360
Contractual Services	3,137,726	1,963,201
Supplies and Materials	2,541,666	1,587,282
Business and Travel Expenses	15,997	8,570
Other Expenses	<u>58,525</u>	<u>44,523</u>
Total Wastewater Plants	\$ <u>9,256,026</u>	\$ <u>5,267,936</u>
<b>Wastewater Systems</b>		
Personnel Services	\$ 1,414,640	\$ 1,339,139
Contractual Services	3,011,295	2,916,607
Supplies and Materials	832,637	798,012
Business and Travel Expenses		
Other Expenses	<u>33,367</u>	<u>6,913</u>
Total General Administration	\$ <u>5,291,939</u>	\$ <u>5,060,671</u>
Total Wastewater Systems	\$ <u>14,547,965</u>	\$ <u>10,328,607</u>

**GRAND STRAND WATER AND SEWER AUTHORITY**

**SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT**  
**Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>General Administration</b>		
Personnel Services	\$ 432,269	\$ 761,928
Contractual Services	358,690	289,671
Supplies and Materials	38,728	56,577
Business and Travel Expenses	40,683	24,873
Other Expenses	231,365	236,892
Total General Administration	<u>\$ 1,101,735</u>	<u>\$ 1,369,941</u>
<b>Planning, Engineering, and Construction</b>		
Personnel Services	\$ 1,294,807	\$ 726,022
Contractual Services	57,475	26,940
Supplies and Materials	71,267	51,344
Business and Travel Expenses	18,431	2,569
Other Expenses	454	512
Total Planning, Engineering, and Construction	<u>\$ 1,442,434</u>	<u>\$ 807,387</u>
<b>Financial Services</b>		
Personnel Services	\$ 1,900,871	\$ 1,742,870
Contractual Services	716,330	730,869
Supplies and Materials	171,943	182,301
Business and Travel Expenses	14,555	10,043
Bad Debts	104,618	95,529
Other Expenses	62,951	39,232
Total Financial Services	<u>\$ 2,971,268</u>	<u>\$ 2,800,844</u>
<b>High Tech Turf Farm</b>		
Personnel Services	\$ 672,989	\$ 776,926
Contractual Services	198,390	213,245
Supplies and Materials	304,898	303,365
Business and Travel Expenses	2,851	1,874
Other Expenses	325	
Total High Tech Turf Farm	<u>\$ 1,179,453</u>	<u>\$ 1,295,410</u>
<b>Depreciation</b>	<u>\$ 15,363,404</u>	<u>\$ 13,323,239</u>
<b>Total Operating Expenses</b>	<u><u>\$ 51,065,338</u></u>	<u><u>\$ 39,825,122</u></u>

**STATISTICAL SECTION**  
**(UNAUDITED)**



**Schedule 1**

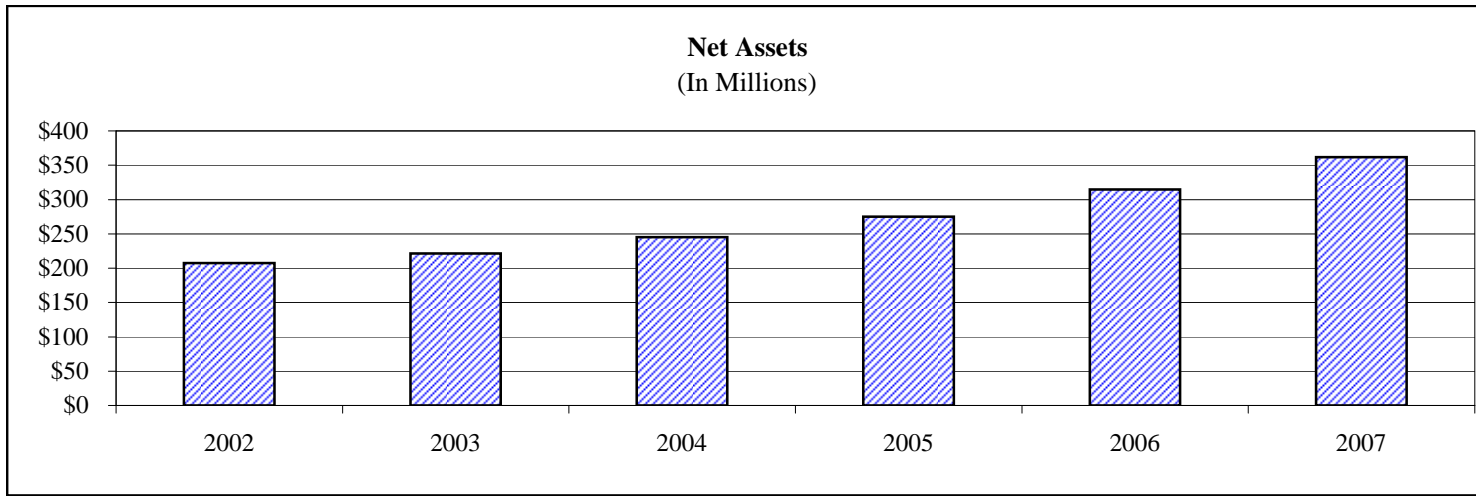
**GRAND STRAND WATER AND SEWER AUTHORITY**

**NET ASSETS BY COMPONENT**

**Last Six Fiscal Years**

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Primary government						
Invested in capital assets, net of related debt	\$ 135,312,048	\$ 137,444,641	\$ 149,237,907	\$ 160,986,565	\$ 203,379,683	\$ 247,846,836
Restricted	30,455,007	29,910,278	29,089,789	27,535,216	25,980,196	30,231,725
Unrestricted	41,588,907	54,276,693	67,103,222	86,430,984	85,550,752	83,810,989
Total primary government 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>

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UNAUDITED

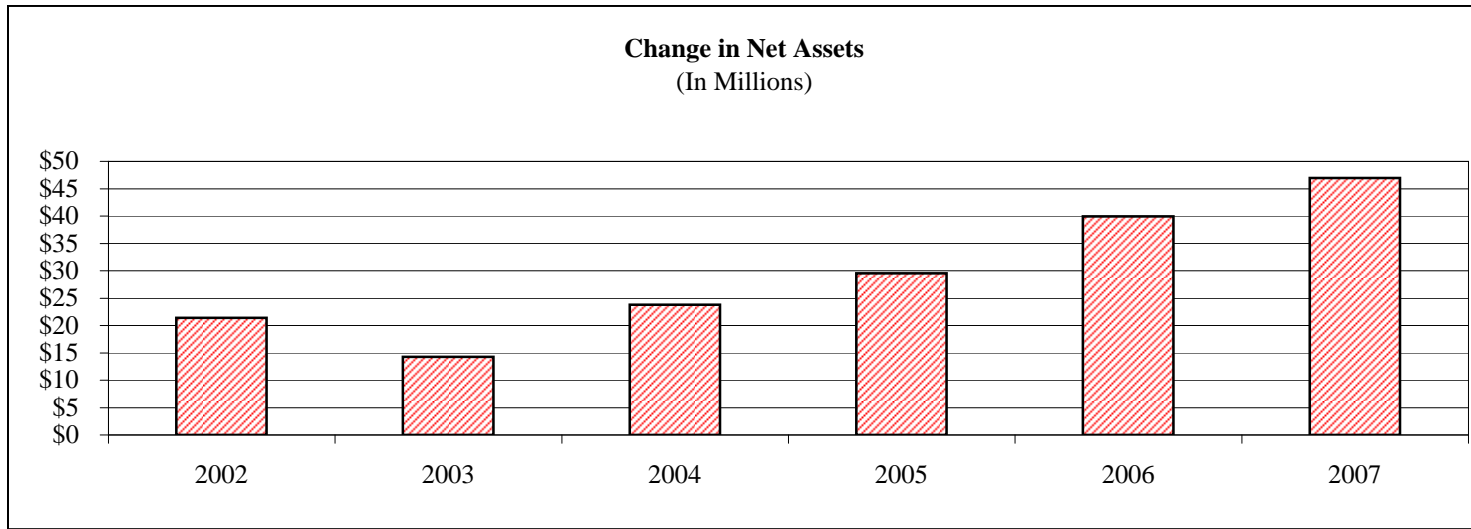
**Schedule 2**

**GRAND STRAND WATER AND SEWER AUTHORITY**

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

<u>Fiscal Year Ended</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Operating Income/(Loss)</u>	<u>Total Nonoperating Revenues/ (Expenses)</u>	<u>Income/(Loss) before Capital Contributions</u>	<u>Capital Contributions</u>	<u>Change in Net Assets</u>
2002	\$ 28,464,665	\$ 26,075,366	\$ 2,389,299	\$ (1,344,319)	\$ 1,044,980	\$ 20,376,731	\$ 21,421,711
2003	28,466,833	28,944,760	(477,927)	(2,043,681)	(2,521,608)	16,797,258	14,275,650
2004	32,433,053	31,917,146	515,907	(4,376,695)	(3,860,788)	27,660,094	23,799,306
2005	36,643,593	33,663,895	2,979,698	(2,758,266)	221,432	29,300,325	29,521,757
2006	42,764,236	39,825,122	2,939,114	(1,210,337)	1,728,777	38,229,179	39,957,956
2007	58,522,576	51,065,340	7,457,236	(2,823,384)	4,633,852	42,345,067	46,978,919

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**UNAUDITED**

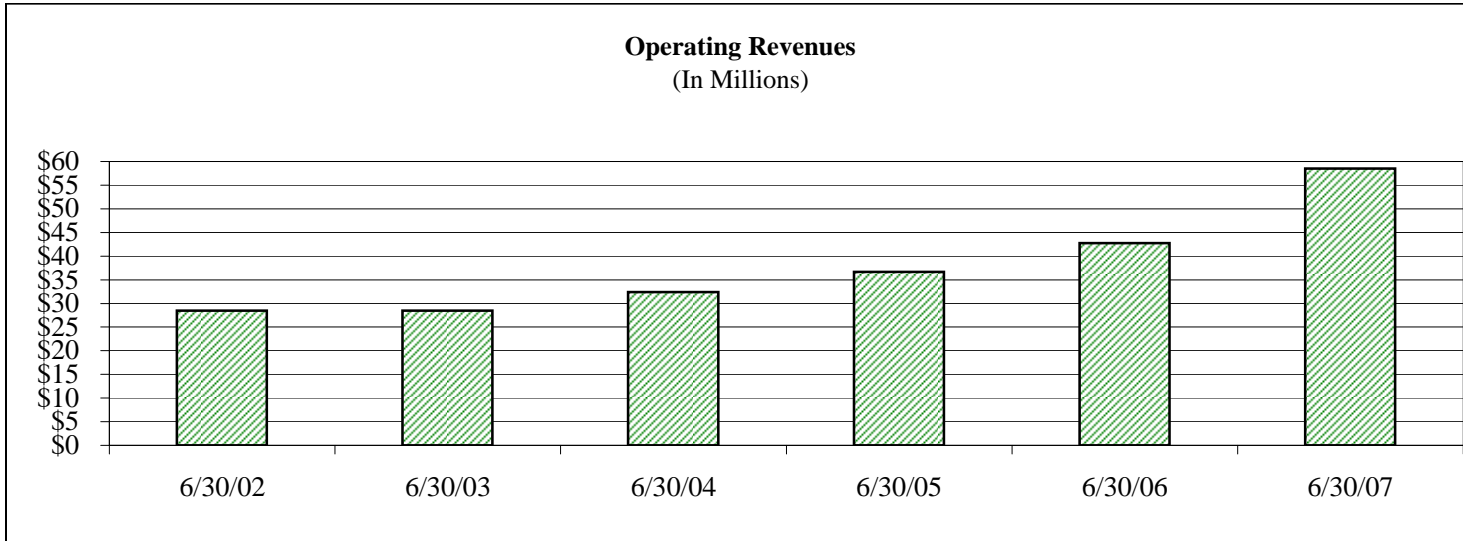
**Schedule 3**

**GRAND STRAND WATER AND SEWER AUTHORITY**

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

<u>Fiscal Year Ended</u>	<u>Water &amp; Sewer Volume &amp; Availabiltiy Fees</u>	<u>Customer Charges</u>	<u>Surface Water Charges</u>	<u>SWTP Contract Water Consumption</u>	<u>Tap Fees</u>	<u>Sod Sales</u>	<u>Other Revenue</u>	<u>Total Operating Revenue</u>
6/30/02	\$ 17,196,881	\$ 1,690,938	\$ 4,066,260	\$ 2,038,898	\$ 974,919	\$ 556,470	\$ 1,940,299	\$ 28,464,665
6/30/03	17,437,400	1,829,192	4,223,574	1,697,260	991,121	581,316	1,706,970	28,466,833
6/30/04	19,750,827	2,018,543	4,531,216	1,945,376	1,326,101	714,309	2,146,681	32,433,053
6/30/05	21,106,418	2,215,852	4,904,977	2,150,031	2,531,547	768,556	2,966,212	36,643,593
6/30/06	24,413,775	2,558,681	5,389,236	2,330,268	3,124,707	755,339	4,192,230	42,764,236
6/30/07	40,447,089	2,675,095	5,713,617	2,316,629	2,257,100	631,570	4,481,476	58,522,576

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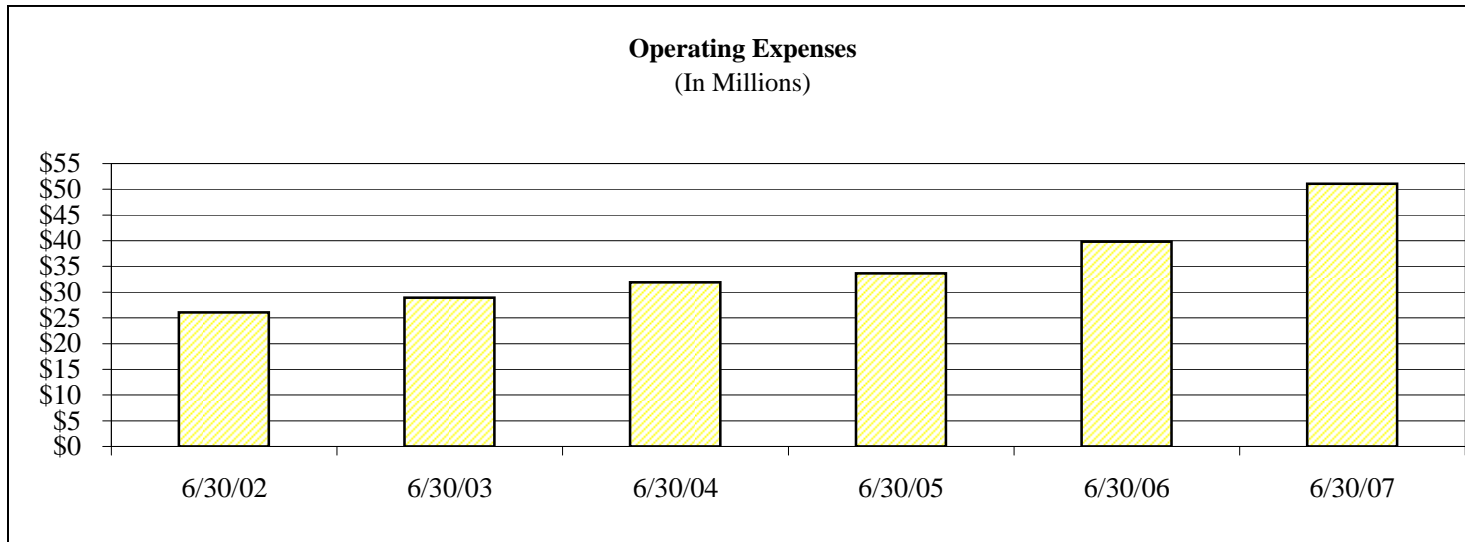
**Schedule 4**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**OPERATING EXPENSES  
Last Six Fiscal Years**

<u>Fiscal Year Ended</u>	<u>Personnel Costs</u>	<u>Contractual Services</u>	<u>Supplies and Materials</u>	<u>Business and Travel</u>	<u>Depreciation</u>	<u>Bad Debts</u>	<u>Other Expenses</u>	<u>Total Operating Expenses</u>
6/30/02	\$ 5,860,665	\$ 4,391,714	\$ 4,020,883	\$ 70,946	\$ 9,937,536	\$ 186,205	\$ 1,607,417	\$ 26,075,366
6/30/03	7,118,937	4,813,566	4,354,951	110,841	10,948,323	133,711	1,464,431	28,944,760
6/30/04	7,512,449	5,944,673	4,624,503	65,029	11,895,849	157,784	1,716,859	31,917,146
6/30/05	8,325,391	5,580,116	5,258,876	96,632	12,538,491	72,566	1,791,823	33,663,895
6/30/06	8,958,676	8,545,559	7,021,438	60,561	13,323,239	95,529	1,820,120	39,825,122
6/30/07	12,562,364	10,925,712	9,951,269	110,575	15,363,404	104,618	2,047,398	51,065,340

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UNAUDITED

Schedule 5

GRAND STRAND WATER & SEWER AUTHORITY

NONOPERATING REVENUES AND EXPENSES

Last Six Fiscal Years

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

UNAUDITED

**Schedule 6**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**ANNUAL CAPITAL CONTRIBUTIONS BY SOURCE  
Last Six Fiscal Years**

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

**UNAUDITED**

**Schedule 7**

**GRAND STRAND WATER AND SEWER AUTHORITY**

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

Fiscal Year Ended	Gallons of Water Produced	Gallons of Water Consumed	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated	Total Direct Rate			
						Water		Sewer	
						Base Rate	Usage Rate	Base Rate	Usage Rate
6/30/02	7,283	7,006	277	3.80%	4,723	\$ 9.52	\$ 1.06	\$ 7.05	1.55
6/30/03	6,929	6,357	572	8.26%	5,031	9.52	1.06	7.05	1.55
6/30/04	7,569	7,019	550	7.27%	5,480	9.58	1.10	7.11	1.65
6/30/05	7,524	6,705	819	10.89%	5,479	9.58	1.10	7.11	1.65
6/30/06	8,632	7,815	817	9.46%	6,045	9.58	1.10	8.11	1.70
6/30/07	14,897	13,352	1,545	10.37%	10,198	9.58	1.10	8.11	1.70

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**UNAUDITED**

**Schedule 8**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**ANNUAL TAPS SOLD  
Last Six Fiscal Years**

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

**UNAUDITED**



**Schedule 9**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**NUMBER OF WATER AND SEWER CUSTOMERS BY TYPE**

**Last Six Fiscal Years**

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

**Schedule 10**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**WATER AND SEWER RATES**

**Last Six Fiscal Years**

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

**UNAUDITED**

**Schedule 11**

**GRAND STRAND WATER AND SEWER AUTHORITY**

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

Customer	Fiscal Year 2007		
	Water Revenue	Sewer Revenue	Total
City of Myrtle Beach	\$ 6,380,153	\$ 5,742,086	\$ 12,122,239
City of North Myrtle Beach	3,007,310	130,198	3,137,508
City of Conway	2,268,119	719,381	2,987,500
Little River Water and Sewerage Company	875,579	820,575	1,696,154
City of Loris	198,053	370,049	568,102
Ocean Lakes Utilities	140,968	219,550	360,518
Georgetown County Water and Sewer Authority	187,341	79,267	266,608
Ocean Side Village	150,332	103,356	253,688
Springmaid Beach Resort	93,648	95,505	189,153
Myrtle Beach Resort	69,230	72,312	141,542

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

**UNAUDITED**

Schedule 12

GRAND STRAND WATER AND SEWER AUTHORITY

RATIOS OF OUTSTANDING DEBT BY TYPE  
Last Six Fiscal Years

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

UNAUDITED

**Schedule 13**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**REVENUE BOND COVERAGE**

**Last Six Fiscal Years**

(In Thousands)

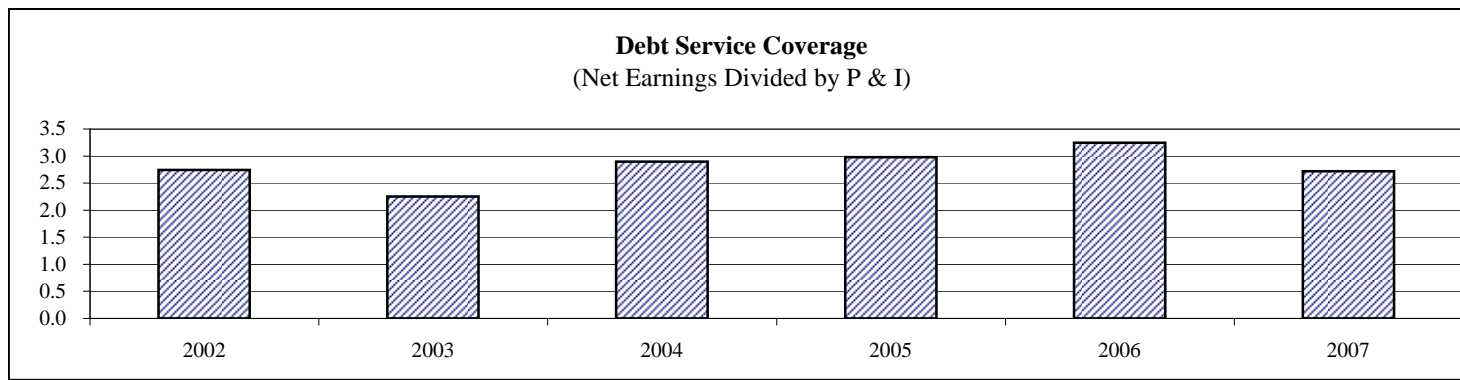
Fiscal Year	Gross Revenues <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Earnings Available for Debt Service	Debt Service Requirements <sup>(3)</sup>			Coverage <sup>(4)</sup>
				Principle	Interest	Total	
2002	\$ 44,330	\$ 16,083	\$ 28,247	\$ 3,651	\$ 6,649	\$ 10,300	2.74
2003	40,950	17,996	22,954	3,240	6,939	10,179	2.26
2004	51,042	20,021	31,021	3,745	6,955	10,700	2.90
2005	54,723	21,125	33,598	4,079	7,204	11,283	2.98
2006	65,476	26,502	38,974	4,117	7,883	12,000	3.25
2007	76,570	35,702	40,868	6,105	8,910	15,015	2.72

<sup>(1)</sup> Total Revenues Include Impact Fees (\$9,591,659 for 2002) and SWTP Treatment Capacity, and Excludes Developer Contributions.

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

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

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



**UNAUDITED**

**Schedule 14**

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

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income (Thousands of Dollars)<sup>(1)</sup></u>	<u>Per Capita Personal Income<sup>(1)</sup></u>	<u>Median Age<sup>(1)</sup></u>	<u>Unemployment Rate<sup>(1)</sup></u>
1997	174,000	\$ 592,975	\$ 19,220	33.8	3.90 %
1998	174,762	592,975	19,220	33.8	4.08
1999	178,550	592,975	19,220	33.8	4.25
2000	196,629	712,311	23,088	36.9	3.76
2001	202,528	712,311	23,088	38.3	4.86
2002	208,427	716,198	23,214	38.3	5.48
2003	214,326	719,314	23,315	38.3	4.64
2004	220,225	758,466	24,584	38.3	6.00
2005	226,124	779,506	25,266	38.3	5.30
2006	232,023	NA	NA	NA	NA

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

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

NA - Not Available

**UNAUDITED**

**Schedule 15**

**GRAND STRAND WATER AND SEWER AUTHORITY**

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

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

**UNAUDITED**

**Schedule 16**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MISCELLANEOUS STATISTICAL DATA  
June 30, 2007**

Sewer System Facts

	<u>2007</u>	<u>2006</u>
<u>Use of Sewer</u>		
Sewer Customers, End of Period	55,389	51,826
Average Daily Consumption (Millions of Gallons)	27.94	16.50
Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	10.20	6.05
<u>System Facilities</u>		
Total Miles of Sewer Lines	1,098	1,000
Number of Treatment Plants	10	9
Number of Pumping Stations	468	449
Number of Residential Effluent Pumping Stations	404	392
Number of Residential Grinder Pumping Stations	3,658	3,333

**UNAUDITED**



Schedule 16

GRAND STRAND WATER AND SEWER AUTHORITY

MISCELLANEOUS STATISTICAL DATA  
June 30, 2007

Water System Facts

	<u>2007</u>	<u>2006</u>
<u>Use of Water</u>		
Water Customers, End of Period	58,349	54,768
Average Daily Consumption (Millions of Gallons)	36.58	21.78
Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons)	13.35 *	7.95 *
<u>System Facilities</u>		
Reservoirs	17 **	16 **
Storage Capacity (Millions of Gallons)	21.55 **	17.55 **
Auxiliary Deep Water Wells	31	28
Total Miles of Distribution Lines	1,314	1,220
Fire Hydrants	5,049	4,536

\* Includes SWTP Participant Sales

\*\* Includes SWTP Storage Tanks

UNAUDITED

**Schedule 16**

**GRAND STRAND WATER AND SEWER AUTHORITY**

**MISCELLANEOUS STATISTICAL DATA**

**June 30, 2007**

Year Established	June 2, 1971
Type of Government Entity	Special Purpose District
Governing Body	Board of Directors (9)
Service Area	1,208 Square Miles
Number of Employees	
Salary	44
Hourly	<u>214</u>
Total	<u><u>258</u></u>

**UNAUDITED**

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**INDEPENDENT AUDITORS' OTHER REPORT SECTION**

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**SMITH SAPP  
BOOKHOUT  
CRUMPLER  
& CALLIHAM**

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**INDEPENDENT AUDITORS' REPORT ON 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  
Conway, South Carolina

We have audited the basic financial statements of Grand Strand Water and Sewer Authority as of and for the year ended June 30, 2007, and have issued our report thereon dated September 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Grand Strand Water and Sewer Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Grand Strand Water and Sewer Authority's financial statements that is more than inconsequential will not be prevented or detected by the Grand Strand Water and Sewer Authority's internal control.

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

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

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South Carolina Association of Certified Public Accountants  
American Institute of Certified Public Accountants - Private Companies Practice Section

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grand Strand Water and Sewer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the 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 the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.



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

Myrtle Beach, South Carolina  
September 18, 2007



Professional Association  
Certified Public Accountants & Consultants