



SOUTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011**

Prepared By:

**Financial Services Division
Marguerite S. Carroll
Chief Financial Officer**

**For the Year Ended June 30, 2011
with
Report of Certified Public Accountant**

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

GRAND STRAND WATER & SEWER AUTHORITY
Comprehensive Annual Financial Report
For the Year Ended June 30, 2011

BOARD OF DIRECTORS

Sidney F. Thompson, Chairman
Benjy A. Hardee, Vice-Chairman
John C. Griggs, Secretary
Arnold T. Johnson, Member
Robert M. Floyd, Jr., Member
J. Liston Wells, Member
Wilbur M. James, Member
Robert L. Rabon, Member

CHIEF EXECUTIVE OFFICER

Fred R. Richardson

GRAND STRAND WATER AND SEWER AUTHORITY
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2011

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page No.</u>
Table of Contents		i - ii
 <u>INTRODUCTORY SECTION</u>		
Letter of Transmittal		iii - vi
Certificate of Achievement for Excellence in Financial Reporting		vii
Organizational Chart		viii
List of Principal Officials		ix
 <u>FINANCIAL SECTION</u>		
Report of Independent Certified Public Accountants		1 - 2
Management's Discussion and Analysis		3 - 13
Basic Financial Statements:		
Balance Sheets		14 - 15
Statements of Revenues, Expenses and Changes in Net Assets		16
Statements of Cash Flows		17 - 18
Statement of Fiduciary Net Assets - OPEB Pension Trust Fund		19
Statement of Changes in Fiduciary Net Assets - OPEB Pension Trust Fund		20
Notes to Basic Financial Statements		21 - 50
Required Supplementary Information		
Schedule of Funding Progress - Post Employment Health Care Plan		51
Other Supplementary Information		
Schedule of Cash Receipts and Disbursements for Restricted Accounts Required by Revenue Bond and State Revolving Loan Provisions		52 - 56
Schedule of Operating Expenses by Department		57 - 58

GRAND STRAND WATER AND SEWER AUTHORITY
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2011

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page No.</u>
<u>STATISTICAL SECTION (Unaudited)</u>		
Net Assets by Component	Schedule 1	59
Changes in Net Assets	Schedule 2	60
Operating Revenues by Source	Schedule 3	61
Operating Expenses	Schedule 4	62
Nonoperating Revenues and Expenses	Schedule 5	63
Annual Capital Contributions by Source	Schedule 6	64
Water Produced and Consumed, and Wastewater Treated	Schedule 7	65
Annual Taps Sold	Schedule 8	66
Number of Water and Sewer Customers by Type	Schedule 9	67
Water and Sewer Rates	Schedule 10	68
Ten Largest Customers	Schedule 11	69
Ratios of Outstanding Debt by Type	Schedule 12	70
Revenue Bond Coverage	Schedule 13	71
Demographic and Economic Statistics	Schedule 14	72
Number of Employees by Identifiable Activity	Schedule 15	73
Miscellaneous Statistical Data	Schedule 16	74 - 75
<u>SINGLE AUDIT SECTION</u>		
Schedule of Expenditures of Federal Awards		76
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		77 - 78
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		79 - 80
Schedule of Findings and Questioned Costs		81 - 82

September 26, 2011

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, 2011 is submitted for your review. This report was prepared by GSWSA's financial staff, and conforms to the guidelines of the Governmental Finance Officers Association and Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). State Statutes require an annual audit of the financial records, transactions, and an internal control evaluation by independent certified public accountants. The GSWSA's independent Certified Public Accountants, Elliott Davis, LLC, audited the accompanying financial statements. Their unqualified report on the financial statement is included in the financial section of this report.

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

Elliott Davis, LLC has audited the accompanying financial statements, and their unqualified opinion resulting from their audit is included in this Comprehensive Annual Financial Report. As part of their audit, Elliott Davis, LLC examined on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; and evaluated the overall financial statement presentation.

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

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

PROFILE OF GRAND STRAND WATER AND SEWER AUTHORITY

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

GSWSA also provides sewer service to the City of Marion, Town of Sellers and Centenary area which are also located in South Carolina. GSWSA provides limited sewer service to Tabor City and Columbus County, North Carolina through contractual agreements it has reached with these entities.

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

LOCAL ECONOMY

Horry County is experiencing a recession with high unemployment and a severe downturn in the real estate market. However, prior to the recession the area was growing at a pace surpassed by only a few communities in the country. Horry County continues to be a major retirement area. Tourism continues to be the county's largest employer even though the local tourism industry has slowed because of the national economy. The county still ranks first among the 46 counties in the state in tourism. According to the 2007 Census of Agriculture, Horry County ranks first in the state in the production of tobacco, third in the sale of pork, and fourth in overall crop production.

The local economy served by GSWSA has continued to see moderate growth during fiscal year 2011, with the addition of over 1,200 customers. The monthly average of submittals for new developer projects requiring water and sewer service was down from seven projects in fiscal year 2010 to 4.7 projects in 2011. The projects submitted in 2011 will account for a monthly average of over 49 Residential Equivalent Units (REUs). This is a 28% decline from the monthly average of 112 REUs submitted in 2010. The number of new developer project submittals and REUs are lower than most recent historical data. Assets contributed to GSWSA by developers during 2011 were \$4.4 million.

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

MAJOR INITIATIVES FOR THE YEAR

GSWSA spent \$381,147 for the acquisition of the Town of Nichols' water and wastewater systems, which added 242 customers. The Centenary Sewer System was acquired for \$21,464 and added 72 customers. GSWSA spent \$4.1 million on its Rural Water and Sewer program to extend water and sewer lines to the rural communities of Horry County. Over \$1.5 million was spent on the Vereen WWTP Effluent Discharge Force Main, which was installed to re-route the treated effluent discharged from the Vereen Wastewater Treatment Plant to the Intra-Coastal Waterway. The Bucksport Composting Facility was constructed at a cost of over \$3 million in 2011 to eliminate the need to either landfill sludge or treat sludge in unlined lagoons. GSWSA plans to sell compost to area residents and farmers.

INTRODUCTORY SECTION

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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, the City of Marion Water and Wastewater Systems, and the Town of Nichols Water and Wastewater Systems and continues to look at various options to upgrade existing water and wastewater facilities over the next few years to meet growing customer needs.

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

During 2011, GSWSA implemented several policies aimed at reducing and/or maintaining expenses at the same level as 2010. Departments were required to monitor expenses over time and reduce costs as appropriate. Educational requests were deferred unless an employee was in the middle of program and out of state training was deferred unless absolutely necessary. Chemical usage for water and wastewater departments was also closely monitored and rebid to reduce cost.

As a matter of organizational philosophy, 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 1,119 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 is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should ordinarily not exceed the benefits to be derived and (2) the valuation of cost and benefits requires estimates and judgments by management.

As a part of the 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.

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

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

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

The major budget policies of GSWSA are as follows:

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

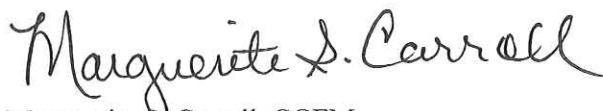
AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to GSWSA for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the 22nd year that GSWSA applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, GSWSA had to publish an easily readable and efficiently organized comprehensive annual financial report. The report had to satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Marguerite S. Carroll, CGFM
Chief Financial Officer

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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, 2010

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.

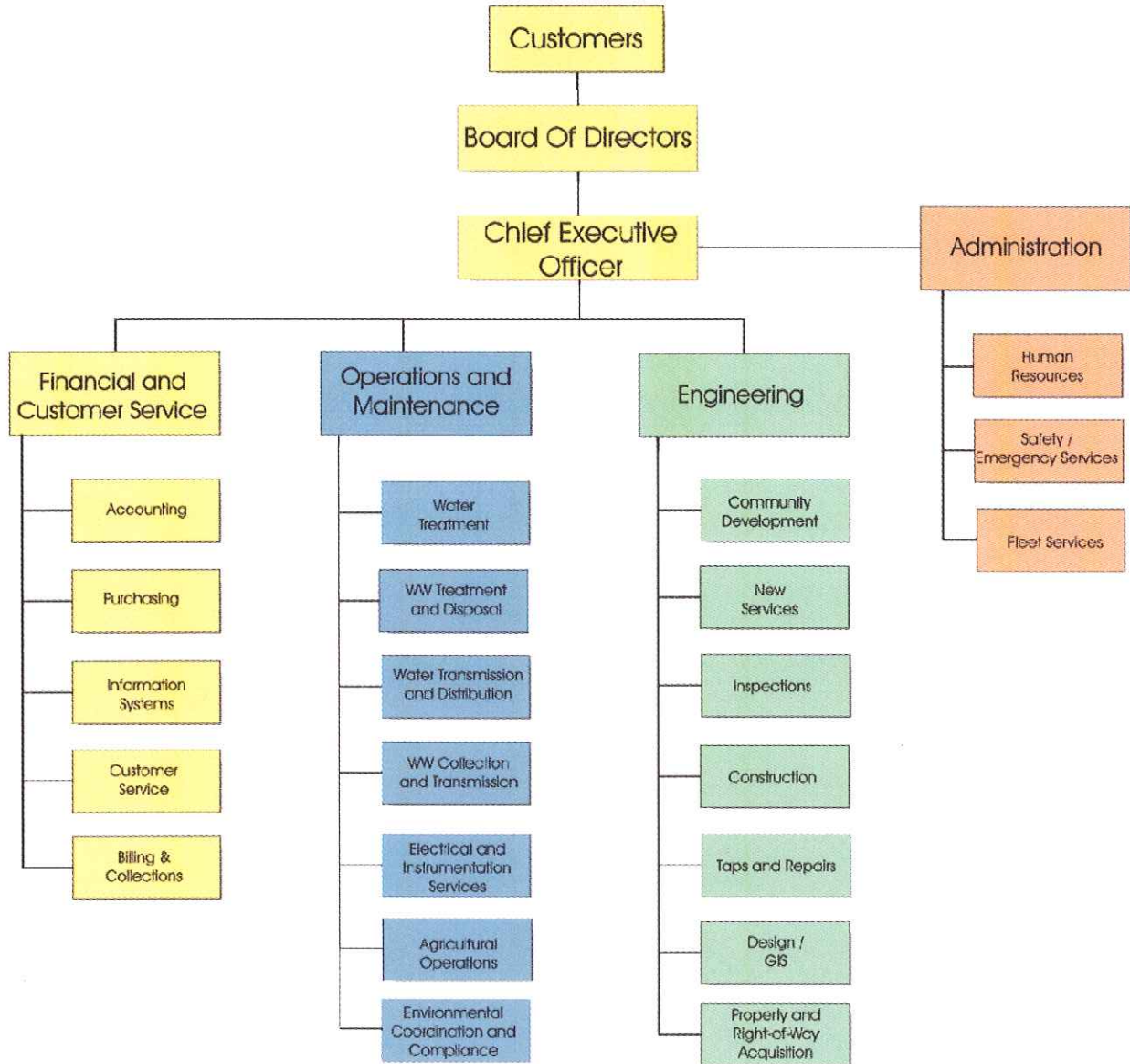


President

Executive Director

GRAND STRAND WATER AND SEWER AUTHORITY

Functional Organizational Chart



GRAND STRAND WATER AND SEWER AUTHORITY
LIST OF PRINCIPAL OFFICIALS
June 30, 2011

BOARD OF DIRECTORS

<u>Name</u>	<u>Date Term Expires</u>
Sidney F. Thompson, Chairman	August 15, 2017
Benjy A. Hardee, Vice Chairman	August 15, 2015
John C. Griggs, Secretary	August 15, 2015
Arnold T. Johnson	August 15, 2015
Robert M. Floyd, Jr.	August 15, 2013
J. Liston Wells	August 15, 2017
Wilbur M. James	August 15, 2013
Robert L. Rabon	August 15, 2017

MANAGEMENT

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



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of Grand Strand Water and Sewer Authority (the Authority) as of and for the year ended June 30, 2011 and 2010, which comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 to 13 and the schedule of funding progress for the other postemployment benefit plan on page 51, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, the supplementary schedule of cash receipts and disbursements for restricted accounts required by revenue bond and state revolving loan provisions, and the supplementary schedule of operating expenses by department, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, the supplementary schedule of cash receipts and disbursements for restricted accounts, the supplementary schedule of operating expenses and the 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.

EllisH Davis, LLC

Columbia, South Carolina
September 19, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**GRAND STRAND WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The Management's Discussion and Analysis (MD&A) of Grand Strand Water and Sewer Authority (GSWSA), provides an overview and analysis of the financial activities for the fiscal years ended June 30, 2011 and 2010. This information serves as an introduction to the accompanying financial statements. The MD&A should be read in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

GSWSA's financial condition remained stable during fiscal year 2011. It is well within its debt covenants and the more stringent financial policies and guidelines set by the Board. The following are the financial highlights for the fiscal year.

- The overall financial condition of the GSWSA improved during fiscal year ended June 30, 2011. Total assets at June 30, 2011 were \$674.7 million and exceeded liabilities by \$442.7 million (i.e. net assets). Of total net assets, \$93.4 million were unrestricted. Total assets increased from fiscal year 2010 to 2011 by \$2 million and total liabilities decreased by \$6.6 million.
- Total assets at June 30, 2010 were \$672.7 million and exceeded liabilities by \$434 million (i.e. net assets). Of total net assets, approximately \$89.2 million were unrestricted. Total assets increased from fiscal year 2009 to 2010 by \$5.7 million and total liabilities decreased by \$3.4 million.
- Operating revenues were approximately \$65.9 million in 2011, an increase of \$4.2 million from 2010, or 6.8%. Operating revenues were \$61.6 million in 2010, an increase of approximately \$1.8 million from 2009, or 3.0%. During 2011 the major increase in revenues was due to the increase in water and wastewater availability and volume charges mainly due to a full year of operating Marion's water and wastewater system, surface water treatment plant contract water and customer charges.
- In 2011, operating expenses before depreciation increased by \$1.7 million or 4.4%, compared to a decrease of 10% in 2010. The total operating expenses, including depreciation, increased \$3.1 million or 5.4%. The increase in operating expenses in 2011 is mainly attributed to a small merit increase for employees and the costs associated with electricity and chemicals needed to treat increased water and wastewater flows.
- In 2010, operating expenses before depreciation decreased by \$4.2 million or 10%, compared to an increase of 12.7% in 2009. The total operating expenses, including depreciation, decreased \$3.2 million or 5.2%. The reduction in operating expenses during 2010 is attributed to further optimizing the amount of chemicals used to treat increased water and wastewater flows which were also down from 2009. In addition, during 2010, GSWSA began capitalizing its water and wastewater taps over their expected lives. As a result, less personnel and construction material costs were expensed in 2010.
- The operating income for fiscal year 2011 was \$4.2 million, a 34.8% increase from the previous fiscal year mainly due to drought conditions in the area and a full year of revenue from Marion customers.
- There was a decrease in net assets, before capital contributions of \$2,305,931 in fiscal year 2011. There was an increase in net assets after capital contributions of \$8.6 million.
- Ratios of total operating revenues to total operating expenses were 1.07 for 2011 and 1.05 for 2010.
- Debt service coverage for 2011 decreased to 181% as compared to 189% in 2010 and 167% in 2009. Debt service coverage required by the bond covenants is 110%, which is well within our current coverage.

FINANCIAL HIGHLIGHTS, continued

- In 2011, capital contributions from customer impact fees were \$3.8 million, a increase of 23.9% compared to year 2010. Developer contributions of facilities were \$4.4 million, an increase of 5% from 2010.
- Customer impact fee capital contributions in 2010 were \$3.1 million, a decrease of 14.5% compared to year 2009. Developer contributions of facilities were \$4.2 million, a decrease of 77.6% from 2009.
- GSWSA treated and distributed over 14.18 billion gallons of water and collected and treated over 10.05 billion gallons of wastewater, an increase from fiscal year 2010 of 2.6% for water and 2.8% for wastewater. Water consumption was up in all customer classes except for Bull Creek wholesale usage during 2011. Wastewater usage was up in all customer classes except for bulk wastewater flows which were down slightly from 2010.
- In fiscal year 2011 GSWSA added 1,211 water and 1,128 wastewater net customers which resulted in a net of 1,437 water and 1,171 wastewater residential equivalent units. During 2010, GSWSA added 4,459 water and 4,109 wastewater net customers, which resulted in a net of 4,568 water and 4,153 wastewater residential equivalent units. The customer increase in 2011 included the purchase of City of Nichols' water and wastewater systems and Centenary's sewer system. These acquisitions added approximately 300 new customers and the associated water and wastewater residential equivalent units, which increased income approximately \$118,414 for the year. The remaining additional new customers and residential equivalent units added were a result of an improvement in the economy.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to and should be read in conjunction with the basic financial statements and supplementary information. The financial statements can be found on pages 14 to 50 of this report.

The financial statements report information about GSWSA using full accrual accounting methods; similar to those used by private sector utilities. However, GSWSA does not use rate-regulated accounting principles applicable to private sector utilities since it is a governmental utility. All activities of GSWSA are accounted for in a single proprietary (enterprise) fund. The financial statements include a balance sheet, a statement of revenues, expenses and changes in net assets, a statement of cash flows, and notes to the financial statements.

The *balance sheet* presents the financial position of GSWSA on the accrual basis. It presents information about GSWSA's assets and liabilities, with the difference being reported as net assets. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The balance sheet provides information about GSWSA at year-end, while the *statement of revenues, expenses and changes in net assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed. This statement also provides certain information about GSWSA's recovery of its costs. GSWSA's rates are based on a cost of service rate study that was completed in 2011 and is updated annually. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The main objectives of the rate model are to provide equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for itself.

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

FINANCIAL ANALYSIS

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

Condensed Balance Sheets

	2011	2010	Variance \$	Variance %	2009 (As Restated)	Variance \$	Variance %
Current Assets	\$ 98,552,512	\$ 94,121,254	\$ 4,431,258	4.7%	\$ 104,275,009	\$ (10,153,755)	-9.7%
Restricted Assets - Current	2,841,232	3,040,212	(198,980)	-6.5%	2,326,752	713,460	30.7%
Noncurrent Assets	7,583,158	8,343,987	(760,829)	-9.1%	4,873,214	3,470,773	71.2%
Restricted Assets - Noncurrent	29,100,976	30,097,803	(996,827)	-3.3%	26,980,975	3,116,828	11.6%
Capital Assets	535,258,956	535,692,847	(433,891)	-0.1%	527,025,486	8,667,361	1.6%
Other Assets	1,354,848	1,385,724	(30,876)	-2.2%	1,504,223	(118,499)	-7.9%
Total Assets	\$ 674,691,682	\$ 672,681,827	\$ 2,009,855	0.3%	\$ 666,985,659	\$ 5,696,168	0.9%
Current Liabilities	\$ 21,540,154	\$ 20,940,911	\$ 599,243	2.9%	\$ 20,414,531	\$ 526,380	2.6%
Long Term Liabilities	210,474,605	217,710,895	(7,236,290)	-3.3%	221,638,474	(3,927,579)	-1.8%
Total Liabilities	\$ 232,014,759	\$ 238,651,806	\$ (6,637,047)	-2.8%	\$ 242,053,005	\$ (3,401,199)	-1.4%
Net Assets							
Net Invested in Capital Assets, Net of Related Debt	\$ 322,250,503	\$ 316,467,676	\$ 5,782,827	1.8%	\$ 299,789,950	\$ 16,677,726	5.6%
Restricted for:							
Capital Activity	14,759,824	14,131,946	627,878	4.4%	11,218,000	2,913,946	26.0%
Debt Service	12,294,763	14,195,728	(1,900,965)	-13.4%	13,057,266	1,138,462	8.7%
Unrestricted	93,371,833	89,234,671	4,137,162	4.6%	100,867,438	(11,632,767)	-11.5%
Total Net Assets	\$ 442,676,923	\$ 434,030,021	\$ 8,646,902	2.0%	\$ 424,932,654	\$ 9,097,367	2.1%
Total Liabilities & Net Assets	\$ 674,691,682	\$ 672,681,827	\$ 2,009,855	0.3%	\$ 666,985,659	\$ 5,696,168	0.9%

FINANCIAL ANALYSIS, continued

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>	<u>2009</u> <u>(As Restated)</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>
Revenues							
Operating Revenues:							
Water and Sewer Volume & Availability Fees	\$ 49,729,727	\$ 45,921,594	\$ 3,808,133	8.3%	\$ 44,766,504	\$ 1,155,090	2.6%
Customer Charges	4,746,543	4,618,838	127,705	2.8%	4,352,846	265,992	6.1%
Surface Water Charges	6,428,952	6,275,812	153,140	2.4%	6,194,359	81,453	1.3%
Surface Water Treatment Plant Contract Revenue	3,308,715	2,956,888	351,827	11.9%	2,484,055	472,833	19.0%
Other Revenue	1,646,491	1,867,751	(221,260)	-11.8%	2,073,846	(206,095)	-9.9%
Nonoperating Revenue:							
Investment Income	3,175,093	6,470,394	(3,295,301)	-50.9%	6,962,758	(492,364)	-7.1%
Gain (Loss) on Disposal of Capital Assets	(71)	129,662	(129,733)	-100.1%	(51,610)	181,272	-351.2%
Capital Contributions	10,952,833	9,472,172	1,480,661	15.6%	25,198,062	(15,725,890)	-62.4%
Total Revenues	<u>79,988,283</u>	<u>77,713,111</u>	<u>2,275,172</u>	<u>2.9%</u>	<u>91,980,820</u>	<u>(14,267,709)</u>	<u>-15.5%</u>
Expenses							
Operating Expenses							
Before Depreciation	39,359,172	37,683,792	1,675,380	4.4%	41,885,058	(4,201,266)	-10.0%
Depreciation	22,303,035	20,843,152	1,459,883	7.0%	19,860,538	982,614	4.9%
Nonoperating Expenses:							
Amortization of Deferred Bond Costs	132,575	122,858	9,717	7.9%	122,554	304	0.2%
Interest Expense	9,546,599	9,965,942	(419,343)	-4.2%	9,586,438	379,504	4.0%
Total Expenses	<u>71,341,381</u>	<u>68,615,744</u>	<u>2,725,637</u>	<u>4.0%</u>	<u>71,454,588</u>	<u>(2,838,844)</u>	<u>-4.0%</u>
Increase in Net Assets	<u>8,646,902</u>	<u>9,097,367</u>	<u>(450,465)</u>	<u>-5.0%</u>	<u>20,526,232</u>	<u>(11,428,865)</u>	<u>-55.7%</u>
Beginning Net Assets	434,030,021	424,932,654	9,097,367	2.1%	409,418,513	15,514,141	3.8%
Restatement	-	-	-	-	(5,012,091)	5,012,091	-100.0%
Beginning Net Assets, Restated	434,030,021	424,932,654	9,097,367	-	404,406,422	20,526,232	5.1%
Ending Net Assets	<u>\$ 442,676,923</u>	<u>\$ 434,030,021</u>	<u>\$ 8,646,902</u>	<u>2.0%</u>	<u>\$ 424,932,654</u>	<u>\$ 9,097,367</u>	<u>2.1%</u>

FINANCIAL ANALYSIS, continued

Selected Data for Analysis

	<u>2011</u>	<u>2010</u>	<u>Variance Amount</u>	<u>Variance %</u>	<u>2009</u>	<u>Variance Amount</u>	<u>Variance %</u>
Employees at Year End	282	282	0	0.0%	269	13	4.8%
Active Customers at Year End:							
Water Customers	66,112	64,901	1,211	1.9%	60,333	4,568	7.6%
Wastewater Customers	62,429	61,301	1,128	1.8%	57,148	4,153	7.3%
Water Sales for Fiscal Year (Billions of Gallons)	14.18	13.82	0.36	2.6%	14.50	(0.68)	-4.7%
Wastewater Sales for Fiscal Year (Billions of Gallons)	10.05	9.78	0.27	2.8%	9.93	(0.15)	-1.5%
Total Operating Revenues (Per Average Employees)	\$233,548	\$ 218,585	\$ 14,963	6.8%	\$ 222,571	\$ (3,986)	-1.8%
Total Operating Expenses (Per Average Employees)	\$218,660	\$ 207,542	\$ 11,118	5.4%	\$ 229,538	\$ (21,996)	-9.6%
Ratio of Operating Revenues to:							
Operating Expenses	1.068	1.053	0.015	1.4%	0.970	0.083	8.6%
Operating Expenses Net of Depreciation	1.673	1.636	0.037	2.3%	1.429	0.207	14.5%
Total Assets	0.098	0.092	0.006	6.5%	0.090	0.002	2.2%
Debt Related Ratios:							
Debt to Net Assets	0.524	0.550	-0.026	-4.7%	0.570	(0.020)	-3.5%
Debt to Capital Assets	0.433	0.446	-0.013	-2.9%	0.459	(0.014)	-3.0%
Operating Coverage (Operating Cash Flow/Debt)	0.107	0.099	0.008	7.8%	0.080	0.019	23.5%
Debt Ratio (Total Debt/Total Assets)	0.344	0.355	-0.011	-3.1%	0.363	(0.008)	-2.2%
Bond Coverage (Net Earnings/Debt Required)	1.81	1.89	-0.08	-4.2%	1.67	0.22	13.2%
Liquidity Ratio (Current Assets/Current Liabilities)	4.707	4.640	0.067	1.5%	5.222	(0.582)	-11.1%
Asset Management Ratios:							
Days Sales Outstanding (Receivables/(Sales/360))	29	30	-1	-2.2%	31	(1)	-3.2%
Asset Turnover (Sales/Assets)	0.098	0.092	0.006	6.1%	0.090	0.002	2.2%

GENERAL TRENDS AND SIGNIFICANT EVENTS

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

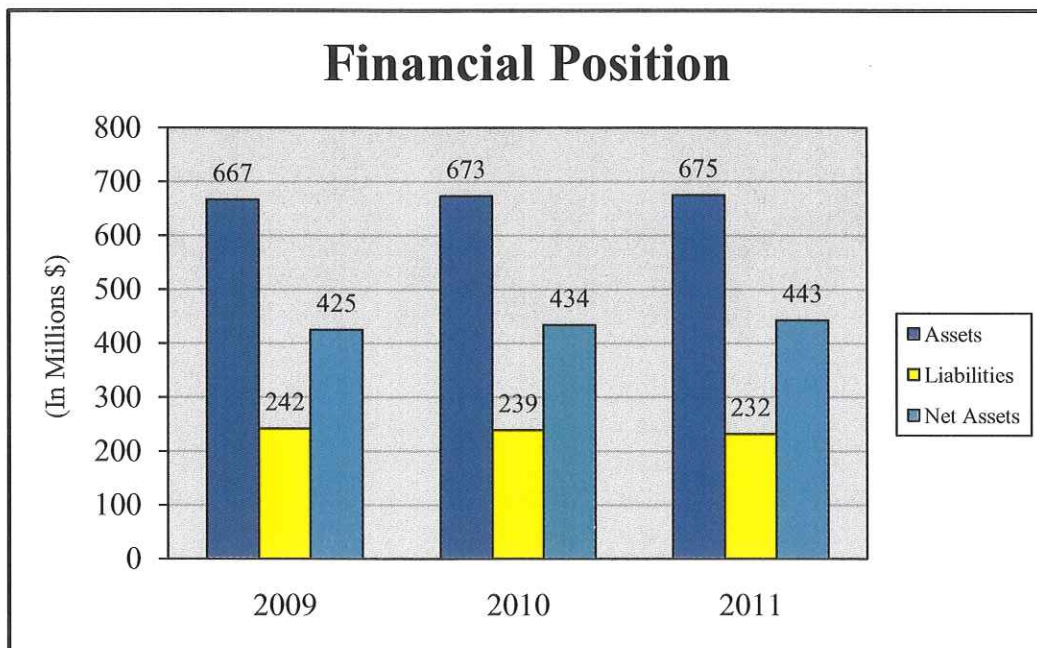
Weather temperatures during fiscal year 2011 were generally normal for all seasons except summer, which was hotter. It also rained quite a bit less than it did in fiscal year 2010. It rained 10.5" inches or 24% less in 2011 than 2010. The severe drought in the area resulted in more water usage than 2010.

The volume of water sold in fiscal year 2011 was 14.18 billion gallons, an increase of 2.6% from fiscal year 2010. Retail customers purchased 36% of the total water sold and the wholesale customers purchased 64%.

The volume of treated wastewater sold in fiscal year 2011 was 10.05 billion gallons, an increase of 2.8% from fiscal year 2010. GSWSA's total wastewater flows for 2011 were more than in 2010 with the bulk wastewater flows showing an increase over 2010. Retail and wholesale customers each purchased approximately 50% of the total treated wastewater.

FINANCIAL CONDITION

Even though the condition of the national and local economy affected growth, GSWSA's financial condition remained strong at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net assets. The current financial condition, operating and long-term plans and the capabilities of technical support staff are well balanced and enable GSWSA to meet customer needs now and well into the future. The following chart summarizes the balance sheet.



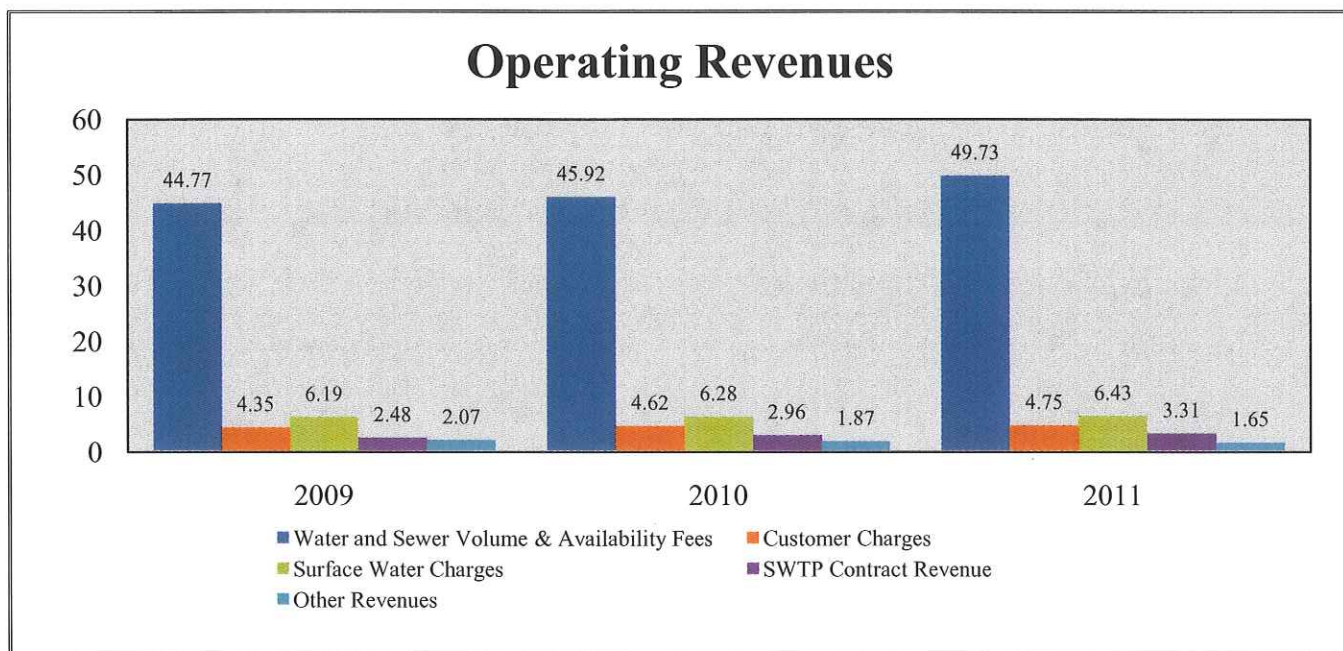
FINANCIAL CONDITION, continued

During fiscal year 2011, total assets grew by \$2 million or 0.3% with approximately \$4.4 million represented by additions to current assets. Net assets increased overall by \$8.6 million, with most of the change resulting from decrease in capital asset related debt. Unrestricted net assets increased \$4.1 million or 4.6%.

Accounts receivable for 2011, increased by over \$1.9 million from 2010. The increase is mainly due to the June 30th accrual of water and wastewater volume sales billed in fiscal year 2012.

RESULTS OF OPERATIONS

Operating Revenues: Revenues from operations fall into two general categories: (1) charges for services, which includes: water and wastewater volume, availability fees, customer charges, surface water treatment plant charges, tap fees, sod sales and (2) other revenues, which includes: timber sales, engineering fees and miscellaneous fees. 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.



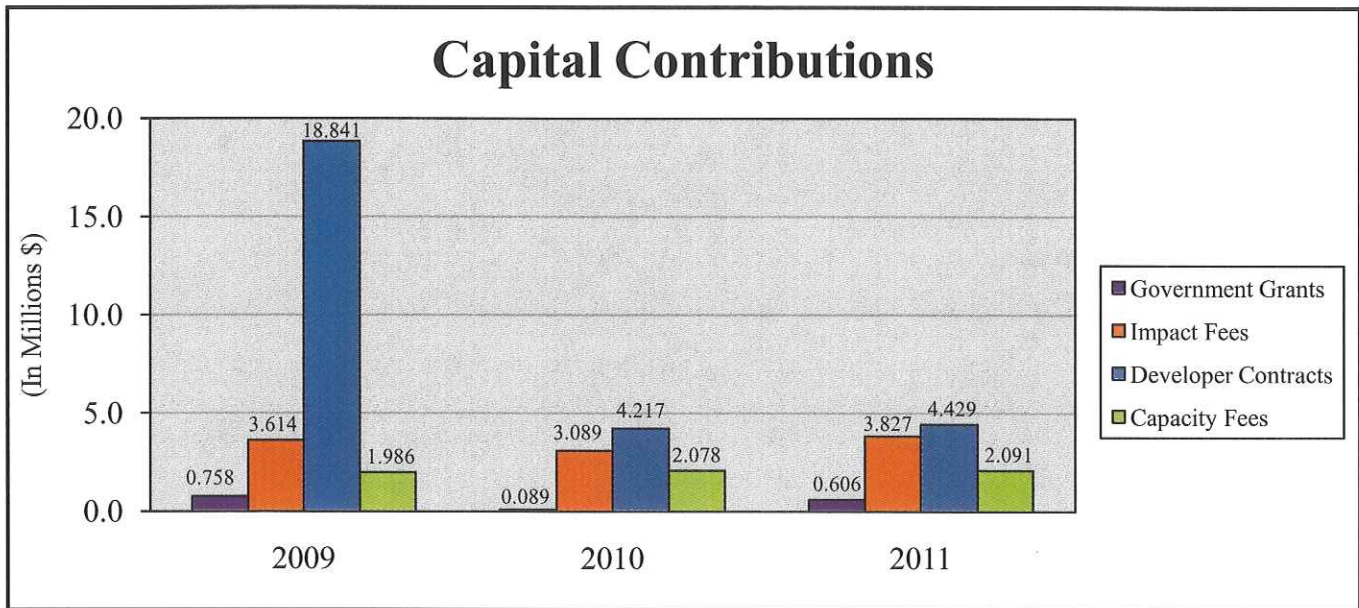
GSWSA did not increase retail and wholesale water and retail wastewater rates in 2011. Wholesale wastewater rates were increased by various percentages as specified by contract.

In 2010, GSWSA increased retail water and wastewater rates by 2.62% and 2.2% respectively. It did increase wholesale operating water rates by 19.48% and wholesale capital charges by various percentages as specified by contract. Wholesale wastewater rates were also increased by various percentages as specified by contract.

RESULTS OF OPERATIONS, continued

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

The following chart depicts the capacity fee revenue activity.



Overall, capital contributions increased \$1.5 million, or 15.6% during fiscal year 2011. Developer contributions increased \$212,268 from 2010. Due to the economic downturn there has been a major decrease in the development of the local area. Government grants increased \$516,721 from 2010. These funds were from the Sellers to Latta Forcemain project. Impact fees were approximately \$3.8 million for 2011 compared to \$3.1 million for 2010. There was a slight increase in capacity fees from 2010 to 2011.

RESULTS OF OPERATIONS, continued

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

In 2011, total operating expenses increased approximately \$3.1 million from fiscal year 2010, and operating revenues increased by approximately \$4.2 million. Operating expenses for water and wastewater operations for the last three years are listed below:

Operating Expenses	2011	%	2010	%	Variance	2009	%	Variance
Personnel Services	\$ 16,553,131	26.8%	\$ 15,270,542	26.1%	\$ 1,282,589	\$ 16,072,133	26.0%	\$ (801,591)
Contractual Services	11,776,220	19.1%	12,150,141	20.8%	(373,921)	12,840,165	20.8%	(690,024)
Supplies and Materials	9,083,240	14.7%	8,033,877	13.7%	1,049,364	10,588,022	17.1%	(2,554,145)
Business and Travel	196,369	0.3%	180,994	0.3%	15,375	155,152	0.3%	25,842
Depreciation	\$22,303,035	36.3%	20,843,152	35.6%	1,459,883	19,860,538	32.2%	982,614
Other Expenses	1,750,212	2.8%	2,048,238	3.5%	(298,027)	2,229,586	3.6%	(181,348)
Total Operating Expenses	\$ 61,662,207	100.0%	\$ 58,526,944	100.0%	\$ 3,135,263	\$ 61,745,596	100.0%	\$ (3,218,652)

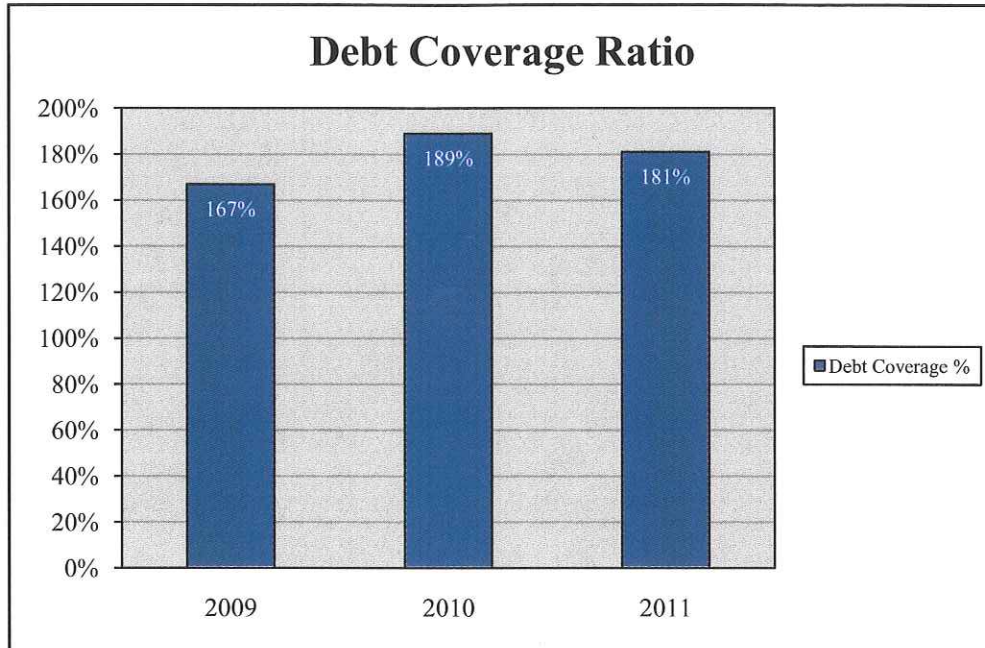
Personnel costs increased \$1,282,589 or 8.4% from 2010 to 2011. GSWSA granted an average 3% merit increase during 2011. The number of employees did not change from fiscal year 2010 to 2011. The overall increase in personnel costs was mainly a result of an increase in salaries and health insurance costs. Contractual services decreased \$373,921 or 3.1%, primarily as a result of a reduction in lease of equipment, postal costs and costs expensed from the capital budget. Supplies and materials increased \$1,049,364 or 13.1% mainly due to an increase in materials to repair and maintain the water and wastewater facilities, higher fuel costs and a small increase in chemicals needed to treat higher water and wastewater flows. Depreciation was up \$1,459,883 or 7% due to the addition of assets during fiscal year 2011. Other expenses were down by \$298,027 or 14.6% in 2011 due to a decrease in bad debt expense and interest paid to customers on their security deposits.

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

RATE COVENANT

In the Bond Resolution, GSWSA covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by GSWSA, together with other income, that will yield annual net earnings in the fiscal year equal to at least 110% of the sum of the annual debt service payments. Net earnings for debt service are defined as gross revenue including customer impact fees, less operating expenses adjusted for depreciation. The rate covenant in the Bond Resolution obligates GSWSA to review rates at least once a year and to revise such rates and charges as necessary to meet the coverage test. Revenue bond debt service coverage for fiscal years 2009, 2010 and 2011 were 167%, 189% and 181%, respectively.

RATE COVENANT, continued



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

CAPITAL ASSETS AND LONG-TERM DEBT

GSWSA decreased capital assets by \$433,891 during 2011. The acquisition of the Town of Nichols’ water and wastewater systems and Centenary sewer system added \$339,611 in capital assets. Other wastewater additions included the Bucksport Composting Facility Expansion for \$3.0 million, the Vereen WWTP Effluent Discharge Forcemain for \$1.5 million, and the Rural Sewer projects at a cost of \$1.8 million. Water additions included the Relocation and Hydraulic Improvements projects for \$0.7 million and the Rural Water projects at a cost of \$2.3 million. Developer contributions to capital assets were \$4.4 million and capitalized interest was \$3,803. Disposals for 2011 were \$0.3 million. While all of these system acquisitions and improvements added to the value of GSWSA’s capital assets, the net additions to capital assets from the FY 2010 was only approximately \$21 million and the change in depreciation of capital assets increased by \$22 million.

During fiscal years 2009, 2010 and 2011, GSWSA obtained State Revolving Fund loans for the Myrtle Beach Wastewater Treatment Plant Expansion, Conway Odor Control project, Highway 501 to Highway 544 force main project, Bucksport Composting Facility, and the Vereen WWTP Effluent Discharge Forcemain project. As of June 30, 2011, the draws made on these loans and recorded debt was \$17.7 million.

In addition, Grand Strand Water and Sewer Authority issued the revenue bonds of 2010 in the amount of \$15,283,200 to refinance three outstanding State Revolving Loan Funds. This resulted in a net present value savings. The ratio of total debt to capital assets was 43% for the fiscal year 2011.

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

CONTACTING THE GSWSA'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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

	JUNE 30	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,159,801	\$ 10,418,809
Investments	65,227,088	66,831,712
Investment in real estate	4,360,798	3,523,520
Receivables		
Customer accounts, net of allowance of \$231,234 in 2011 and \$199,570 in 2010	10,081,710	8,134,312
Assessments	2,899,036	2,874,964
Interest	559,080	660,493
Grant	209,635	-
Other	457,448	58,571
Total receivables	14,206,909	11,728,340
Inventories	1,133,100	1,132,175
Prepays	464,816	486,698
Restricted assets		
Cash and cash equivalents	2,841,232	3,040,212
Total current assets	101,393,744	97,161,466
Noncurrent assets		
Deferred cash outflow	7,583,158	8,274,818
Restricted investments	29,100,976	30,097,803
Deferred bond cost, net	1,350,098	1,380,974
Container and security deposits	4,750	4,750
Prepaid net OPEB asset	-	69,169
Capital assets		
Nondepreciable	55,069,201	51,145,033
Depreciable, net of depreciation	480,189,755	484,547,814
Total capital assets	535,258,956	535,692,847
Total noncurrent assets	573,297,938	575,520,361
Total assets	\$ 674,691,682	\$ 672,681,827

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

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

	JUNE 30	
	2011	2010
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 2,389,331	\$ 2,506,002
Accrued salaries and benefits	515,344	442,747
Accrued compensated absences	459,974	409,638
Current portion of capital lease payable	112,792	108,838
Construction contracts payable	704,845	983,752
Current portion of revenue bonds	8,285,130	6,679,763
Current portion of notes payable	3,260,756	4,008,833
Accrued interest on revenue bonds	585,773	574,943
Accrued interest on notes payable	289,091	416,052
Customer security and tap deposits	4,837,597	4,730,548
Unearned customer contributions	99,521	79,795
Total current liabilities	<u>21,540,154</u>	<u>20,940,911</u>
Noncurrent liabilities		
Revenue bonds, less current portion	144,187,328	137,943,901
Notes payable, less current portion	51,675,352	64,629,827
Interest rate swap liability	7,583,158	8,274,818
Companion instrument debt	3,990,427	3,990,427
Accrued interest - companion instrument debt	1,289,261	1,018,426
Capital lease payable, less current portion	791,823	879,831
Accrued compensated absences	804,695	823,173
Net OPEB obligation	50,225	-
Embedded instrument liability (interest rate swap)	58,311	121,922
Arbitrage rebate	44,025	28,570
Total noncurrent liabilities	<u>210,474,605</u>	<u>217,710,895</u>
Total liabilities	<u>232,014,759</u>	<u>238,651,806</u>
Net assets		
Invested in capital assets, net of related debt	322,250,503	316,467,676
Restricted for:		
Capital projects	14,759,824	14,131,946
Debt service	12,294,763	14,195,728
Unrestricted	93,371,833	89,234,671
Total net assets	<u>442,676,923</u>	<u>434,030,021</u>
Total liabilities and net assets	<u>\$ 674,691,682</u>	<u>\$ 672,681,827</u>

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

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

	For the years ended	
	June 30	
	2011	2010
Operating revenues		
Water and sewer volume and availability fees	\$ 49,729,727	\$ 45,921,594
Customer charges	4,746,543	4,618,838
Surface water charges	6,428,952	6,275,812
Surface water treatment plant contract revenues	3,308,715	2,956,888
Other revenue	1,646,491	1,867,751
Total operating revenues	<u>65,860,428</u>	<u>61,640,883</u>
Operating expenses		
Personnel costs	16,553,131	15,270,542
Contractual services	11,776,220	12,150,141
Supplies and materials	9,083,240	8,033,877
Depreciation on assets acquired with:		
Authority funds	12,066,070	11,586,544
Contributed capital	10,236,965	9,256,608
Other expenses	1,946,581	2,229,232
Total operating expenses	<u>61,662,207</u>	<u>58,526,944</u>
Operating income	<u>4,198,221</u>	<u>3,113,939</u>
Non-operating revenues (expenses)		
Investment income	3,175,093	6,470,394
Gain (loss) on disposal of capital assets	(71)	129,662
Amortization of deferred bond costs	(132,575)	(122,858)
Interest expense	(9,546,599)	(9,965,942)
Total non-operating expenses (net)	<u>(6,504,152)</u>	<u>(3,488,744)</u>
Loss before contributions	<u>(2,305,931)</u>	<u>(374,805)</u>
Capital contributions		
Surface water treatment plant capacity fees	2,090,904	2,078,076
Governments grants/contributions	605,767	89,046
Customer impact fees	3,827,392	3,088,548
Developer contributions	4,428,770	4,216,502
Total capital contributions	<u>10,952,833</u>	<u>9,472,172</u>
Change in net assets	8,646,902	9,097,367
Beginning net assets	<u>434,030,021</u>	<u>424,932,654</u>
Net assets, ending	<u><u>\$ 442,676,923</u></u>	<u><u>\$ 434,030,021</u></u>

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

GRAND STRAND WATER AND SEWER AUTHORITY
STATEMENTS OF CASH FLOWS

	For the years ended	
	June 30	
	2011	2010
Cash flows from operating activities		
Cash received from customers and users	\$ 63,996,007	\$ 60,958,819
Cash paid to suppliers	(22,901,755)	(22,136,864)
Cash paid to employees	(15,886,676)	(14,646,652)
Cash paid to OPEB trust	(442,606)	(592,796)
	24,764,970	23,582,507
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(17,770,796)	(26,565,068)
Capital contributions	6,543,789	4,991,680
Collections (increase) of receivables - grants and other	(608,512)	116,377
Interest paid on debt	(9,460,596)	(9,734,627)
Proceeds from issuance of debt	20,017,310	3,147,393
Principal paid on debt	(25,958,314)	(9,151,459)
Principal payments on capital lease obligations	(108,838)	(105,023)
Bond issuance costs	30,876	118,499
Proceeds from sale of capital assets	51,444	137,343
	(27,263,637)	(37,044,885)
Cash flows from investing activities		
Purchase of investments	(51,637,338)	(56,610,012)
Proceeds from sale of investments	53,401,511	63,053,279
Interest and investment income received	3,276,506	6,892,994
	5,040,679	13,336,261
Net change in cash and cash equivalents	2,542,012	(126,117)
Cash and cash equivalents - beginning	13,459,021	13,585,138
Cash and cash equivalents - ending	\$ 16,001,033	\$ 13,459,021

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

GRAND STRAND WATER AND SEWER AUTHORITY
STATEMENTS OF CASH FLOWS

	For the years ended	
	June 30	
	2011	2010
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 4,198,221	\$ 3,113,939
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities		
Depreciation	22,303,035	20,843,152
(Increase) decrease in operating assets		
Receivables - customers and assessments	(1,971,470)	(723,936)
Prepaid net OPEB asset	69,169	(69,169)
Inventories	(925)	(13,213)
Prepays	21,882	(47,745)
Increase (decrease) in operating liabilities		
Accounts payable	(116,671)	337,344
Accrued salaries and compensated absences	104,455	100,263
Customer security and tap deposits	107,049	41,872
Net OPEB obligation	50,225	-
Net cash provided by operating activities	\$ 24,764,970	\$ 23,582,507
Noncash capital and related financing activities		
Developer contributions	\$ 4,428,770	\$ 4,216,502
Capitalized interest expense	3,803	107,649
Unrealized appreciation (depreciation) in fair value of investments	(344,642)	799,512
Total noncash capital and related financing activities	\$ 4,087,931	\$ 5,123,663
Reconciliation of cash and cash equivalents		
Unrestricted cash and investments - beginning	\$ 77,250,521	\$ 96,206,174
Restricted cash and investments - beginning	33,138,015	24,275,266
	110,388,536	120,481,440
Investments with original maturity dates over ninety days	(96,929,515)	(106,896,301)
Cash and cash equivalents - beginning	\$ 13,459,021	\$ 13,585,139
Unrestricted cash and investments - ending	\$ 78,386,889	\$ 82,060,864
Restricted cash and investments - ending	31,942,208	28,327,672
	110,329,097	110,388,536
Investments with original maturity dates over ninety days	(94,328,064)	(96,929,515)
Cash and cash equivalents - ending	\$ 16,001,033	\$ 13,459,021

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

**GRAND STRAND WATER AND SEWER AUTHORITY
STATEMENT OF FIDUCIARY NET ASSETS
OTHER POSTEMPLOYMENT BENEFIT PENSION TRUST FUND
JUNE 30, 2011**

Assets	
Cash and Investments	\$ 1,437,355
Liabilities	
Benefits payable	<u>-</u>
Net Assets	
Held in trust for other post employment benefits	<u><u>\$ 1,437,355</u></u>

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

**GRAND STRAND WATER AND SEWER AUTHORITY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
OTHER POSTEMPLOYMENT BENEFIT PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2011**

Additions

Investment income	
Net depreciation in fair value of investments	\$ (14,395)
Interest income	16,874
Total investment income	2,479
Contributions	
Employer	419,478
Plan member	23,128
Total contributions	442,606
Total additions	445,085

Deductions

Benefits	107,444
Change in net assets	337,641

Net assets held in trust for other postemployment benefits,

Beginning of year	1,099,714
End of year	\$ 1,437,355

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

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government Unit

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

The direct service area of GSWSA is presently defined to include all of the geographic area of Horry County except for those areas included (1) within an incorporated municipality which owns and operates a water and/or sewer system, (2) within the service area of Little River Water and Sewerage Company, Inc. and (3) within the areas immediately adjacent to the Bucksport Water System, Inc., water service area. Pursuant to agreements entered into between the Authority and certain municipalities, such municipalities currently provide water and sewer service to limited unincorporated areas contiguous to such municipalities.

Reporting Entity

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

Basis of Presentation, Accounting and Measurement Focus

GSWSA's financial statements are presented on the full accrual basis in accordance with generally accepted accounting principles. GSWSA applies all relevant Government Accounting Standards Board (GASB) pronouncements, as well as when applicable, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements. GSWSA has elected not to adopt the provisions of FASB which relate to accounting for the effects of certain types of regulation.

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

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

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation, Accounting and Measurement Focus (continued)

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

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

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

Budgets and Budgetary Accounting

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

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

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

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

Deposits and Investments

For purposes of reporting cash flows, GSWSA's policy is to include in cash and cash equivalents, all cash on hand, cash on deposit, and all investments with an original maturity of 90 days or less.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deposits and Investments (continued)

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

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

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

Receivables

Customer accounts are reported net of allowance for doubtful accounts and represent various volume, availability and service fees earned but not yet collected. Cycle billings at year-end are estimated to record revenues earned through year-end. Receivables include approximately \$7,309,727 in revenues earned through year end but not yet billed as of June 30, 2011. Recurring consumption and capacity fees from residential and commercial customers are recognized as operating revenues, whereas Bull Creek Surface Water Treatment Plant bulk consumption and capacity sales to other service providers (generally other local governments) are recognized as operating revenues and capital contributions.

Inventories

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

Restricted Assets

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

The restricted capital projects account represent: impact fees charged to new customers to recover the costs associated with unutilized capacity in oversized facilities built to meet future needs; special assessments to provide capital improvements; related investment income on such accounts and the depreciation fund; and unearned customer contributions.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets, Capacity Rights and Depreciation

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

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

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

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

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

Long-Term Obligations

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

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

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accrued Compensated Absences

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

Non-exchange Transactions

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

Revenues and the Rate Structure

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Net Assets

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

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

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

Unrestricted net assets consists of all other net assets not included in the above two categories. Unrestricted net assets at June 30, 2011 include \$3,214,268 maintained in a rate stabilization account as designated by the Board of Directors. This fund consists of excess operating and maintenance revenues at year end which are not re-budgeted and may only be used or expended by the Board to provide for unanticipated emergencies (e.g. major natural disaster or loss of a major customer) which could otherwise result in spiked rate (i.e. revenue) increases. This fund is periodically reviewed to ensure that it is adequate.

Comparative Data

Some prior year amounts have been reclassified for comparative purposes.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 26, 2011, the date the financial statements were available for issue.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	<u>2011</u>	<u>2010</u>
Petty cash	\$ 4,500	\$ 4,500
Cash deposits	6,211,601	8,076,193
Repurchase agreements	94,292	462,984
Money market deposits	9,669,147	4,893,930
Investment pool deposits	<u>21,493</u>	<u>21,414</u>
Total cash and cash equivalents	<u>\$ 16,001,033</u>	<u>\$ 13,459,021</u>

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

NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

Deposits

At June 30, 2011 and 2010, the carrying amount of GSWSA's deposits in financial institutions was \$15,880,748 and \$12,970,123. The financial institutions' balances totaled \$17,931,144 and \$16,541,799, which were insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with securities, held by agents and/or by pledging financial institutions trust departments or agents, both in GSWSA's name. Petty cash on hand was \$4,500 for fiscal years 2010 and 2011.

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

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. GSWSA's investment policy addresses custodial credit risk by requiring that investment balances be held by a third party custodian or collateralized.

At June 30, 2011, 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.

Investment Type	2011 Fair Value	2010 Fair Value
Federal Home Loan	\$13,599,072	\$14,747,715
Federal National Mortgage	11,996,243	16,584,214

Credit Risk – The risk an issuer or other counterparty to an investment will not fulfill its obligations. GSWSA has adopted an investment policy which limits investments according to South Carolina State Statute 6-5-10 as may be amended from time to time, for investments by political subdivisions. According to the investment and securities schedule below, GSWSA had certain investments which were rated by Standard and Poor's.

Concentration of Credit Risk – The risk of overexposure to a single asset or market. GSWSA's investment policy is to instruct the Investment Managers to structure the portfolio based on principles of diversification. As presented in the schedule below, GSWSA had certain investments with issuers that were as much as 55% of their investment portfolio.

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. GSWSA's investment policy permits investment terms ranging from overnight to twelve years with the exception of mortgage pass through securities with normal maturities greater than ten years, if their average life is expected to be ten years or less.

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

NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

As of June 30, 2011, GSWSA had the following investments and maturities.

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					<u>Credit Rating *</u>	<u>As a % of Total Investments</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>		
Repurchase Agreements	\$ 94,292	\$ 94,292	\$ -	\$ -	\$ -	Not rated	0.10%
U.S. Treasuries	52,259,977	5,070,515	30,513,754	16,675,708	-	AAA	55.35%
Federal Home Loan Mortgage Corporation	13,599,072	3,101,595	5,172,214	1,708,667	3,616,596	AAA	14.40%
Federal National Mortgage Association	11,996,243	-	4,584,419	1,352,233	6,059,591	AAA	12.70%
Guaranteed Investment Contracts	7,030,724	-	783,930	-	6,246,794	AAA	7.45%
Government National Mortgage Association	7,425,535	-	-	5,139	7,420,396	AAA	7.86%
South Carolina Local Government Investment Pool	2,016,513	2,016,513	-	-	-	AAA	2.14%
	<u>\$ 94,422,356</u>	<u>\$ 10,282,915</u>	<u>\$ 41,054,317</u>	<u>\$ 19,741,747</u>	<u>\$ 23,343,377</u>		<u>100.00%</u>

* On August 5, 2011, Standard and Poor's downgraded the long-term rating of the US Government and federal agencies from AAA to AA+. This includes U.S. Treasury, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Government National Mortgage Association investments.

Investment in Real Estate

Bucksport Marina - On February 26, 2010, GSWSA acquired the Bucksport Marina for \$3,510,674 as an Investment in Real Estate. As of June 30, 2011, GSWSA had invested an additional \$850,124 to upgrade the facility. The investment is a joint effort with other local organizations to provide further economic development for the surrounding areas with a proposed Marine Park. The investment is recorded at acquisition cost plus the cost to upgrade.

Since GSWSA's core operations are primarily for water and wastewater, they will be entering into an agreement with a company which will operate and manage the marina.

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

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets not being depreciated					
Land and easements	\$ 48,755,808	\$ 252,751	\$ -	\$ -	\$ 49,008,559
Construction-in-progress	<u>2,389,225</u>	<u>15,246,423</u>	<u>-</u>	<u>(11,575,006)</u>	<u>6,060,642</u>
	51,145,033	15,499,174	-	(11,575,006)	55,069,201
Capital assets being depreciated					
Utility plant	659,213,024	4,816,381	(134,998)	11,575,006	675,469,413
Buildings and leaseholds	9,368,805	88,926	-	-	9,457,731
Vehicles	6,155,795	750,550	(138,216)	-	6,768,129
Machinery, equipment and furniture	<u>12,014,081</u>	<u>765,628</u>	<u>(33,679)</u>	<u>-</u>	<u>12,746,030</u>
	686,751,705	6,421,485	(306,893)	11,575,006	704,441,303
Accumulated depreciation for					
Utility plant	(186,875,779)	(20,343,455)	126,581	-	(207,092,653)
Buildings and leaseholds	(1,850,950)	(313,750)	-	-	(2,164,700)
Vehicles	(4,596,772)	(618,030)	99,833	-	(5,114,969)
Machinery, equipment and furniture	<u>(8,880,390)</u>	<u>(1,027,800)</u>	<u>28,964</u>	<u>-</u>	<u>(9,879,226)</u>
	(202,203,891)	(22,303,035)	255,378	-	(224,251,548)
	<u>\$ 535,692,847</u>	<u>\$ (382,376)</u>	<u>\$ (51,515)</u>	<u>\$ -</u>	<u>\$ 535,258,956</u>

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

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets not being depreciated					
Land and easements	\$ 47,944,912	\$ 810,896	\$ -	\$ -	\$ 48,755,808
Construction-in-progress	<u>9,806,285</u>	<u>10,172,893</u>	<u>-</u>	<u>(17,589,953)</u>	<u>2,389,225</u>
	57,751,197	10,983,789	-	(17,589,953)	51,145,033
Capital assets being depreciated					
Utility plant	624,062,710	17,631,133	(70,772)	17,589,953	659,213,024
Buildings and leaseholds	9,201,354	167,451	-	-	9,368,805
Vehicles	6,154,576	298,504	(297,285)	-	6,155,795
Machinery, equipment and furniture	<u>11,816,365</u>	<u>437,318</u>	<u>(239,602)</u>	<u>-</u>	<u>12,014,081</u>
	651,235,005	18,534,406	(607,659)	17,589,953	686,751,705
Accumulated depreciation for					
Utility plant	(168,052,303)	(18,912,917)	89,441	-	(186,875,779)
Buildings and leaseholds	(1,541,432)	(309,518)	-	-	(1,850,950)
Vehicles	(4,246,158)	(647,898)	297,284	-	(4,596,772)
Machinery, equipment and furniture	<u>(8,120,823)</u>	<u>(972,819)</u>	<u>213,252</u>	<u>-</u>	<u>(8,880,390)</u>
	(181,960,716)	(20,843,152)	599,977	-	(202,203,891)
	<u>\$ 527,025,486</u>	<u>\$ 8,675,043</u>	<u>\$ (7,682)</u>	<u>\$ -</u>	<u>\$ 535,692,847</u>

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION, Continued

Direct and indirect costs of GSWSA's construction and engineering departments were capitalized in the amount of \$3,519,162 and \$2,752,295 during 2011 and 2010, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$3,803 and \$107,649 during 2011 and 2010, respectively.

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

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

As of June 30, 2003, the Participants had contracted to acquire capacity rights which will result in approximately 30% of the systems cost being recovered over the next 18 years via capital charges to the Participants. Additional capacity charges apply if participants consume water in excess of their purchased capacity. During 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 resulted 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 45 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 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.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION, Continued

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

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

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

During 2010 and 2011, a project was completed to re-route the treated effluent discharged from the Vereen Wastewater Treatment Plant to the Intra-Coastal Waterway.

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 contracts 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 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.

On December 30, 2009, GSWSA continued into a note payable arrangement with the State Revolving Loan Fund which provided proceeds in the amount of \$1,492,111 to install force main to divert and re-route wastewater flows from the Carolina Forest and Highway 501 areas to the Schwartz Wastewater Treatment Plant.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION, Continued

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 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 enables 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.

Surfside Systems - In 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 was 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 capital assets, 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 customers 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. In April of 2003, the wastewater treatment plant was upgraded from 3.2 MGD to 4.0 MGD. On August 29, 2008, GSWSA entered into a note payable agreement with the State Revolving Loan Fund which provided proceeds in the amount of \$3,164,707 to upgrade the wastewater treatment plant.

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.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION, Continued

Myrtle Beach Water and Wastewater Plant - On June 30, 2006, GSWSA purchased the Myrtle Beach Water and Wastewater Plants for approximately \$43 million from the City of Myrtle Beach. GSWSA began providing wholesale water and wastewater services to the City of Myrtle Beach July 1, 2006. On December 4, 2007, Grand Strand Water and Sewer Authority issued the bonds of 2007 in the amount of \$10 million, which was applied towards the purchase of the treatments plants. On June 5, 2008, GSWSA received a note payable from the State Revolving Loan fund which provided proceeds in the amount of \$9,508,249 to upgrade and expand the Myrtle Beach Wastewater Treatment Plant. Later on December 19, 2008, Grand Strand Water & Sewer Authority issued the bonds of 2008 in the amount of \$10 million, which was also applied towards the purchase of the treatment plants that took place June 30, 2006.

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

Bucksport Composting Facility - During 2010 and 2011, GSWSA constructed the Bucksport Composting Facility, a regional composting facility to eliminate the need to either landfill sludge or treat sludge in unlined lagoons. The regional sludge composting facility will accommodate the sludge processing needs of numerous GSWSA wastewater treatment facilities. As of June 30, 2011, \$2,498,349 had been spent on the construction of the new facility.

Nichols System - On April 27, 2010, GSWSA entered into a Grant of Franchise and Purchase and Sales Agreement with the Town of Nichols, South Carolina, whereby GSWSA acquired the exclusive franchise for furnishing water and wastewater collection and disposal services within the Nichols service area resulting in an increase in capital assets of approximately \$381,147. GSWSA pays the Town of Nichols a monthly franchise fee equal to 10% of the gross operating revenues generated by all customers in the Nichols service area. GSWSA is generally obligated to charge Nichols customers rates comparable to other GSWSA customers. GSWSA initially served approximately 242 additional customers as a result of this arrangement. GSWSA began providing water and wastewater services to the Town of Nichols in September of 2010.

Centenary Sewer Systems - During April 2010, GSWSA entered into a Transfer and Service Agreement with the Marco Rural Water Company, Inc., whereby GSWSA acquired the Centenary Sewer System resulting in an increase in capital assets of approximately \$21,464. GSWSA was obligated to charge the current rate applicable to customers in the service area until June 30, 2011. In the future, rates shall be determined by the governing body of GSWSA pursuant to standard procedures. GSWSA initially served approximately 72 additional customers as a result of this arrangement. GSWSA began providing services to Centenary customers as of July 30, 2010.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4 - CAPITAL LEASE

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

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

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2011 are as follows:

2012		\$	144,352
2013			144,352
2014			144,352
2015			144,352
2016			144,352
2017-2019			<u>298,514</u>
Total minimum lease payments			1,020,274
Less:			
Amount representing interest			<u>(115,659)</u>
Present value of minimum lease payments			<u>\$ 904,615</u>

NOTE 5 - LONG-TERM DEBT

The original issue amount of current outstanding debt as of June 30, 2011 was \$266,499,112. Bonds, notes and state revolving loans payable at June 30, 2011 and 2010 are composed of the following individual issues.

	<u>2011</u>	<u>2010</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 \$783,515 to \$970,577 through 2015; interest at 4.7% per annum; due June 1.	\$ 3,290,124	\$ 4,049,887
Current interest paying term bonds; principal due 2012 with annual sinking fund requirements beginning in 2008; interest at 6.37% per annum; due June 1.	3,005,000	5,830,000
<u>Series 2001</u>		
Series 2001 bonds; due in annual principal installments ranging from \$470,000 to \$4,295,000 during 2012 through 2023; interest at 4.0% to 5.25% per annum; due June 1.	12,780,000	12,780,000

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	<u>2011</u>	<u>2010</u>
Current interest paying term bonds; principal due 2022 with annual sinking fund requirements beginning in 2019; 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 beginning June 1, 2013, ranging from \$3,335,000 to \$4,565,000 through 2019; interest 5.375% per annum; due June 1.	27,470,000	27,470,000
Waterworks and Sewer System Refunding Revenue Bonds, Series 2003. Secured by gross revenues from Utility System. Current interest paying serial bonds; due in annual principal installments beginning June 1, 2012, ranging from \$440,000 to \$920,000 through June 1, 2018; interest at 3.58% per annum; due June 1.	4,782,445	5,502,433
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 beginning December 1, 2011 ranging from \$1,170,000 to \$1,730,000 through 2021; interest at 3.75% per annum; due December 1.	15,770,000	16,890,000
Waterworks and Sewer System Improvement Revenue Bond, Series 2007. Secured by net revenues of the system. Current interest paying serial bond; due in annual principal installments beginning December 1, 2011, ranging from \$570,000 to \$850,000 through June 1, 2023; interest at 3.73% per annum; due December 1.	8,410,000	8,960,000
Waterworks and Sewer System Improvement Revenue Bond, Series 2008. Secured by net revenues of the system. Current interest paying serial bond; due in thirteen annual principal installments of \$715,000; interest at 3.36% per annum; due beginning December 1, 2011.	9,295,000	10,000,000

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	2011	2010
Series 2010 bonds; due in semi-annual principal installments beginning December 1, 2011 ranging from \$552,200 to \$721,500 during 2011 through 2022; interest at 3.17% per annum; due June 1 and December 1.	14,441,300	-
Total bonds payable	153,643,869	145,882,320
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 with a maturity date of July 1, 2012. All revenue from the applicable systems are pledged for debt service.	57,404	101,192
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 with a March 1, 2019, maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	752,836	834,135
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 February 1, 2000. Total approved loan is \$1,581,949 with a maturity date of November 1, 2019. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	808,044	888,316
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 April 1, 2000. Total approved loan is \$1,149,705. The maturity date is January 1, 2020. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	602,033	659,866

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	<u>2011</u>	<u>2010</u>
Note payable, including accrued interest of \$13,747, to South Carolina State Budget and Control Board for the South Carolina Infrastructure Facilities Authority at 4.25%. Quarterly principal and interest payments of \$74,580 began July 1, 2000.	-	2,419,984
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. Total approved loan is \$16,608,978 with a February 1, 2021 maturity date.	9,532,628	10,339,486
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 with a May 1, 2021 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	652,508	706,109
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 with a maturity date of October 1, 2021. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	1,694,997	1,826,386
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 \$88,096 began August 1, 2003. Total approved loan is \$4,942,568 with a May 1, 2023 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	3,392,588	3,612,569
Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Loan Fund at 3.75%. Quarterly payments of \$127,662 began August 1, 2003. Total approved loan is \$7,162,425 with a May 1, 2023, maturity. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.	4,916,302	5,235,083

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	2011	2010
<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 \$4,057 began October 1, 2003. Total approved loan is \$227,611 with a July 1, 2023 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	158,801	168,837
<p>Note payable, including accrued interest of \$103,237, 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 \$98,060 began June 1, 2006. Total approved loan of \$5,883,070 will mature on March 1, 2026. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	4,661,262	4,909,003
<p>Note payable, including accrued interest of \$21,901, 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 began August 1, 2006. Total approved loan is \$2,248,206. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	-	1,830,318
<p>Note payable, including accrued interest of \$235,755, 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 began August 1, 2006. Total approved loan is \$15,607,970. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	-	11,145,779
<p>Note payable, including accrued interest of \$243,934, 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 \$210,590 began April 1, 2008. Total approved loan of \$12,079,472 will mature January 1, 2028. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	10,641,899	11,101,692

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	2011	2010
<p>Note payable, including accrued interest of \$182,154, to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.25%. Quarterly payments of \$162,101 began March 1, 2010. Total approved loan of \$9,508,249 will mature December 1, 2029. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	8,988,714	8,602,348
<p>Note payable, including accrued interest of \$3,936, to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.25%. Quarterly principal and interest payments of \$53,954 began May 1, 2009. Total approved loan is \$3,164,707 with a February 1, 2029 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	2,902,126	3,021,193
<p>Note payable, including accrued interest of \$143, to South Carolina State Budget and Control Board for Clean Water State Revolving Fund at 1.54%. Quarterly principal and interest payments of \$21,711 began August 1, 2010. Total approved loan of \$1,492,111 with May 1, 2030 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	1,426,688	1,236,364
<p>Note payable, including accrued interest of \$3,803, to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.50%. Quarterly principal and interest payments of \$25,266 began July 1, 2011. Total approved loan is \$1,449,233 with a April 1, 2031 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	1,248,929	-
<p>Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.50%. Quarterly principal and interest payments of \$62,447 began November 1, 2011. Total approved loan of \$3,581,939 with August 1, 2031 maturity date. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	2,498,349	-
<p>Total notes payable</p>	54,936,108	68,638,660

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	2011	2010
Advances payable comprising companion instrument debt related to an interest rate swap. Payments of principal and interest ranging from \$29,481 to \$310,202 at a rate of 5.34% beginning December 1, 2012 with all unpaid principal and interest due in June 2031.	3,990,427	3,990,427
Total debt, before deferrals	212,570,404	218,511,407
Unamortized revenue bond discount (premium)	58,308	125,851
Unamortized deferral on refunding (less portion attributable to capital lease)	(1,229,719)	(1,384,507)
Total debt, net	211,398,993	217,252,751
Less current portion	(11,545,886)	(10,688,596)
Total long - term portion of debt	\$ 199,853,107	\$ 206,564,155

Remaining debt service payments at June 30, 2011 are as follows:

Date	Revenue Bonds		Companion Instrument Debt		State Revolving Loans		Total	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	
2012	\$ 8,285,130	\$ 6,975,935	\$ -	\$ -	\$ 3,260,756	\$ 1,802,718	\$ 11,545,886	\$ 20,324,539
2013	9,145,337	6,586,039	(1,190,097)	1,810,501	3,360,887	1,710,593	11,316,127	21,423,260
2014	9,528,914	6,186,974	336,931	277,195	3,465,729	1,593,903	13,331,574	21,389,646
2015	9,756,743	5,764,096	348,809	258,713	3,586,422	1,473,210	13,691,974	21,187,993
2016	10,382,600	5,335,069	361,013	239,582	3,711,388	1,348,244	14,455,001	21,377,896
2017-2021	47,731,845	19,443,961	1,823,053	901,057	19,765,534	4,722,102	69,320,432	94,387,552
2022-2026	29,988,300	10,966,985	1,567,910	423,947	12,093,758	1,902,474	43,649,968	56,943,374
2027-2031	28,825,000	4,464,250	742,808	87,563	5,648,834	342,546	35,216,642	40,111,001
2032	-	-	-	-	42,800	378	42,800	43,178
	\$ 153,643,869	\$65,723,309	\$ 3,990,427	\$ 3,998,558	\$ 54,936,108	\$14,896,168	\$ 212,570,404	\$ 297,188,439

Remaining debt service payments at June 30, 2010 are as follows:

Date	Revenue Bonds		Companion Instrument Debt		State Revolving Loans		Total	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	
2011	\$ 6,679,763	\$ 6,856,199	\$ -	\$ -	\$ 4,008,833	\$ 2,384,830	\$ 10,688,596	\$ 19,929,625
2012	7,171,930	6,526,898	-	-	4,155,650	2,238,013	11,327,580	20,092,491
2013	7,996,437	6,172,571	(1,190,097)	1,810,501	4,271,977	2,086,137	11,078,317	21,147,526
2014	8,343,414	5,810,215	336,931	277,195	4,416,091	1,930,174	13,096,436	21,114,020
2015	8,533,343	5,425,215	348,809	258,713	4,577,692	1,768,573	13,459,844	20,912,345
2016-2020	44,272,433	20,643,566	1,820,775	1,000,102	25,309,572	6,204,733	71,402,780	99,251,181
2021-2025	29,090,000	12,184,131	1,668,078	513,313	15,600,630	2,142,635	46,358,708	61,198,787
2026-2030	27,455,000	5,837,000	949,288	136,414	6,298,215	425,054	34,702,503	41,100,971
2031	6,340,000	317,000	56,643	2,320	-	-	6,396,643	6,715,962
	\$ 145,882,320	\$ 69,772,795	\$ 3,990,427	\$ 3,998,558	\$ 68,638,661	\$ 19,180,149	\$ 218,511,407	\$ 311,462,908

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

Long term liability activity including capital leases for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable	\$ 145,882,320	\$ 15,283,200	\$ 7,521,651	\$ 153,643,869	\$ 8,285,130
Notes payable	68,638,660	4,734,111	18,436,662	54,936,109	3,260,756
Capital lease payable	1,013,453	-	108,838	904,615	112,792
Companion instrument debt - principal	3,990,427	-	-	3,990,427	-
Companion instrument debt - accrued interest	1,018,426	270,836	-	1,289,262	-
Compensated Absences	<u>1,232,811</u>	<u>527,622</u>	<u>495,764</u>	<u>1,264,669</u>	<u>459,974</u>
Total liabilities	221,776,097	20,815,769	26,562,915	216,028,951	12,118,652
Less deferred amounts:					
Issuance discounts/ premiums	125,851	-	67,543	58,308	-
Loss on refunding	<u>(1,409,291)</u>	<u>-</u>	<u>(179,572)</u>	<u>(1,229,719)</u>	<u>-</u>
Total	<u>\$ 220,492,657</u>	<u>\$ 20,815,769</u>	<u>\$ 26,450,885</u>	<u>\$ 214,857,541</u>	<u>\$ 12,118,652</u>

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

	<u>Balance</u> <u>June 30, 2009</u> <u>As Restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable	\$ 151,559,700	\$ -	\$ 5,677,380	\$ 145,882,320	\$ 6,679,763
Notes payable	68,965,346	3,147,393	3,474,079	68,638,660	4,008,833
Capital lease payable	1,118,476	-	105,023	1,013,453	108,838
Companion instrument debt - principal	3,990,427	-	-	3,990,427	-
Companion instrument debt - accrued interest	761,482	256,944	-	1,018,426	-
Compensated Absences	<u>1,158,342</u>	<u>523,508</u>	<u>449,039</u>	<u>1,232,811</u>	<u>409,638</u>
Total liabilities	227,553,773	3,927,845	9,705,521	221,776,097	11,207,072
Less deferred amounts:					
Issuance discounts/ premiums	160,154	-	34,303	125,851	-
Loss on refunding	<u>(1,567,177)</u>	<u>-</u>	<u>(157,886)</u>	<u>(1,409,291)</u>	<u>-</u>
Total	<u>\$ 226,146,750</u>	<u>\$ 3,927,845</u>	<u>\$ 9,581,938</u>	<u>\$ 220,492,657</u>	<u>\$ 11,207,072</u>

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

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

1. Construction Accounts.
2. Current Debt Service Accounts - for payment of bond principal and interest.
3. Future Debt Service Accounts - a reserve for future payment of principal and interest.
4. Depreciation and Contingency Fund - for restoring depreciated or obsolete capital assets.
5. Capitalized Interest Account - for payment of bond interest until the project is completed at which time the current debt service will be used to pay principal and interest.
6. Rebate Account - for the estimated liability to the federal government for interest earnings in excess of interest expense on tax-free revenue bonds.

On 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 provided proceeds for the upgrade and expansion of the Myrtle Beach Wastewater Treatment Plant. As of June 30, 2010, GSWSA had received loan proceeds of \$8,602,348. In fiscal year 2011, an additional \$731,086 was received. The note became payable in quarterly installments of \$162,101 beginning March 1, 2010.

On December 30, 2009, GSWSA was approved for a note payable to the South Carolina Budget and Control Board from the Clean Water State Revolving Fund for \$1,743,868 at an interest rate of 1.84%. The loan will provide proceeds for the installation of force main to divert and re-route wastewater flows from the Carolina Forest and Highway 501 areas to the Schwartz Wastewater Treatment Plant. To date, GSWSA has received \$1,491,968. Of this amount, GSWSA received \$255,747 in fiscal year 2011.

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

On August 25, 2010, GSWSA was approved for a note payable to the South Carolina State Budget and Control Board from the South Carolina State Water Pollution Control Revolving Fund for \$1,445,430 at an interest rate of 3.50%. The loan will provide proceeds for the project to re-route treated effluent from the Vereen WWTP from a wet weather stream to the Intra-Coastal Waterway. As of June 30, 2011, GSWSA received \$1,248,929. The note became payable in quarterly installments of \$25,266 on July 1, 2011.

On October 22, 2010, GSWSA was approved for a note payable to the South Carolina Budget and Control Board from the South Carolina Water Quality Revolving Fund for \$3,554,756 at an interest rate of 3.50%. The loan will provide proceeds to construct a new regional composting facility to eliminate the need to either landfill the sludge or treat sludge in unlined lagoons. The sludge composting facility will utilize the aerated static pile composting method and will accommodate the sludge processing needs of numerous GSWSA wastewater treatment facilities. As of June 30, 2011, GSWSA received \$2,498,349. The note will become payable in quarterly installments of \$61,973 on November 1, 2011.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

Derivatives:

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

Interest Rate Swaps

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

Terms - The terms, fair value and credit ratings of the outstanding swaption and swap as of June 30, 2011 were as follows. The notional amounts match the principal amounts of the outstanding debt.

<u>Associated Bond Issue</u>	<u>2001 Bonds</u>	<u>2003 Bonds</u>
Notional amounts	\$ 67,180,000	\$ 4,782,445
Up front payment	\$ 4,388,000	-
Effective date	June 1, 2012*	April 1, 2003
Fixed payer rate	4.700%	3.580%
Variable receiver rate	70.00% of LIBOR	61.75% of LIBOR+ 80 BP
Fair value of swap	(\$7,252,758)	(\$330,400)
Termination date	June 1, 2031	June 1, 2018
Counterparty credit rating	A+	A+

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

Fair value - Both of the swap agreements had negative fair values as of June 30, 2011. Due to the current low-interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceeded the variable receiver rates. These swaps are based on a different variable receiver rate, which is partially responsible for the difference in performance.

Swap payments and associated debt - Assuming that interest rates remain the same at June 30, 2011, the debt service requirements on the interest rate swaps would be as follows:

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Fixed Rate</u>		<u>Interest Rate</u> <u>Swaps, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2012	\$ 440,000	\$ 171,303	\$ (162,404)	\$ 448,899
2013	615,000	155,551	(162,404)	608,147
2014	640,000	133,534	(162,404)	611,130
2015	665,000	110,622	(162,404)	613,218
2016	695,000	86,815	(162,404)	619,411
2017 - 2018	1,727,445	94,870	(324,808)	1,500,062

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

NOTE 5 - LONG-TERM DEBT, Continued

Credit risk - As of June 30, 2011, the fair value of the swaps were negative, therefore GSWSA is not subject to credit risk. However, at times when the fair values of the swaps are positive, GSWSA is exposed to credit risk in the amount of the derivative's fair value.

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

- Bonds of 2001 Swap - Assuming the swap is exercised prior to June 1, 2012, GSWSA would be exposed to basis risk through the potential mismatch of 70.00% of LIBOR and the SIFMA rate. As a result, savings might not be realized. As of June 30, 2011, the one month LIBOR rate was 0.1872% which places the SIFMA at approximately 48% of one month LIBOR at that date.
- Bonds of 2003 Swap - Exposed to basis risk through the potential mismatch of 61.75% of LIBOR plus 80 basis points and the SIFMA rate. As a result, savings might not be realized. As of June 30, 2011, the one month LIBOR rate was 0.1872% which places the SIFMA at approximately 48% of one month LIBOR at that date.

Termination risk – The risk that an unscheduled end to a derivative contract will affect the Authority's hedging strategy or will require the Authority to pay potentially significant unscheduled termination payments to the counterparty. The swap agreements will be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. The swap can be terminated due to illegality, a credit event upon merger, or an event of default and illegality. The swap can also be terminated if credit ratings fall below established levels.

Methods of evaluating effectiveness - Both swaps are effective hedges as of June 30, 2011.

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

	Value	Test	Result
R ²	0.90	> 0.80	PASS
F-Statistic	427	> 4.05	PASS
Regression Coefficient	0.96	0.80 to 1.25	PASS

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

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6 - DEBT DEFEASANCE

On February 1, 2002, Grand Strand Water and Sewer Authority issued Waterworks and Sewer System Refunding Revenue Bonds, Series 2002 in order to defease the 2003 thru 2007 and 2013 thru 2019 series of the 1992 Refunding Waterworks and Sewer System Revenue Bonds in the amount of \$36,680,000. U.S. Government Securities were purchased and placed in an irrevocable trust for the purpose of generating resources to fully service the defeased bonds until the debt is called or defeased. As a result the 1992 Refunding Waterworks and Sewer System Revenue Bonds series 2003 thru 2007 and 2013 thru 2019 are considered defeased and GSWSA has removed the liabilities from its accounts. The un-matured and outstanding principal balance on the defeased bonds at June 30, 2011 and 2010 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>2011</u>	<u>2010</u>
Invested in capital assets, net of related debt:		
Net capital assets	\$ 535,258,956	\$ 535,692,848
Less:		
Revenue bonds payable, net	(152,472,458)	(144,623,664)
Companion instrument debt payable	(3,990,427)	(3,990,427)
Notes payable	(54,936,108)	(68,638,660)
Capital lease payable	(904,615)	(988,669)
Contractors payable	(704,845)	(983,752)
Total	<u>322,250,503</u>	<u>316,467,676</u>
Restricted for:		
Capital projects	14,759,824	14,131,946
Debt Service		
Debt service fund	12,344,259	14,336,086
Less accrued interest	(49,496)	(140,358)
Total	<u>12,294,763</u>	<u>14,195,728</u>
Unrestricted	<u>93,371,833</u>	<u>89,234,671</u>
Total net assets	<u>\$ 442,676,923</u>	<u>\$ 434,030,021</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 2011 and 2010 for active members covered by the SCRS was \$11,826,851 and \$11,271,275, respectively. Annual covered payroll for fiscal years 2011 and 2010 for retired members was \$661,317 and \$606,509, respectively. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29221-1960.

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

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

Benefits of the SCRS are established by the state statutes. The required employer and employee obligations to contribute to the SCRS are 9.39% and 6.50%, respectively for fiscal year 2011 and 9.39% and 6.50%, respectively for fiscal year 2010. 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 2011 were \$1,185,438 and \$820,590. GSWSA's contributions to the SCRS for the last three years are as follows:

Fiscal Year Ended	Annual Employer Contribution	Percentage Contributed Current Year
June 30, 2009	\$ 1,122,160	100%
June 30, 2010	1,115,324	100%
June 30, 2011	1,185,438	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, 2011 and 2010, no employees had elected coverage under the Act.

GSWSA offers a defined contribution plan to its employees under a plan administered by the South Carolina Deferred Compensation Commission and established in accordance with Internal Revenue Code Section 401K. Employees are permitted to defer portions of their salaries which are subject to annual IRS limitations until future years. Only upon termination, retirement, disability, death or an approved hardship is the deferred compensation available to an employee.

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

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

GWSWA recognizes the value of long term employment and wishes to reward this loyalty by increasing the amount it matches to an employee's Deferred Compensation Program as the years of employment increase. Grand Strand Water and Sewer Authority's contributions to its employees' 401K for the last three years are as follows:

Fiscal Year Ended	Annual Employer Contribution
June 30, 2009	\$ 481,607
June 30, 2010	483,926
June 30, 2011	519,928

GWSWA 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 which are subject to annual IRS limitations 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 GWSWA's IRC Section 457 plan.

NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN

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

Funding Policy - The contribution requirements of plan members and GWSWA are established and may be amended by the Board of Directors. GWSWA employees receiving benefits contribute \$156 per month for retiree only coverage and \$649 per month for retiree and spouse coverage to age 65, and thereafter. GWSWA has been contributing at a rate that is based on an actuarial valuation that is prepared in accordance with certain parameters.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued

Annual OPEB Cost - GSWSA's annual OPEB cost of \$562,000 is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of certain accounting standards related to accounting and financial reporting by employees for post employment benefits other than pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

GSWSA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net negative/positive OPEB obligations for fiscal years 2009, 2010 and 2011 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	583,000	110%	(59,412)
2010	583,000	102%	(69,169)
2011	562,000	79%	50,225

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

Annual required contribution	\$ 562,000
Interest on OPEB obligation	3,000
Adjustment to annual required contribution	<u>(3,000)</u>
Annual OPEB cost	562,000
Contributions made	<u>(442,606)</u>
Increase in net OPEB obligation	119,394
Net negative obligation - beginning of year	<u>(69,169)</u>
Net obligation - end of year	<u>\$ 50,225</u>

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

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

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued

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

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

In the July 1, 2009 actuarial valuation, the entry age normal (level percent of pay) cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), and a medical trend rate of 10% initially decreasing at a rate of 0.50% until an ultimate rate of 5.0% is reached. Also, the actuarial assumptions included a 2.5% annual salary rate increase and 2.5% for an annual inflation rate. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2011 was 29 years.

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 in an irrevocable trust, which, for the Plan, is determined by the mean of the most recent bid and ask prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the GSWSA Board of Directors.

NOTE 10 - MAJOR CUSTOMER

During fiscal year 2011, the following customers provided the indicated percentage of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 15.9%, City of Conway 5.1%, City of North Myrtle Beach 4.6%, and Little River Water and Sewerage Company 2.7%. No other customers provided more than .81%.

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

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 11 - RISK MANAGEMENT

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

GSWSA acquires insurance from the State Accident Fund for job related injury and illness (Worker's Compensation) to its employees. Worker's Compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. Health insurance, from a private insurer of up to \$2,000,000 of lifetime claims per employee, was in place. General blanket fidelity bond insurance in the amount of \$75,000 per employee was also maintained. During 2011, GSWSA purchased a general liability policy with coverage of \$1 million as well as an umbrella policy with \$2 million of coverage for its Sod Farm and Compost operations through Peoples Underwriters, Inc. 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, 2011, 2010 and 2009.

During 2011 and 2010, GSWSA did not experience any material uninsured claims. Accordingly, there was no liability or expense recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

NOTE 12 - COMMITMENTS

Construction Contracts - In the normal course of business, GSWSA enters into agreements with contractors for the construction and expansion of the system. At June 30, 2011, open contracts for construction totaled approximately \$2,406,668 with \$2,054,483 having been incurred during the year. At June 30, 2010, open contracts for construction totaled approximately \$3,311,749 with \$1,959,889 having been incurred during the year. The remaining commitments at June 30, 2011 and 2010 were \$352,185 and \$1,351,860, respectively.

SCHEDULES

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**GRAND STRAND WATER AND SEWER AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT HEALTH CARE PLAN
 JUNE 30, 2011**

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

Please refer to the plan description in Note 9 to the financial statements for instructions on how to obtain a copy of the Plan's separately issued report

GRAND STRAND WATER AND SEWER AUTHORITY
 SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS
 REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS
 FOR THE YEAR ENDED JUNE 30, 2011

	1991 A State Revolving Loan		1992 Revenue Bonds		1998 State Revolving Loan		1999 State Revolving Loan		1999 State Revolving Loan		1999 State Revolving Loan		
	Burgess		Future		Arbitrage		Conway WWTP Upgrade		Aynor		Wampee		
	Current	Debt Service	Current	Debt Service	Rebate	Current	Debt Service	Future	Current	Debt Service	Future	Current	Debt Service
Cash and Investments, Beginning of year	\$ 11,850	\$ 50,096	\$ 278,341	\$ 3,761,047	\$ 28,572	\$ 9,456	\$ 116,601	\$ 18,387	\$ 110,317	\$ 20,044	\$ 104,602	\$ 20,044	\$ 104,602
Cash Receipts:													
Transfer from Operating Cash	47,397	-	3,115,028	-	1,035	113,453	-	110,315	-	80,174	-	80,174	-
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Earned	-	2,131	82,550	213,228	4	2	4,960	2	4,686	1	4,449	1	4,449
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:													
Principal and Interest Payments	(47,397)	-	(3,196,663)	-	-	(113,455)	-	(110,317)	-	(80,175)	-	(80,175)	-
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	(2,131)	-	(521,527)	-	-	(4,960)	-	(4,686)	-	(4,449)	-	(4,449)
Transfers to Capital Project	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash and Investments, End of year	\$ 11,850	\$ 50,096	\$ 279,256	\$ 3,452,748	\$ 29,611	\$ 9,456	\$ 116,601	\$ 18,387	\$ 110,317	\$ 20,044	\$ 104,602	\$ 20,044	\$ 104,602

(Continued)

GRAND STRAND WATER AND SEWER AUTHORITY
 SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS
 REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS
 FOR THE YEAR ENDED JUNE 30, 2011

	2000 State Revolving Loan				2000 Revenue Bonds				2001 State Revolving Loan				2001	
	Bucksville		Tip Top		Future		Current		Buiat NFM		Schwartz Imp.		Revenue Bonds	
	Debt Service	Future	Debt Service	Future	Debt Service	Future	Debt Service	Future	Debt Service	Future	Debt Service	Future	Current	Debt Service
Cash and Investments, Beginning of year	\$ 74,582	\$ 298,319	\$ 193,048	\$ 1,191,728	\$ 783,930	\$ 122,830	\$ 12,937	\$ 81,485	\$ 48,402	\$ 195,801	\$ 307,322			
Cash Receipts:														
Transfer from Operating Cash	24,860	302,449	1,158,210	-	53,158	945,615	77,616	-	193,598	-	-	3,325,912		
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-	-		
Interest Earned	1	1,050	16	50,690	-	47	1	3,466	2	8,328	53,677			
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-		
Cash Disbursements:														
Principal and Interest Payments	(99,443)	(297,898)	(1,158,226)	-	(53,158)	(950,108)	(77,617)	-	(193,601)	-	-	(3,359,515)		
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-	-		
Transfers to Operating Cash	-	(303,920)	-	(50,690)	-	-	-	(3,466)	-	(8,328)	-	-		
Transfers to Capital Project	-	-	-	-	-	-	-	-	-	-	-	-		
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-		
Cash and Investments, End of year	\$ -	\$ -	\$ 193,048	\$ 1,191,728	\$ 783,930	\$ 118,384	\$ 12,937	\$ 81,485	\$ 48,401	\$ 195,801	\$ 327,396			

(Continued)

GRAND STRAND WATER AND SEWER AUTHORITY
 SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS
 REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS
 FOR THE YEAR ENDED JUNE 30, 2011

	2002 State Revolving Loan				2002				2004A - Schwartz				2001A	
	Conway		Vereen		319 FM		Revenue Bonds		WWTP Expansion - Phase 1		Myrtle Beach			
	Current	Future	Current	Future	Current	Future	Current	Future	Current	Future	Current	Future	Current	Future
Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service
Cash and Investments, Beginning of year	\$ 58,734	\$ 356,477	\$ 85,112	\$ 519,901	\$ 4,057	\$ 31,593	\$ 126,000	\$ 32,691	\$ 392,241	\$ 189,583	\$ 1,139,269			
Cash Receipts:														
Transfer from Operating Cash	352,378	-	510,642	-	16,228	-	1,460,850	392,235	-	94,786	-	-	-	-
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Earned	5	15,163	6	22,114	-	1,344	20,185	6	16,392	2	1,262	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:														
Principal and Interest Payments	(352,383)	-	(510,648)	-	(16,228)	-	(1,480,971)	(392,241)	-	(284,371)	-	-	-	-
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	(15,163)	-	(22,114)	-	(1,344)	-	-	(16,391)	-	(1,140,531)	-	-	-
Transfers to Capital Project	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash and Investments, End of year	\$ 58,734	\$ 356,477	\$ 85,112	\$ 519,901	\$ 4,057	\$ 31,593	\$ 126,064	\$ 32,691	\$ 392,242	\$ -	\$ -	\$ -	\$ -	\$ -

(Continued)

GRAND STRAND WATER AND SEWER AUTHORITY
 SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS
 REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS
 FOR THE YEAR ENDED JUNE 30, 2011

	2001B Myrtle Beach		2006 Revenue Bonds		2006 Schwartz WWTP Expansion Phase 2		2008A MB WWTP SRF		2008 MB Upgrade SRF		2008 Conway WWTP Odor Control Upgrade		2008 Revenue Bonds	
	Current	Future	Current	Future	Current	Future	Current	Future	Current	Future	Current	Future	Current	Future
Cash and Investments, Beginning of year	\$ 31,133	\$ 187,089	\$ 768,829	\$ 843,727	\$ 210,598	\$ 843,727	\$ 55,444	\$ 653,923	\$ 35,969	\$ 232,776	\$ 439,250			
Cash Receipts:														
Transfer from Operating Cash	15,565	-	1,695,923	-	842,349	-	638,556	-	215,814	-	1,033,015			
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-			
Interest Earned	-	207	76	3,129	12	9	2,425	-	-	864	-			
Other Transfers	-	-	-	-	-	-	-	-	-	-	-			
Cash Disbursements:														
Principal and Interest Payments	(46,698)	-	(1,732,979)	-	(842,361)	-	(639,973)	-	(215,814)	-	(1,029,156)			
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-			
Transfers to Operating Cash	-	(187,296)	-	-	-	-	-	-	-	-	-			
Transfers to Capital Project	-	-	-	-	-	-	-	-	-	-	-			
Other Transfers	-	-	-	-	-	-	-	-	-	-	-			
Cash and Investments, End of year	\$ -	\$ -	\$ 731,849	\$ 846,856	\$ 210,598	\$ 846,856	\$ 54,036	\$ 656,348	\$ 35,969	\$ 232,640	\$ 443,109			

(Continued)

GRAND STRAND WATER AND SEWER AUTHORITY
 SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FOR RESTRICTED ACCOUNTS
 REQUIRED BY REVENUE BOND AND STATE REVOLVING LOAN PROVISIONS
 FOR THE YEAR ENDED JUNE 30, 2011

	501 to 544 SRF		Vereen WWTP SRF		Bucksport Compositing Facility SRF		Bull Creek		
	Current	Future	Future	Current	Future	Current	Future	Depreciation & Contingency	
Cash and Investments, Beginning of year	\$ 17,400	\$ 104,591	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,824,548	\$ 11,307,398
Cash Receipts:									
Transfer from Operating Cash	83,918	-	50,399	25,266	123,945	-	407,983	3,797,586	-
Transfer from Capital Project	-	-	-	-	-	-	-	-	-
Interest Earned	1	388	114	0	233	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-
Cash Disbursements:									
Principal and Interest Payments	(86,844)	-	-	-	-	-	-	-	-
Renewals and Replacements	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	-	-	-	(231,611)	(3,346,080)	-
Transfers to Capital Project	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-
Cash and Investments, End of year	\$ 14,475	\$ 104,979	\$ 50,513	\$ 25,266	\$ 124,178	\$ -	\$ 3,000,920	\$ 11,758,904	\$ -

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

	For the years ended	
	June 30	
	2011	2010
Water plants		
Personnel services	\$ 2,370,054	\$ 2,269,278
Contractual services	2,714,757	2,595,063
Supplies and materials	3,496,338	3,889,832
Business and travel expenses	6,739	5,995
Other expenses	1,206,226	1,630,024
Departmental transfers	1,258,439	780,513
Total water plants	11,052,553	11,170,705
Water systems		
Personnel services	2,559,406	1,925,697
Contractual services	1,438,141	1,657,723
Supplies and materials	1,521,191	1,019,629
Business and travel expenses	11,801	12,235
Other expenses	10,445	7,631
Total water systems	5,540,984	4,622,915
Total water	16,593,537	15,793,620
Wastewater plants		
Personnel services	4,648,871	4,311,171
Contractual services	4,112,784	3,714,217
Supplies and materials	2,185,442	1,411,135
Business and travel expenses	20,130	21,714
Other expenses	55,823	35,975
Departmental transfers	263,473	771,121
Total wastewater plants	11,286,523	10,265,333
Wastewater systems		
Personnel services	1,978,817	1,837,459
Contractual services	1,862,410	2,291,269
Supplies and materials	1,157,711	1,025,683
Other expenses	23,154	14,651
Total wastewater systems	5,022,092	5,169,062
Total wastewater	16,308,615	15,434,395

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

	For the years ended	
	June 30	
	2011	2010
General administration		
Personnel services	631,605	651,584
Contractual services	400,912	552,865
Supplies and materials	41,495	33,327
Business and travel expenses	112,857	96,548
Other expenses	433,932	311,454
Total general administration	1,620,801	1,645,778
Planning, engineering and construction		
Personnel services	892,170	1,271,158
Contractual services	37,922	45,144
Supplies and materials	65,729	30,366
Business and travel expenses	11,353	9,619
Other expenses	202	1,705
Total planning, engineering and construction	1,007,376	1,357,992
Financial services		
Personnel services	2,003,725	1,905,930
Contractual services	988,955	1,100,286
Supplies and materials	133,244	126,849
Business and travel expenses	28,692	29,870
Other expenses	20,355	45,851
Total financial services	3,174,971	3,208,786
High tech turf farm		
Personnel services	1,468,483	1,098,265
Contractual services	220,339	193,575
Supplies and materials	482,090	497,056
Business and travel expenses	4,797	5,013
Other expenses	75	946
Departmental transfers	(1,521,912)	(1,551,634)
Total high tech turf farm	653,872	243,221
Depreciation	22,303,035	20,843,152
Total operating expenses	\$ 61,662,207	\$ 58,526,944

STATISTICAL SECTION

STATISTICAL SECTION (UNAUDITED)

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

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

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

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

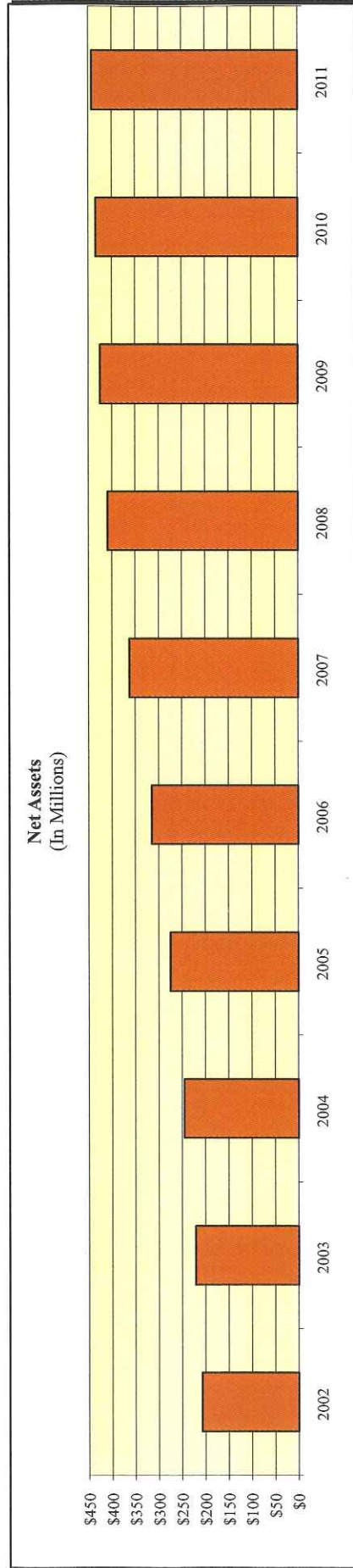
Demographic and Economic Information (Schedule 14) - This schedule offers demographic and economic indicators to help the reader understand the environment within which GSWSA's financial activities take place and to help make comparisons over time and with other special districts.

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

Schedule 1

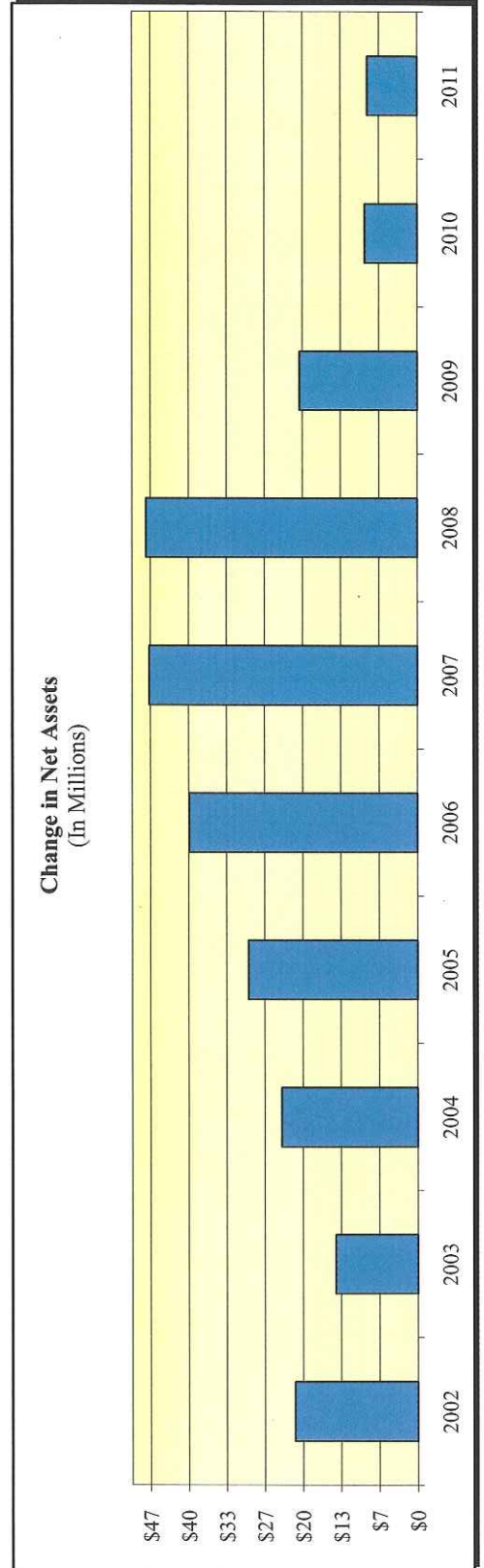
GRAND STRAND WATER AND SEWER AUTHORITY
 NET ASSETS BY COMPONENT
 LAST TEN FISCAL YEARS
 (UNAUDITED)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	\$ 299,789,950	\$ 316,467,676	\$ 322,250,503
Restricted	30,455,077	29,910,278	29,089,789	27,535,216	25,980,196	30,231,725	30,716,584	24,275,266	28,327,674	27,054,587
Unrestricted	41,003,053	52,519,542	65,396,725	84,837,573	84,059,592	82,256,132	88,898,786	100,867,438	89,234,671	93,371,833
Total primary government net assets	\$ 207,356,032	\$ 221,631,612	\$ 245,430,918	\$ 274,952,765	\$ 314,910,631	\$ 361,889,550	\$ 409,418,513	\$ 424,932,654	\$ 434,030,021	\$ 442,676,923



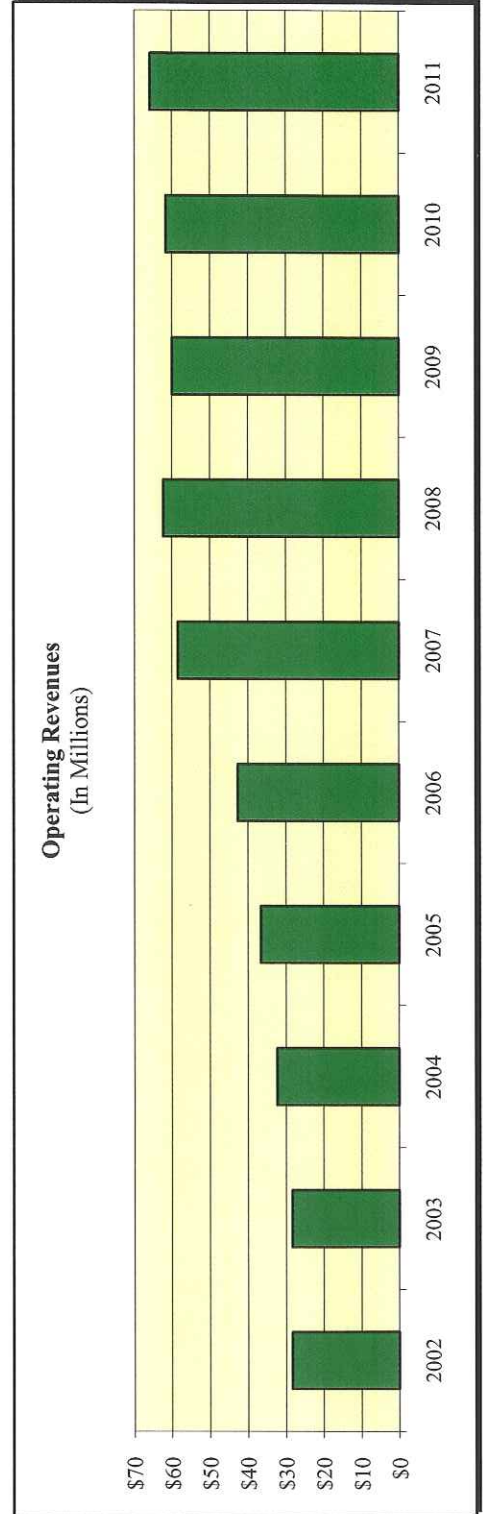
**GRAND STRAND WATER AND SEWER AUTHORITY
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income/(Loss)	Total Nonoperating Revenues/ (Expenses)	Income/(Loss) Before Capital Contributions	Capital Contributions	Change in Net Assets
2002	28,278,460	25,889,161	2,389,299	(1,344,319)	1,044,980	20,376,731	21,421,711
2003	28,333,122	28,811,049	(477,927)	(2,043,681)	(2,521,608)	16,797,258	14,275,650
2004	32,275,269	31,759,362	515,907	(4,376,695)	(3,860,788)	27,660,094	23,799,306
2005	36,571,027	33,591,329	2,979,698	(2,758,266)	221,432	29,300,325	29,521,757
2006	42,668,707	39,729,593	2,939,114	(1,210,337)	1,728,777	38,229,179	39,957,956
2007	58,417,958	50,960,722	7,457,236	(2,823,384)	4,633,852	42,345,067	46,978,919
2008	62,262,174	54,556,193	7,705,981	(1,485,332)	6,220,649	41,308,314	47,528,963
2009	59,871,611	61,745,596	(1,873,985)	(2,797,844)	(4,671,829)	25,198,062	20,526,233
2010	61,640,883	58,526,944	3,113,939	(3,488,744)	(374,805)	9,472,172	9,097,367
2011	65,860,428	61,662,207	4,198,221	(6,504,152)	(2,305,931)	10,952,833	8,646,902



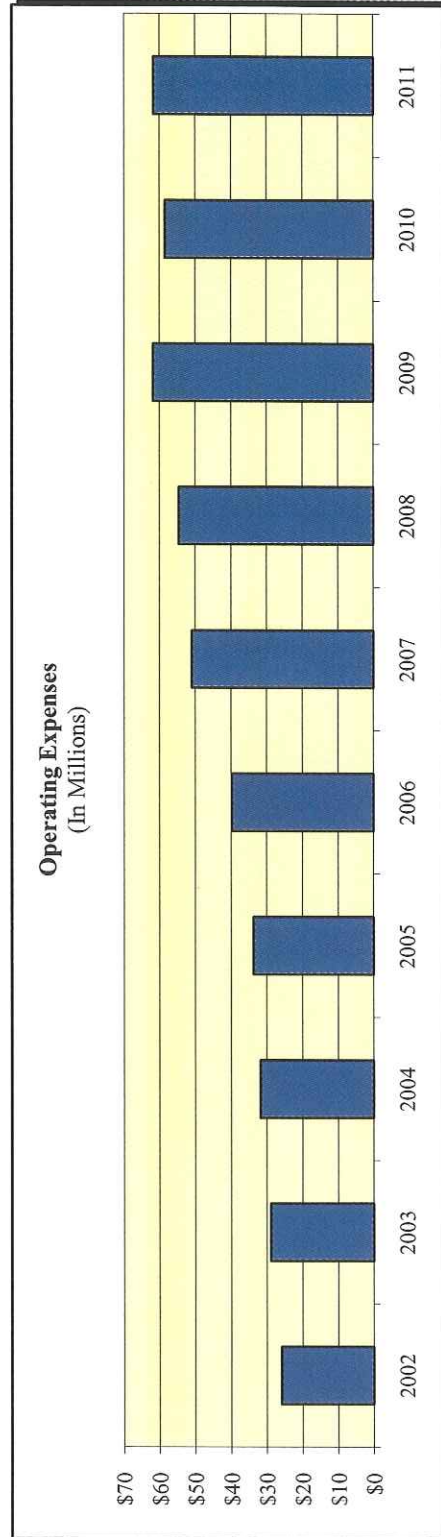
**GRAND STRAND WATER AND SEWER AUTHORITY
OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Water & Sewer Volume & Availability Fees	Customer Charges	Surface Water Charges	SWTP Contract Water Consumption	Other Revenue	Total Operating Revenue
2002	\$ 17,010,676	\$ 2,665,857	\$ 4,066,260	\$ 2,038,898	\$ 2,496,769	\$ 28,278,460
2003	17,303,689	2,820,313	4,223,574	1,697,260	2,288,286	28,333,122
2004	19,593,043	3,344,644	4,531,216	1,945,376	2,860,990	32,275,269
2005	21,033,852	4,747,399	4,904,977	2,150,031	3,734,768	36,571,027
2006	24,318,246	5,683,388	5,389,236	2,330,268	4,947,569	42,668,707
2007	40,342,471	4,932,195	5,713,617	2,316,629	5,113,046	58,417,958
2008	44,731,026	4,346,601	6,021,758	2,453,313	4,709,476	62,262,174
2009	44,766,505	4,352,846	6,194,359	2,484,055	2,073,846	59,871,611
2010	45,921,594	4,618,838	6,275,812	2,956,888	1,867,751	61,640,883
2011	49,729,727	4,746,543	6,428,952	3,308,715	1,646,491	65,860,428



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

Fiscal Year	Personnel Costs	Contractual Services	Supplies and Materials	Depreciation	Other Expenses	Total Operating Expenses
2002	\$ 5,860,665	\$ 4,391,714	\$ 4,020,883	\$ 9,937,536	\$ 1,678,363	\$ 25,889,161
2003	7,118,937	4,813,566	4,354,951	10,948,323	1,575,272	28,811,049
2004	7,512,449	5,944,673	4,624,503	11,895,849	1,781,888	31,759,362
2005	8,325,391	5,580,116	5,258,876	12,538,491	1,888,455	33,591,329
2006	8,958,676	8,545,559	7,021,438	13,323,239	1,880,681	39,729,593
2007	12,562,364	10,925,712	9,951,269	15,363,404	2,157,973	50,960,722
2008	14,443,846	10,885,255	9,785,172	17,400,238	2,041,682	54,556,193
2009	16,072,133	12,840,165	10,588,022	19,860,538	2,384,738	61,745,596
2010	15,270,542	12,150,141	8,033,877	20,843,152	2,229,232	58,526,944
2011	16,553,131	11,776,220	9,083,240	22,303,035	1,946,581	61,662,207



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

Fiscal Year	Investment Income	Gain/(Loss) on Disposal of Capital Assets	Amortization of Deferred Bond Costs	Interest Expense	Total Nonoperating Revenues/ (Expenses)
2002	\$ 4,232,862	\$ 120,624	\$ (173,579)	\$ (5,524,226)	\$ (1,344,319)
2003	5,062,406	63,772	(131,788)	(7,038,071)	(2,043,681)
2004	2,649,777	83,531	(97,313)	(7,012,690)	(4,376,695)
2005	4,760,648	(142,859)	(102,251)	(7,273,804)	(2,758,266)
2006	3,311,395	(541,197)	(102,251)	(7,936,226)	(5,268,279)
2007	6,200,184	48,862	(111,962)	(8,960,468)	(2,823,384)
2008	8,128,067	(1,037)	(113,717)	(9,498,645)	(1,485,332)
2009	6,962,758	(51,610)	(122,554)	(9,586,438)	(2,797,844)
2010	6,470,394	129,662	(122,858)	(9,965,942)	(3,488,744)
2011	3,175,093	(71)	(132,575)	(9,546,599)	(6,504,152)

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

Fiscal Year	SWTP Capacity Fees	Government Grants	Customer Impact Fees	Developer Contributions	Total
2002	\$ 2,040,496	\$ 450,515	\$ 9,591,659	\$ 8,294,061	\$ 20,376,731
2003	2,010,464	1,446,361	5,017,572	8,322,861	16,797,258
2004	2,029,308	1,571,037	13,615,301	10,444,448	27,660,094
2005	1,918,047	284,906	11,544,330	15,553,042	29,300,325
2006	1,970,844	-	13,912,826	22,345,509	38,229,179
2007	1,970,844	-	9,827,621	30,546,602	42,345,067
2008	1,961,592	-	6,953,139	32,393,583	41,308,314
2009	1,985,592	757,542	3,614,012	18,840,916	25,198,062
2010	2,078,076	89,046	3,088,548	4,216,502	9,472,172
2011	2,090,904	605,767	3,827,392	4,428,770	10,952,833

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

Fiscal Year	Gallons of Water Produced (In Millions)	Gallons of Water Consumed (In Millions)	Gallons of Water Unbilled (In Millions)	Average Percent Unbilled	Gallons of Wastewater Treated (In Millions)	Total Direct Rate			
						Water		Sewer	
						Base Rate	Usage Rate	Base Rate	Usage Rate
2002	7,283	7,006	277	3.80%	4,723	\$ 9.52	\$ 1.06	\$ 7.05	\$ 1.55
2003	6,929	6,357	572	8.26%	5,031	9.52	1.06	7.05	1.55
2004	7,569	7,019	550	7.27%	5,480	9.58	1.10	7.11	1.65
2005	7,524	6,705	819	10.89%	5,479	9.58	1.10	7.11	1.65
2006	8,632	7,815	817	9.46%	6,045	9.58	1.10	8.11	1.70
2007	15,536	14,214	1,322	8.51%	8,775	9.58	1.10	8.11	1.70
2008	16,140	15,625	515	3.19%	9,325	9.90	1.15	8.90	1.75
2009	14,909	14,478	431	2.89%	9,925	9.90	1.15	8.90	1.75
2010	14,904	13,823	1,081	7.25%	10,223	10.40	1.15	9.40	1.75
2011	15,305	14,448	857	5.60%	10,758	10.40	1.15	9.40	1.75

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

Fiscal Year	Taps Sold		Total
	Water Meter Taps	Sewer Taps	
2002	546	280	826
2003	541	271	812
2004	595	278	873
2005	705	257	962
2006	784	238	1022
2007	837	243	1080
2008	525	195	720
2009	314	162	476
2010	267	154	421
2011	285	144	429

Schedule 9

GRAND STRAND WATER AND SEWER AUTHORITY
 NUMBER OF WATER AND SEWER CUSTOMERS BY TYPE
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	Water Only			Sewer Only			Water & Sewer			Total		
	Retail	Wholesale	Other	Retail	Wholesale	Other	Retail	Wholesale	Other	Water Only	Sewer Only	Water & Sewer
2002	6,153	8	20	3,061	8	26	33,188	0	1	6,181	3,095	33,189
2003	6,301	8	22	3,184	8	26	35,186	0	1	6,331	3,218	35,187
2004	6,528	8	22	3,426	8	26	38,116	0	1	6,558	3,460	38,117
2005	6,752	8	20	3,741	8	27	42,742	0	0	6,780	3,776	42,742
2006	7,041	8	19	4,137	8	27	47,654	0	0	7,068	4,172	47,654
2007	7,393	10	19	4,471	8	26	50,883	0	0	7,422	4,505	50,883
2008	7,937	10	19	4,752	7	27	52,223	0	0	7,966	4,786	52,223
2009	8,084	10	49	4,899	21	23	52,249	0	0	8,143	4,943	52,249
2010	8,649	11	44	5,067	15	22	56,197	0	0	8,704	5,104	56,197
2011	8,768	11	46	5,105	15	22	57,287	0	0	8,825	5,142	57,287

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

Fiscal Year	Water		Sewer	
	Base Rate	Usage Rate	Base Rate	Usage Rate
2002	\$ 9.52	\$ 1.06	\$ 7.05	\$ 1.55
2003	9.52	1.06	7.05	1.55
2004	9.58	1.10	7.11	1.65
2005	9.58	1.10	7.11	1.65
2006	9.58	1.10	8.11	1.70
2007	9.58	1.10	8.11	1.70
2008	9.90	1.15	8.90	1.75
2009	9.90	1.15	8.90	1.75
2010	10.40	1.15	9.40	1.75
2011	10.40	1.15	9.40	1.75

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

Customer	Fiscal Year 2011		Total
	Water Revenue	Sewer Revenue	
City of Myrtle Beach	\$ 6,310,130	\$ 5,824,262	\$ 12,134,392
City of Conway	2,755,578	1,151,018	3,906,596
City of North Myrtle Beach	3,185,475	363,862	3,549,337
Little River Water and Sewerage Company	1,081,790	946,232	2,028,022
City of Loris	204,143	412,626	616,769
Ocean Lakes Utilities	138,249	239,186	377,435
Ocean Side Village	148,960	175,570	324,530
Georgetown County Water and Sewer Authority	228,749	82,300	311,049
Myrtle Beach Resort	126,158	135,293	261,451
Springmaid Beach Resort	101,749	112,773	214,522

Customer	Fiscal Year 2001		Total
	Water Revenue	Sewer Revenue	
City of Conway	\$ 1,974,470	\$ 498,588	\$ 2,473,058
Little River Water and Sewerage Company	730,560	313,864	1,044,424
City of Myrtle Beach	1,041,794	-	1,041,794
Ocean Lakes Campground	124,823	154,883	279,706
Georgetown County Water and Sewer Authority	189,250	82,320	271,570
Ocean Side Village	139,920	88,871	228,791
Conway Hospital	76,722	92,179	168,901
Pirateland Campground	93,206	74,831	168,037
Springmaid Beach	74,087	90,364	164,451
Town of Loris	152,299	-	152,299

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

Fiscal Year	Capital Lease	Revenue Bonds	Notes	Companion Debt	Revolving Fund Loans	Total		
						Amount	As a % of Personal Income	
2002	\$ 1,655,319	\$ 123,761,717	\$ 111,022	\$ -	\$ 34,155,286	\$ 159,683,344	3.31%	\$ 794
2003	1,630,389	132,034,514	60,224	-	35,499,152	169,224,279	3.34%	821
2004	1,585,602	129,868,954	47,247	-	27,086,587	158,588,390	2.98%	752
2005	1,503,026	127,404,847	32,971	-	38,030,781	166,971,625	2.93%	767
2006	1,411,971	125,024,902	17,268	-	55,644,921	182,099,062	2.99%	802
2007	1,317,609	141,587,770	-	-	61,696,450	204,601,829	3.08%	858
2008	1,219,819	146,951,664	-	-	61,639,865	209,811,348	2.97%	839
2009	1,118,476	151,559,700	-	3,990,427	68,890,697	225,559,300	2.98%	876
2010	1,013,453	145,882,320	-	3,990,427	68,638,660	219,524,860	2.86%	832
2011	904,615	153,643,869	-	3,990,427	54,936,109	213,475,020	NA	793

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

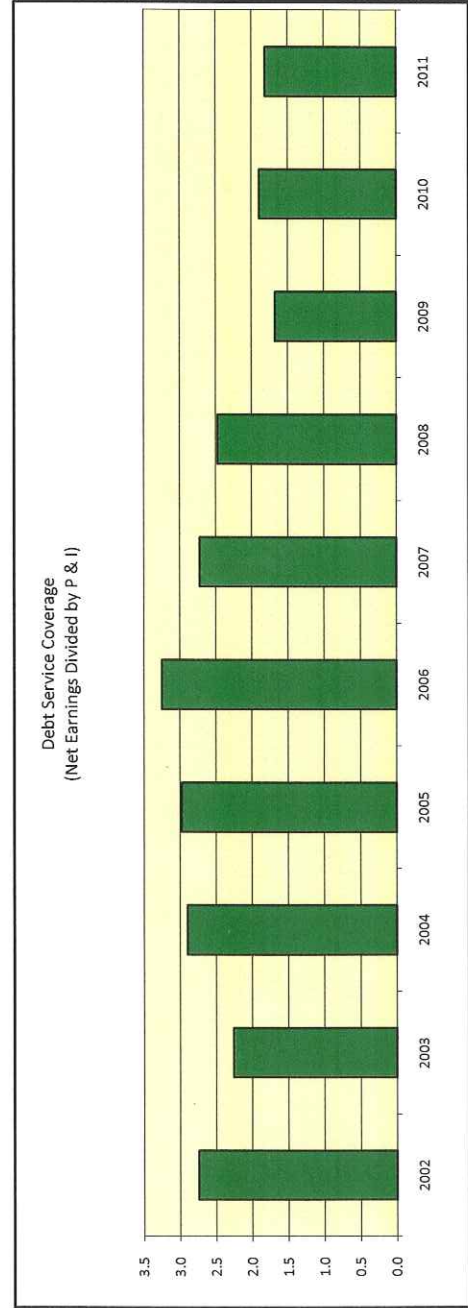
Fiscal Year	Gross Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Net Earnings Available for Debt Service	Debt Service Requirements ⁽³⁾			Coverage ⁽⁴⁾
				Principal	Interest	Total	
2002	\$ 44,144	\$ 15,897	\$ 28,247	\$ 3,651	\$ 6,649	\$ 10,300	2.74
2003	40,816	17,862	22,954	3,240	6,939	10,179	2.26
2004	50,884	19,863	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
2010	73,408	37,684	35,724	9,151	9,742	18,893	1.89
2011	74,954	39,349	35,605	10,562	9,084	19,646	1.81

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

⁽²⁾ Includes Principal and Interest of Revenue bonds and State Revolving Loans Only.
 Principal = Total Reductions for Bonds and Notes from Note 5-2

⁽³⁾ Total Operating Expenses Excluding Depreciation and Certain Other Adjustments.

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



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

Calendar Year	Population	Personal Income (Thousands of Dollars)	Per Capita Personal Income	Median Age	Unemployment Rate
2001	201,088	\$ 4,830,335	\$ 24,021	38.3	4.9
2002	206,039	5,065,263	24,584	38.3	5.2
2003	210,757	5,324,986	25,266	38.3	5.7
2004	217,608	5,694,801	26,170	38.3	5.9
2005	226,992	6,080,889	26,789	38.3	5.8
2006	238,493	6,632,252	27,809	38.3	5.4
2007	249,925	7,074,627	28,307	37.1	5.0
2008	257,380	7,562,597	29,383	N/A	11.3
2009	263,868	7,678,701 ⁽²⁾	29,101 ⁽²⁾	41.0 ⁽³⁾	14.5
2010	269,291 ⁽¹⁾	N/A	N/A	N/A	13.1 ⁽⁴⁾

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

Data presented is Horry County statistics.

⁽¹⁾ Quick Facts from the US Census Bureau (<http://quickfacts.census.gov/qfd/states/45/45051.html>)

⁽²⁾ Bureau of Economic Analysis (<http://www.bea.gov/regional/bearfacts/action.cfm>)

⁽³⁾ US Census Bureau Fact Finder

⁽⁴⁾ As of 12/31/10 from Bureau of Labor Statistics (<http://www.bls.gov/lau/laucountycur14.txt>)

NA - Not Available

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Full-Time Equivalent Employees as of June 30										
Water										
Water Plant Operations	14	14	15	14	13	24	23	23	25	24
Water Plant Maintenance	1	1	1	2	2	8	6	6	6	5
Water Systems Maintenance	16	18	17	17	17	15	15	13	14	17
Water Systems Operations	11	10	11	12	13	13	25	27	29	34
Sewer										
Sewer Plant Operations	16	18	18	18	18	32	39	39	45	36
Sewer Plant Maintenance	1	1	1	2	4	11	12	13	11	13
Sewer Systems Maintenance	30	34	33	34	35	38	36	38	37	38
Biosolid / Sludge Disposal Operations	14	16	16	16	18	22	25	23	27	27
Engineering / Inspection / Construction										
Engineering	12	13	12	12	7	15	16	15	14	15
Inspections	5	5	4	5	6	7	7	7	7	6
Construction	16	16	16	16	16	17	19	23	22	22
Administration										
Billing / Customer Service	12	13	13	14	15	16	16	18	23	23
Meter Reading	12	12	13	13	8	9	-	-	-	-
Human Resources	2	2	2	2	2	2	2	2	2	2
Finance and Accounting	5	5	5	5	5	5	6	6	6	5
Purchasing	3	4	4	4	4	4	4	4	4	4
Information Systems	2	2	2	2	2	3	4	4	4	4
Executive Administration	7	7	7	7	14	6	5	3	3	3
Fleet / Facilities Management	-	-	-	-	-	-	-	5	3	4
Total	179	191	190	195	199	247	260	269	282	282

GRAND STRAND WATER AND SEWER AUTHORITY
MISCELLANEOUS STATISTICAL DATA
JUNE 30, 2011
(UNAUDITED)

Schedule 16

Sewer System Facts

<u>Use of Sewer</u>	<u>2011</u>	<u>2010</u>
Sewer Customers, End of Period	62,429	61,301
Average Daily Consumption (Millions of Gallons)	27.54	26.81
Estimated Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	10.05	9.78

System Facilities

Total Miles of Sewer Lines *	1,562	1,532
Number of Treatment Plants	11	10
Number of Pumping Stations	629	592
Number of Residential Effluent Pumping Stations	433	430
Number of Residential Grinder Pumping Stations	4,557	4,413

*Force Main	791
Gravity	<u>771</u>
	1,562

GRAND STRAND WATER AND SEWER AUTHORITY
 MISCELLANEOUS STATISTICAL DATA
 JUNE 30, 2011
 (UNAUDITED)

Water System Facts

<u>Use of Water</u>	<u>2011</u>	<u>2010</u>
Water Customers, End of Period	66,112	64,901
Average Daily Consumption (Millions of Gallons)	38.84	37.87
Estimated Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons) *	14.18	13.82
 <u>System Facilities</u>		
Reservoirs **	25	25
Storage Capacity (Millions of Gallons) **	29	29
Auxiliary Deep Water Wells	49	41
Total Miles of Distribution Lines	1,646	1,613
Fire Hydrants	6,507	6,382

* Includes SW/TTP Participant Sales

** Includes SW/TTP Storage Tanks (Ground & Elevated)

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SINGLE AUDIT SECTION

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**GRAND STRAND WATER AND SEWER AUTHORITY
 SCHEDULE OF EXPENSES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA / ARRA Number	Grant Title	Pass-Through Entity Identifying Number	Federal Expenditures
US Department of Housing and Urban Development: Passed through the Town of Sellers Community Development Block Grant Program	14.228	Regional Sewer Treatment Connection	4-CI-09-016	<u>\$ 605,767</u>
Total Expenditures of Federal Awards				<u>\$ 605,767</u>

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

To the Board of Directors
Grand Strand Water and Sewer Authority

We have audited the accompanying financial statements of the business-type activities of Grand Strand Water and Sewer Authority (GSWSA) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 19, 2011. 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

Management of GSWSA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered GSWSA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSWSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GSWSA's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the board of directors, and others within GSWSA, and is not intended to be and should not be used by anyone other than these specified parties.

Elliot Davis, LLC

Columbia, South Carolina
September 19, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Grand Strand Water and Sewer Authority

Compliance

We have audited the compliance of Grand Strand Water and Sewer Authority (GSWSA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of GSWSA's major federal programs for the year ended June 30, 2011. GSWSA's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of GSWSA's management. Our responsibility is to express an opinion on GSWSA's compliance based on our audit.

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

In our opinion, GSWSA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of GSWSA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered GSWSA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GSWSA's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as Item 2011-1. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

GSWSA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit GSWSA's response and, accordingly, we express no opinion on the response.

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

Elliott Davis, LLC

Columbia, South Carolina
September 19, 2011

**GRAND STRAND WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes no

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

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

Identification of major programs:

CFDA Number

14.228

Name of Federal Program or Cluster

U.S. Department of Housing and Urban Development,
Passed through the Town of Sellers, Community
Development Block Grant

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

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported

**GRAND STRAND WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS

2011-1

Federal Program: Community Development Block Grant (CDBG)
CFDA 14.228, 2009
Department of Housing and Urban Development
Passed through the Town of Sellers
Grant Number 4-C1-09-016

Requirement: Internal controls should be in place to provide reasonable assurance of compliance with certain requirements of the above grant, including those related to the Davis Bacon Act.

Condition: The Authority had no internal controls in place to provide reasonable assurance of compliance with certain requirements of the above grant, including documentation of interviews with construction workers as required by Davis Bacon.

Context: We performed inquiries of Authority personnel in order to determine how compliance was being monitored. We noted that this responsibility has been delegated to a third party administrator. We further noted that the third party administrator had been recently cited for not documenting performance of the required Davis Bacon interviews.

Effect: The lack of internal control over compliance may result in non-compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on the CDBG Program. Non-compliance may impair eligibility for future funding through such programs.

Cause: The Authority misinterpreted the assignment of a third party to administer the award as having relieved the Authority of responsibility for compliance.

Recommendation: We recommend implementing processes and procedures to monitor the execution of controls over compliance performed by a third party to include: (1) request copies of relevant reports and documentation, (2) perform inquiries and document results related to compliance.

Response/Corrective Action The Authority agrees with the finding and the recommended processes and procedures have been implemented.