



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2009**

PREPARED BY:

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

GRAND STRAND WATER & SEWER AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2009

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INTRODUCTORY SECTION

GRAND STRAND WATER AND SEWER AUTHORITY

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Year Ended June 30, 2009**

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September 28, 2009

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, 2009 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

GWSWA 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 GWSWA 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 GWSWA deems necessary. The service area of GWSWA includes all of the area in Horry County except those areas served by municipalities and/or private water and/or sewer companies. It is located in the northeastern portion of the State of South Carolina. It also provides sewer service to the Town of Sellers which is also located in South Carolina. GWSWA 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 GWSWA's financial planning and control. The Board of Directors is required to hold two public hearings on the proposed budget and adopt a final budget no later than June 30th of each year. GWSWA does a rolling two-year budget.

LOCAL ECONOMY

The service area of GWSWA continues to remain stable, which reflects continued growth of the area. Horry County continues to be a major retirement area; however, the local tourism industry has slowed as a result of the national economy. The County still ranks first among the 46 counties in the State in tourism. It also ranks first in the State in production of tobacco, second in the production of oats, and fourth in overall crop production. The County ranks 3rd in the State in delivered value of timber.

The local economy served by GWSWA has seen a decline but remained steady during fiscal year 2009. The monthly average of submittals for new developer projects requiring water and sewer service was down from 17.5 projects in fiscal year 2008 to 9.7 projects in 2009. These projects submitted in 2009 will account for over a monthly average of 155 Residential Equivalent Units (REUs). While this is a 65% decline from the monthly average of 446 REUs submitted in 2008. The number of new developer project submittals and REUs are lower than most recent historical data and the local economy continues to remain steady growth. Assets contributed to GWSWA by developers during 2009 were \$18.8 million dollars.

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

MAJOR INIATIVES FOR THE YEAR

The GSWSA spent over \$6 million in its Rural Water and Sewer program to extend water and sewer lines to the rural community of Horry County during 2009. The waterline hydraulic improvement on Hwy 17 By-Pass from Hwy 544 to Glens Bay Road was completed at a total cost over \$1.3 million, and the Conway Wastewater Treatment Plant was upgraded and expanded at a cost of \$3.5 million. The Myrtle Beach Wastewater Treatment Plant is also being expanded to 22.4 million gallons a day. During 2009 GSWSA spent over \$8 million to date on this expansion. GSWSA also spent \$1.3 million to construct a new 500,000 gallon elevated water storage tank in the Carolina Forest Area, and a sewer force main was extended into the Columbus County service area for approximately \$1 million. GSWSA spent approximately \$2 million to build two new facilities a warehouse and equipment storage facility and a fleet and equipment maintenance facility.

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 in 2005 and plans to update it during 2010. It also annually 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

LONG-TERM FINANCIAL PLANNING *(continued)*

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 32% is developed requires continued pursuit of these objectives.

INTERNAL CONTROL STRUCTURE

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

As a part of the GSWSA's single audit, tests are made to determine the adequacy of the internal control structure, including those controls related to federal financial assistance programs, as well as to determine that the GSWSA has complied with applicable laws and regulations. The result of the GSWSA's single audit for the fiscal year ended June 30, 2009, provided no instances of material weaknesses in the internal control structure or material violations of applicable laws and regulations.

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

The Capital Budget is prepared on the cash basis. Capital projects for water and wastewater plants and systems, and general, engineering and other support capital assets construction and improvements are funded from contributed capital (i.e. federal grants, developer system contributions, and certain impact fees), revenue bonds, state revolving loan and other debt proceeds, special fees, investment income, and depreciation and replacement reserve accounts funded via operating revenues. Capital projects are

INTERNAL CONTROL STRUCTURE *(continued)*

budgeted over the projected term of construction or improvement, thus such term may exceed the budget period presented in the budget document.

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

The major budget policies of GSWSA are as follows:

1. GSWSA will have a balanced budget.
2. The CEO is authorized to transfer appropriations between departments and divisions in the current Operating Budget.
3. Transfers of appropriations between capital projects in the Capital Budget may be authorized by the Board of Directors by resolution.
4. All unexpended and uncommitted appropriations in the current Operating Budget remaining at the end of the fiscal year lapse. No appropriation for a capital project in the Capital Budget lapses until the project scope has been accomplished or abandoned.

CASH MANAGEMENT POLICIES AND PRACTICES

The GSWSA's Finance Department operates under a comprehensive policy on cash management and investments. The policy recognizes the need to make optimum use of idle funds. At the same time, it acknowledges the necessity, (1) to limit interest rate risk and control credit risks, (2) to avoid the risk of significant depreciation of investment value due to market volatility, (3) to maintain liquidity sufficient to fund current operations.

The objectives of the policy, in order of priority, are preservation of capital, liquidity or cash equivalence and the achievement of maximum income and investment return. Toward these ends, all investments are fully registered in the name of GSWSA, or fully insured or collateralized by the pledge of securities of the investment institutions' own portfolio. Pledged securities are required to be direct obligations of the United States Treasury or its agencies, obligations of the State of South Carolina or obligations of political subdivisions of the State of South Carolina.

GSWSA invests through various investment advisors, in a pool managed by the State Treasurer, certificates of deposits, repurchase agreements, guaranteed investment contracts and United States or State of South Carolina general obligations. All cash is invested in accordance with South Carolina state statutes. The average yield on all investments during 2009 was 6.07%. The market value of investments at June 30, 2009 was equal to the carrying value.

RISK MANAGEMENT

The GSWSA provides a comprehensive risk management program. This program has two main objectives. First, to ensure a safe environment for GSWSA employees and for members of the public who utilize services provided by GSWSA. Secondly, to develop an effective accident prevention program, thereby reducing the costs of both accidents and insurance. Various risk control techniques, including employee accident prevention training via the GSWSA's Safety Manager, have been ongoing during the year to minimize accident related losses. Third-party coverage is currently maintained for workers' compensation claims and all other potential losses. A blanket fidelity bond in the amount of \$75,000 per employee covers all Authority employees. Tort liability covers all acts or incidents on behalf of GSWSA and its employees. All vehicles are covered with liability, collision and comprehensive insurance and buildings are covered with fire and extended coverage. Equipment is covered against property damage through Inland Marine and Data Processing coverage. GSWSA provides health insurance for every regular full time employee with dependent coverage available through payroll deduction.

PENSION AND OTHER POSTEMPLOYMENT BENEFITS

The Grand Strand Water and Sewer Authority is a member of the South Carolina Retirement System (SCRS) and the South Carolina Deferred Compensation Commission. These two systems administer GSWSA's pension and deferred compensation plans. GSWSA provides medical insurance coverage for employees and Board Members and also for employees retiring through the SCRS.

GSWSA also provides post employment healthcare benefits as mandated by Consolidated Omnibus Budget Reconciliation Act. GSWSA has established a Trust with BB&T as part of the implementation of GASB Statement No.43, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The Trust is the administrator of those contributions made to the Trust to provide current as well as future health and dental care benefits to retirees of GSWSA and their dependents. For more detailed information on these programs, see footnote 9.

INDEPENDENT ANNUAL AUDIT

State Statues require an annual audit of the financial records, transactions, and an internal control evaluation by independent certified public accountants. The accompanying financial statements were audited by the GSWSA's independent Certified Public Accountants, Smith, Sapp, Bookhout, Crumpler & Calliham, P. A. Their unqualified report on the financial statement is included in the financial section of this report.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to GSWSA for its comprehensive annual financial report for the fiscal year ended June 30, 2008. This was the 20th year that GSWSA applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, GSWSA had to publish an easily readable and efficiently organized comprehensive annual financial report. The report had to satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,



Marguerite S. Carroll, CGFM
Chief Financial Officer

MSC

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Grand Strand Water
and Sewer Authority

South Carolina

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2008

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.

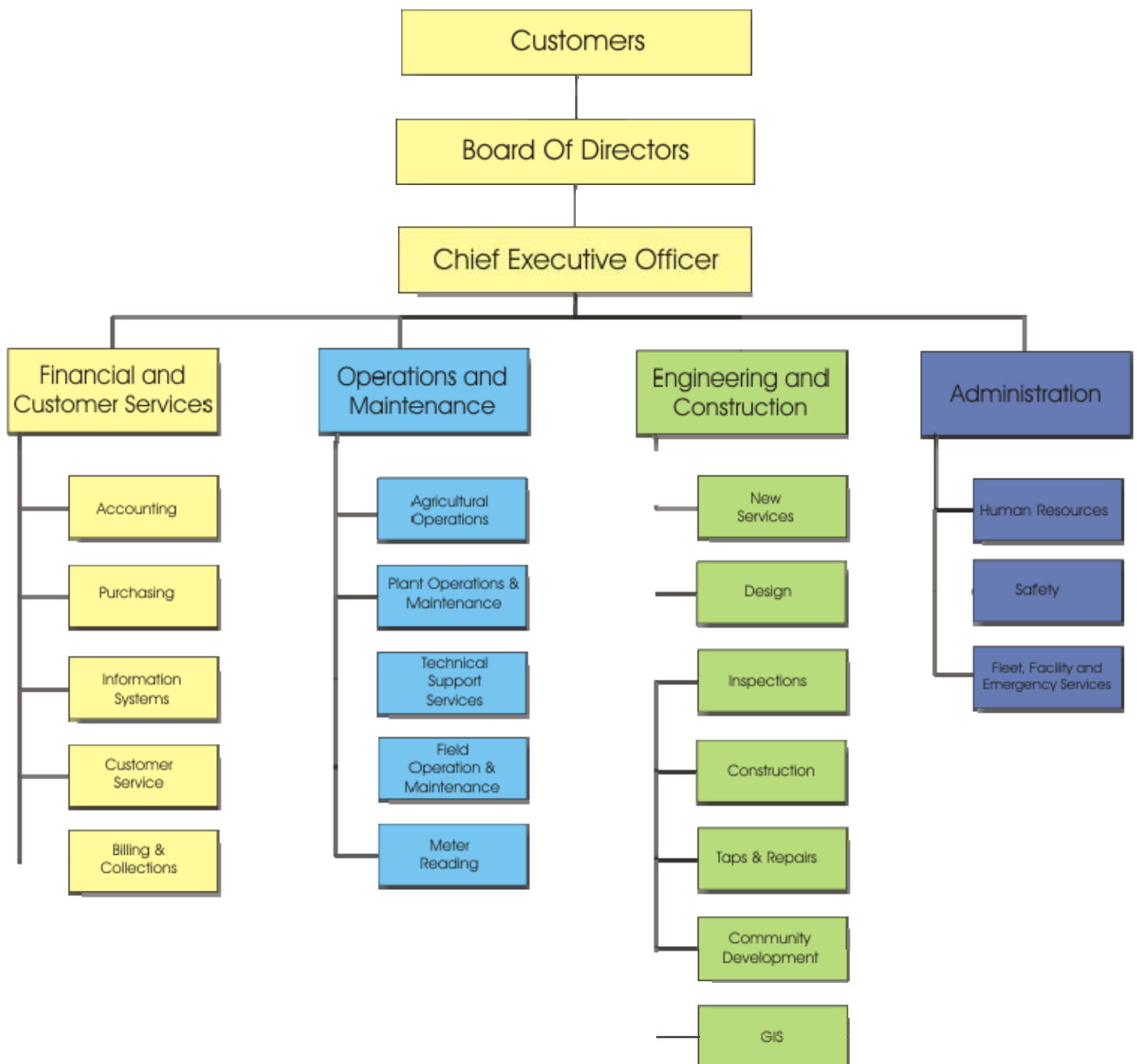


President

Executive Director

GRAND STRAND WATER AND SEWER AUTHORITY

Functional Organizational Chart



**GRAND STRAND WATER AND SEWER AUTHORITY
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2009**

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, 2015
John C. Griggs, Secretary	August 15, 2009
Arnold T. Johnson	August 15, 2015
J. Liston Wells	August 15, 2011
Robert M. "Bert" Floyd, Jr.	August 15, 2013
Wilbur M. James	August 15, 2013
David F. Singleton	August 15, 2013
Robert L. Rabon	August 15, 2011

MANAGEMENT

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

FINANCIAL SECTION



**SMITH SAPP
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Professional Association
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business activity of Grand Strand Water and Sewer Authority, as of and for the years ended June 30, 2009 and 2008, and the aggregate fund information as of and for the year ended June 30, 2009, which collectively comprise Grand Strand Water and Sewer Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Grand Strand Water and Sewer Authority's management. Our responsibility is to express an opinion on the basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business activity of Grand Strand Water and Sewer Authority as of June 30, 2009 and 2008, and the aggregate fund information as of June 30, 2009, and respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2009, on our consideration of Grand Strand Water and Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to disclose the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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

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



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

Myrtle Beach, South Carolina
September 23, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

GRAND STRAND WATER AND SEWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2009 and 2008

This section presents management's analysis of GSWSA's financial condition and activities for the fiscal years ended June 30, 2009 and 2008. 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 2009 and 2008.

- The overall financial condition of the GSWSA improved during the year ended June 30, 2009. Total assets at June 30, 2009 were over \$663 million and exceeded liabilities in the amount of \$429.9 million (i.e. net assets). Of the total net assets, \$92.8 million is unrestricted. Total assets increased from fiscal year end 2008 to 2009 by \$30.5 million and total liabilities increased by approximately \$10 million.
- Total assets at June 30, 2008 were over \$632.7 million and exceeded liabilities in the amount of \$409.4 million (i.e. net assets). Of the total net assets, \$88.9 million was unrestricted. Total assets increased from fiscal year end 2007 to 2008 by \$56.5 million and total liabilities increased \$9 million.
- At fiscal years ending 2009 and 2008, debt service coverage was 167% and 247%, respectively; which exceeds the 110% required by the Bond covenant.
- In fiscal year 2009, operating revenues were \$59.9 million, down from 2008 approximately \$2.4 million or 3.8%. In fiscal year 2008, operating revenues were \$62.2 million, up from 2007 by \$3.8 million or 6.6%. During 2009 the decrease in revenues was due to the decrease in water and wastewater usage and taps installed.
- In fiscal year 2009, operating expenses before depreciation increased \$4.7 million or 12.7% compared to fiscal year 2008. Operating expenses including depreciation increased \$7.2 million or 13.2%. These increases were a result of the increase in chemicals and electrical costs needed to treat water and wastewater and the larger than normal increase in depreciation during 2009.
- In fiscal year 2008, operating expenses before depreciation increased \$1.6 million or 4.4% compared to fiscal year 2007. Operating expenses including depreciation increased \$3.6 million or 7.1%. This increase was a result of the increase in water and wastewater services provided during 2008.
- The operating loss for fiscal year 2009 was \$1.87 million representing a 1.24% decrease from fiscal year 2008. The change in net assets, before and after capital contributions, decreased \$10.9 and \$27 million dollars respectively from 2008.
- Operating income for fiscal year 2008 was \$7.7 million representing a 3.3% increase from fiscal year 2007. The change in net assets, before and after capital contributions, increased \$1.6 million and \$550,044, respectively from 2007.
- Ratios of operating revenues to total operating expenses were .97 for 2009 and 1.14 for 2008.
- Cash capital contributions in 2009 were \$3.6 million, a decrease of 48% compared to year 2008. Developer contributions of facilities were \$18.8 million, a decrease of 41.8% from 2008.
- Cash capital contributions in 2008 were \$6.95 million, a decrease of 29.2% compared to year 2007. Developer contributions of facilities were \$32.4 million, an increase of 6 % from 2007.

GRAND STRAND WATER AND SEWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2009 and 2008

Financial Highlights (continued)

- GSWSA treated and distributed over 14.5 billion gallons of water and collected and treated 9.93 billion gallons of wastewater, representing a decrease from fiscal year 2008 of 7.2% for water and an increase in wastewater of 6.4%. Water consumption was down in all customer classes during 2009. Higher usage by contract and wholesale wastewater customers accounted for the wastewater increase. Usage by wastewater retail customers was also down from 2008.
- During 2009, GSWSA added a net of 173 water and wastewater new customers resulting in a net of 359 water and 321 wastewater residential equivalent units. During fiscal year 2008, GSWSA added 2,163 new customers resulting in 2,366 water and 2,141 wastewater residential equivalent units. The decrease in new customers and residential equivalent units added were a result of the economy.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. Financial statements can be found on pages 14 to 47 of this report.

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

The financial statements include a balance sheet, a statement of revenues, expenses and changes in net assets, a statement of cash flows, and notes to the financial statements. The balance sheet presents the financial position of GSWSA on the accrual basis. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about GSWSA's recovery of its costs. GSWSA's rates are based on a cost of service rate study that was completed in 2008 and is updated annually. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objectives of the rate model are to provide equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for itself.

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

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

GRAND STRAND WATER AND SEWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2009 and 2008

Overview of Annual Financial Report (continued)

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

Financial Analysis

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

Condensed Balance Sheet

	<u>2009</u>	<u>2008</u>	Variance \$	Variance %	<u>2007</u>	Variance \$	Variance %
Current Assets	\$97,000,101	\$92,062,590	\$4,937,511	5.4%	\$84,931,812	\$7,130,778	8.4%
Noncurrent Assets							
Restricted Assets	\$37,656,807	\$36,047,559	\$1,609,248	4.5%	\$35,773,480	\$274,079	0.8%
Capital assets							
Producing Assets	\$517,219,201	\$496,291,013	\$20,928,188	4.2%	\$440,666,731	\$55,624,282	12.6%
Construction in Progress	9,806,285	6,721,189	3,085,096	45.9%	13,235,420	(6,514,231)	-49.2%
Other Assets	1,504,223	1,546,257	(42,034)	-2.7%	1,559,607	(13,350)	-0.9%
Total Assets	<u>\$663,186,617</u>	<u>\$632,668,608</u>	<u>\$30,518,009</u>	<u>4.8%</u>	<u>\$576,167,050</u>	<u>\$56,501,558</u>	<u>9.8%</u>
Current Liabilities	\$22,285,216	\$23,657,058	(\$1,371,842)	-5.8%	\$18,698,845	\$4,958,213	26.5%
Long Term Liabilities	<u>\$210,956,656</u>	<u>\$199,593,037</u>	<u>\$11,363,619</u>	<u>5.7%</u>	<u>\$195,578,655</u>	<u>\$4,014,382</u>	<u>2.1%</u>
Total Liabilities	<u>\$233,241,872</u>	<u>\$223,250,095</u>	<u>\$9,991,777</u>	<u>4.5%</u>	<u>\$214,277,500</u>	<u>\$8,972,595</u>	<u>4.2%</u>
Net Assets							
Net Invested in Capital Assets,							
Net of Related Debt	\$304,616,508	\$289,803,143	\$14,813,365	5.1%	\$249,401,693	\$40,401,450	16.2%
Restricted for Capital Activity,							
Debt Service, & Rate							
Stabilization	32,535,508	30,716,584	1,818,924	5.9%	30,231,725	484,859	1.6%
Unrestricted	<u>92,792,729</u>	<u>88,898,786</u>	<u>3,893,943</u>	<u>4.4%</u>	<u>82,256,132</u>	<u>6,642,654</u>	<u>8.1%</u>
Total Net Assets	<u>\$429,944,745</u>	<u>\$409,418,513</u>	<u>\$20,526,232</u>	<u>5.0%</u>	<u>\$361,889,550</u>	<u>\$47,528,963</u>	<u>13.1%</u>
Total Liabilities & Net Assets	<u>\$663,186,617</u>	<u>\$632,668,608</u>	<u>\$30,518,009</u>	<u>4.8%</u>	<u>\$576,167,050</u>	<u>\$56,501,558</u>	<u>9.8%</u>

GRAND STRAND WATER AND SEWER AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2009 and 2008**

Financial Analysis (continued)

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

	<u>2009</u>	<u>2008</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>	<u>2007</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>
Revenues							
Operating Revenues:							
Charges for Services	\$56,975,593	\$58,056,010	(\$1,080,417)	-1.9%	\$53,936,482	\$4,119,528	7.6%
Other Revenue	2,896,017	4,206,164	(1,310,147)	-31.1%	4,481,476	(275,312)	-6.1%
Nonoperating Revenue:							
Investment Income	6,962,758	8,128,067	(1,165,309)	-14.3%	6,200,184	1,927,883	31.1%
Other Revenue							
Gain (Loss) on Disposal of Capital Assets	(51,610)	(1,037)	(50,573)	4876.9%	48,862	(49,899)	102.1%
Capital Contributions	25,198,062	41,308,314	(16,110,252)	-39.0%	42,345,067	(1,036,753)	-2.4%
Total Revenues	<u>\$91,980,820</u>	<u>\$111,697,518</u>	<u>(\$19,716,698)</u>	<u>-17.7%</u>	<u>\$107,012,071</u>	<u>\$4,685,447</u>	<u>4.4%</u>
Expenses							
Operating Expenses							
Before Depreciation	\$41,885,058	\$37,155,955	\$4,729,103	12.7%	\$35,597,318	\$1,558,637	4.4%
Depreciation	19,860,538	17,400,238	2,460,300	14.1%	15,363,404	2,036,834	13.3%
Nonoperating Expenses:							
Amortization of Deferred							
Bond Costs	122,554	113,717	8,837	7.8%	111,962	1,755	1.6%
Interest Expense	9,586,438	9,498,645	87,793	0.9%	8,960,468	538,177	6.0%
Total Expenses	<u>\$71,454,588</u>	<u>\$64,168,555</u>	<u>\$7,286,033</u>	<u>11.4%</u>	<u>\$60,033,152</u>	<u>\$4,135,403</u>	<u>6.9%</u>
Increase in Net Assets	\$20,526,232	\$47,528,963	(\$27,002,731)	-56.8%	\$46,978,919	\$550,044	1.2%
Beginning Net Assets	<u>\$409,418,513</u>	<u>\$361,889,550</u>	<u>\$47,528,963</u>	<u>13.1%</u>	<u>\$314,910,631</u>	<u>\$46,978,919</u>	<u>14.9%</u>
Ending Net Assets	<u>\$429,944,745</u>	<u>\$409,418,513</u>	<u>\$20,526,232</u>	<u>5.0%</u>	<u>\$361,889,550</u>	<u>\$47,528,963</u>	<u>13.1%</u>

GRAND STRAND WATER AND SEWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2009 and 2008

Financial Analysis (continued)

Selected Data for Analysis

	<u>2009</u>	<u>2008</u>	<u>Variance Amount</u>	<u>Variance %</u>	<u>2007</u>	<u>Variance Amount</u>	<u>Variance %</u>
Employees at Year End	268	265	3	1.1%	258	7	2.7%
Customers at Year End:							
Water Customers	60,442	60,231	211	0.4%	58,349	1,882	3.2%
Wastewater Customers	57,192	57,009	183	0.3%	55,389	1,620	2.9%
Water Sales for Fiscal Year (Billions of Gallons)	14.50	15.63	(1.13)	-7.2%	14.21	1.42	10.0%
Wastewater Sales for Fiscal Year (Billions of Gallons)	9.93	9.33	0.60	6.4%	8.78	0.55	6.3%
Total Operating Revenues (Per Average Employees)	\$223,401.53	\$234,951.60	(\$11,550.07)	-4.9%	\$226,426.19	\$8,525.41	3.8%
Total Operating Expenses (Per Average Employees)	\$230,394.01	\$205,872.43	\$24,521.59	11.9%	\$197,522.18	\$8,350.25	4.2%
Ratio of Operating Revenues to:							
Operating Expenses	0.970	1.141	-0.172	-15.04%	1.146	-0.005	-0.44%
Operating Expenses Net of Depreciation	1.429	1.676	-0.246	-14.70%	1.641	0.035	2.11%
Total Assets	0.090	0.098	-0.008	-8.26%	0.101	-0.003	-2.94%
Debt Related Ratios:							
Debt to Net Assets	0.542	0.545	-0.003	-0.51%	0.592	-0.047	-7.91%
Operating Coverage (Operating Cash Flow/Debt)	0.083	0.115	-0.032	-27.62%	0.096	0.019	19.86%

General Trends and Significant Events

Weather temperatures during fiscal year 2009 were generally normal for the seasons. It was a little cooler during the summer than normal and it rained quite a bit more than it did in fiscal year 2008. Overall it has rained 14.77 inches or 36.5% more than 2008. The increase in rain and the state of the local and national economy resulted in lower water usage than 2008.

The volume of water sold in fiscal year 2009 was 14.5 billion gallons, a decrease of 7.2% from fiscal year 2008. Retail customers purchased 35% of the total water sold and the wholesale customers purchased 65%.

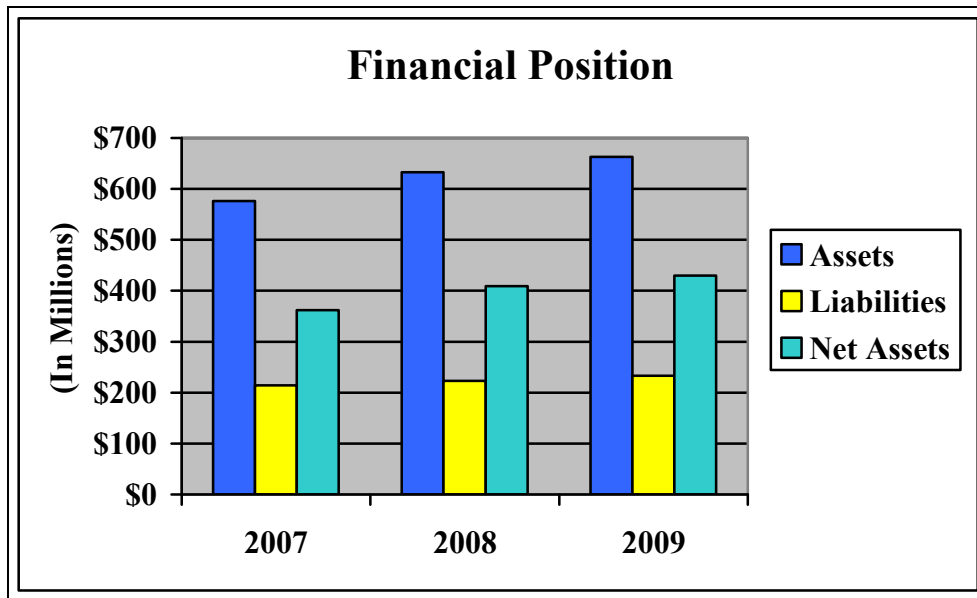
The volume of treated wastewater sold in fiscal year 2009 was 9.93 billion gallons, an increase of 6.4% from fiscal year 2008. GSWSA's wholesale wastewater customers actually produced more wastewater in 2009 than in 2008. Retail customers purchased 54% and wholesale customers purchased 46% of the total treated wastewater.

GRAND STRAND WATER AND SEWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2009 and 2008

Financial Condition

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



During fiscal year 2009, total assets grew \$30.5 million or 4.8% with approximately \$24 million represented by additions to capital assets. Net assets increased \$20.5 million, with substantially all of the change resulting from capital contributions restricted to capital activity and debt service. Unrestricted net assets increased \$3.9 million or 4.4%.

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

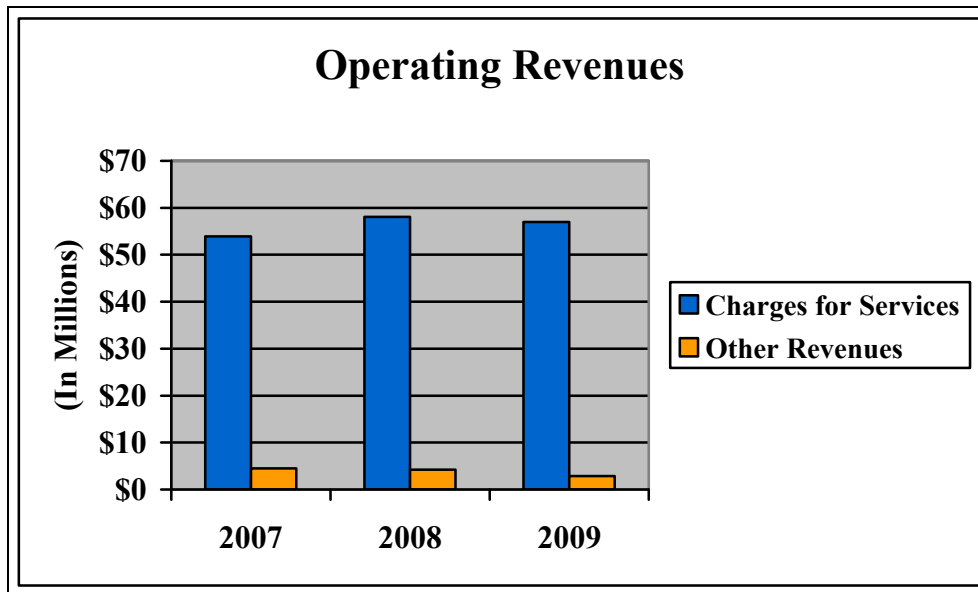
Accounts receivable at year-end, 2009, decreased by approximately \$1.3 from year-end 2008. Accounts receivable at June 30, 2008 were more than year-end 2007 by \$209,542. The 2009 decrease is due mainly to the decrease in retail and wholesale water and wastewater volume sales.

GRAND STRAND WATER AND SEWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2009 and 2008

Results of Operations

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



GSWSA did not increase retail water and retail wastewater rates in 2009. It did increase wholesale water rates by 5.5% from \$.73 to \$.77 and wholesale wastewater rates were increased by various percentages as specified by contract. During 2008, GSWSA increased retail water rates by 3.9% and retail wastewater rates by 5.5%. It also increased wholesale water rates by 7.35% from \$.68 to \$.73 and wholesale wastewater rates increased by various percentages as specified by contract. During fiscal year 2007, GSWSA did not increase retail water or wastewater rates. However, it did increase wholesale water rates by 6.3% from \$.64 to \$.68 and wholesale wastewater rates by various percentages as specified by contract.

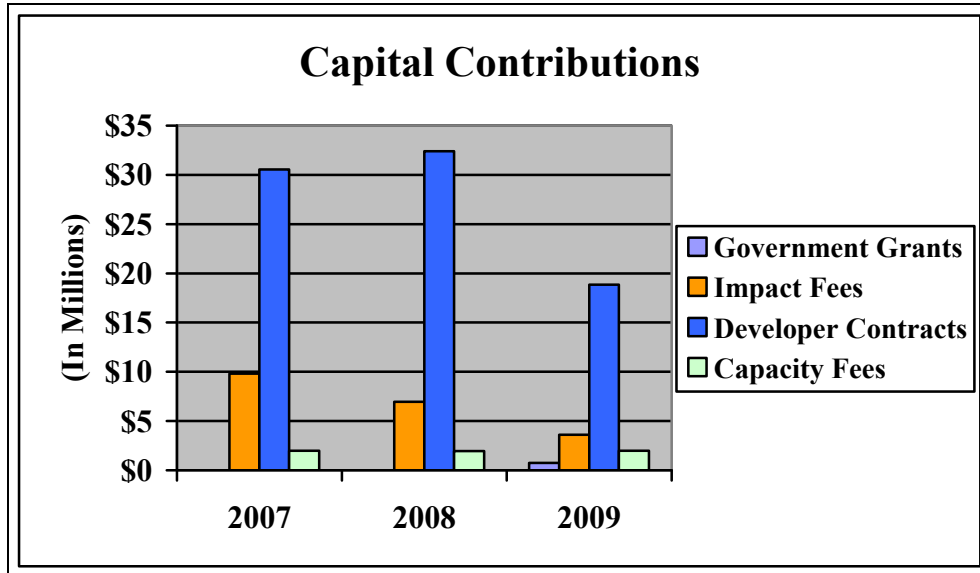
Capital Contributions: GSWSA collects water and wastewater capacity fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent on a residential equivalent unit basis the cost of the water and/or wastewater capacity represented by 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, 2009 and 2008**

Results of Operations *(continued)*



Cash capital contributions (impact fees) were over \$3.6 million for 2009 compared to \$6.95 million for 2008. Contributions were down in direct proportion to the decrease in the number of new customers added during 2009.

Cash capital contributions (impact fees) were \$6.95 million for 2008 compared to \$9.8 million for 2007. Contributions were down in direct proportion to the decrease in the number of new customers added during 2008.

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

Total operating expenses of GSWSA increased approximately \$7.2 million over fiscal year 2008, and operating revenues decreased by approximately \$2.4 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, 2009 and 2008

Results of Operations (continued)

Operating Expenses

	<u>2009</u>	<u>%</u>	<u>2008</u>	<u>%</u>	<u>Variance</u>	<u>2007</u>	<u>%</u>	<u>Variance</u>
Personnel Costs	\$16,072,133	26.0%	\$14,443,846	26.4%	\$1,628,287	\$12,562,364	24.7%	\$1,881,482
Contractual Services	12,840,165	20.8%	10,885,255	20.0%	1,954,910	10,925,712	21.4%	(40,457)
Supplies and Materials	10,588,022	17.1%	9,785,172	17.9%	802,850	9,951,269	19.5%	(166,097)
Business and Travel Expenses	155,152	0.3%	156,152	0.3%	(1,000)	110,575	0.2%	45,577
Depreciation and Amortization	19,860,538	32.2%	17,400,238	31.9%	2,460,300	15,363,404	30.2%	2,036,834
Other Expenses	2,229,586	3.6%	1,885,530	3.5%	344,056	2,047,398	4.0%	(161,868)
Total Operating Expenses	<u>\$61,745,596</u>	<u>100.0%</u>	<u>\$54,556,193</u>	<u>100.0%</u>	<u>\$7,189,403</u>	<u>\$50,960,722</u>	<u>100.0%</u>	<u>\$3,595,471</u>

Personnel costs increased \$1,628,287 or 11.3% from 2008 to 2009. GSWSA granted an average merit increase of 4% during 2009 and the number of employees increased from 265 to 268. The increase in personnel costs was a result mainly of the merit, other post employment benefits and health insurance rate increases. Contractual services increased \$1,954,910 or 18%, primarily as a result of electrical costs associated with water and wastewater treatment. Supplies and materials also increased \$802,850 or 8.2% due to an increase in chemicals needed to treat the water and a decrease in facilities repair costs. Depreciation and amortization was up \$2,460,300 or 14.1% due to addition of assets during fiscal year 2006, 2007, 2008 and 2009. Other expenses were up by \$344,056 or 18.2% in 2009 due to more costs being allocated as overhead to the wholesale customers.

Personnel costs increased \$1,881,482 or 15% from 2007 to 2008. GSWSA granted an average merit increase of 4% during 2008 and the number of employees increased from 258 to 265. The increase in personnel costs was a result mainly of the merit and health insurance rate increases. Contractual services decreased \$40,457 or .37%, primarily as a result of equipment insurance rate decreases and a reduction in leases and facilities maintenance costs. Supplies and materials also decreased \$166,097 or 1.67% due to a reduction in chemical and facilities repair costs. Depreciation and amortization was up \$2,036,834 or 13.3% due to addition of assets during fiscal year 2006, 2007 and 2008. Other expenses were down by \$161,868 or 7.9% in 2008 due to less costs being allocated as overhead to the wholesale customers.

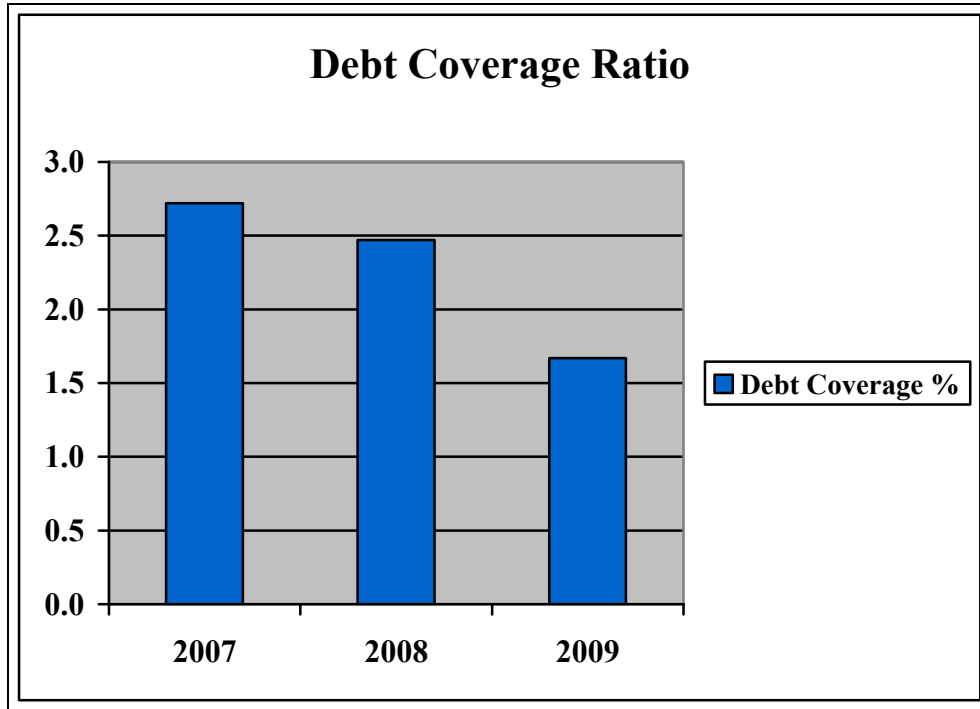
Rate Covenant

In the Bond Resolution, GSWSA covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by GSWSA, together with other income, that will yield annual Net Earnings in the fiscal year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments. Net earnings for debt service are defined as gross revenue including customer impact fees, less operating expenses adjusted for depreciation. The rate covenant in the Bond Resolution obligates GSWSA to review rates not less than once a year and to revise such rates and charges as necessary to meet the coverage test. Revenue bond debt service coverage for fiscal years 2007, 2008 and 2009 were 272%, 247% and 167%, respectively.

GRAND STRAND WATER AND SEWER AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2009 and 2008**

Rate Covenant (continued)



Capital Assets and Long-Term Debt

GWSA invested \$48.6 million in plant and equipment during 2009. Wastewater additions included the TPI to Schwartz Force Main for \$1.7 million, the Conway Wastewater Treatment Plant Upgrade and Expansion for \$3.5 million, and the Rural Sewer projects at a cost of \$3.8 million. Water additions included the Highway 17 Bypass Hydraulic Improvement for \$1.3 million and the Rural Water projects at a cost of \$2.2 million. GWSA also added a Fleet and Equipment Maintenance Facility for \$0.8 million as well as a Warehouse and Equipment Storage Facility for \$1.7 million. Developer contributions to capital assets were \$18.8 million and capitalized interest was \$124,711. Disposals for 2009 were \$0.2 million.

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

GRAND STRAND WATER AND SEWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Years Ended June 30, 2009 and 2008

Capital Assets and Long-Term Debt *(continued)*

During fiscal years 2007, 2008, and 2009, GSWSA obtained State Revolving Fund loans for the phase two expansion of the Schwartz Wastewater Treatment Plant, the Myrtle Beach Wastewater Treatment Plant Expansion, and the Conway Odor Control project. As of June 30, 2009, the draws made on these loans and recorded debt was \$21.8 million. The ratio of total debt to capital assets was 44.3% for the fiscal year 2009.

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

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.

BASIC FINANCIAL STATEMENTS

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

Page 1 of 2

June 30, 2009 and 2008

ASSETS

	2009	2008
Current Assets		
Cash and Investments	\$ 82,824,632	\$ 78,001,468
Receivables		
Customer Accounts, net of allowance of \$151,158 in 2009 and \$150,140 in 2008	7,388,287	8,687,654
Assessments	2,897,053	2,730,689
Loans	1,074,173	262,173
Interest	1,083,093	885,551
Grant	128,685	
Other	46,263	135,167
Inventories	1,118,962	1,044,243
Prepays	438,953	315,645
Total Current Assets	\$ 97,000,101	\$ 92,062,590
Noncurrent Assets		
Restricted Cash and Investments		
Deposits and Unearned Contributions	\$ 5,032,461	\$ 5,257,717
Capital Projects Fund	5,064,006	6,568,094
Debt Service Fund	13,146,104	12,597,459
Depreciation and Contingency Fund	11,218,000	8,438,584
Rate Stabilization Fund	3,196,236	3,185,705
Total Restricted Cash and Investments	\$ 37,656,807	\$ 36,047,559
Property, Plant, and Equipment		
Utility Plant in Service	\$ 624,062,710	\$ 586,046,012
Land and Easements	47,944,912	49,653,829
Buildings and Leasehold Improvements	9,201,354	6,465,014
Vehicles	6,154,576	5,509,841
Machinery, Equipment, and Office Furniture	11,816,365	10,909,869
Construction in Process	9,806,285	6,721,189
	708,986,202	665,305,754
Accumulated Depreciation	(181,960,716)	(162,293,552)
Total Property, Plant and Equipment	\$ 527,025,486	\$ 503,012,202
Deferred Bond Cost (Net)	\$ 1,499,473	\$ 1,541,507
Container and Security Deposits	4,750	4,750
Total Noncurrent Assets	\$ 566,186,516	\$ 540,606,018
TOTAL ASSETS	\$ 663,186,617	\$ 632,668,608

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, 2009 and 2008

LIABILITIES and NET ASSETS

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Accounts Payable	\$ 2,168,658	\$ 2,159,090
Accrued Salaries and Benefits	416,953	301,896
Accrued Compensated Absences	1,158,342	1,087,436
Loan Proceeds in Transit	1,074,173	262,173
Current Portion of Capital Lease Payable	105,023	101,342
Total Current Liabilities Payable From Current Assets	<u>\$ 4,923,149</u>	<u>\$ 3,911,937</u>
Current Liabilities Payable from Restricted Assets		
Construction Contracts	\$ 2,247,128	\$ 4,927,458
Current Portion of Revenue Bonds	5,674,813	5,391,964
Current Portion of Notes Payable	3,549,159	3,319,059
Accrued Interest on Revenue bonds	598,952	593,700
Accrued Interest on Notes Payable	259,554	255,223
Customer Security and Tap Deposits	4,688,676	4,658,537
Unearned Customer Contributions	343,785	599,180
Total Current Liabilities Payable from Restricted Assets	<u>\$ 17,362,067</u>	<u>\$ 19,745,121</u>
Total Current Liabilities	<u>\$ 22,285,216</u>	<u>\$ 23,657,058</u>
Noncurrent Liabilities		
Revenue Bonds (Net), Less Current Portion	\$ 144,505,746	\$ 140,060,933
Notes Payable, Less Current Portion	65,341,538	58,320,806
Capital Lease Payable, Less Current Portion	985,571	1,087,497
Arbitrage Rebate	123,801	123,801
Total Noncurrent Liabilities	<u>\$ 210,956,656</u>	<u>\$ 199,593,037</u>
Total Liabilities	<u>\$ 233,241,872</u>	<u>\$ 223,250,095</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$ 304,616,508	\$ 289,803,143
Restricted for		
Capital Projects	16,282,006	15,006,678
Debt Service	13,057,266	12,524,201
Rate Stabilization	3,196,236	3,185,705
Unrestricted	92,792,729	88,898,786
Total Net Assets	<u>\$ 429,944,745</u>	<u>\$ 409,418,513</u>
TOTAL LIABILITIES and NET ASSETS	<u>\$ 663,186,617</u>	<u>\$ 632,668,608</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, 2009 and 2008

	2009	2008
Operating Revenues		
Water and Sewer Volume and Availability Fees	\$ 44,176,090	\$ 44,731,026
Customer Charges	2,915,411	2,868,056
Surface Water Charges	6,194,359	6,021,758
Surface Water Treatment Plant (SWTP) Contract Water Consumption	2,484,055	2,453,313
Tap Fees	764,006	1,478,545
Sod Sales	441,672	503,312
Other Revenue	2,896,017	4,206,164
Total Operating Revenues	\$ 59,871,610	\$ 62,262,174
Operating Expenses		
Personnel costs	\$ 16,072,133	\$ 14,443,846
Contractual Services	12,840,165	10,885,255
Supplies and Materials	10,588,022	9,785,172
Business and Travel Expenses	155,152	156,152
Depreciation on Assets Acquired With:		
Authority Funds	11,220,437	9,673,553
Contributed Capital	8,640,101	7,726,685
Other Expenses	2,229,586	1,885,530
Total Operating Expenses	\$ 61,745,596	\$ 54,556,193
Operating Income (Loss)	\$ (1,873,986)	\$ 7,705,981
Non-Operating Revenues (Expenses)		
Investment Income	\$ 6,962,758	\$ 8,128,067
Gain (Loss) on Disposal of Capital Assets	(51,610)	(1,037)
Amortization of Deferred Bond Costs	(122,554)	(113,717)
Interest Expense	(9,586,438)	(9,498,645)
Total Non-Operating Revenues (Expenses)	\$ (2,797,844)	\$ (1,485,332)
Income (Loss) Before Contributions	\$ (4,671,830)	\$ 6,220,649
Capital Contributions		
SWTP Capacity Fees	\$ 1,985,592	\$ 1,961,592
Governments Grants/Contributions	757,542	
Customer Impact Fees	3,614,012	6,953,139
Developer Contributions	18,840,916	32,393,583
Total Capital Contributions	\$ 25,198,062	\$ 41,308,314
Change in Net Assets (carried forward)	\$ 20,526,232	\$ 47,528,963

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Change in Net Assets (brought forward)	\$ 20,526,232	\$ 47,528,963
Net Assets, Beginning	<u>409,418,513</u>	<u>361,889,550</u>
Net Assets, Ending	<u>\$ 429,944,745</u>	<u>\$ 409,418,513</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Receipts from Customers	\$ 61,290,020	\$ 62,325,040
Payments to Suppliers	(30,022,833)	(25,258,805)
Payments to Employees	(11,864,721)	(11,409,153)
Net Cash and Cash Equivalents Provided by Operating Activities	<u>\$ 19,402,466</u>	<u>\$ 25,657,082</u>
Cash Flows From Capital and Related Financing Activities		
Purchase and Construction of Property, Plant, and Equipment	\$ (29,334,156)	\$ (30,791,029)
Proceeds from Sale of Property and Equipment	2,069,309	49,642
Proceeds from Capital Debt	20,564,149	12,906,797
Principal Payments on Capital Debt	(8,806,624)	(7,697,277)
Interest Paid on Borrowings	(9,454,130)	(9,452,684)
Bond Issue Costs	(80,520)	(100,367)
Contributions from Governments	128,857	
Contributions from Customers	5,177,845	8,385,691
Net Cash and Cash Equivalents Used by Capital and Related Financing Activities	<u>\$ (19,735,270)</u>	<u>\$ (26,699,227)</u>
Cash Flows From Investing Activities		
Proceeds from Sale of Investments	\$ 44,764,756	\$ 37,149,227
Purchase of Investments	(66,132,559)	(55,764,948)
Interest Received	6,765,216	8,001,110
Net Cash and Cash Equivalents Used by Investing Activities	<u>\$ (14,602,587)</u>	<u>\$ (10,614,611)</u>
Net Decrease in Cash and Cash Equivalents	\$ (14,935,391)	\$ (11,656,756)
Cash and Cash Equivalents - Beginning	<u>28,520,529</u>	<u>40,177,285</u>
Cash and Cash Equivalents - Ending	<u>\$ 13,585,138</u>	<u>\$ 28,520,529</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, 2009 and 2008

	2009	2008
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ (1,873,986)	\$ 7,705,981
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities		
Depreciation	19,860,538	17,400,238
Decrease (Increase) in Customer Receivables and Other Receivables	1,388,271	(192,462)
(Increase) in Inventory	(74,719)	(210,389)
Decrease (Increase) in Prepaid Expenses	(123,308)	209,586
Increase in Accounts Payable	9,568	630,159
Increase (Decrease) in Accrued Salaries, Payroll Taxes, and Compensated Absences	185,963	(141,359)
Increase in Customer Deposits	30,139	255,328
Net Cash Provided by Operating Activities	\$ 19,402,466	\$ 25,657,082

Noncash Capital and Related Financing Activities

Fair Value of Developer Contributed Utility Systems	\$ 18,840,916	\$ 32,393,583
Abandoned Capital Projects expensed	2,591,833	2,138,633
Capitalized Interest Expense	124,711	169,746
Unrealized Appreciation (Depreciation) in Fair Value of Investments	(435,797)	75,784

Reconciliation of Cash and Cash Equivalents

Unrestricted Cash and Investments - Beginning	\$ 78,001,468	\$ 71,316,582
Restricted Cash and Investments - Beginning	36,047,559	35,773,480
	\$ 114,049,027	\$ 107,090,062
Investments With Original Maturity Dates Over Ninety Days	(85,528,498)	(66,912,777)
Cash and Cash Equivalents - Beginning	\$ 28,520,529	\$ 40,177,285
Unrestricted Cash and Investments - Ending	\$ 82,824,632	\$ 78,001,468
Restricted Cash and Investments - Ending	37,656,807	36,047,559
	\$ 120,481,439	\$ 114,049,027
Investments With Original Maturity Dates Over Ninety Days	(106,896,301)	(85,528,498)
Cash and Cash Equivalents - Ending	\$ 13,585,138	\$ 28,520,529

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

**GRAND STRAND WATER AND SEWER AUTHORITY
OPEB PENSION TRUST FUND**

**STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2009**

ASSETS

Assets

Cash and Investments

\$ 574,621

Net Assets

Held in Trust for Other Post Employment Benefits

\$ 574,621

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

**GRAND STRAND WATER AND SEWER AUTHORITY
OPEB PENSION TRUST FUND**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2009**

ASSETS

Additions	
Contributions:	
Employer	\$ 574,621
Deductions	
Benefits	\$ <u>0</u>
Change in Net Assets	\$ 574,621
Net Assets, Beginning	<u>0</u>
Net Assets, Ending	<u><u>\$ 574,621</u></u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

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, 2009 and 2008****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.

The Authority also reports a fiduciary fund, the OPEB Pension Trust Fund, which accounts for the activities of a pension trust fund that accumulates resources for the OPEB plan and pays benefits to qualified employees.

Budgets and Budgetary Accounting

The Board of Directors adopts a 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 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, 2009 and 2008****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, 2009 and 2008

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, 2009 and 2008

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*Non-exchange Transactions

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

Revenues and the Rate Structure

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

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

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

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

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

Net Assets

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

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

Net Assets *(continued)*

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

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

Comparative Data

Some prior year amounts have been reclassified for comparative purposes.

Note 2 – DEPOSITS AND INVESTMENTS

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

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

Cash and cash equivalents consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Petty cash	\$ 3,350	\$ 3,000
Cash deposits	6,313,094	2,837,704
Repurchase agreements	51,236	2,844,173
Money market investments	7,196,147	19,313,011
Investment pool	<u>21,311</u>	<u>3,522,641</u>
Total Cash and Cash Equivalents	<u>\$ 13,585,138</u>	<u>\$ 28,520,529</u>

Deposits

At June 30, 2009 and 2008, the carrying amount of GWSA’s deposits in financial institutions were \$6,313,094 and \$2,837,704 and the financial institutions’ balances totaled \$6,532,726 and \$3,426,883, respectively; all of which were insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with securities held by GWSA’s agents and/or held by pledging financial institutions trust departments or agents, both in GWSA’s name. Petty cash on hand was \$3,350 for fiscal year 2009 and \$3,000 for fiscal year 2008.

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

GRAND STRAND WATER AND SEWER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

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, 2009 and 2008, 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>2009 Fair Value</u>	<u>2008 Fair Value</u>
Federal Home Loan	\$ 21,591,850	\$ 17,591,693
Federal National Mortgage	23,235,265	23,280,519
Federal Farm Credit Banks	3,116,875	
Municipal Bonds		4,064,468

Credit Risk. At June 30, 2009 and 2008, GSWSA had the following investments which were rated by Standard and Poor's as follows:

<u>Investment Type</u>	<u>2009</u>		<u>2008</u>	
	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Federal Home Loan	\$ 21,305,137	AAA	\$ 15,167,091	AAA
Federal National Mortgage	22,831,427	AAA	20,139,013	AAA
Federal Farm Credit Banks	3,116,875	AAA		
Money Market Obligation Trusts	5,024,432	AAA	4,486,605	AAA
Municipal Bonds			1,911,460	AAA
Municipal Bonds			2,153,008	AA+
Federal Home Loan Mortgage Association	286,713	Not Rated	2,424,602	Not Rated
Federal National Mortgage Corporation	403,838	Not Rated	3,141,506	Not Rated
Guaranteed Investment Contracts	4,225,636	Not Rated	7,431,916	Not Rated
State Investment Pool	21,311	Not Rated	3,522,641	Not Rated
Money Market Obligation Trust	2,171,715	Not Rated	14,826,406	Not Rated

GRAND STRAND WATER AND SEWER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

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>2009</u>	<u>2008</u>
Federal Home Loan Mortgage Corporation	18.91%	15.82%
Federal National Mortgage Association	20.35%	20.93%
Guaranteed Investment Contracts		6.68%

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

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

As of June 30, 2009, 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	\$ 51,236	\$ 51,236	\$	\$	\$
U.S. Treasuries	48,718,442	2,390,992	28,739,147	17,588,303	
Federal Home Loan Mortgage Corporation	21,591,850	3,382,493	10,130,265	4,143,838	3,935,254
Federal National Mortgage Association	23,235,265	5,840,128	6,095,605	3,287,902	8,011,630
Federal Farm Credit Banks	3,116,875	1,014,688	2,102,187		
Government National Mortgage Association	<u>2,802,748</u>			<u>7,706</u>	<u>2,795,042</u>
	<u>\$ 99,516,416</u>	<u>\$ 12,679,537</u>	<u>\$ 47,067,204</u>	<u>\$ 25,027,749</u>	<u>\$ 14,741,926</u>

GRAND STRAND WATER AND SEWER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

Note 2 – DEPOSITS AND INVESTMENTS *(continued)*

Investments *(continued)*

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

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

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

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

	<u>Balance 6/30/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance 6/30/09</u>
Capital Assets not being Depreciated					
Land and Easements	\$ 49,653,829	\$ 368,588	\$ (2,077,505)	\$	\$ 47,944,912
Construction-in-Progress	<u>6,721,189</u>	<u>29,883,565</u>	<u>(2,591,833)</u>	<u>(24,206,636)</u>	<u>9,806,285</u>
	<u>\$ 56,375,018</u>	<u>\$ 30,252,153</u>	<u>\$ (4,669,338)</u>	<u>\$ (24,206,636)</u>	<u>\$ 57,751,197</u>
Capital Assets being Depreciated					
Utility Plant	\$ 586,046,012	\$ 13,894,595	\$ (92,081)	\$ 24,214,184	\$ 624,062,710
Buildings and Leaseholds	6,465,014	2,747,068	(3,180)	(7,548)	9,201,354
Vehicles	5,509,841	713,712	(68,977)		6,154,576
Machinery, Equipment and Furniture	<u>10,909,869</u>	<u>979,944</u>	<u>(73,448)</u>		<u>11,816,365</u>
	<u>\$ 608,930,736</u>	<u>\$ 18,335,319</u>	<u>\$ (237,686)</u>	<u>\$ 24,206,636</u>	<u>\$ 651,235,005</u>

GRAND STRAND WATER AND SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

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

	<u>Balance 6/30/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance 6/30/09</u>
Accumulated Depreciation for					
Utility Plant	\$ (149,957,902)	\$ (18,143,009)	\$ 48,608	\$	\$ (168,052,303)
Buildings	(1,317,695)	(229,916)	6,179		(1,541,432)
Vehicles	(3,769,838)	(545,297)	68,977		(4,246,158)
Machinery, Equipment and Furniture	<u>(7,248,117)</u>	<u>(942,316)</u>	<u>69,610</u>		<u>(8,120,823)</u>
	<u>\$ (162,293,552)</u>	<u>\$ (19,860,538)</u>	<u>\$ 193,374</u>	<u>\$</u>	<u>\$ (181,960,716)</u>
	<u>\$ 503,012,202</u>	<u>\$ 28,726,934</u>	<u>\$ (4,713,650)</u>	<u>\$</u>	<u>\$ 527,025,486</u>

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

	<u>Balance 6/30/07</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance 6/30/08</u>
Capital Assets not being Depreciated					
Land and Easements	\$ 49,463,056	\$ 190,773	\$	\$	\$ 49,653,829
Construction-in-Progress	<u>13,235,420</u>	<u>37,948,797</u>	<u>(2,138,633)</u>	<u>(42,324,395)</u>	<u>6,721,189</u>
	<u>\$ 62,698,476</u>	<u>\$ 38,139,570</u>	<u>\$ (2,138,633)</u>	<u>\$ (42,324,395)</u>	<u>\$ 56,375,018</u>
Capital Assets being Depreciated					
Utility Plant	\$ 516,978,586	\$ 26,826,149	\$ (83,118)	\$ 42,324,395	\$ 586,046,012
Buildings and Leaseholds	6,532,510	21,958	(89,454)		6,465,014
Vehicles	5,088,198	902,839	(481,196)		5,509,841
Machinery, Equipment and Furniture	<u>8,375,276</u>	<u>2,809,086</u>	<u>(274,493)</u>		<u>10,909,869</u>
	<u>\$ 536,974,570</u>	<u>\$ 30,560,032</u>	<u>\$ (928,261)</u>	<u>\$ 42,324,395</u>	<u>\$ 608,930,736</u>
Accumulated Depreciation for					
Utility Plant	\$ (133,958,417)	\$ (16,048,912)	\$ 49,427	\$	\$ (149,957,902)
Buildings	(1,217,126)	(190,023)	89,454		(1,317,695)
Vehicles	(3,821,280)	(419,722)	471,164		(3,769,838)
Machinery, Equipment and Furniture	<u>(6,774,072)</u>	<u>(741,627)</u>	<u>267,582</u>		<u>(7,248,117)</u>
	<u>\$ (145,770,895)</u>	<u>\$ (17,400,284)</u>	<u>\$ 877,627</u>	<u>\$</u>	<u>\$ (162,293,552)</u>
	<u>\$ 453,902,151</u>	<u>\$ 51,299,318</u>	<u>\$ (2,189,267)</u>	<u>\$</u>	<u>\$ 503,012,202</u>

Direct and indirect costs of GSWSA's construction and engineering departments were capitalized in the approximate amount of \$1,726,916 and \$1,543,514 during 2009 and 2008, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$124,711 and \$169,746 during 2009 and 2008, 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, 2009 and 2008**Note 3 – PROPERTY, PLANT, AND EQUIPMENT AND CAPACITY SALES AND PURCHASES** *(continued)*

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

Surface Water Treatment Plant and System

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**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, 2009 and 2008**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.

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

Note 4 – CAPITAL LEASES *(continued)*

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

2010	\$	144,352
2011		144,352
2012		144,352
2013		144,352
2014		144,352
2015– 2019		<u>587,219</u>
Total Minimum Lease Payments	\$	1,308,979
Less: Amount Representing Interest		(190,503)
Unamortized Deferral on Refunding		<u>(27,882)</u>
Present Value of Minimum Lease Payments	\$	<u>1,090,594</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2009 are as follows:

2009	\$	144,352
2010		144,352
2011		144,352
2012		144,352
2013		144,352
2014– 2018		721,760
2019		<u>9,811</u>
Total Minimum Lease Payments	\$	1,453,331
Less: Amount Representing Interest		(233,512)
Unamortized Deferral on Refunding		<u>(30,978)</u>
Present Value of Minimum Lease Payments	\$	<u>1,188,841</u>

Note 5 – LONG-TERM DEBT

The original amount of debt which has been issued, including prior years, by GSWSA was \$354,099,095. Bonds, notes and state revolving loans payable at June 30, 2009 and 2008 are composed of the following individual issues.

	<u>2009</u>	<u>2008</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.	\$ 4,769,700	\$ 5,451,664

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

Note 5 – LONG-TERM DEBT (continued)

	<u>2009</u>	<u>2008</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.	8,485,000	10,980,000
Waterworks and Sewer System Revenue Bonds, Series 2001. Secured by gross revenues from Utility System.		
Current interest paying serial bonds; due in annual principal installments ranging from \$470,000 to \$4,295,000 during 2012 through 2023; interest at 4.0% to 5.25% per annum; due June 1.	12,780,000	12,780,000
Current interest paying term bonds; principal due 2022 with annual sinking fund requirements beginning in 2018; interest at 5.0% per annum; due June 1.	11,370,000	11,370,000
Current interest paying term bonds; principal due 2026 with annual sinking fund requirements beginning in 2024; interest at 5.0% per annum; due June 1.	14,205,000	14,205,000
Current interest paying term bonds; principal due 2031 with annual sinking fund requirements beginning in 2027; interest at 5.0% per annum; due June 1.	<u>28,825,000</u>	<u>28,825,000</u>
Total Series 2001 Bonds	<u>67,180,000</u>	<u>67,180,000</u>
Waterworks and Sewer System Refunding Revenue Bonds, Series 2002. Secured by gross revenues from Utility System. Current interest paying serial bonds; due in annual principal installments of \$1,040,000 to \$4,565,000 during 2003 to 2019; interest at 5.0% to 5.375% per annum; due June 1.	27,470,000	27,470,000

GRAND STRAND WATER AND SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

Note 5 – LONG-TERM DEBT (continued)

	2009	2008
<p>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.</p>	6,195,000	6,860,000
<p>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.</p>	17,970,000	19,010,000
<p>Waterworks and Sewer System Improvement Revenue Bond, Series 2007. Secured by net revenues of the system. Current interest paying serial bond; due in annual principal installments ranging from \$510,000 to \$850,000 during 2009 to 2023; interest at 3.73 per annum; due December 1.</p>	9,490,000	10,000,000
<p>Waterworks and Sewer System Improvement Revenue Bond, Series 2008. Secured by net revenues of the system. Current interest paying serial bond; due in thirteen annual principal installments of \$715,000 and one of \$705,000; interest at 3.36 per annum; due beginning December 1, 2009.</p>	10,000,000	
<p>Total Bonds Payable</p>	\$ 151,559,700	\$ 146,951,664
<p>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.</p>	\$ 132,840	\$ 173,506

GRAND STRAND WATER AND SEWER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

Note 5 – LONG-TERM DEBT *(continued)*

	<u>2009</u>	<u>2008</u>
<p>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.</p>	912,261	987,339
<p>Note payable, including accrued interest of \$2,182, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$27,579 began November 1, 1999. Total approved loan is \$1,581,949. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.</p>	965,839	1,040,707
<p>Note payable, including accrued interest of \$5,896, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$20,044 began January 1, 2000. Total approved loan is \$1,149,705. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.</p>	701,937	756,349
<p>Note payable, including accrued interest of \$13,747, to South Carolina State Budget and Control Board for the South Carolina Infrastructure Facilities Authority at 4.25%. Quarterly principal and interest payments of \$74,580 began July 1, 2000.</p>	2,563,526	2,747,970
<p>Note payable, including accrued interest of \$337,554, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$289,557 began May 1, 2001.</p>	11,118,710	11,871,248

GRAND STRAND WATER AND SEWER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

Note 5 – LONG-TERM DEBT *(continued)*

	<u>2009</u>	<u>2008</u>
<p>Note payable, including accrued interest of \$5,557, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$19,404 began August 1, 2001. Total approved loan is \$1,113,023. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.</p>	757,875	807,867
<p>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.</p>	1,921,967	2,045,583
<p>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.</p>	3,824,490	4,028,647
<p>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.</p>	5,542,184	5,838,034
<p>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.</p>	176,122	185,524

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

Note 5 – LONG-TERM DEBT (continued)

	<u>2009</u>	<u>2008</u>
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.	5,149,449	5,382,814
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.	1,941,107	2,047,574
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.	11,820,435	12,468,765
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.5%. Quarterly principal and interest payments of \$213,458 to begin January 1, 2008. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	11,436,173	11,257,938
Note payable to South Carolina South Carolina Water Quality Revolving Fund Authority at 3.25%. Quarterly principal and interest payments of \$163,212 to begin March 1, 2010. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	7,075,501	

GRAND STRAND WATER AND SEWER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

Note 5 – LONG-TERM DEBT *(continued)*

	<u>2009</u>	<u>2008</u>
Note payable to South Carolina Water Quality Revolving Fund Authority at 3.25%. Quarterly principal and interest payments of \$58,031 to begin May 1, 2009. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue is pledged for debt service.	<u>2,850,281</u>	
Total Notes Payable	\$ <u>68,890,697</u>	\$ <u>61,639,865</u>
Total Debt, before deferrals	\$ 220,450,397	\$ 208,591,529
Unamortized Revenue Bond Discount/Premium	160,154	194,458
Unamortized Deferral on Refunding	<u>(1,539,295)</u>	<u>(1,693,225)</u>
Total Debt, Net	\$ 219,071,256	\$ 207,092,762
Less Current Portion	<u>(9,223,972)</u>	<u>(8,711,023)</u>
Total Long – Term Portion of Debt	\$ <u>209,847,284</u>	\$ <u>198,381,739</u>

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

<u>Date</u>	<u>Revenue Bonds</u>		<u>State Revolving Loans</u>		<u>Total Principal</u>	<u>Total Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2010	\$ 5,674,813	\$ 7,150,351	\$ 3,549,159	\$ 2,230,270	\$ 9,223,972	\$ 18,604,593
2011	6,679,763	6,878,302	3,897,833	2,321,107	10,577,596	19,777,005
2012	7,171,930	6,549,540	4,041,772	2,176,213	11,213,702	19,939,455
2013	7,996,437	6,195,587	4,142,911	2,026,691	12,139,348	20,361,626
2014	8,343,414	5,833,604	4,295,686	1,872,894	12,639,100	20,345,598
2015-2019	47,508,343	23,001,305	23,948,042	6,850,020	71,456,385	101,307,710
2020-2024	29,660,000	13,569,314	18,110,327	2,597,690	47,770,327	63,937,331
2025-2029	26,145,000	7,144,250	6,680,782	564,282	32,825,782	40,534,314
2030-2031	<u>12,380,000</u>	<u>936,000</u>	<u>224,185</u>	<u>3,234</u>	<u>12,604,185</u>	<u>13,543,419</u>
Totals	\$ <u>151,559,700</u>	\$ <u>77,258,253</u>	\$ <u>68,890,697</u>	\$ <u>20,642,401</u>	\$ <u>220,450,397</u>	\$ <u>318,351,051</u>

GRAND STRAND WATER AND SEWER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

Note 5 – LONG-TERM DEBT *(continued)*

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

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

	<u>Balance 6/30/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/09</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 146,951,665	\$ 10,000,000	\$ 5,391,965	\$ 151,559,700	\$ 5,674,813
Notes Payable	61,639,865	10,564,149	3,313,316	68,890,697	354,159
Capital Leases	1,219,819		101,343	1,118,476	105,023
Total Liabilities	\$ 209,811,349	\$ 20,564,149	\$ 8,806,625	\$ 221,568,873	\$ 6,133,995
Less Deferred Amounts:					
Issuance discounts/premiums	194,457		34,303	160,154	
Loss on Refunding	<u>(1,724,205)</u>	<u> </u>	<u>(157,028)</u>	<u>(1,567,177)</u>	<u> </u>
Total	<u>\$ 208,281,601</u>	<u>\$ 20,564,149</u>	<u>\$ 8,683,900</u>	<u>\$ 220,161,850</u>	<u>\$ 6,133,995</u>

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

Note 5 – LONG-TERM DEBT *(continued)*

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

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

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

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

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

On June 5, 2008, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina Water Quality Revolving Fund for \$9,573,418 at an interest rate of 3.25%. The loan will provide proceeds for the upgrade and expansion of the Myrtle Beach Wastewater Treatment Plant. As of June 30, 2009, GSWSA received \$7,075,501. The note becomes payable in quarterly installments of \$163,212 beginning March 1, 2010.

On December 19, 2008, Grand Strand Water and Sewer Authority issued the 2008 Waterworks and Sewer System Improvement Revenue Bond in the amount of \$10,000,000. The proceeds were applied towards the purchase of the Myrtle Beach Water and Wastewater Treatment Plants that took place June 30, 2006.

On August 29, 2008, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina Water Quality Revolving Fund for \$3,403,900 at an interest rate of 3.25%. The loan will provide proceeds for the upgrade of the Conway Wastewater Treatment Plant. As of June 30, 2009, GSWSA received \$2,850,281. The note became payable in quarterly installments of \$58,031 on May 1, 2009.

GRAND STRAND WATER AND SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

Note 6 – DEBT DEFEASANCE

On February 1, 2002, Grand Strand Water and Sewer Authority issued Waterworks and Sewer System Refunding Revenue Bonds, Series 2002 in order to defease the 2003 thru 2007 and 2013 thru 2019 series of the 1992 Refunding Waterworks and Sewer System Revenue Bonds in the amount of \$36,680,000. U.S. Government Securities were purchased and placed in an irrevocable trust for the purpose of generating resources to fully service the defeased bonds until the debt is called or defeased. As a result the 1992 Refunding Waterworks and Sewer System Revenue Bonds series 2003 thur 2007 and 2013 thur 2019 are considered defeased and the Authority has removed the liabilities from its accounts. The unmatured and outstanding principal balance on the defeased bonds at June 30, 2009 and 2008 is \$26,875,000.

Note 7 – NET ASSETS

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

	<u>2009</u>	<u>2008</u>
Invested in Capital Assets, net of related debt:		
Net property, plant and equipment	\$ 527,025,486	\$ 503,012,202
Less: Revenue bonds payable, net	(150,180,559)	(145,452,897)
Notes payable	(68,890,697)	(61,639,865)
Capital lease payable	(1,090,594)	(1,188,839)
Accounts payable for capital items	(2,247,128)	(4,927,458)
Total	<u>\$ 304,616,508</u>	<u>\$ 289,803,143</u>
Restricted for:		
Capital Projects		
Contingent and Depreciation Fund	\$ 11,218,000	\$ 8,438,584
Capital Projects Fund	<u>5,064,006</u>	<u>6,568,094</u>
Total	<u>\$ 16,282,006</u>	<u>\$ 15,006,678</u>
Debt Service		
Debt Service Fund	\$ 13,146,104	\$ 12,597,459
Less: Accrued Interest	<u>(88,838)</u>	<u>(73,258)</u>
Total	<u>\$ 13,057,266</u>	<u>\$ 12,524,201</u>
Rate Stabilization	<u>\$ 3,196,236</u>	<u>\$ 3,185,705</u>
Unrestricted	<u>\$ 92,792,729</u>	<u>\$ 88,898,786</u>
Total Net Assets	<u>\$ 429,944,745</u>	<u>\$ 409,418,513</u>

Note 8 – EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN

All permanent employees participate in the South Carolina Retirement System (SCRS) a cost-sharing, multiple-employer public employee retirement system. The SCRS was established, effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws. Benefit provisions and both employee and employer contribution rates are established and amended under authority of Title 9 of the South Carolina Code of Laws. Annual covered payroll for fiscal years 2009 and 2008 for active members covered by the SCRS was \$11,455,385 and \$10,738,130, respectively. Annual covered payroll for fiscal years 2009 and 2008 for retired members was \$494,158

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

Note 8 – EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN *(continued)*

and \$451,488, respectively. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29221-1960.

Benefits of the SCRS are established by the state statutes. The required employer and employee obligations to contribute to the SCRS are 9.39% and 6.50%, respectively for fiscal year 2009 and are 9.21% and 6.50% respectively for fiscal year 2008. All full time employees are covered under the plan beginning with the effective date of employment unless specifically exempted by legislation. Under current statutes, membership in the SCRS is required as a condition of employment. Vesting of the employee portion of contributions occurs following at least 5 years of creditable service. An employee with at least 5 years of service who terminates employment has the right to leave his contribution on deposit in the system and will receive a reduced monthly retirement allowance beginning at age 60 or at age 55 with at least 25 years of creditable service reduced 4% for each year of service under 30 years. If a vested member applies for a refund following termination, he or she is eligible for a refund of the total employee contributions plus interest. Member employees who retire at age 65 or after 28 years of credited service are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.70% of the employee’s annual average final compensation (average compensation over the last three years of credited service) for each year of credited service. Member employees who are at least 60 years of age may elect early retirement in which case the full service benefit is reduced by 5% for each year the employee’s age at retirement is less than 65. In either case, any unrecovered contributions are payable upon death and benefit payments increase 4% each year following an increase in the consumer Price Index of at least 3%. Full service or early retirees may elect other optional methods of benefit distributions, including lump sum distributions, benefit levels coordinated with the retiree’s social security benefits and distributions to a named beneficiary. Benefits are fully vested on reaching five years of service. The SCRS also provides death and disability benefits to all member employees.

State statutes determine the levels of contributions required. GSWSA is required to contribute at the actuarially determined rates. SCRS member employees are required to contribute 6.50% of all compensation. GSWSA is required to contribute 9.24% of each member employee’s compensation. In addition to the above rates, GSWSA has elected to contribute 0.15% of each member employee’s compensation to provide group life insurance benefits for their participants. The contributions to the SCRS for employer and employee portions for 2009 were \$1,122,160 and \$776,720. 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, 2007	\$837,950	100%
June 30, 2008	\$1,030,564	100%
June 30, 2009	\$1,122,160	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, 2009 and 2008, no employees had elected coverage under the Act.

**NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008****Note 8 – EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION PLAN** *(continued)*

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

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

Note 9 – POSTEMPLOYMENT HEALTH CARE PLANPlan Description

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

Summary of Significant Accounting Policies

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

Investments are reported at fair value.

Note 10 – MAJOR CUSTOMER

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

Note 11 – RISK MANAGEMENT

GWSWA 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 GWSWA 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. GWSWA 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.

GWSWA 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, 2009, 2008 and 2007.

During 2009 and 2008, GWSWA did not experience any material uninsured claims. Accordingly, there was no liability or expense recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

Note 12 – COMMITMENTS

Construction Contracts – In the normal course of business, GWSWA enters into agreements with contractors for the construction and expansion of the system. At June 30, 2009, open contracts for construction totaled approximately \$9,007,484 with \$8,563,497 having been incurred during the year. At June 30, 2008, open contracts for construction totaled approximately \$12,669,095 with \$7,980,036 having been incurred during the year. The remaining commitments at June 30, 2009 and 2008 were \$443,986 and \$4,689,059, respectively.

SCHEDULES

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, 2009

	1991 A State Revolving Loan Burgess		1992 Revenue Bonds		
	Current	Future	Current	Future	Arbitrage
	<u>Debt Service</u>	<u>Debt Service</u>	<u>Debt Service</u>	<u>Debt Service</u>	<u>Rebate</u>
Cash and Investments, Beginning	\$ 60	\$ 50,097	\$ 272,496	\$ 3,206,280	\$ 123,964
Cash Receipts					
Transfers From Operating Cash	47,312		3,117,760		
Transfers From Capital Projects					
Interest Earned	26	2,107	83,516	216,465	488
Other Transfers					
Cash Disbursements					
Principle and Interest Payments	(47,398)		(3,194,975)		
Renewals and Replacements					
Transfers to Operating Cash		(2,107)			
Transfers to Capital Projects					
Other Transfers					
Cash and Investments, Ending	<u>\$ 0</u>	<u>\$ 50,097</u>	<u>\$ 278,797</u>	<u>\$ 3,422,745</u>	<u>\$ 124,452</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>
\$ 9,646	\$ 116,601	\$ 18,617	\$ 110,166	\$ 100	\$ 104,602
113,215		110,030	151	80,029	
50	4,905	58	4,635	46	4,401
(113,455)		(110,317)		(80,175)	
	(4,905)		(4,484)		(4,400)
<u>\$ 9,456</u>	<u>\$ 116,601</u>	<u>\$ 18,388</u>	<u>\$ 110,468</u>	<u>\$ 0</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, 2009

	2000 State Revolving Loan			
	Bucksville		Tip Top	
	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service
Cash and Investments, Beginning	\$ 371	\$ 297,902	\$ 195,461	\$ 1,191,729
Cash Receipts				
Transfers From Operating Cash	297,780	417	1,155,225	
Transfers From Capital Projects				
Interest Earned	168	12,532	596	50,132
Other Transfers				
Cash Disbursements				
Principle and Interest Payments	(298,319)		(1,158,226)	
Renewals and Replacements				
Transfers to Operating Cash		(12,531)		(50,130)
Transfers to Capital Projects				
Other Transfers				
Cash and Investments, Ending	\$ <u>0</u>	\$ <u>298,320</u>	\$ <u>193,056</u>	\$ <u>1,191,731</u>

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

2000 Revenue Bonds		2001 State Revolving Loan			
		Buist NFM		Schwartz Imp.	
<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>
\$ 783,930	\$ 85,390	\$ 13,099	\$ 81,486	\$ 241	\$ 195,803
	930,330	77,414		193,251	
53,172	668	41	3,428	109	8,237
	(938,193)	(77,617)		(193,601)	
(53,158)			(3,428)		(8,238)
<u>\$ 783,944</u>	<u>\$ 78,195</u>	<u>\$ 12,937</u>	<u>\$ 81,486</u>	<u>\$ 0</u>	<u>\$ 195,802</u>

GRAND STRAND WATER AND SEWER AUTHORITY

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

Year Ended June 30, 2009

	2001	2002 State Revolving Loan			
	Revenue Bonds	Conway		Vereen	
	<u>Current 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	\$ 308,587	\$ 59,468	\$ 356,477	\$ 86,176	\$ 519,901
Cash Receipts					
Transfers From Operating Cash		351,469		509,325	
Transfers From Capital Projects	3,310,893				
Interest Earned	50,176	182	14,996	263	21,872
Other Transfers					
Cash Disbursements					
Principle and Interest Payments	(3,359,515)	(352,383)		(510,648)	
Renewals and Replacements					
Transfers to Operating Cash			(14,995)		(21,870)
Transfers to Capital Projects					
Other Transfers					
Cash and Investments, Ending	<u>\$ 310,141</u>	<u>\$ 58,736</u>	<u>\$ 356,478</u>	<u>\$ 85,116</u>	<u>\$ 519,903</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 319 FM</u>		<u>2002 Revenue Bonds</u>	<u>2004A - Schwartz WWTP Expansion - Phase I</u>		<u>2001A MBCH</u>
<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>	<u>Current Debt Service</u>
\$ 21	\$ 31,593	\$ 124,753	\$ 33,348	\$ 392,450	\$ 191,353
16,198		1,456,347	391,413		1,135,091
9	1,329	21,463	171	16,239	584
(16,228)		(1,476,512)	(392,241)		(1,137,437)
	(1,329)			(16,441)	
<u>0</u>	<u>31,593</u>	<u>126,051</u>	<u>32,691</u>	<u>392,248</u>	<u>189,591</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, 2009

	<u>2001A MBCH</u>	<u>2001B MBCH</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	\$ 1,171,814	31,423	\$ 192,430	\$ 696,004	889,647
Cash Receipts					
Transfers From Operating Cash		186,400		1,834,765	
Transfers From Capital Projects					
Interest Earned	4,547	96	749	3,406	3,435
Other Transfers					
Cash Disbursements					
Principle and Interest Payments		(186,785)	(5,646)	(1,734,059)	
Renewals and Replacements					
Transfers to Operating Cash	(34,377)				(35,817)
Transfers to Capital Projects					
Other Transfers					
Cash and Investments, Ending	\$ <u>1,141,984</u>	<u>31,134</u>	\$ <u>187,533</u>	\$ <u>800,116</u>	<u>857,265</u>

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

<u>Schwartz WWTP Expansion - Phase II Current Debt Service</u>	<u>2008 MB WTP Upgrade/Expan Future Debt Service</u>	<u>2008 Conway WTP Odor Control Upgrade</u>		<u>2008 Revenue Bonds Current Debt Service</u>	<u>Bull Creek Depreciation & Contingency</u>
		<u>Current Debt Service</u>	<u>Future Debt Service</u>		
\$ 549	\$ 653,424	\$ 0	\$ 0	\$ 0	\$ 2,239,066
835,600		96,831	232,185	179,200	404,084
478	1,896		209		
(836,627)		(58,099)		(151,200)	(165,862)
<u>\$ 0</u>	<u>\$ 655,320</u>	<u>\$ 38,732</u>	<u>\$ 232,394</u>	<u>\$ 28,000</u>	<u>\$ 2,477,288</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, 2009

	<u>Depreciation & Contingency</u>	<u>Total</u>
Cash and Investments, Beginning	6,199,518	\$ 21,036,043
Cash Receipts		
Transfers From Operating Cash	3,225,969	16,784,540
Transfers From Capital Projects		3,504,144
Interest Earned		587,880
Other Transfers		0
Cash Disbursements		
Principle and Interest Payments		(16,429,656)
Renewals and Replacements	(684,775)	(850,637)
Transfers to Operating Cash		(268,210)
Transfers to Capital Projects		0
Other Transfers		0
Cash and Investments, Ending	<u>8,740,712</u>	<u>\$ 24,364,104</u>

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

GRAND STRAND WATER AND SEWER AUTHORITY

SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Water Plants		
Personnel Services	\$ 2,265,987	\$ 1,999,394
Contractual Services	2,615,276	2,328,624
Supplies and Materials	4,942,269	2,816,255
Business and Travel Expenses	6,723	15,926
Other Expenses	1,634,106	1,441,680
Departmental Transfers	495,865	317,186
Total Water Plants	<u>\$ 11,960,226</u>	<u>\$ 8,919,065</u>
Water Systems		
Personnel Services	\$ 2,274,050	\$ 2,108,054
Contractual Services	1,054,145	1,083,415
Supplies and Materials	1,789,711	2,667,461
Business and Travel Expenses	11,012	10,538
Other Expenses	3,950	2,494
Total Water Systems	<u>\$ 5,132,868</u>	<u>\$ 5,871,962</u>
Total Water	<u>\$ 17,093,094</u>	<u>\$ 14,791,027</u>
Wastewater Plants		
Personnel Services	\$ 4,377,166	\$ 3,918,139
Contractual Services	4,093,697	3,251,782
Supplies and Materials	2,136,428	2,314,062
Business and Travel Expenses	19,081	17,606
Other Expenses	64,245	64,481
Departmental Transfers	1,122,240	1,426,723
Total Wastewater Plants	<u>\$ 11,812,857</u>	<u>\$ 10,992,793</u>
Wastewater Systems		
Personnel Services	\$ 1,848,894	\$ 1,584,791
Contractual Services	3,428,625	2,686,390
Supplies and Materials	972,583	1,077,383
Business and Travel Expenses		
Other Expenses	10,558	13,658
Total Wastewater Systems	<u>\$ 6,260,660</u>	<u>\$ 5,362,222</u>
Total Wastewater	<u>\$ 18,073,517</u>	<u>\$ 16,355,015</u>

GRAND STRAND WATER AND SEWER AUTHORITY

SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
General Administration		
Personnel Services	\$ 617,215	\$ 566,197
Contractual Services	235,464	351,339
Supplies and Materials	35,678	42,310
Business and Travel Expenses	64,238	66,815
Other Expenses	471,458	293,628
Total General Administration	<u>\$ 1,424,053</u>	<u>\$ 1,320,289</u>
Planning, Engineering, and Construction		
Personnel Services	\$ 1,668,880	\$ 1,512,814
Contractual Services	143,734	61,788
Supplies and Materials	95,654	125,080
Business and Travel Expenses	11,380	16,846
Other Expenses	325	460
Total Planning, Engineering, and Construction	<u>\$ 1,919,973</u>	<u>\$ 1,716,988</u>
Financial Services		
Personnel Services	\$ 1,879,038	\$ 1,714,330
Contractual Services	991,895	878,989
Supplies and Materials	155,713	156,391
Business and Travel Expenses	38,313	23,680
Other Expenses	44,869	69,116
Total Financial Services	<u>\$ 3,109,828</u>	<u>\$ 2,842,506</u>
High Tech Turf Farm		
Personnel Services	\$ 1,140,903	\$ 1,040,127
Contractual Services	277,329	242,211
Supplies and Materials	459,986	587,666
Business and Travel Expenses	4,404	4,022
Other Expenses	75	13
Departmental Transfers	(1,618,104)	(1,743,909)
Total High Tech Turf Farm	<u>\$ 264,593</u>	<u>\$ 130,130</u>
Depreciation		
	<u>\$ 19,860,538</u>	<u>\$ 17,400,238</u>
Total Operating Expenses	<u><u>\$ 61,745,596</u></u>	<u><u>\$ 54,556,193</u></u>

STATISTICAL SECTION (UNAUDITED)

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

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

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

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

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

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

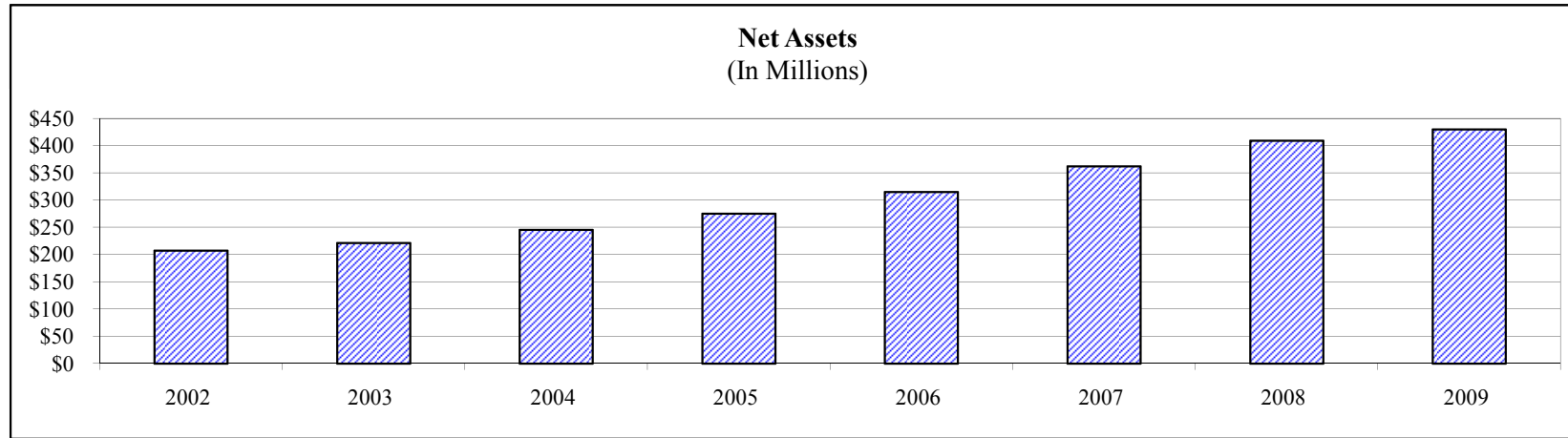
Schedule 1

GRAND STRAND WATER AND SEWER AUTHORITY

NET ASSETS BY COMPONENT
Last Eight Fiscal Years

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Primary government								
Invested in capital assets, net of related debt	\$ 135,897,902	\$ 139,201,792	\$ 150,944,404	\$ 162,579,976	\$ 204,870,843	\$ 249,401,693	\$ 289,803,143	\$ 304,616,508
Restricted	30,455,007	29,910,278	29,089,789	27,535,216	25,980,196	30,231,725	30,716,584	32,535,508
Unrestricted	41,003,053	52,519,542	65,396,725	84,837,573	84,059,592	82,256,132	88,898,786	92,792,729
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>	<u>\$ 409,418,513</u>	<u>\$ 429,944,745</u>

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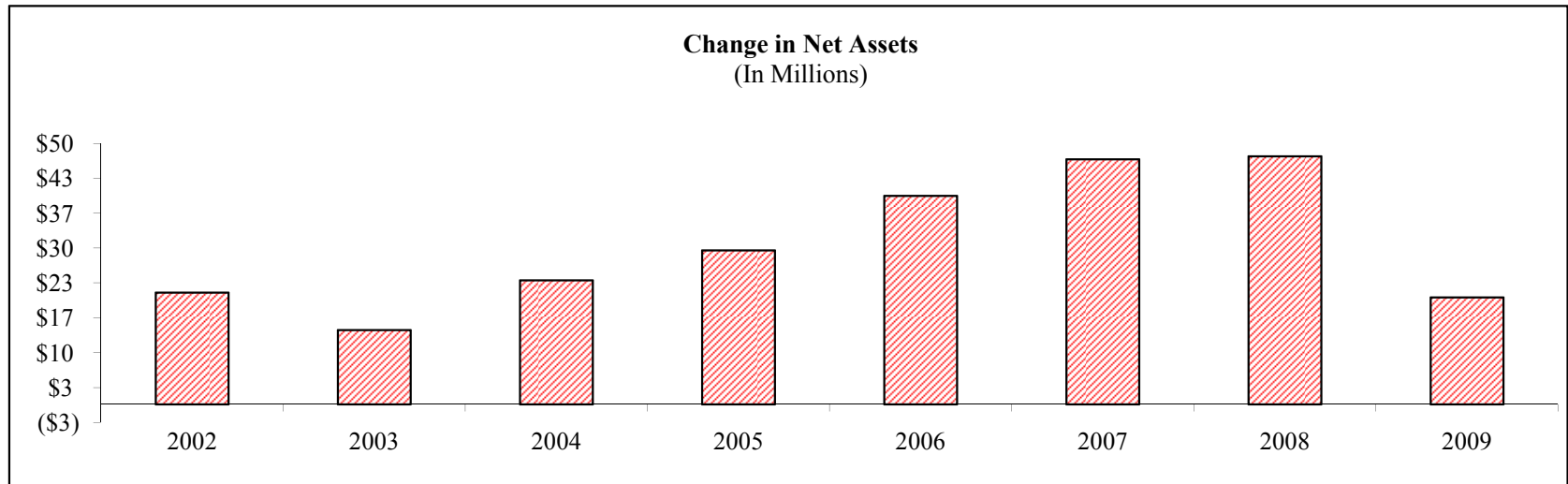
Schedule 2

GRAND STRAND WATER AND SEWER AUTHORITY

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

<u>Fiscal Year Ended</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Operating Income/(Loss)</u>	<u>Total Nonoperating Revenues/ (Expenses)</u>	<u>Income/(Loss) before Capital Contributions</u>	<u>Capital Contributions</u>	<u>Change in Net Assets</u>
2002	\$ 28,278,460	\$ 25,889,161	\$ 2,389,299	\$ (1,344,319)	\$ 1,044,980	\$ 20,376,731	\$ 21,421,711
2003	28,333,122	28,811,049	(477,927)	(2,043,681)	(2,521,608)	16,797,258	14,275,650
2004	32,275,269	31,759,362	515,907	(4,376,695)	(3,860,788)	27,660,094	23,799,306
2005	36,571,027	33,591,329	2,979,698	(2,758,266)	221,432	29,300,325	29,521,757
2006	42,668,707	39,729,593	2,939,114	(1,210,337)	1,728,777	38,229,179	39,957,956
2007	58,417,958	50,960,722	7,457,236	(2,823,384)	4,633,852	42,345,067	46,978,919
2008	62,262,174	54,556,193	7,705,981	(1,485,332)	6,220,649	41,308,314	47,528,963
2009	59,871,610	61,745,596	(1,873,986)	(2,797,844)	(4,671,830)	25,198,062	20,526,232

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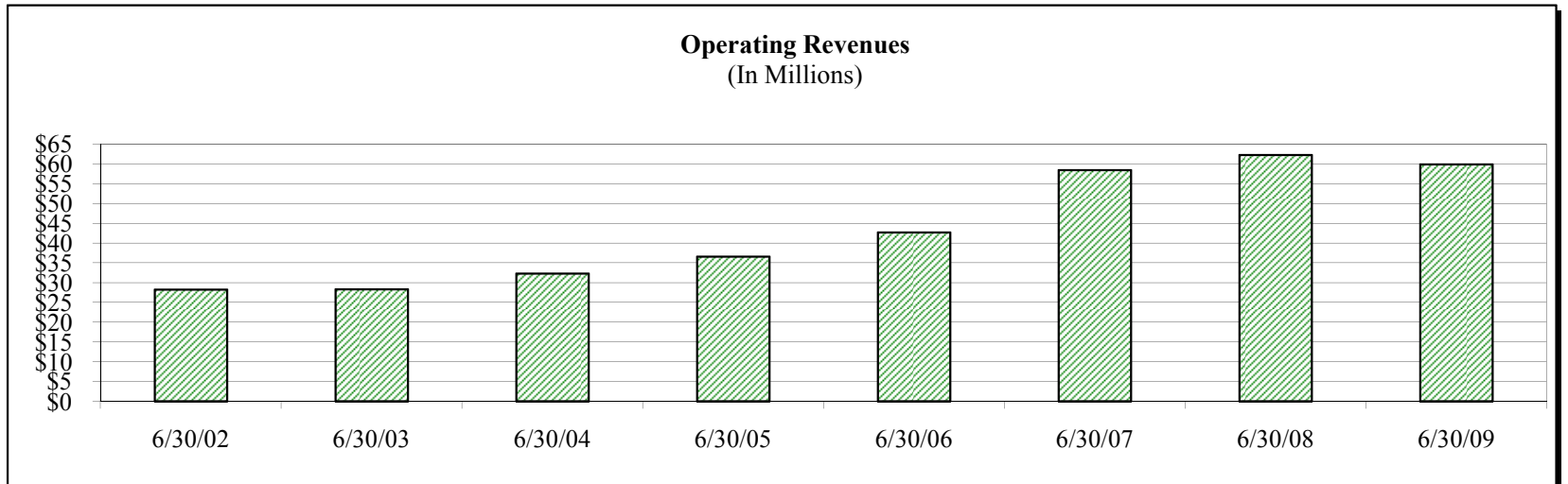
Schedule 3

GRAND STRAND WATER AND SEWER AUTHORITY

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

<u>Fiscal Year Ended</u>	<u>Water & Sewer Volume & Availibility Fees</u>	<u>Customer Charges</u>	<u>Surface Water Charges</u>	<u>SWTP Contract Water Consumption</u>	<u>Tap Fees</u>	<u>Sod Sales</u>	<u>Other Revenue</u>	<u>Total Operating Revenue</u>
6/30/02	\$ 17,010,676	\$ 1,690,938	\$ 4,066,260	\$ 2,038,898	\$ 974,919	\$ 556,470	\$ 1,940,299	\$ 28,278,460
6/30/03	17,303,689	1,829,192	4,223,574	1,697,260	991,121	581,316	1,706,970	28,333,122
6/30/04	19,593,043	2,018,543	4,531,216	1,945,376	1,326,101	714,309	2,146,681	32,275,269
6/30/05	21,033,852	2,215,852	4,904,977	2,150,031	2,531,547	768,556	2,966,212	36,571,027
6/30/06	24,318,246	2,558,681	5,389,236	2,330,268	3,124,707	755,339	4,192,230	42,668,707
6/30/07	40,342,471	2,675,095	5,713,617	2,316,629	2,257,100	631,570	4,481,476	58,417,958
6/30/08	44,731,026	2,868,056	6,021,758	2,453,313	1,478,545	503,312	4,206,164	62,262,174
6/30/09	44,176,090	2,915,411	6,194,359	2,484,055	764,006	441,672	2,896,017	59,871,610

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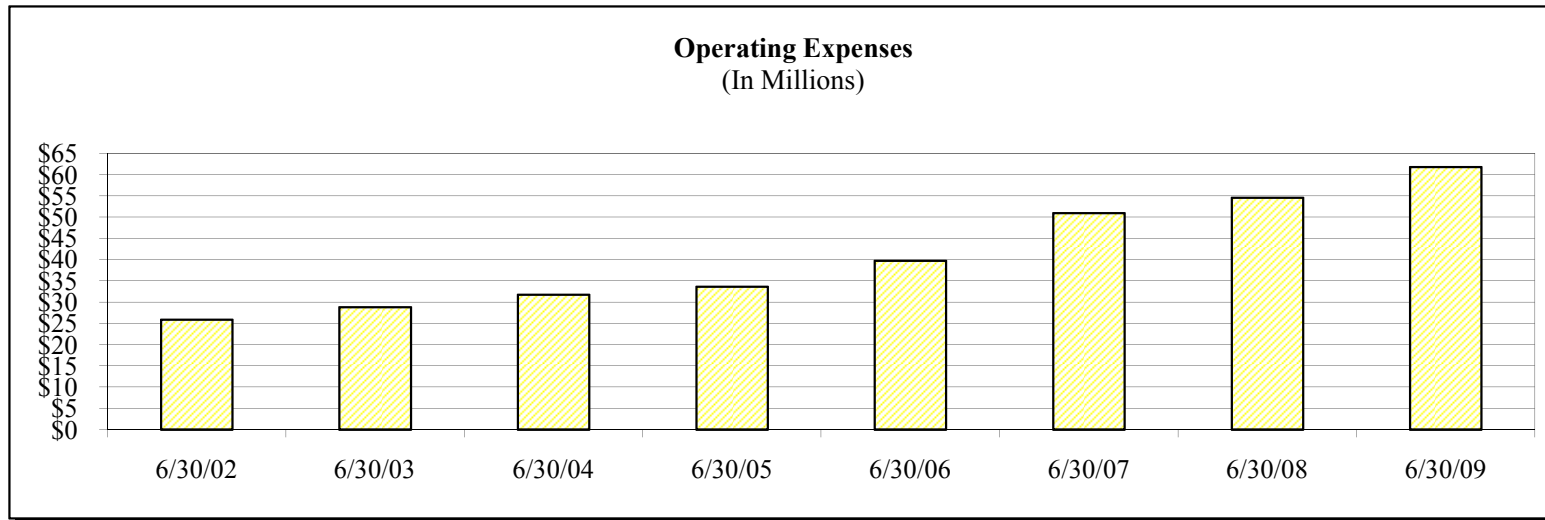
Schedule 4

GRAND STRAND WATER AND SEWER AUTHORITY

OPERATING EXPENSES
Last Eight Fiscal Years

Fiscal Year Ended	Personnel Costs	Contractual Services	Supplies and Materials	Business and Travel	Depreciation	Other Expenses	Total Operating Expenses
6/30/02	\$ 5,860,665	\$ 4,391,714	\$ 4,020,883	\$ 70,946	\$ 9,937,536	\$ 1,607,417	\$ 25,889,161
6/30/03	7,118,937	4,813,566	4,354,951	110,841	10,948,323	1,464,431	28,811,049
6/30/04	7,512,449	5,944,673	4,624,503	65,029	11,895,849	1,716,859	31,759,362
6/30/05	8,325,391	5,580,116	5,258,876	96,632	12,538,491	1,791,823	33,591,329
6/30/06	8,958,676	8,545,559	7,021,438	60,561	13,323,239	1,820,120	39,729,593
6/30/07	12,562,364	10,925,712	9,951,269	110,575	15,363,404	2,047,398	50,960,722
6/30/08	14,443,846	10,885,255	9,785,172	156,152	17,400,238	1,885,530	54,556,193
6/30/09	16,072,133	12,840,165	10,588,022	155,152	19,860,538	2,229,586	61,745,596

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UNAUDITED

Schedule 5

GRAND STRAND WATER & SEWER AUTHORITY

NONOPERATING REVENUES AND EXPENSES

Last Eight Fiscal Years

<u>Fiscal Year Ended</u>	<u>Investment Income</u>	<u>Other Revenue</u>	<u>Gain (Loss) on Disposal of Capital Asset</u>	<u>Amortization of Deferred Bond Costs</u>	<u>Interest Expense</u>	<u>Total Nonoperating Revenues (Expenses)</u>
6/30/02	\$ 4,232,862	\$	\$ 120,624	\$ (173,579)	\$ (5,524,226)	\$ (1,344,319)
6/30/03	5,062,406		63,772	(131,788)	(7,038,071)	(2,043,681)
6/30/04	2,649,777		83,531	(97,313)	(7,012,690)	(4,376,695)
6/30/05	4,760,648		(142,859)	(102,251)	(7,273,804)	(2,758,266)
6/30/06	3,311,395	4,057,942	(541,197)	(102,251)	(7,936,226)	(1,210,337)
6/30/07	6,200,184		48,862	(111,962)	(8,960,468)	(2,823,384)
6/30/08	8,128,067		(1,037)	(113,717)	(9,498,645)	(1,485,332)
6/30/09	6,962,758		(51,610)	(122,554)	(9,586,438)	(2,797,844)

UNAUDITED

Schedule 6

GRAND STRAND WATER AND SEWER AUTHORITY

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

<u>Fiscal Year Ended</u>	<u>SWTP Capacity Fees</u>	<u>Government Grants</u>	<u>Customer Impact Fees</u>	<u>Developer Contributions</u>	<u>Total</u>
6/30/02	\$ 2,040,496	\$ 450,515	\$ 9,591,659	\$ 8,294,061	\$ 20,376,731
6/30/03	2,010,464	1,446,361	5,017,572	8,322,861	16,797,258
6/30/04	2,029,308	1,571,037	13,615,301	10,444,448	27,660,094
6/30/05	1,918,047	284,906	11,544,330	15,553,042	29,300,325
6/30/06	1,970,844		13,912,826	22,345,509	38,229,179
6/30/07	1,970,844		9,827,621	30,546,602	42,345,067
6/30/08	1,961,592		6,953,139	32,393,583	41,308,314
6/30/09	1,985,592	757,542	3,614,012	18,840,916	25,198,062

UNAUDITED

Schedule 7

GRAND STRAND WATER AND SEWER AUTHORITY

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

Fiscal Year Ended	Gallons of Water Produced	Gallons of Water Consumed	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated	Total Direct Rate			
						Water		Sewer	
						Base Rate	Usage Rate	Base Rate	Usage Rate
6/30/02	7,283	7,006	277	3.80%	4,723	\$ 9.52	\$ 1.06	\$ 7.05	1.55
6/30/03	6,929	6,357	572	8.26%	5,031	9.52	1.06	7.05	1.55
6/30/04	7,569	7,019	550	7.27%	5,480	9.58	1.10	7.11	1.65
6/30/05	7,524	6,705	819	10.89%	5,479	9.58	1.10	7.11	1.65
6/30/06	8,632	7,815	817	9.46%	6,045	9.58	1.10	8.11	1.70
6/30/07	15,536	14,214	1,322	8.51%	8,775	9.58	1.10	8.11	1.70
6/30/08	16,140	15,625	515	3.19%	9,325	9.90	1.15	8.90	1.75
6/30/09	14,909	14,478	431	2.89%	9,925	9.90	1.15	8.90	1.75

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UNAUDITED

Schedule 8

GRAND STRAND WATER AND SEWER AUTHORITY

**ANNUAL TAPS SOLD
Last Eight Fiscal Years**

<u>Fiscal Year Ended</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps Sold</u>
6/30/02	546	280	826
6/30/03	541	271	812
6/30/04	595	278	873
6/30/05	705	257	962
6/30/06	784	238	1,022
6/30/07	837	243	1,080
6/30/08	525	195	720
6/30/09	314	162	476

UNAUDITED

Schedule 9

GRAND STRAND WATER AND SEWER AUTHORITY

**NUMBER OF WATER AND SEWER CUSTOMERS BY TYPE
Last Eight 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	8	20	3,061	8	26	33,188	-	1	6,181	3,095	33,189
6/30/03	6,301	8	22	3,184	8	26	35,186	-	1	6,331	3,218	35,187
6/30/04	6,528	8	22	3,426	8	26	38,116	-	1	6,558	3,460	38,117
6/30/05	6,752	8	20	3,741	8	27	42,742	-	-	6,780	3,776	42,742
6/30/06	7,041	8	19	4,137	8	27	47,654	-	-	7,068	4,172	47,654
6/30/07	7,393	10	19	4,471	8	26	50,883	-	-	7,422	4,505	50,883
6/30/08	7,937	10	19	4,752	7	27	52,223	-	-	7,966	4,786	52,223
6/30/09	8,084	10	49	4,899	21	23	52,249	-	-	8,143	4,943	52,249

Schedule 10

GRAND STRAND WATER AND SEWER AUTHORITY

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

Fiscal Year Ended	Water		Sewer	
	Base Rate	Usage Rate	Base Rate	Usage Rate
6/30/02	9.52	1.06	7.05	1.55
6/30/03	9.52	1.06	7.05	1.55
6/30/04	9.58	1.10	7.11	1.65
6/30/05	9.58	1.10	7.11	1.65
6/30/06	9.58	1.10	8.11	1.70
6/30/07	9.58	1.10	8.11	1.70
6/30/08	9.90	1.15	8.90	1.75
6/30/09	9.90	1.15	8.90	1.75

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Schedule 11

GRAND STRAND WATER AND SEWER AUTHORITY

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

Customer	Fiscal Year 2009		
	Water Revenue	Sewer Revenue	Total
City of Myrtle Beach	\$ 6,295,088	\$ 6,361,414	\$ 12,656,502
City of Conway	2,334,691	1,073,716	3,408,407
City of North Myrtle Beach	2,293,639	272,421	2,566,060
Little River Water and Sewerage Company	909,827	865,201	1,775,028
City of Loris	208,606	399,985	608,591
Ocean Lakes Utilities	165,647	259,816	425,463
Georgetown County Water and Sewer Authority	193,752	82,602	276,354
Myrtle Beach Resort	134,101	117,434	251,535
Ocean Side Village	140,833	107,692	248,525
Springmaid Beach Resort	98,294	98,596	196,890

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 Eight Fiscal Years**

Fiscal Year Ended	Revenue Bonds	Notes	Revolving Fund Loans	Total	
				Amount	Per Capita
6/30/02	\$ 123,761,717	\$ 111,022	\$ 34,155,286	\$ 158,028,025	\$ 780
6/30/03	132,034,514	60,224	35,499,152	167,593,890	804
6/30/04	129,868,954	47,247	27,086,587	157,002,788	733
6/30/05	127,404,847	32,971	38,030,781	165,468,599	751
6/30/06	125,024,902	17,268	55,644,921	180,687,091	799
6/30/07	141,587,770		61,696,450	203,284,220	876
6/30/08	146,951,664		61,639,865	208,591,529	899
6/30/09	151,559,700		68,890,697	220,450,397	856

UNAUDITED

Schedule 13

GRAND STRAND WATER AND SEWER AUTHORITY

REVENUE BOND COVERAGE

Last Eight Fiscal Years

(In Thousands)

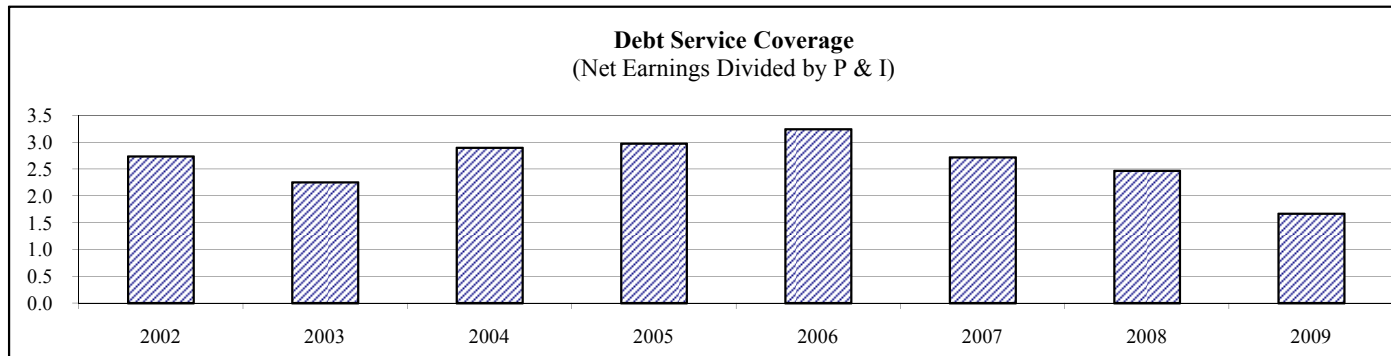
Fiscal Year	Gross Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Net Earnings Available for Debt Service	Debt Service Requirements ⁽³⁾			Coverage ⁽⁴⁾
				Principle	Interest	Total	
2002	\$ 44,144	\$ 15,897	\$ 28,247	\$ 3,651	\$ 6,649	\$ 10,300	2.74
2003	40,816	17,862	22,954	3,240	6,939	10,179	2.26
2004	50,884	19,863	31,021	3,745	6,955	10,700	2.90
2005	54,650	21,052	33,598	4,079	7,204	11,283	2.98
2006	65,380	26,406	38,974	4,117	7,883	12,000	3.25
2007	76,465	35,597	40,868	6,105	8,910	15,015	2.72
2008	79,304	37,156	42,148	7,599	9,462	17,061	2.47
2009	72,434	41,885	30,549	8,705	9,572	18,277	1.67

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

⁽²⁾ Total Operating Expenses Excluding Depreciation and Certain Other Adjustments.

⁽³⁾ Includes Principle and Interest of Revenue bonds and State Revolving Loans Only.

⁽⁴⁾ 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)⁽¹⁾</u>	<u>Per Capita Personal Income⁽¹⁾</u>	<u>Median Age⁽¹⁾</u>	<u>Unemployment Rate⁽¹⁾</u>
1999	178,550	592,975	19,220	33.8	4.25
2000	196,629	712,311	23,088	36.9	3.76
2001	202,528	712,311	23,088	38.3	4.86
2002	208,427	716,198	23,214	38.3	5.48
2003	214,326	719,314	23,315	38.3	4.64
2004	220,225	758,466	24,584	38.3	6.00
2005	226,124	779,506	25,266	38.3	5.30
2006	232,023	779,506	25,266	38.3	5.40
2007	237,922	779,506	25,266	37.1	5.20
2008	257,380	N/A	N/A	N/A	N/A

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

⁽¹⁾ 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 Eight Fiscal Years**

	Full-Time Equivalent Employees as of June 30							
	2002	2003	2004	2005	2006	2007	2008	2009
Water								
Water Plant Operations	14	14	15	14	13	24	23	23
Water Plant Maintenance	1	1	1	2	2	8	6	6
Water Systems Maintenance	16	18	17	17	17	15	15	15
Water Systems Operations	11	10	11	12	13	13	25	28
Sewer								
Sewer Plant Operations	16	18	18	18	18	32	39	39
Sewer Plant Maintenance	1	1	1	2	4	11	12	13
Sewer Systems Maintenance	30	34	33	34	35	38	36	38
Biosolid / Sludge Disposal Operations	14	16	16	16	18	22	25	23
Engineering / Inspection / Construction								
Engineering	12	13	12	12	7	15	16	16
Inspections	5	5	4	5	6	7	7	7
Construction	16	16	16	16	16	17	19	23
Administration								
Billing / Customer Service	12	13	13	14	15	16	16	18
Meter Reading	12	12	13	13	8	9	0	0
Human Resources	2	2	2	2	2	2	2	2
Finance and Accounting	5	5	5	5	5	5	6	6
Purchasing	3	4	4	4	4	4	4	4
Information Systems	2	2	2	2	2	3	4	4
Executive Administration	7	7	7	7	14	6	5	3
Fleet / Facilities Management								5
Total	<u>179</u>	<u>191</u>	<u>190</u>	<u>195</u>	<u>199</u>	<u>247</u>	<u>260</u>	<u>273</u>

UNAUDITED

Schedule 16

GRAND STRAND WATER AND SEWER AUTHORITY

MISCELLANEOUS STATISTICAL DATA

June 30, 2009

Sewer System Facts

<u>Use of Sewer</u>	<u>2009</u>	<u>2008</u>
Sewer Customers, End of Period	57,192	57,009
Average Daily Consumption (Millions of Gallons)	27.19	28.76
Estimated Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	9.93	9.33

System Facilities

Total Miles of Sewer Lines	1,448 *	1,281
Number of Treatment Plants	9	9
Number of Pumping Stations	536	512
Number of Residential Effluent Pumping Stations	427	418
Number of Residential Grinder Pumping Stations	4,215	4,020

* Force Main	744
Gravity	704
	1448

UNAUDITED

Schedule 16

GRAND STRAND WATER AND SEWER AUTHORITY

MISCELLANEOUS STATISTICAL DATA
June 30, 2009

Water System Facts

	<u>2009</u>	<u>2008</u>
<u>Use of Water</u>		
Water Customers, End of Period	60,392	60,189
Average Daily Consumption (Millions of Gallons)	39.67	42.81
Estimated Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons)	14.48 *	15.63
<u>System Facilities</u>		
Reservoirs	19 **	17
Storage Capacity (Millions of Gallons)	22.00 **	21.55
Auxiliary Deep Water Wells	33	33
Total Miles of Distribution Lines	1,514	1,402
Fire Hydrants	5,649	5,391

* Includes SWTP Participant Sales

** Includes SWTP Storage Tanks

UNAUDITED

Schedule 16

GRAND STRAND WATER AND SEWER AUTHORITY

MISCELLANEOUS STATISTICAL DATA

June 30, 2009

Year Established	June 2, 1971
Type of Government Entity	Special Purpose District
Governing Body	Board of Directors (9)
Service Area	1,208 Square Miles
Number of Employees	
Salary	47
Hourly	<u>222</u>
Total	<u><u>269</u></u>

UNAUDITED

SINGLE AUDIT SECTION

GRAND STRAND WATER AND SEWER AUTHORITY

SCHEDULE OF EXPENSES OF FEDERAL AWARDS

Year Ended June 30, 2009

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Grant Title	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Environmental Protection Agency:				
Capitalization Grants for Clean Water State Revolving Funds Passed through S.C Budget and Control Board South Carolina Water Pollution Control Revolving Fund	66.458	Myrtle Beach WWTP Upgrade and Expansion	1-114-08-381-66	\$ 2,707,225
Capitalization Grants for Clean Water State Revolving Funds Passed through S.C Budget and Control Board South Carolina Water Pollution Revolving Fund	66.458	Schwartz Wastewater Treatment Plant Expansion - Phase II	1-103-06-381-63	288,153
U.S. Department of Homeland Security / Federal Emergency Management Agency				
Pre-disaster Mitigation Grant Program Passed through the South Carolina Emergency Management Division	97.017	Pre-Disaster Mitigation Grant Program	EMA-2007-PC-0008	<u>257,560</u>
Total Expenditures of Federal Awards				\$ <u><u>3,252,938</u></u>

Note 1 - BASIS OF PRESENTATION

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



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

To the Board of Directors
Grand Strand Water and Sewer Authority

We have audited the financial statements of the business activity and the aggregate fund information of Grand Strand Water and Sewer Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated September 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

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



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

Myrtle Beach, South Carolina
September 23, 2009



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

To the Board of Directors
Grand Strand Water and Sewer Authority

Compliance

We have audited the compliance of Grand Strand Water and Sewer Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. Grand Strand Water and Sewer Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Grand Strand Water and Sewer Authority's management. Our responsibility is to express an opinion on Grand Strand Water and Sewer Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Grand Strand Water and Sewer Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Grand Strand Water and Sewer Authority's compliance with those requirements.

In our opinion, Grand Strand Water and Sewer Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Grand Strand Water and Sewer Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Grand Strand Water and Sewer Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Grand Strand Water and Sewer Authority's internal control over compliance.

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A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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



SMITH SAPP BOOKHOUT CRUMPLER & CALLIHAM
Professional Association
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Myrtle Beach, South Carolina
September 23, 2009

**GRAND STRAND WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009**

Summary of Auditors' Results

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

U.S. Environmental Protection Agency, Capitalization Grants for Clean Water State Revolving Funds - CFDA No. 66.458
8. The threshold for distinguishing between type A and B programs was \$300,000.
9. The Authority qualified as a low risk auditee.

Findings - Financial Statement Audit

None

Findings and Questioned Costs - Major Federal Award Program Audit

None