



SOUTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

Prepared By:

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

**For the Year Ended June 30, 2012
with
Independent Auditor's Report**

**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, 2012

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
Richard G. Singleton, II, Member

CHIEF EXECUTIVE OFFICER

Fred R. Richardson

GRAND STRAND WATER AND SEWER AUTHORITY
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2012

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INTRODUCTORY SECTION

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September 24, 2012

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, 2012 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 continues to experience the effects of a recession with higher unemployment rates than normal and a 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 2012, with the addition of over 1,500 customers. The monthly average of submittals for new developer projects requiring water and sewer service was down from 4.7 projects in fiscal year 2011 to 4.3 projects in 2012. The projects submitted in 2012 will account for a monthly average of over 41 Residential Equivalent Units (REUs). This is a 16% decline from the monthly average of 49 REUs submitted in 2011. The number of new developer project submittals and REUs are lower than most recent historical data. Assets contributed to GSWSA by developers during 2012 were \$2.3 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 \$2,573,192 for the SCDOT Backgate Interchange Water and Wastewater Relocations and \$392,076 on the SCDOT Aynor Overpass Water and Wastewater Relocations. GSWSA spent almost \$5 million on its Rural Water and Sewer program to extend water and sewer lines to the rural communities of Horry County. Nearly \$1 million was spent on the Sellers to Latta Force Main, which upgraded the Sellers facility to discharge to the Latta WWTP.

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. In September 2012, GSWSA acquired the City of Mullins' water and wastewater systems. GSWSA 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 2012, GSWSA implemented several policies aimed at reducing and/or maintaining expenses at the same level as 2011. 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 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 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 GSWSA has complied with applicable laws and regulations.

In addition, GSWSA maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by GSWSA's Board of Directors. 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, 2011. This was the 23rd 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, 2011

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.



Linda C. Davidson

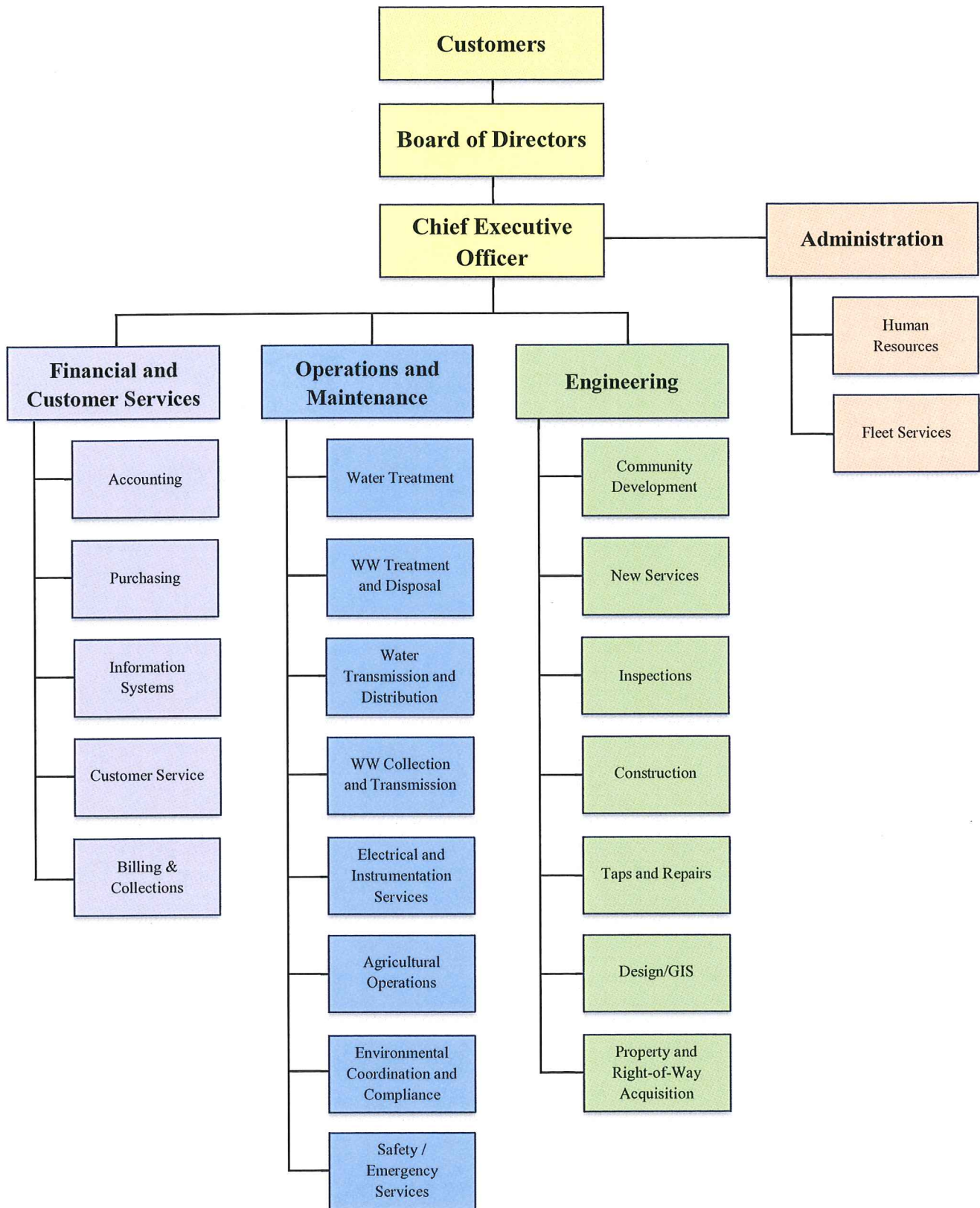
President

Jeffrey R. Emer

Executive Director

Grand Strand Water and Sewer Authority

Functional Organizational Chart



GRAND STRAND WATER AND SEWER AUTHORITY
LIST OF PRINCIPAL OFFICIALS
June 30, 2012

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
Richard G. Singleton, II	August 15, 2013

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

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INDEPENDENT AUDITOR'S 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, 2012 and 2011, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2012 and 2011, 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 11, 2012 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 audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 13 and schedule of funding progress for postemployment benefit plan on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with audit standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements as a whole. 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 are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary schedule of cash receipts and disbursements for restricted accounts and the supplementary schedule of operating expenses by department are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Elliott Davis, LLC

Columbia, South Carolina
September 11, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**GRAND STRAND WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012 and 2011. 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 2012. 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, 2012. Total assets at June 30, 2012 were \$710.2 million and exceeded liabilities by \$453 million (i.e. net assets). Of total net assets, \$107.9 million were unrestricted. Total assets increased from fiscal year 2011 to 2012 by \$35.5 million and total liabilities increased by \$25.2 million.
- 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, approximately \$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.
- Operating revenues were approximately \$66.6 million in 2012, an increase of approximately \$705,000 from 2011, or 1.07%. Operating revenues were approximately \$65.9 million in 2011, an increase of \$4.2 million from 2010, or 6.8%. During 2012, the major increase in revenues was due to the increase in water and wastewater availability and volume charges and customer charges due to the increase in water and wastewater rates and net billable customers.
- In 2012, operating expenses before depreciation increased by \$302,271 or 0.8%, compared to an increase of 4.4% in 2011. The total operating expenses, including depreciation, increased \$760,730 or 1.2%. The increase in operating expenses in 2012 is mainly attributed to a small merit increase for employees and the costs associated with fuel and supplies and materials used to repair water and wastewater facilities.
- 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.
- The operating income for fiscal year 2012 was \$4.1 million, a 1.3% decrease from the previous fiscal year due to a larger increase in operating expenses rather than an increase in operating revenue.
- There was an increase in net assets, before capital contributions of \$2.1 million in fiscal year 2012. There was an increase in net assets after capital contributions of \$10.3 million.
- Ratios of total operating revenues to total operating expenses were 1.07 for 2012 and 2011.
- Debt service coverage for 2012 increased to 206% as compared to 181% in 2011 and 189% in 2010. Debt service coverage required by the bond covenants is 110%, which is well within our current coverage.

FINANCIAL HIGHLIGHTS, continued

- In 2012, capital contributions from customer impact fees were \$3.7 million, a decrease of 4.5% compared to fiscal year 2011. Developer contributions of facilities were \$2.3 million, a decrease of 48.76% from 2011.
- Customer impact fee capital contributions in 2011 were \$3.8 million, an increase of 23.9% compared to year 2010. Developer contributions of facilities were \$4.4 million, an increase of 5% from 2010.
- GSWSA treated and distributed over 14.71 billion gallons of water and collected and treated over 9.95 billion gallons of wastewater, an increase from fiscal year 2011 of 3.7% for water and a decrease of 1.0% for wastewater. Water consumption was up in all customer classes during 2012. Wastewater usage was up in retail and down slightly in bulk and wholesale from 2011.
- In fiscal year 2012, GSWSA added 1,538 water and 1,581 wastewater net customers which resulted in a net of 1,511 water and 1,871 wastewater residential equivalent units. During 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. The net 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 52 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 also 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

	<u>2012</u>	<u>2011</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>	<u>2010</u>	<u>Variance</u> <u>\$</u>	<u>Variance</u> <u>%</u>
Current Assets	\$ 110,482,310	\$ 98,552,512	\$ 11,929,798	12.1%	\$ 94,121,254	\$ 4,431,258	4.7%
Restricted Assets - Current	26,318,811	2,841,232	23,477,579	826.3%	3,040,212	(198,980)	-6.5%
Noncurrent Assets	21,511,742	7,583,158	13,928,584	183.7%	8,343,987	(760,829)	-9.1%
Restricted Assets - Noncurrent	20,774,086	29,100,976	(8,326,890)	-28.6%	30,097,803	(996,827)	-3.3%
Capital Assets	529,596,306	535,258,956	(5,662,650)	-1.1%	535,692,847	(433,891)	-0.1%
Other Assets	1,534,774	1,354,848	179,926	13.3%	1,385,724	(30,876)	-2.2%
Total Assets	<u>\$ 710,218,029</u>	<u>\$ 674,691,682</u>	<u>\$ 35,526,347</u>	<u>5.3%</u>	<u>\$ 672,681,827</u>	<u>\$ 2,009,855</u>	<u>0.3%</u>
Current Liabilities	\$ 23,782,929	\$ 21,540,154	\$ 2,242,775	10.4%	\$ 20,940,911	\$ 599,243	2.9%
Long Term Liabilities	233,428,479	210,474,605	22,953,874	10.9%	217,710,895	(7,236,290)	-3.3%
Total Liabilities	<u>\$ 257,211,408</u>	<u>\$ 232,014,759</u>	<u>\$ 25,196,649</u>	<u>10.9%</u>	<u>\$ 238,651,806</u>	<u>\$ (6,637,047)</u>	<u>-2.8%</u>
Net Assets							
Net Invested in Capital Assets,							
Net of Related Debt	\$ 303,004,380	\$ 322,250,503	\$ (19,246,123)	-6.0%	\$ 316,467,676	\$ 5,782,827	1.8%
Restricted for:							
Capital Activity	39,494,069	14,759,824	24,734,245	167.6%	14,131,946	627,878	4.4%
Debt Service	2,590,751	12,294,763	(9,704,012)	-78.9%	14,195,728	(1,900,965)	-13.4%
Unrestricted	107,917,421	93,371,833	14,545,588	15.6%	89,234,671	4,137,162	4.6%
Total Net Assets	<u>\$ 453,006,621</u>	<u>\$ 442,676,923</u>	<u>\$ 10,329,698</u>	<u>2.3%</u>	<u>\$ 434,030,021</u>	<u>\$ 8,646,902</u>	<u>2.0%</u>
Total Liabilities & Net Assets	<u>\$ 710,218,029</u>	<u>\$ 674,691,682</u>	<u>\$ 35,526,347</u>	<u>5.3%</u>	<u>\$ 672,681,827</u>	<u>\$ 2,009,855</u>	<u>0.3%</u>

FINANCIAL ANALYSIS, continued

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2012	2011	Variance \$	Variance %	2010	Variance \$	Variance %
Revenues							
Operating Revenues:							
Water and Sewer Volume & Availability Fees	\$ 50,177,028	\$ 49,729,727	\$ 447,301	0.9%	\$ 45,921,594	\$ 3,808,133	8.3%
Customer Charges	5,354,967	5,110,985	243,982	4.8%	5,117,627	(6,642)	-0.1%
Surface Water Charges	6,324,150	6,428,952	(104,802)	-1.6%	6,275,812	153,140	2.4%
Surface Water Treatment Plant Contract Revenue	3,228,297	3,308,715	(80,418)	-2.4%	2,956,888	351,827	11.9%
Other Revenue	1,480,715	1,282,049	198,666	15.5%	1,368,962	(86,913)	-6.3%
Nonoperating Revenue:							
Investment Income	5,757,105	3,175,093	2,582,012	81.3%	6,470,394	(3,295,301)	-50.9%
Gain (Loss) on Disposal of Capital Assets	(275,083)	(71)	(275,012)	-387340.8%	129,662	(129,733)	-100.1%
Capital Contributions	8,223,999	10,952,833	(2,728,834)	-24.9%	9,472,172	1,480,661	15.6%
Total Revenues	80,271,178	79,988,283	282,895	0.4%	77,713,111	2,275,172	2.9%
Expenses							
Operating Expenses							
Before Depreciation	39,661,443	39,359,172	302,271	0.8%	37,683,792	1,675,380	4.5%
Depreciation	22,761,494	22,303,035	458,459	2.1%	20,843,152	1,459,883	7.0%
Nonoperating Expenses:							
Amortization of Deferred Bond Costs	142,051	132,575	9,476	7.2%	122,858	9,717	7.9%
Interest Expense	7,376,492	9,546,599	(2,170,107)	-22.7%	9,965,942	(419,343)	-4.2%
Total Expenses	69,941,480	71,341,381	(1,399,901)	-2.0%	68,615,744	2,725,637	4.0%
Increase in Net Assets	10,329,698	8,646,902	1,682,796	19.5%	9,097,367	(450,465)	-5.0%
Beginning Net Assets	442,676,923	434,030,021	8,646,902	2.0%	424,932,654	9,097,367	2.1%
Ending Net Assets	\$ 453,006,621	\$ 442,676,923	\$ 10,329,698	2.3%	\$ 434,030,021	\$ 8,646,902	2.0%

FINANCIAL ANALYSIS, continued

Selected Data for Analysis

	<u>2012</u>	<u>2011</u>	<u>Variance Amount</u>	<u>Variance %</u>	<u>2010</u>	<u>Variance Amount</u>	<u>Variance %</u>
Employees at Year End	283	282	1	0.4%	282	-	0.0%
Active Customers at Year End:							
Water Customers	67,650	66,112	1,538	2.3%	64,901	1,211	1.9%
Wastewater Customers	64,010	62,429	1,581	2.5%	61,301	1,128	1.8%
Water Sales for Fiscal Year (Billions of Gallons)	14.71	14.18	0.53	3.7%	13.82	0.36	2.6%
Wastewater Sales for Fiscal Year (Billions of Gallons)	9.95	10.05	(0.10)	-1.0%	9.78	0.27	2.8%
Total Operating Revenues (Per Average Employees)	\$ 235,213	\$ 233,548	\$ 1,665	0.7%	\$ 218,585	\$ 14,963	6.9%
Total Operating Expenses (Per Average Employees)	\$ 220,576	\$ 218,660	\$ 1,916	0.9%	\$ 207,542	\$ 11,118	5.4%
Ratio of Operating Revenues to:							
Operating Expenses	1.066	1.068	(0.002)	-0.2%	1.053	0.015	1.4%
Operating Expenses Net of Depreciation	1.678	1.673	0.005	0.3%	1.636	0.037	2.3%
Total Assets	0.094	0.098	(0.004)	-4.1%	0.092	0.006	6.5%
Debt Related Ratios:							
Debt to Net Assets	0.568	0.524	0.044	8.4%	0.550	(0.026)	-4.7%
Debt to Capital Assets	0.486	0.433	0.053	12.2%	0.446	(0.013)	-2.9%
Operating Coverage (Operating Cash Flow/Debt)	0.107	0.107	(0.000)	0.0%	0.099	0.008	8.1%
Debt Ratio (Total Debt/Total Assets)	0.362	0.344	0.018	5.2%	0.355	(0.011)	-3.1%
Bond Coverage (Net Earnings/Debt Required)	2.06	1.81	0.25	13.8%	1.89	(0.08)	-4.2%
Liquidity Ratio (Current Assets/Current Liabilities)	5.752	4.707	1.045	22.2%	4.640	0.067	1.4%
Asset Management Ratios:							
Days Sales Outstanding (Receivables/(Sales/360))	51	55	(4)	-7.3%	48	7	14.6%
Asset Turnover (Sales/Assets)	0.094	0.098	(0.004)	-4.1%	0.092	0.006	6.5%

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 April 2012, GSWSA entered into a Grant of Franchise and Purchase and Sale Agreement with the City of Mullins, SC to acquire their water and wastewater systems. The transaction will take place in September 2012. 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 as appropriate.

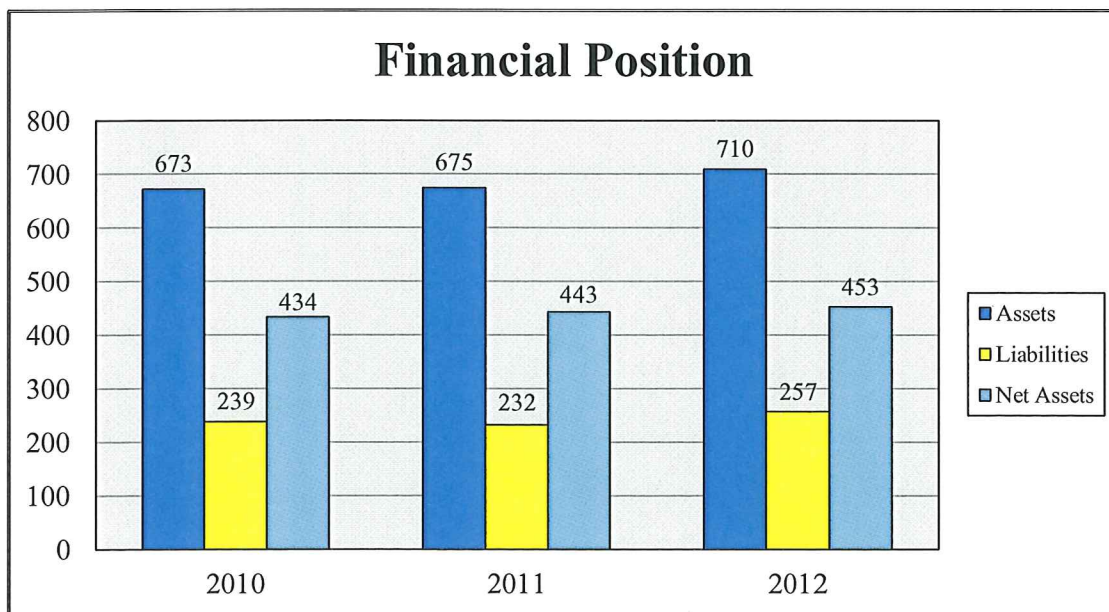
Weather temperatures during fiscal year 2012 were generally normal for all seasons except summer, which was hotter than it has ever been recorded. It also rained 1.2" inches or 3.5% less in 2012 than 2011. The severe drought in the area resulted in more water usage than 2011.

The volume of water sold in fiscal year 2012 was 14.71 billion gallons, an increase of 3.7% from fiscal year 2011. Retail customers purchased 38% of the total water sold and the wholesale customers purchased 62%.

The volume of treated wastewater sold in fiscal year 2012 was 9.95 billion gallons, a decrease of 1.0% from fiscal year 2011. GSWSA's total wastewater flows for 2012 were less than in 2011 with the retail wastewater flows showing an increase over 2011. Retail customers purchased approximately 54% of the total treated wastewater and wholesale customers purchased 46%.

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.



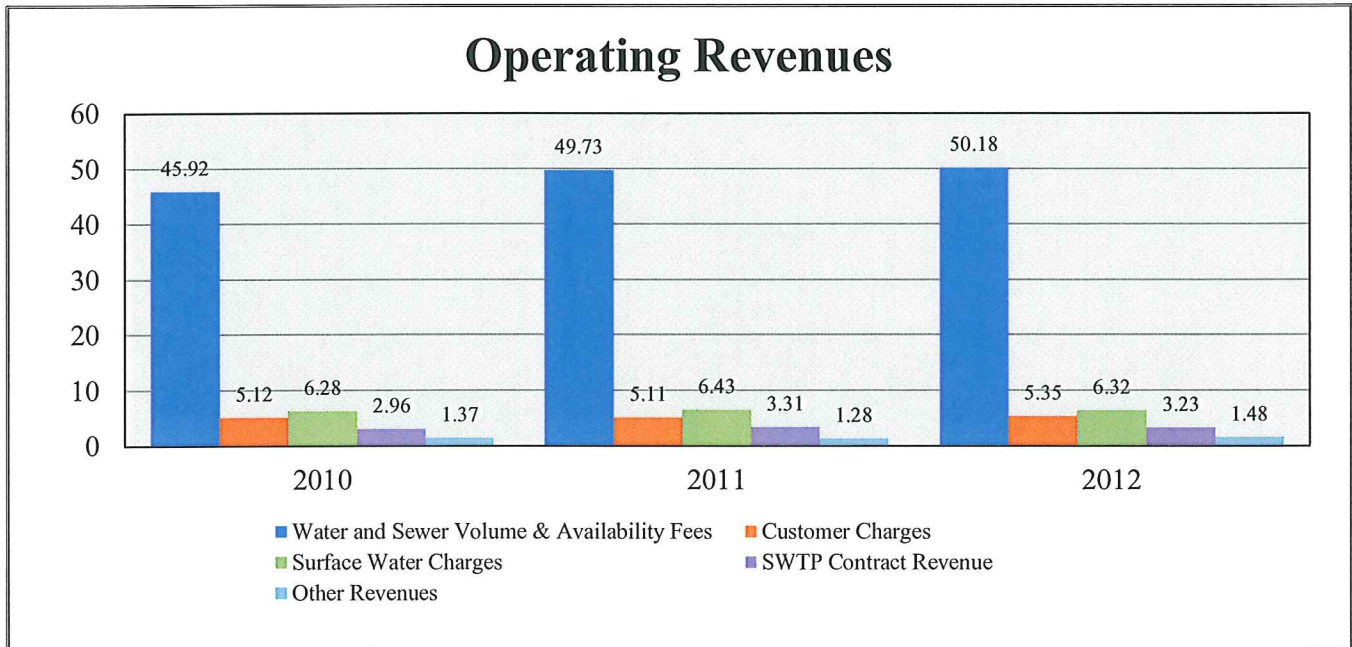
FINANCIAL CONDITION, continued

During fiscal year 2012, total assets grew by \$35.5 million or 5.27% with approximately \$35.4 million represented by additions to current assets. Net assets increased overall by \$10.3 million, with most of the change resulting from an increase in restricted for capital activity due to the addition of over \$23 million in a capital projects construction fund. Unrestricted net assets increased \$14.5 million or 15.6% mainly due to the release of the debt service reserve accounts.

Accounts receivable for 2012 decreased by almost \$700,000 from 2011. The decrease is mainly due to the decrease in the June 30th accrual of water and wastewater volume sales billed in fiscal year 2013.

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.



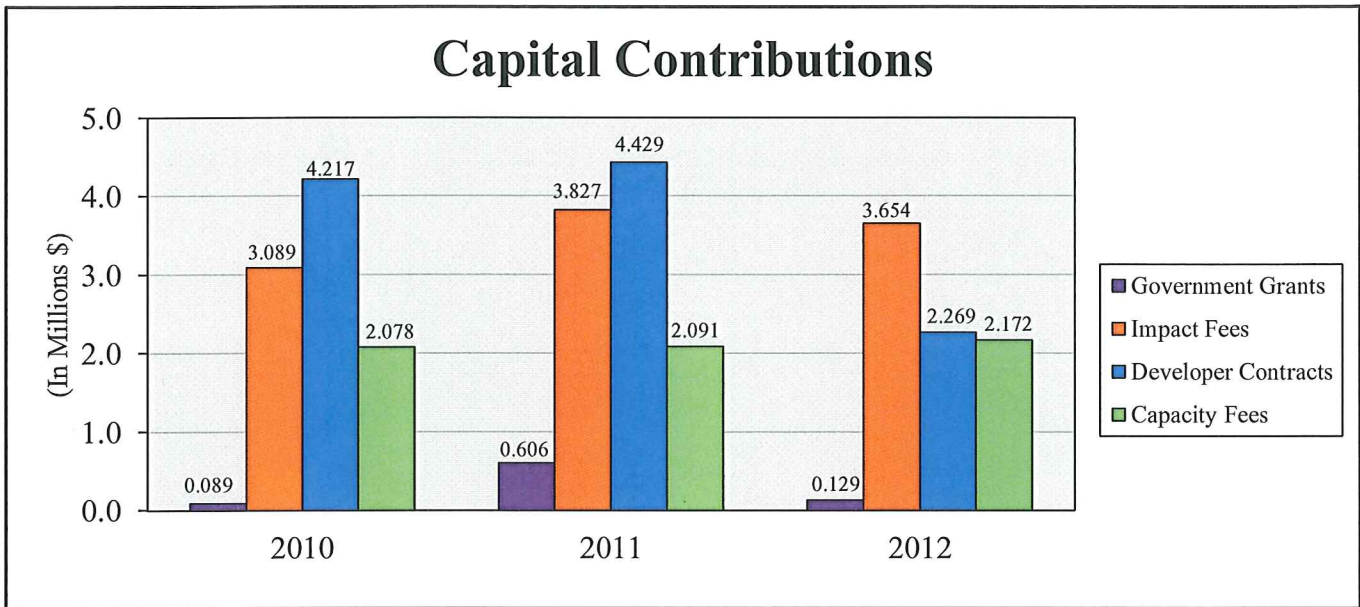
In 2012, GSWSA increased retail water and wastewater rates by 3.3% and 4.5% respectively. Other rates that increased were the wholesale operating water rates by 6.5% and wholesale capital charges by various percentages as specified by contract. Wholesale wastewater rates were also increased by various percentages as specified by contract.

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.

RESULTS OF OPERATIONS, continued

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

The following chart depicts the capacity fee revenue activity.



Overall, capital contributions decreased \$2.7 million, or 24.91% during fiscal year 2012. Developer contributions decreased \$2.2 million from 2011. Due to the economic downturn there continues to be a decrease in the development of the local area. Government grants decreased \$476,388 from 2011. These funds were lower due to the completion Sellers to Latta Forcemain project. Impact fees were approximately \$3.7 million for 2012 compared to \$3.8 million for 2011. There was a slight increase in capacity fees from 2011 to 2012.

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 two 45 million gallons per day surface water treatment plants. GSWSA has backup wells to use for peak management. The wastewater system includes eleven wastewater treatment plants that range in size from 10,000 gallons per day to 22.4 million gallons per day.

In 2012, total operating expenses increased \$760,730 from fiscal year 2011, and operating revenues increased by \$704,729. Operating expenses for water and wastewater operations for the last three years are listed below:

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>	<u>Variance</u>	<u>2010</u>	<u>%</u>	<u>Variance</u>
Personnel Costs	\$ 16,905,059	27.1%	\$ 16,553,131	26.9%	\$ 351,928	\$ 15,270,542	26.1%	\$ 1,282,589
Contractual Services	11,414,221	18.3%	11,776,220	19.1%	(361,999)	12,150,141	20.8%	(373,921)
Supplies and Materials	9,409,350	15.1%	9,083,240	14.7%	326,110	8,033,877	13.7%	1,049,363
Business and Travel Expenses	170,533	0.3%	196,369	0.3%	(25,836)	180,994	0.3%	15,375
Depreciation	22,761,494	36.4%	22,303,035	36.2%	458,459	20,843,152	35.6%	1,459,883
Other Expenses	1,762,280	2.8%	1,750,212	2.8%	12,068	2,048,238	3.5%	(298,026)
Total Operating Expenses	<u>\$ 62,422,937</u>	<u>100.0%</u>	<u>\$ 61,662,207</u>	<u>100.0%</u>	<u>\$ 760,730</u>	<u>\$ 58,526,944</u>	<u>100.0%</u>	<u>\$ 3,135,263</u>

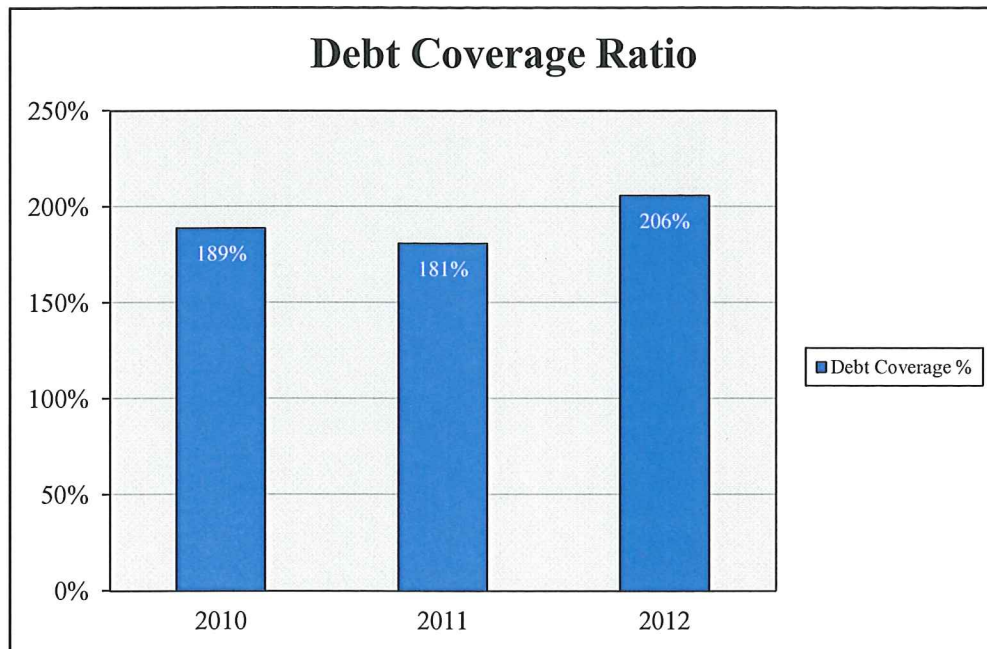
Personnel costs increased \$351,928 or 2.1% from 2011 to 2012. GSWSA granted an average 3% merit increase during 2012. The number of employees increased by one from fiscal year 2011 to 2012. The overall increase in personnel costs was mainly a result of an increase in salaries. Contractual services decreased \$361,999 or 3.1%, primarily as a result of a reduction costs expensed from the capital budget. Supplies and materials increased \$326,110 or 3.6% mainly due to an increase in materials to repair and maintain the water and wastewater facilities and higher fuel costs. Depreciation was up \$458,459 or 2.1% due to the addition of assets during fiscal year 2012. Other expenses increased by \$12,068 or 0.7% in 2012 due to an increase in bad debt expense and other costs.

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 \$1,049,363 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 \$298,026 or 14.6% in 2011 due to a decrease in bad debt expense and interest paid to customers on their security deposits.

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 2010, 2011 and 2012 were 189%, 181% and 206%, 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 \$5,662,650 during 2012. Wastewater additions to capital assets included the SCDOT Backgate Interchange project for \$2.1 million, Transmission Renewal and Replacement for \$1.4 million, and the Rural Sewer projects at a cost of \$2.6 million. Water additions included the Relocation and Hydraulic Improvements projects for \$0.8 million and the Rural Water projects at a cost of \$2.2 million. Developer contributions to capital assets were \$2.3 million. Disposals for 2012 were \$964,565. 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 2011 was only approximately \$17.4 million and the depreciation of capital assets was \$22.8 million.

During fiscal years 2010, 2011 and 2012, GSWSA obtained State Revolving Fund loans for the Bucksport Composting Facility, and the Vereen WWTP Effluent Discharge Forcemain project. As of June 30, 2012, the draws made on these loans and recorded debt was \$4.5 million.

Prior to June 30, 2012, the State Revolving Loan Fund made an amendment to all prior SRF loan policies to release reserve funds which were established for SRF Loans. The State Budget and Control Board and GSWSA also renegotiated all existing SRF loans to an interest rate of 2.25%.

Grand Strand Water and Sewer Authority also issued the Bonds of 2011A, B and C. These bond proceeds provided capital improvement funds, refunded bond funds for three outstanding bond series, as well as a taxable refund of an outstanding bond series. These transactions resulted in a net present value savings for GSWSA.

In addition, GSWSA issued the Bonds of 2012. The bond proceeds were used to refund an outstanding bond series. The ratio of total debt to capital assets was 48.6% for the fiscal year 2012.

Additional detailed information on GSWSA’s capital assets and long-term debt activity can be found in Notes 3, 4, 5 and 6.

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	
	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,761,757	\$ 13,159,801
Investments	84,531,007	65,227,088
Investment in real estate	4,567,669	4,360,798
Receivables		
Customer accounts, net of allowance of \$250,544 in 2012 and \$231,234 in 2011	9,396,049	10,081,710
Assessments	2,923,971	2,899,036
Interest	535,062	559,080
Grant	-	209,635
Other	57,453	457,448
Total receivables	12,912,535	14,206,909
Inventories	1,174,957	1,133,100
Prepays	534,385	464,816
Restricted assets		
Cash and cash equivalents	25,929,434	2,841,232
Investments	389,377	-
Total current assets	136,801,121	101,393,744
Noncurrent assets		
Deferred cash outflow	19,169,725	7,583,158
Investments	2,342,017	-
Restricted investments	20,774,086	29,100,976
Deferred bond cost, net	1,530,024	1,350,098
Container and security deposits	4,750	4,750
Capital assets		
Nondepreciable	55,194,762	55,069,201
Depreciable, net of depreciation	474,401,544	480,189,755
Total capital assets	529,596,306	535,258,956
Total noncurrent assets	573,416,908	573,297,938
Total assets	\$ 710,218,029	\$ 674,691,682

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

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

	JUNE 30	
	2012	2011
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 2,134,666	\$ 2,389,331
Accrued salaries and benefits	580,997	515,344
Accrued compensated absences	490,359	459,974
Current portion of capital lease payable	116,889	112,792
Construction contracts payable	1,282,352	704,845
Current portion of revenue bonds	9,320,000	8,285,130
Current portion of notes payable	3,628,530	3,260,756
Current portion of companion instrument debt	281,939	-
Accrued interest on revenue bonds	602,016	585,773
Accrued interest on notes payable	194,302	289,091
Accrued interest on companion instrument debt	98,111	-
Customer security and tap deposits	4,983,259	4,837,597
Unearned customer contributions	69,509	99,521
	23,782,929	21,540,154
Noncurrent liabilities		
Revenue bonds, less current portion	158,391,105	144,187,328
Notes payable, less current portion	48,662,689	51,675,352
Interest rate swap liability	19,169,725	7,583,158
Companion instrument debt	4,233,488	3,990,427
Accrued interest - companion instrument debt	1,473,205	1,289,261
Capital lease payable, less current portion	674,934	791,823
Accrued compensated absences	823,333	804,695
Net OPEB obligation	-	50,225
Embedded instrument liability (interest rate swap)	-	58,311
Arbitrage rebate	-	44,025
	233,428,479	210,474,605
Total liabilities	257,211,408	232,014,759
Net assets		
Invested in capital assets, net of related debt	303,004,380	322,250,503
Restricted for:		
Capital projects	39,494,069	14,759,824
Debt service	2,590,751	12,294,763
Unrestricted	107,917,421	93,371,833
	453,006,621	442,676,923
Total liabilities and net assets	\$ 710,218,029	\$ 674,691,682

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	
	2012	2011
Operating revenues		
Water and sewer volume and availability fees	\$ 50,177,028	\$ 49,729,727
Customer charges	5,354,967	5,110,985
Surface water charges	6,324,150	6,428,952
Surface water treatment plant contract revenues	3,228,297	3,308,715
Other revenue	1,480,715	1,282,049
Total operating revenues	<u>66,565,157</u>	<u>65,860,428</u>
Operating expenses		
Personnel costs	16,905,059	16,553,131
Contractual services	11,414,221	11,776,220
Supplies and materials	9,409,350	9,083,240
Depreciation on assets acquired with:		
Authority funds	12,337,052	12,066,070
Contributed capital	10,424,442	10,236,965
Other expenses	1,932,813	1,946,581
Total operating expenses	<u>62,422,937</u>	<u>61,662,207</u>
Operating income	<u>4,142,220</u>	<u>4,198,221</u>
Non-operating revenues (expenses)		
Investment income	5,757,105	3,175,093
Loss on disposal of capital assets	(275,083)	(71)
Amortization of deferred bond costs	(142,051)	(132,575)
Interest expense	(7,376,492)	(9,546,599)
Total non-operating expenses (net)	<u>(2,036,521)</u>	<u>(6,504,152)</u>
Income/(Loss) before contributions	<u>2,105,699</u>	<u>(2,305,931)</u>
Capital contributions		
Surface water treatment plant capacity fees	2,171,628	2,090,904
Governments grants/contributions	129,379	605,767
Customer impact fees	3,653,858	3,827,392
Developer contributions	2,269,134	4,428,770
Total capital contributions	<u>8,223,999</u>	<u>10,952,833</u>
Change in net assets	10,329,698	8,646,902
Beginning net assets	<u>442,676,923</u>	<u>434,030,021</u>
Net assets, ending	<u><u>\$ 453,006,621</u></u>	<u><u>\$ 442,676,923</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	
	2012	2011
Cash flows from operating activities		
Cash received from customers and users	\$ 67,371,545	\$ 63,996,007
Cash paid to suppliers	(23,122,475)	(22,901,755)
Cash paid to employees	(16,336,172)	(15,886,676)
Cash paid to OPEB trust	(504,436)	(442,606)
Net cash provided by operating activities	27,408,462	24,764,970
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(14,595,816)	(17,770,796)
Capital contributions	5,924,853	6,543,789
Collections (increase) of receivables - grants and other	609,630	(608,512)
Interest paid on debt	(6,452,299)	(9,460,596)
Proceeds from issuance of debt	149,689,209	20,017,310
Principal paid on debt	(137,535,522)	(25,958,314)
Principal payments on capital lease obligations	(112,792)	(108,838)
Bond issuance costs	(179,926)	30,876
Proceeds from sale of capital assets	68,530	51,444
Net cash and cash equivalents used for capital and related financing activities	(2,584,133)	(27,263,637)
Cash flows from investing activities		
Purchase of investments	(47,141,401)	(51,637,338)
Proceeds from sale of investments	33,226,107	53,401,511
Interest and investment income received	5,781,123	3,276,506
Net cash and cash equivalents provided by (used for) investing activities	(8,134,171)	5,040,679
Net change in cash and cash equivalents	16,690,158	2,542,012
Cash and cash equivalents - beginning	16,001,033	13,459,021
Cash and cash equivalents - ending	\$ 32,691,191	\$ 16,001,033

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	
	2012	2011
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 4,142,220	\$ 4,198,221
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities		
Depreciation	22,761,494	22,303,035
(Increase) decrease in operating assets		
Receivables - customers and assessments	660,726	(1,971,470)
Prepaid net OPEB asset	-	69,169
Inventories	(41,857)	(925)
Prepays	(69,569)	21,882
Increase (decrease) in operating liabilities		
Accounts payable	(254,665)	(116,671)
Accrued salaries and compensated absences	114,676	104,455
Customer security and tap deposits	145,662	107,049
Net OPEB obligation	(50,225)	50,225
Net cash provided by operating activities	\$ 27,408,462	\$ 24,764,970
Noncash capital and related financing activities		
Developer contributions	\$ 2,269,134	\$ 4,428,770
Capitalized interest expense	-	3,803
Unrealized depreciation in fair value of investments	(409,860)	(344,642)
Total noncash capital and related financing activities	\$ 1,859,274	\$ 4,087,931
Reconciliation of cash and cash equivalents		
Unrestricted cash and investments - beginning	\$ 78,386,889	\$ 77,250,521
Restricted cash and investments - beginning	31,942,208	33,138,015
	110,329,097	110,388,536
Investments with original maturity dates over ninety days	(94,328,064)	(96,929,515)
Cash and cash equivalents - beginning	\$ 16,001,033	\$ 13,459,021
Unrestricted cash and investments - ending	\$ 93,634,781	\$ 78,386,889
Restricted cash and investments - ending	47,092,897	31,942,208
	140,727,678	110,329,097
Investments with original maturity dates over ninety days	(108,036,487)	(94,328,064)
Cash and cash equivalents - ending	\$ 32,691,191	\$ 16,001,033

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, 2012**

Assets	
Cash and Investments	\$ 1,867,229
Liabilities	
Benefits payable	<u>1,397</u>
Net Assets	
Held in trust for other postemployment benefits	<u><u>\$ 1,865,832</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, 2012**

Additions

Investment income	
Net depreciation in fair value of investments	\$ (4,103)
Interest income	39,258
Total investment income	35,155
Contributions	
Employer	477,832
Plan member	26,604
Total contributions	504,436
Total additions	539,591

Deductions

Benefits	111,114
Change in net assets	428,477

Net assets held in trust for other postemployment benefits,

Beginning of year	1,437,355
End of year	\$ 1,865,832

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 as 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 Principles 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.

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.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deposits and Investments (continued)

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

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 \$4,158,154 and \$7,309,727 in revenues earned through year-end but not yet billed as of June 30, 2012 and 2011, respectively. 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	7 - 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 7 - 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 Swaps, 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, 2012 and 2011 include \$3,214,779 and \$3,214,268, respectively, 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 24, 2012, 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>2012</u>	<u>2011</u>
Petty cash	\$ 4,500	\$ 4,500
Cash deposits	29,008,206	6,211,601
Repurchase agreements	45,424	94,292
Money market deposits	3,611,505	9,669,147
Investment pool deposits	<u>21,556</u>	<u>21,493</u>
Total cash and cash equivalents	<u>\$ 32,691,191</u>	<u>\$ 16,001,033</u>

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

NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

Deposits

At June 30, 2012 and 2011, the carrying amount of GSWSA's deposits in financial institutions was \$32,619,711 and \$15,880,748. The financial institutions' balances totaled \$35,202,003 and \$17,931,144, 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 2011 and 2012.

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, GSWSA 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 are held by a third party custodian or collateralized.

At June 30, 2012 and 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.

<u>Investment Type</u>	<u>2012 Fair Value</u>	<u>2011 Fair Value</u>
Federal Home Loan Mortgage	\$11,120,353	\$13,599,072
Federal National Mortgage	15,458,973	11,996,243
Federal Farm Credit Banks	2,202,515	-
Federal Home Loan Bank	9,603,017	-

Credit Risk – The risk that 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 47.78% 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, 2012, GSWSA had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>				<u>Credit Rating</u>	<u>As a % of Total Investments</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>		
Repurchase Agreements	\$ 45,424	\$ 45,424	\$ -	\$ -	\$ -	Not rated	0.04%
U.S. Treasuries	51,638,542	3,347,956	24,824,217	23,466,369	-	AA+	47.78%
Corporate Bonds	896,903	-	896,903	-	-	AA+	0.83%
Federal Farm Credit Bank	2,202,515	-	2,202,515	-	-	AA+	2.04%
Federal Home Loan Bank	9,603,017	2,221,189	6,174,333	1,207,495	-	AA+	8.88%
Federal Home Loan Mortgage Corporation	11,120,353	1,518,123	3,723,225	1,438,059	4,440,946	AA+	10.29%
Federal National Mortgage Association	15,458,973	-	8,227,894	571,117	6,659,962	AA+	14.30%
Guaranteed Investment Contracts	5,435,728	3,093,711	-	-	2,342,017	AA+	5.03%
Government National Mortgage Association	9,079,295	-	3,956	-	9,075,339	AA+	8.40%
Municipal Bonds	578,771	-	578,771	-	-	AA+	0.54%
South Carolina Local Government Investment Pool	<u>2,022,390</u>	<u>2,022,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>AA+</u>	<u>1.87%</u>
	<u>\$108,081,911</u>	<u>\$ 12,248,793</u>	<u>\$ 46,631,814</u>	<u>\$ 26,683,040</u>	<u>\$ 22,518,264</u>		<u>100.00%</u>

Investment in Real Estate

Bucksport Marina - On February 26, 2010, GSWSA acquired the Bucksport Marina for \$3,510,674 as an Investment in Real Estate. As of June 30, 2012, GSWSA had invested an additional \$1,056,995 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 have entered into an agreement with a company to 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, Pollution and Excess insurance coverage through an annual premium of approximately \$5,300.

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, 2012, was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets not being depreciated					
Land and easements	\$ 49,008,559	\$ 42,421	\$ (3,000)	\$ -	\$ 49,047,980
Construction-in-progress	<u>6,060,642</u>	<u>12,785,470</u>	<u>-</u>	<u>(12,699,330)</u>	<u>6,146,782</u>
	<u>55,069,201</u>	<u>12,827,891</u>	<u>(3,000)</u>	<u>(12,699,330)</u>	<u>55,194,762</u>
Capital assets being depreciated					
Utility plant	675,469,413	2,254,134	(733,193)	12,699,330	689,689,684
Buildings and leaseholds	9,457,731	9,610	-	-	9,467,341
Vehicles	6,768,129	852,362	(751)	-	7,619,740
Machinery, equipment and furniture	<u>12,746,030</u>	<u>1,498,460</u>	<u>(227,621)</u>	<u>-</u>	<u>14,016,869</u>
	<u>704,441,303</u>	<u>4,614,566</u>	<u>(961,565)</u>	<u>12,699,330</u>	<u>720,793,634</u>
Accumulated depreciation for					
Utility plant	(207,092,653)	(20,689,778)	399,577	-	(227,382,854)
Buildings and leaseholds	(2,164,700)	(312,515)	-	-	(2,477,215)
Vehicles	(5,114,969)	(666,892)	751	-	(5,781,110)
Machinery, equipment and furniture	<u>(9,879,226)</u>	<u>(1,092,309)</u>	<u>220,624</u>	<u>-</u>	<u>(10,750,911)</u>
	<u>(224,251,548)</u>	<u>(22,761,494)</u>	<u>620,952</u>	<u>-</u>	<u>(246,392,090)</u>
	<u>\$ 535,258,956</u>	<u>\$ (5,319,037)</u>	<u>\$ (343,613)</u>	<u>\$ -</u>	<u>\$ 529,596,306</u>

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>
	<u>51,145,033</u>	<u>15,499,174</u>	<u>-</u>	<u>(11,575,006)</u>	<u>55,069,201</u>
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>
	<u>686,751,705</u>	<u>6,421,485</u>	<u>(306,893)</u>	<u>11,575,006</u>	<u>704,441,303</u>
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>
	<u>(202,203,891)</u>	<u>(22,303,035)</u>	<u>255,378</u>	<u>-</u>	<u>(224,251,548)</u>
	<u>\$ 535,692,847</u>	<u>\$ (382,376)</u>	<u>\$ (51,515)</u>	<u>\$ -</u>	<u>\$ 535,258,956</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 \$3,308,745 and \$3,519,162 during 2012 and 2011, respectively. Interest expense, net of applicable interest income, was capitalized in the approximate amounts of \$0 and \$3,803 during 2012 and 2011, 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 capital 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 were 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), 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, 2012, \$3,710,628 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. After June 30, 2011, 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, 2012 are as follows:

2013	\$	144,352
2014		144,352
2015		144,352
2016		144,352
2017		144,352
2018-2019		<u>216,527</u>
Total minimum lease payments		938,287
Less:		
Amount representing interest		<u>(146,464)</u>
Present value of minimum lease payments		<u><u>\$ 791,823</u></u>

NOTE 5 - LONG-TERM DEBT

The original issue amount of current outstanding debt as of June 30, 2012 was \$254,625,273. Bonds, notes and state revolving loans payable at June 30, 2012 and 2011 are composed of the following individual issues.

	<u>2012</u>	<u>2011</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
Current interest paying term bonds; principal due 2012 with annual sinking fund requirements beginning in 2008; interest at 6.375% per annum; due June 1.	-	3,005,000
<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

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	<u>2012</u>	<u>2011</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
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
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>
Total Series 2001 Bonds	-	<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
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, 2013, ranging from \$615,000 to \$920,000 through June 1, 2018; interest at 3.58% per annum; due June 1.	4,342,445	4,782,445
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
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, 2012, ranging from \$590,000 to \$850,000 through December 1, 2022; semiannual interest at 2.59%; due June 1 and December 1.	7,840,000	8,410,000
Waterworks and Sewer System Improvement Revenue Bond, Series 2008. Secured by net revenues of the system. Current interest paying serial bond; due in twelve annual principal installments of \$715,000; semiannual interest at 3.36%; due June 1 and December 1.	8,580,000	9,295,000

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	2012	2011
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
Series 2011A bonds; due in annual principal installments beginning June 30, 2020 ranging from \$710,000 to \$1,680,000 during 2020 through 2041; interest at 3.0% to 5.0% per annum; due June 30.	24,325,000	-
Series 2011B bonds; due in annual principal installments beginning June 30, 2013 ranging from \$610,000 to \$2,975,000 during 2013 through 2023; interest at 3.0% to 5.0% per annum; due June 30.	27,710,000	-
Series 2011C bonds; due in annual principal installments beginning June 30, 2013 ranging from \$3,870,000 to \$4,335,000 during 2013 through 2019; interest at 0.937% to 3.256% per annum; due June 30.	28,410,000	-
Series 2012 bonds; due in annual principal installments beginning June 1, 2013 ranging from \$675,000 to \$6,340,000 during 2013 through 2031, principal payments due June 1; interest at a variable rate per month calculated as 75% of the sum of 1 month LIBOR and 108 basis points, due on the 1st.	66,710,000	-
Total bonds payable	<u>167,917,445</u>	<u>153,643,869</u>
Note payable, including accrued interest, of \$11,722 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. Payments of \$11,733 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total loan is \$636,424 with a maturity date of July 1, 2012. All revenue from the applicable systems is pledged for debt service.	11,667	57,404
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 4.0%. Quarterly principal and interest payments of \$28,364 began June 1, 1999. Payments of \$26,585 began on December 1, 2011 when the loan was renegotiated with a 2.25% interest rate. 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.	664,219	752,836

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	2012	2011
<p>Note payable, including accrued interest of \$2,182, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$27,579 began February 1, 2000. Payments of \$26,253 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. 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.</p>	722,845	808,044
<p>Note payable, including accrued interest of \$5,896, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$20,044 began April 1, 2000. Payments of \$19,052 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. 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.</p>	540,598	602,033
<p>Note payable, including accrued interest of \$337,554, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$289,557 began May 1, 2001. Payments of \$273,672 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan is \$16,608,978 with a February 1, 2021 maturity date.</p>	8,672,522	9,532,628
<p>Note payable, including accrued interest of \$5,557, to South Carolina State Budget and Control Board for South Carolina Water Pollution Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$19,404 began August 1, 2001. Payments of \$18,314 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. 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.</p>	595,319	652,508

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	2012	2011
<p>Note payable, including accrued interest of \$3,124 to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund Loan at 3.5%. Quarterly principal and interest payments of \$48,400 began January 1, 2002. Payments of \$45,552 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. 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.</p>	1,554,567	1,694,997
<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 \$88,096 began August 1, 2003. Payments of \$81,113 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. 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.</p>	3,153,795	3,392,588
<p>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. Payments of \$117,543 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. 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.</p>	4,570,261	4,916,302
<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. Payments of \$3,729 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. 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>	147,894	158,801

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

NOTE 5 - LONG-TERM DEBT, Continued

	2012	2011
<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 3.0%. Quarterly principal and interest payments of \$98,060 began June 1, 2006. Payments of \$93,134 began on December 1, 2011 when the loan was renegotiated with a 2.25% interest rate. 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>	4,395,217	4,661,262
<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. Payments of \$191,582 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. 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>	10,139,077	10,641,899
<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. Payments of \$148,989 began on December 1, 2011 when the loan was renegotiated with a 2.25% interest rate. 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>	8,601,187	8,988,714
<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 \$53,953 began May 1, 2009. Payments of \$49,796 began on February 1, 2012 when the loan was renegotiated with a 2.25% interest rate. 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>	2,773,311	2,902,126

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	2012	2011
<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>	1,360,491	1,426,688
<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 3.5%. Quarterly principal and interest payments of \$25,266 began July 1, 2011. Payments of \$20,120 began on January 1, 2012 when the loan was renegotiated with a 2.25% interest rate. Total approved loan of \$1,290,000 will mature April 1, 2031. All revenues derived from the system and all funds and accounts of GSWSA derived from such revenue are pledged for debt service.</p>	1,241,445	1,248,929
<p>Note payable to South Carolina State Budget and Control Board for South Carolina Water Pollution Control Revolving Fund at 3.5%. Quarterly principal and interest payments of \$62,447 began November 1, 2011. Payments of \$50,999 began on February 1, 2011 when the loan was renegotiated with a 2.25% interest rate. Total approved loan of \$3,241,486 with May 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>	3,146,804	2,498,349
<p>Total notes payable</p>	52,291,219	54,936,108
<p>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.</p>	6,086,743	5,279,688

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT, Continued

	2012	2011
Total debt, before deferrals	226,295,407	213,859,665
Unamortized revenue bond discount/premium	3,940,622	58,308
Unamortized deferral on refunding (less portion attributable to capital lease)	(4,146,962)	(1,229,719)
Total debt, net	226,089,067	212,688,254
Less current portion	(13,328,580)	(11,545,886)
Total long - term portion of debt	\$ 212,760,487	\$ 201,142,368

Remaining debt service payments at June 30, 2012 are as follows:

Date	Revenue Bonds		Companion Instrument Debt		State Revolving Loans		Total Principal	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2013	\$ 9,320,000	\$ 7,193,067	\$ 380,050	\$ 251,694	\$ 3,628,530	\$ 1,135,779	\$ 13,328,580	\$ 21,909,120
2014	9,555,000	6,971,141	389,720	235,632	3,698,242	1,054,335	13,642,962	21,904,070
2015	9,655,000	6,701,996	399,466	219,162	3,781,477	971,100	13,835,943	21,728,201
2016	10,140,000	6,379,124	409,290	202,282	3,866,612	885,965	14,415,902	21,883,273
2017	10,630,000	6,015,545	409,627	185,089	3,953,690	798,886	14,993,317	21,992,837
2018-2022	46,287,445	24,170,595	1,996,015	670,075	18,794,566	2,655,998	67,078,026	94,574,694
2023-2027	30,945,000	15,164,872	1,529,138	284,366	10,875,355	998,873	43,349,493	59,797,604
2028-2032	28,785,000	6,994,226	573,437	47,640	3,692,747	118,898	33,051,184	40,211,948
2033-2037	6,345,000	2,473,900	-	-	-	-	6,345,000	8,818,900
2038-2042	6,255,000	801,000	-	-	-	-	6,255,000	7,056,000
	\$ 167,917,445	\$ 82,865,466	\$ 6,086,743	\$ 2,095,940	\$ 52,291,219	\$ 8,619,834	\$ 226,295,407	\$ 319,876,647

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

Date	Revenue Bonds		Companion Instrument Debt		State Revolving Loans		Total Principal	Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
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	65,653	554,751	3,360,887	1,710,593	12,571,877	21,423,260
2014	9,528,914	6,186,974	340,178	273,948	3,465,729	1,593,903	13,334,821	21,389,646
2015	9,756,743	5,764,096	351,894	255,628	3,586,422	1,473,210	13,695,059	21,187,993
2016	10,382,600	5,335,069	363,915	236,679	3,711,388	1,348,244	14,457,903	21,377,895
2017-2021	47,731,845	19,443,961	1,834,277	889,833	19,765,534	4,722,102	69,331,656	94,387,552
2022-2026	29,988,300	10,966,985	1,571,879	419,159	12,093,758	1,902,474	43,653,937	56,942,555
2027-2031	28,825,000	4,464,250	751,892	88,428	5,648,834	342,546	35,225,726	40,120,950
2032	-	-	-	-	42,800	378	42,800	43,178
	\$ 153,643,869	\$ 65,723,309	\$ 5,279,688	\$ 2,718,426	\$ 54,936,108	\$ 14,896,168	\$ 213,859,665	\$ 297,197,568

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, 2012, was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Companion Debt – Principal	\$ 3,990,427	\$ 525,000	\$ -	\$ 4,515,427	\$ 281,939
Companion Debt – Accrued Interest	1,289,261	282,055	-	1,571,316	98,111
Total Companion Debt	5,279,688	807,055	-	6,086,743	380,050
Bonds payable	153,643,869	148,380,000	134,106,424	167,917,445	9,320,000
Notes payable	54,936,108	784,209	3,429,098	52,291,219	3,628,530
Capital lease payable	904,615	-	112,792	791,823	116,889
Compensated Absences	1,264,669	575,299	526,276	1,313,692	490,359
Total liabilities	216,028,949	150,546,563	138,174,590	228,400,922	13,935,828
Less deferred amounts:					
Issuance discounts/premiums	58,308	4,147,082	264,768	3,940,622	-
Loss on refunding	(1,229,719)	(3,292,526)	(375,283)	(4,146,962)	-
Total	<u>\$ 214,857,538</u>	<u>\$ 151,401,119</u>	<u>\$ 138,064,075</u>	<u>\$ 228,194,582</u>	<u>\$ 13,935,828</u>

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>
Companion Debt – Principal	\$ 3,990,427	\$ -	\$ -	\$ 3,990,427	\$ -
Companion Debt – Accrued Interest	1,018,426	270,835	-	1,289,261	-
Total Companion Debt	5,008,853	270,835	-	5,279,688	-
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	18,436,663	54,936,108	3,260,756
Capital lease payable	1,013,453	-	108,838	904,615	112,792
Compensated Absences	1,232,811	527,622	495,764	1,264,669	459,974
Total liabilities	221,776,097	20,815,768	26,562,916	216,028,949	12,118,652
Less deferred amounts:					
Issuance discounts/premiums	125,851	-	67,543	58,308	-
Loss on refunding	(1,409,291)	-	(179,572)	(1,229,719)	-
Total	<u>\$ 220,492,657</u>	<u>\$ 20,815,768</u>	<u>\$ 26,450,887</u>	<u>\$ 214,857,538</u>	<u>\$ 12,118,652</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:

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

Prior to June 30, 2012, the State Revolving Loan Fund made an amendment to all prior SRF loan policies which eliminated the reserve requirements for debt service reserve funds established for SRF Loans. As a result of the amendment, the State Revolving Loan Fund released \$5,166,350 of reserve funds to Grand Strand Water and Sewer Authority during the month of July 2012. In addition, the State Budget and Control Board reduced the interest rates on all existing SRF loans to 2.25%, with the exception of any loan with a lower interest rate.

On November 16, 2011, GSWSA issued the Bonds of 2011A, B and C for \$81,670,000. The Bonds of 2011A were issued in the amount of \$24,325,000 for capital improvements. The proceeds from the Bonds of 2011B in the amount of \$28,935,000 were used to refund the 2000B, 2006, and 2010 Bonds. The issuance of the Bonds of 2011B resulted in a net present value savings of \$1,465,205. The Bonds of 2011C were issued in the amount of \$28,410,000 for a taxable refunding of the Series 2002 Bonds. The issuance of the Bonds of 2011C resulted in a net present value savings of \$2,453,820.

On May 31, 2012, GSWSA issued the Bonds of 2012 in the amount of \$66,710,000. The proceeds of the Bonds of 2012 were used to refund the Series 2001 Bonds. The issuance of the Bonds of 2012 resulted in a net present value savings of \$2,297,913.

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 with a current interest rate of 2.25%. 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. In fiscal year 2012, an additional \$41,071 was received.

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 with a current interest rate of 2.25%. 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. To date, GSWSA received \$3,214,303. Of this amount, GSWSA received \$715,954 in fiscal year 2012.

**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 entered into a fixed-to-variable interest rate for the Bonds of 2012 Swap and a floating-to-fixed interest rate swap for the Bonds of 2003 Swap.

Terms - The terms, fair value and credit ratings of the outstanding swaps as of June 30, 2012 were as follows. The notional amounts match the principal amounts of the outstanding debt.

<u>Associated Bond Issue</u>	<u>2012 Bonds</u>	<u>2003 Bonds</u>
Notional amounts	\$ 66,710,000	\$ 4,342,445
Up front payment	\$ 4,388,000	\$ -
Effective date	June 1, 2012*	April 1, 2003
Fixed payer rate	4.717%	3.580%
Variable receiver rate	70.00% of LIBOR	61.75% of LIBOR+ 80 BP
Fair value of swap	(\$18,793,875)	(\$375,850)
Termination date	June 1, 2031	June 1, 2018
Counterparty credit rating	A	A

* On June 1, 2012 the swap providers took the option to enter into the swap agreement and as a result GSWSA received \$525,000 in exercise fees.

Fair value - Both of the swap agreements had negative fair values as of June 30, 2012. 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, 2012, the debt service requirements on the Bonds of 2012 interest rate swap would be as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2013	\$ 675,000	\$ 662,901	\$ 3,033,317	\$ 4,371,218
2014	710,000	655,331	3,002,453	4,367,784
2015	745,000	648,285	2,970,171	4,363,456
2016	1,780,000	640,892	2,936,298	5,357,190
2017 - 2031	62,800,000	5,917,582	27,111,875	95,829,457

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

NOTE 5 - LONG-TERM DEBT, Continued

Assuming that interest rates remain the same at June 30, 2012, the debt service requirements on the Bonds of 2003 interest rate swap would be as follows:

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2013	\$ 615,000	\$ 104,556	\$ 58,063	\$ 777,619
2014	640,000	90,400	50,202	780,602
2015	665,000	75,669	42,021	782,690
2016	695,000	60,362	33,521	788,883
2017 - 2018	1,727,445	60,879	33,808	1,822,132

Credit risk - As of June 30, 2012, 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 2012 Swap - 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, 2012, the one month LIBOR rate was 0.2432% which places the SIFMA at approximately 74% 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, 2012, the one month LIBOR rate was 0.2432% which places the SIFMA at approximately 74% 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, 2012.

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

NOTE 5 - LONG-TERM DEBT, Continued

Bonds of 2012 Swap - Regression analysis, a quantitative method, was used to determine that the Bonds of 2012 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	0.91	> 0.80	PASS
F-Statistic	599	> 4.01	PASS
Regression Coefficient	0.97	0.80 to 1.25	PASS

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

NOTE 6 - DEBT DEFEASANCE

On February 1, 2002, Grand Strand Water and Sewer Authority issued Waterworks and Sewer System Refunding Revenue Bonds, Series 2002 in order to defease the 2003 through 2007 and 2013 through 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 through 2007 and 2013 through 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, 2012 and 2011 is \$26,875,000.

On November 16, 2011, Grand Strand Water and Sewer Authority issued Taxable Waterworks and Sewer System Refunding Revenue Bonds, Series 2011C in the amount of \$28,410,000. These proceeds were issued in order to defease the Waterworks and Sewer System Refunding Revenue Bonds, Series 2002 dated November 1, 2002. The Series 2002 Bonds mature June 1 in the years 2013 through 2019, which included \$27,470,000 of outstanding principal. 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 2002 Waterworks and Sewer System Refunding Revenue Bonds years 2013 through 2019 are considered to be defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$69,170. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. The issuance of the Bonds of 2011C resulted in a net present value savings of \$2,453,820. As of June 30, 2012, the un-matured and outstanding principal balance on the defeased bonds is \$27,470,000.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6 - DEBT DEFEASANCE, Continued

In addition, on May 31, 2012, Grand Strand Water and Sewer Authority issued Waterworks and Sewer System Refunding Revenue Bonds, Series 2012 in the amount of \$66,710,000. The proceeds were issued in order to defease the Waterworks and Sewer System Refunding Revenue Bonds, Series 2001, dated November 14, 2001. The Series 2001 Bonds mature on June 1 in the years 2013 through 2031, inclusive of the outstanding principal amount of \$67,180,000. 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 2001 Waterworks and Sewer System Refunding Revenue Bonds years 2013 through 2031 are considered to be defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$2,897,678. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. The issuance of the Bonds of 2012 resulted in a net present value savings of \$2,297,913. As of June 30, 2012, the un-matured and outstanding principal balance on the defeased bonds is \$66,710,000.

NOTE 7 - NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Invested in capital assets, net of related debt:		
Net capital assets	\$ 529,596,306	\$ 535,258,956
Less:		
Revenue bonds payable, net	(167,711,105)	(152,472,458)
Companion instrument debt payable	(4,515,427)	(3,990,427)
Notes payable	(52,291,219)	(54,936,108)
Capital lease payable	(791,823)	(904,615)
Contractors payable	<u>(1,282,352)</u>	<u>(704,845)</u>
Total	<u>303,004,380</u>	<u>322,250,503</u>
Restricted for:		
Capital projects	39,494,069	14,759,824
Debt Service		
Debt service fund	2,635,442	12,344,259
Less accrued interest	<u>(44,691)</u>	<u>(49,496)</u>
Total	<u>2,590,751</u>	<u>12,294,763</u>
Unrestricted	<u>107,917,421</u>	<u>93,371,833</u>
Total net assets	<u>\$ 453,006,621</u>	<u>\$ 442,676,923</u>

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

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 2012 and 2011 for active members covered by the SCRS was \$11,857,520 and \$11,826,851, respectively. Annual covered payroll for fiscal years 2012 and 2011 for retired members was \$922,688 and \$661,317, respectively. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29221-1960.

Benefits of the SCRS are established by the state statutes. The required employer and employee obligations to contribute to the SCRS are 9.54% and 6.50%, respectively for fiscal year 2012 and 9.39% and 6.50%, respectively for fiscal year 2011. 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 28 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 1% each year. 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 9.39% 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 2012 were \$1,218,593 and \$830,714. GSWSA's contributions to the SCRS for the last three years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual Employer Contribution</u>	<u>Percentage Contributed Current Year</u>
June 30, 2010	\$ 1,115,324	100%
June 30, 2011	1,185,438	100%
June 30, 2012	1,218,593	100%

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

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

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, 2012 one employee had elected coverage under the Act. In 2011 no employees had elected this coverage.

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.

GSWSA 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, 2010	\$ 483,926
June 30, 2011	519,928
June 30, 2012	538,557

GSWSA offers a deferred compensation plan to its employees under a plan administered by the South Carolina Deferred Compensation Commission and established in accordance with Internal Revenue Code Section 457. Employees are permitted to defer portions of their salaries 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 GSWSA's IRC Section 457 plan.

NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN

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

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN, Continued

Funding Policy – The contribution requirements of plan members and GSWSA are established and may be amended by the Board of Directors. GSWSA employees receiving benefits contribute \$134 per month for retiree only, \$564 per month for retiree and spouse, \$492 for retiree and children and \$902 for family coverage to age 65, and thereafter. GSWSA has been contributing at a rate that is based on an actuarial valuation that is prepared in accordance with certain parameters.

Annual OPEB Cost - GSWSA's annual OPEB cost of \$427,607 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 2010, 2011 and 2012 were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	583,000	102%	(69,169)
2011	562,000	79%	50,225
2012	427,607	112%	-

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	\$ 427,419
Interest on OPEB obligation	2,511
Adjustment to annual required contribution	<u>(2,323)</u>
Annual OPEB cost	427,607
Contributions made	<u>(477,832)</u>
Decrease in net OPEB obligation	(50,225)
Net OPEB obligation - beginning of year	<u>50,225</u>
Net OPEB obligation - end of year	<u><u>\$ -</u></u>

Funded Status and Funding Progress – The funded status of the plan as of July 1, 2011 was as follows:

Actuarial accrued liability (AAL)	\$ 5,902,477
Actuarial value of plan assets	<u>(1,437,355)</u>
Unfunded actuarial accrued liability	<u><u>\$ 4,465,122</u></u>
Funded ratio (actuarial value of plan assets (AAL))	24.4%
Covered payroll (active plan members)	\$ 11,844,331
UAAL as a percentage of covered payroll	37.7%

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.

On July 1, 2011 an updated actuarial valuation was completed which takes into account the change in insurance carriers to United Healthcare effective January 1, 2012. The change in insurance carriers resulted in lower premium rates. The entry age normal (level percent of pay) cost method was used for the valuation. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), and a Pre-Medicare medical trend rate of 10.5% and Medicare-eligible medical trend rate of 8.5% decreasing each year 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 pay on an open basis. The remaining amortization period at June 30, 2012 was 30 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 2012, the following customers provided the indicated percentages of GSWSA's combined operating revenues and capital contributions: City of Myrtle Beach 16.2%, City of Conway 5.0%, City of North Myrtle Beach 5.4%, and Little River Water and Sewerage Company 2.8%. No other customers provided more than 0.85%.

During fiscal year 2011, the following customers provided the indicated percentages 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%.

GRAND STRAND WATER AND SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 11 - RISK MANAGEMENT

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

GWSWA acquires insurance from the State Accident Fund for job related injury and illness (Worker's Compensation) to its employees. Worker's Compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. Health insurance, from a private insurer, unlimited lifetime claims per employee, was in place. General blanket fidelity bond insurance in the amount of \$75,000 per employee was also maintained. During 2012, GWSWA purchased a general liability policy with coverage of \$1 million as well as an excess policy with \$4 million of coverage for its North Carolina operations through Peoples Underwriters, Inc. GWSWA also purchased a pollution policy with \$1 million of coverage for the Bucksport Marina 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, 2012, 2011 and 2010.

During 2012 and 2011, GWSWA did not experience any material uninsured claims. Accordingly, there was no liability or expense recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

NOTE 12 - COMMITMENTS

Construction Contracts - In the normal course of business, GWSWA enters into agreements with contractors for the construction and expansion of the system. At June 30, 2012, open contracts for construction totaled approximately \$4,529,672 with \$3,288,275 having been incurred during the year. At June 30, 2011, open contracts for construction totaled approximately \$2,406,668 with \$2,054,483 having been incurred during the year. The remaining commitments at June 30, 2012 and 2011 were \$1,241,397 and \$352,185, respectively.

Mullins Acquisition - During April 2012, GWSWA entered into a Grant of Franchise and Purchase and Sale Agreement with the City of Mullins to acquire their water and wastewater systems. This transaction will take place in September 2012 at a cost of approximately \$3.9 million. GWSWA will provide direct retail water and wastewater services to approximately 2,600 customers as a result of this agreement.

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, 2012**

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%
7/1/2011	1,437,355	5,902,477	4,465,122	24.4%	11,844,331	37.7%

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, 2012

	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		Conway WWTP Upgrade		Aynor		Wampce		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
Cash and Investments,												
Beginning of year	\$ 11,850	\$ 50,096	\$ 279,256	\$ 3,452,748	\$ 29,611	\$ 9,456	\$ 116,601	\$ 110,317	\$ 18,387	\$ 110,317	\$ 20,044	\$ 104,602
Cash Receipts:												
Transfer from Operating Cash	47,046	1,054	2,930,805	-	14,415	107,524	2,452	2,317	106,777	2,317	77,199	2,200
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-	-
Interest Earned	-	-	70,563	13,370	3	1	-	-	2	-	1	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:												
Principal and Interest Payments	(47,164)	(1,054)	(3,196,569)	-	(32,873)	(108,119)	(2,452)	(2,317)	(107,664)	(2,317)	(78,192)	(2,200)
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	(84,055)	(1,124,101)	(11,156)	-	-	-	-	-	-	-
Transfers to Investments	-	(50,096)	-	(2,342,017)	-	-	(116,601)	(110,317)	-	(110,317)	-	(104,602)
Transfers to Capital Projects Cash	-	-	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Cash and Investments,												
End of year	\$ 11,732	\$ -	\$ -	\$ -	\$ -	\$ 8,862	\$ -	\$ -	\$ 17,502	\$ -	\$ 19,052	\$ -

(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, 2012

	2000 State Revolving Loan			2000 Revenue Bonds			2001 State Revolving Loan			2001 Revenue Bonds			2002 State Revolving Loan		
	Tip Top			Buist NEM			Schwarz Imp.			Conway					
	Current	Future	Debt Service	Current	Future	Debt Service	Current	Future	Debt Service	Current	Future	Debt Service	Current	Future	Debt Service
Cash and Investments, Beginning of year	\$ 193,048	\$ 1,191,728	\$ 783,930	\$ 118,384	\$ 81,485	\$ 48,401	\$ 195,801	\$ 327,396	\$ 58,734	\$ 356,477					
Cash Receipts:															
Transfer from Operating Cash	1,115,847	25,065	-	318,846	74,708	185,054	4,118	4,268,669	333,756	7,498					
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Earned	14	-	-	13	-	2	-	53,786	5	7,623					
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:															
Principal and Interest Payments	(1,126,456)	(25,065)	(783,930)	-	(75,436)	(187,904)	(4,118)	(4,649,848)	(338,418)	(7,498)					
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	(437,243)	-	-	-	-	-	(7,623)					
Transfers to Investments	-	(1,191,728)	-	-	(81,485)	-	(195,801)	-	-	(356,477)					
Transfers to Capital Projects Cash	-	-	-	-	-	-	-	-	-	-					
Other Transfers	-	-	-	-	-	-	-	-	-	-					
Cash and Investments, End of year	\$ 182,453	\$ -	\$ -	\$ -	\$ 12,209	\$ 45,553	\$ -	\$ 3	\$ 54,077	\$ -					

(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, 2012

	2002 State Revolving Loan				2002				2004A - Schwartz				2006				2006 Schwartz		2008A	
	Vereen		319 FM		Revenue Bonds		WWTP Expansion - Phase 1		Revenue Bonds		Future		Phase 2		Phase 2		MB WWTP			
	Current	Future	Current	Future	Current	Debt Service	Current	Debt Service	Current	Debt Service	Current	Debt Service	Current	Debt Service	Current	Debt Service	Current	Debt Service		
Cash and Investments, Beginning of year	\$ 85,112	\$ 519,901	\$ 4,057	\$ 31,593	\$ 126,064	\$ 32,691	\$ 392,242	\$ 731,849	\$ 846,856	\$ 210,598	\$ 54,036									
Cash Receipts:																				
Transfer from Operating Cash	483,657	10,935	15,245	664	1,476,513	375,814	8,105	15,314,357	-	785,324	604,694									
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-									
Interest Earned	6	11,118	-	676	6,734	6	(6,883)	48	2,468	11	8									
Other Transfers	-	-	-	-	-	-	-	-	-	-	-									
Cash Disbursements:																				
Principal and Interest Payments	(490,411)	(10,935)	(15,572)	(664)	(1,606,333)	(377,461)	(8,105)	(16,046,247)	-	(804,345)	(609,069)									
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-									
Transfers to Operating Cash	-	(11,118)	-	(676)	(2,978)	-	(1)	(7)	-	-	-									
Transfers to Investments	-	(519,901)	-	(31,593)	-	-	(385,358)	-	(849,324)	-	-									
Transfers to Capital Projects Cash	-	-	-	-	-	-	-	-	-	-	-									
Other Transfers	-	-	-	-	-	-	-	-	-	-	-									
Cash and Investments, End of year	\$ 78,364	\$ -	\$ 3,730	\$ -	\$ -	\$ 31,050	\$ -	\$ -	\$ -	\$ 191,588	\$ 49,669									

(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, 2012

	2008 MB Upgrade SRF		2008 Conway WWTP Odor Control Upgrade		2008 Revenue Bonds		501 to 544 SRF		Veren WWTP SRF		Bucksport Composting Facility SRF	
	Future Debt Service	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service	Current Debt Service	Future Debt Service	Current Debt Service
Cash and Investments, Beginning of year	\$ 656,348	\$ 35,969	\$ 233,640	\$ 443,109	\$ 14,475	\$ 104,979	\$ 50,513	\$ 25,266	\$ 124,178	\$ -	\$ -	\$ -
Cash Receipts:												
Transfer from Operating Cash	-	204,728	-	1,013,298	86,844	-	-	80,072	-	-	193,002	-
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-	-
Interest Earned	1,913	-	680	-	1	306	147	1	-	362	2	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements:												
Principal and Interest Payments	-	(207,500)	-	(1,015,300)	(86,845)	-	-	(85,218)	-	-	(159,004)	-
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Investments	(658,261)	-	(234,320)	-	-	(105,285)	(50,660)	-	-	(124,540)	-	-
Transfers to Capital Projects Cash	-	-	-	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Cash and Investments, End of year	\$ -	\$ 33,197	\$ -	\$ 441,107	\$ 14,475	\$ -	\$ -	\$ 20,121	\$ -	\$ -	\$ 34,000	\$ -

(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, 2012

	Bonds of 2011A		Bonds of 2011B		Bonds of 2011C		Bonds of 2012		Bonds of 2011A		Bull Creek	
	Current	Debt Service	Current	Debt Service	Esrow Account	Current	Debt Service	Current	Debt Service	Construction Fund	Depreciation & Contingency	Depreciation & Contingency
Cash and Investments,												
Beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,000,920	\$ 11,758,904
Cash Receipts:												
Transfer from Operating Cash	658,326	2,231,118	698,247	-	-	-	-	-	-	-	448,049	4,185,322
Transfer from Capital Project	-	-	-	-	-	-	-	-	-	-	-	-
Interest Earned	12	41	21,835	-	21	-	-	-	-	68,190	-	-
Other Transfers	-	-	-	-	-	-	43	525,005	-	26,342,432	-	-
Cash Disbursements:												
Principal and Interest Payments	(570,551)	(1,892,550)	(329,540)	-	-	-	-	-	-	-	-	-
Renewals and Replacements	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Operating Cash	-	-	-	-	-	-	-	-	-	-	(208,762)	(3,463,115)
Transfers to Investments	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Capital Projects Cash	-	-	-	-	-	-	-	-	-	(2,430,605)	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	(207,266)	-	-
Cash and Investments,												
End of year	\$ 87,787	\$ 338,609	\$ 390,542	\$ 43	\$ 21	\$ 390,542	\$ 43	\$ 525,005	\$ 23,772,751	\$ 3,240,207	\$ 12,481,111	

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

	For the years ended	
	June 30	
	2012	2011
Water plants		
Personnel services	\$ 2,407,818	\$ 2,370,054
Contractual services	2,755,354	2,714,757
Supplies and materials	3,212,647	3,496,338
Business and travel expenses	5,985	6,739
Other expenses	1,194,349	1,206,226
Departmental transfers	1,004,891	1,258,439
Total water plants	10,581,044	11,052,553
Water systems		
Personnel services	2,618,457	2,559,406
Contractual services	1,050,784	1,438,141
Supplies and materials	1,608,395	1,521,191
Business and travel expenses	12,043	11,801
Other expenses	25,975	10,445
Total water systems	5,315,654	5,540,984
Total water	15,896,698	16,593,537
Wastewater plants		
Personnel services	4,555,779	4,648,871
Contractual services	3,941,610	4,112,784
Supplies and materials	2,247,464	2,185,442
Business and travel expenses	21,103	20,130
Other expenses	44,074	55,823
Departmental transfers	625,655	263,473
Total wastewater plants	11,435,685	11,286,523
Wastewater systems		
Personnel services	2,007,709	1,978,817
Contractual services	1,826,315	1,862,410
Supplies and materials	1,321,554	1,157,711
Other expenses	36,223	23,154
Total wastewater systems	5,191,801	5,022,092
Total wastewater	16,627,486	16,308,615

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

	For the years ended	
	June 30	
	2012	2011
General administration		
Personnel services	638,965	631,605
Contractual services	482,586	400,912
Supplies and materials	77,545	41,495
Business and travel expenses	95,740	112,857
Other expenses	448,362	433,932
Total general administration	1,743,198	1,620,801
Planning, engineering and construction		
Personnel services	1,077,365	892,170
Contractual services	45,886	37,922
Supplies and materials	74,303	65,729
Business and travel expenses	6,537	11,353
Other expenses	250	202
Total planning, engineering and construction	1,204,341	1,007,376
Financial services		
Personnel services	2,055,367	2,003,725
Contractual services	1,050,890	988,955
Supplies and materials	142,715	133,244
Business and travel expenses	23,970	28,692
Other expenses	12,800	20,355
Total financial services	3,285,742	3,174,971
High tech turf farm		
Personnel services	1,543,599	1,468,483
Contractual services	260,796	220,339
Supplies and materials	724,727	482,090
Business and travel expenses	5,155	4,797
Other expenses	247	75
Departmental transfers	(1,630,546)	(1,521,912)
Total high tech turf farm	903,978	653,872
Depreciation	22,761,494	22,303,035
Total operating expenses	\$ 62,422,937	\$ 61,662,207

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.

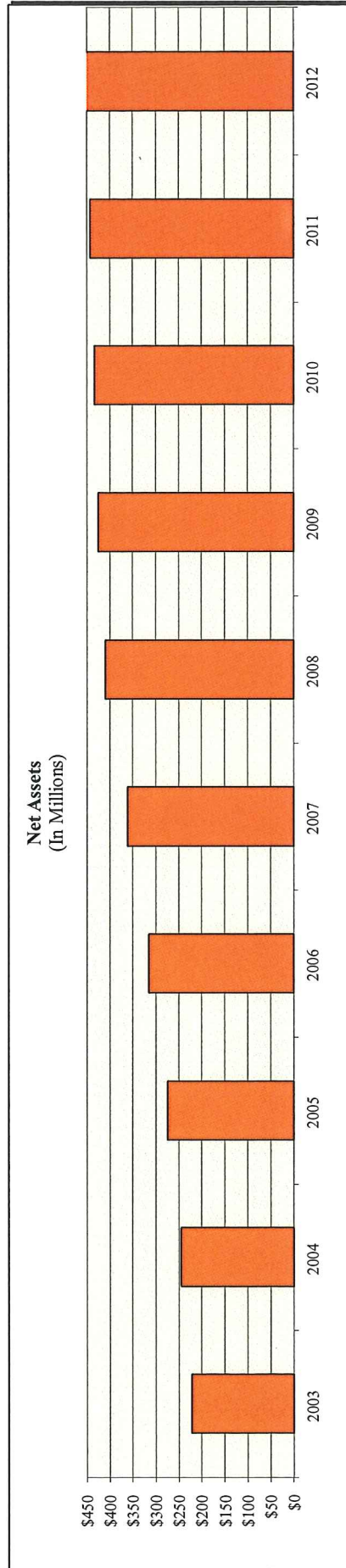
Demographic and Economic Information (*Schedule 14*) - This schedule offers demographic and economic indicators to help the reader understand the environment within which GSWSA's financial activities take place and to help make comparisons over time and with other special districts.

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

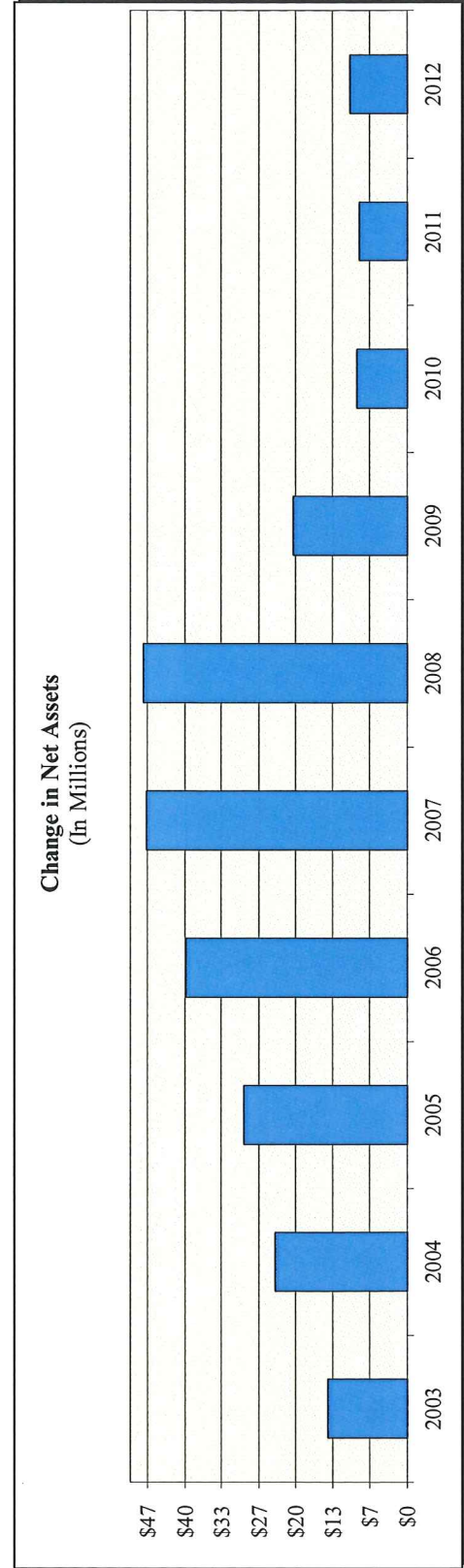
GRAND STRAND WATER AND SEWER AUTHORITY
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(UNAUDITED)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Primary government										
Invested in capital assets, net of related debt	\$ 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	\$ 303,004,380
Restricted	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	42,084,820
Unrestricted	\$2,519,542	65,396,725	84,837,573	84,059,592	82,256,132	88,898,786	100,867,438	89,234,671	93,371,833	107,917,421
Total primary government net assets	\$ 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	\$ 453,006,621



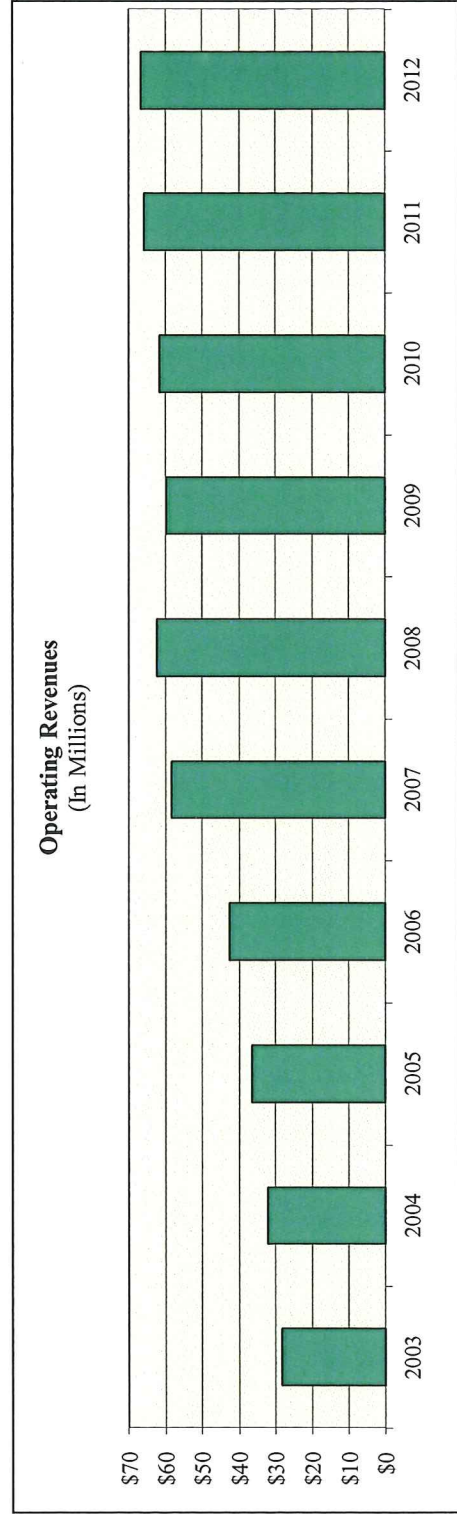
GRAND STRAND WATER AND SEWER AUTHORITY
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income/(Loss)	Total Nonoperating Revenues/(Expenses)	Income/(Loss) Before Capital Contributions	Capital Contributions	Change in Net Assets
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
2012	66,565,157	62,422,937	4,142,220	(2,036,521)	2,105,699	8,223,999	10,329,698



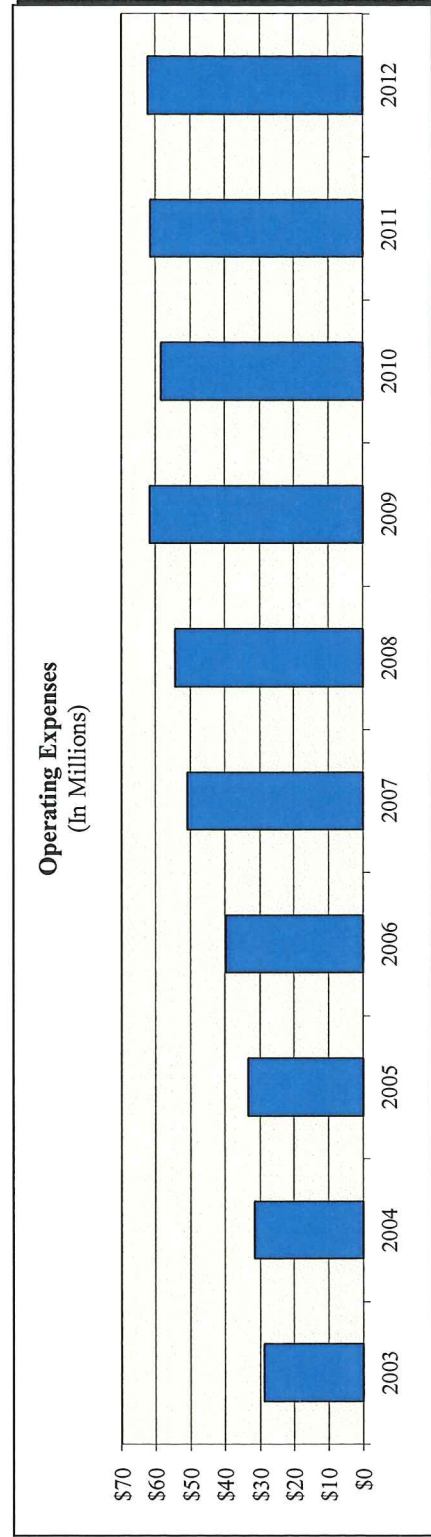
**GRAND STRAND WATER AND SEWER AUTHORITY
OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Water & Sewer Volume & Availability Fees	Customer Charges	Surface Water Charges	SWTP Contract Water Consumption	Other Revenue	Total Operating Revenue
2003	\$ 17,303,689	\$ 3,182,360	\$ 4,223,574	\$ 1,697,260	\$ 1,926,239	\$ 28,333,122
2004	19,593,043	3,761,764	4,531,216	1,945,376	2,443,870	32,275,269
2005	21,033,852	5,234,451	4,904,977	2,150,031	3,247,716	36,571,027
2006	24,318,246	6,332,314	5,389,236	2,330,268	4,298,643	42,668,707
2007	40,342,471	5,833,911	5,713,617	2,316,629	4,211,330	58,417,958
2008	44,731,026	5,030,195	6,021,758	2,453,313	4,025,882	62,262,174
2009	44,766,505	4,880,877	6,194,359	2,484,055	1,545,815	59,871,611
2010	45,921,594	5,117,627	6,275,812	2,956,888	1,368,962	61,640,883
2011	49,729,727	5,110,985	6,428,952	3,308,715	1,282,049	65,860,428
2012	50,177,028	5,354,967	6,324,150	3,228,297	1,480,715	66,565,157



**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
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
2012	16,905,059	11,414,221	9,409,350	22,761,494	1,932,813	62,422,937



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)
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)
2012	5,757,105	(275,083)	(142,051)	(7,376,492)	(2,036,521)

**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
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
2012	2,171,628	129,379	3,653,858	2,269,134	8,223,999

**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
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	14,178	1,127	7.36%	10,758	10.40	1.15	9.40	1.75
2012	14,968	14,705	263	1.76%	10,168	10.65	1.20	9.65	1.85

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

Fiscal Year	Taps Sold		
	Water Meter Taps	Sewer Taps	Total
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
2012	237	115	352

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	
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
2012	8,980	11	41	5,355	15	22	58,618	0	0	9,032	5,392	58,618

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
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
2012	10.65	1.20	9.65	1.85

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

Customer	Fiscal Year 2012		Total
	Water Revenue	Sewer Revenue	
City of Myrtle Beach	\$ 6,594,477	\$ 5,538,333	\$ 12,132,810
City of North Myrtle Beach	3,672,946	387,230	4,060,176
City of Conway	2,741,076	976,423	3,717,499
Little River Water and Sewerage Company	1,150,256	920,904	2,071,160
City of Loris	218,313	411,911	630,224
Ocean Lakes Utilities	141,930	268,046	409,976
Georgetown County Water and Sewer Authority	238,015	122,965	360,980
Oceanside Village	143,183	139,748	282,931
Myrtle Beach Resort	131,360	142,716	274,076
Springmaid Beach Resort	107,547	114,668	222,215

Customer	Fiscal Year 2003		Total
	Water Revenue	Sewer Revenue	
City of Conway	\$ 1,906,836	\$ 628,141	\$ 2,534,977
Little River Water and Sewerage Company	696,918	447,793	1,144,711
City of Myrtle Beach	751,819	-	751,819
Ocean Lakes Campground	136,942	191,311	328,253
Georgetown County Water and Sewer Authority	156,273	79,075	235,348
Oceanside Village	135,415	91,433	226,848
Myrtle Beach Air Force Base	-	179,297	179,297
Springmaid Beach	59,202	98,729	157,931
Conway Hospital	69,127	82,806	151,933
Town of Loris	149,532	-	149,532

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	
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	-	4,751,909	68,890,697	226,320,782	2.99%	879
2010	1,013,453	145,882,320	-	5,008,853	68,638,660	220,543,286	2.87%	836
2011	904,615	153,643,869	-	5,279,688	54,936,108	214,764,280	2.77%	798
2012	791,823	167,917,445	-	6,086,743	52,291,219	227,087,230	NA	822

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

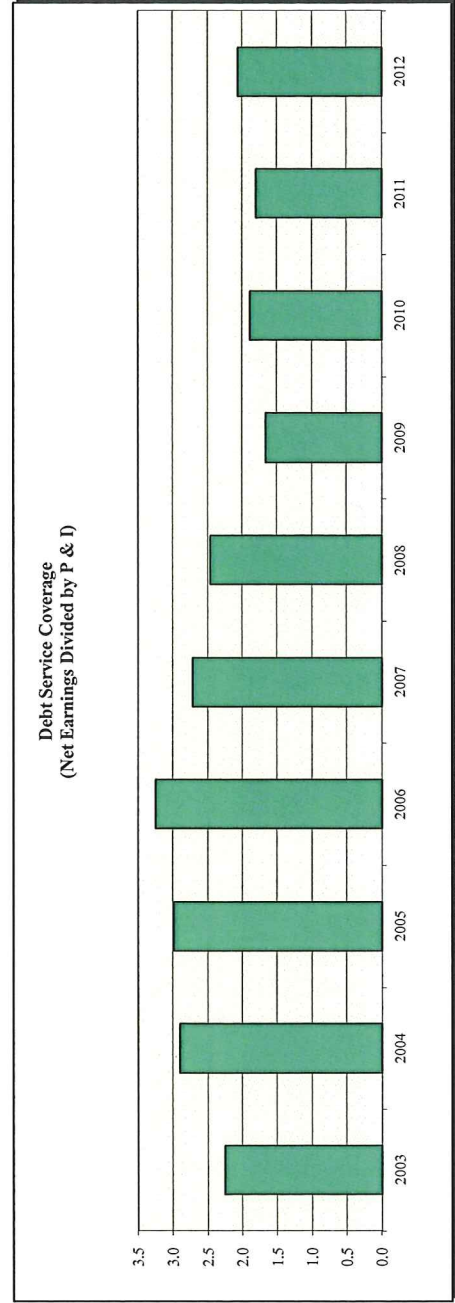
Fiscal Year	Gross Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Net Earnings Available for Debt Service	Debt Service Requirements ⁽³⁾			Coverage ⁽⁴⁾
				Principal	Interest	Total	
2003	\$ 40,816	\$ 17,862	\$ 22,954	\$ 3,240	\$ 6,939	\$ 10,179	2.26
2004	50,884	19,863	31,021	3,745	6,955	10,700	2.90
2005	54,650	21,052	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
2012	77,873	39,661	38,212	11,576	6,949	18,525	2.06

⁽¹⁾ Gross revenues include operating revenue, investment income, SWTP capacity fees and customer impact fees

⁽³⁾ Includes Principal and Interest of Revenue bonds and State Revolving Loans Only.
 Principal = Total Reductions for Bonds and Notes from Note 5-2

⁽²⁾ 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
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	29,101	41.0	14.5
2010	269,291	7,743,921 ⁽²⁾	28,613 ⁽²⁾	40.8 ⁽³⁾	13.1
2011	276,340 ⁽¹⁾	N/A	N/A	N/A	12.0 ⁽⁴⁾

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 12/31/11 from Bureau of Labor Statistics (<http://www.bls.gov/lau/laucitycur14.txt>)

NA - Not Available

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Water										
Water Plant Operations	14	15	14	13	24	23	23	25	24	24
Water Plant Maintenance	1	1	2	2	8	6	6	6	5	6
Water Systems Maintenance	18	17	17	17	15	15	13	14	17	16
Water Systems Operations	10	11	12	13	13	25	27	29	34	34
Sewer										
Sewer Plant Operations	18	18	18	18	32	39	39	45	36	34
Sewer Plant Maintenance	1	1	2	4	11	12	13	11	13	17
Sewer Systems Maintenance	34	33	34	35	38	36	38	37	38	38
Biosolid / Sludge Disposal Operations	16	16	16	18	22	25	23	27	27	26
Engineering / Inspection / Construction										
Engineering	13	12	12	7	15	16	15	14	15	15
Inspections	5	4	5	6	7	7	7	7	6	6
Construction	16	16	16	16	17	19	23	22	22	22
Administration										
Billing / Customer Service	13	13	14	15	16	16	18	23	23	23
Meter Reading	12	13	13	8	9	-	-	-	-	-
Human Resources	2	2	2	2	2	2	2	2	2	3
Finance and Accounting	5	5	5	5	5	6	6	6	5	5
Purchasing	4	4	4	4	4	4	4	4	4	4
Information Systems	2	2	2	2	3	4	4	4	4	4
Executive Administration	7	7	7	14	6	5	3	3	3	2
Fleet / Facilities Management	-	-	-	-	-	-	5	3	4	4
Total	191	190	195	199	247	260	269	282	282	283

GRAND STRAND WATER AND SEWER AUTHORITY
MISCELLANEOUS STATISTICAL DATA
JUNE 30, 2012
(UNAUDITED)

Sewer System Facts

<u>Use of Sewer</u>	<u>2012</u>	<u>2011</u>
Sewer Customers, End of Period	64,010	62,429
Average Daily Consumption (Millions of Gallons)	27.25	27.54
Estimated Daily use per Person (Gallons)	100	100
Sewer sales for Fiscal Year (Billions of Gallons)	9.95	10.05

System Facilities

Total Miles of Sewer Lines *	1,585	1,562
Number of Treatment Plants	11	11
Number of Pumping Stations	657	629
Number of Residential Effluent Pumping Stations	313	433
Number of Residential Grinder Pumping Stations	4,092	4,557

*Force Main	809
Gravity	<u>776</u>
	1,585

GRAND STRAND WATER AND SEWER AUTHORITY
MISCELLANEOUS STATISTICAL DATA
JUNE 30, 2012
(UNAUDITED)

Water System Facts

<u>Use of Water</u>	<u>2012</u>	<u>2011</u>
Water Customers, End of Period	67,650	66,112
Average Daily Consumption (Millions of Gallons)	40.29	38.84
Estimated Daily use per Person (Gallons)	100	100
Water sales for Fiscal Year (Billions of Gallons) *	14.71	14.18
 <u>System Facilities</u>		
Reservoirs **	25	25
Storage Capacity (Millions of Gallons) **	29	29
Auxiliary Deep Water Wells	50	49
Total Miles of Distribution Lines	1,665	1,646
Fire Hydrants	6,568	6,507

* Includes SWTP Participant Sales

** Includes SWTP Storage Tanks (Ground & Elevated)

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INDEPENDENT AUDITOR'S OTHER REPORTS SECTION

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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
Conway, South Carolina

We have audited the financial statements of the business-type activities of Grand Strand Water and Sewer Authority (GSWSA) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 11, 2012. 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 previously.

Compliance and Other Matters

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

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

Elliott Davis, LLC

Columbia, South Carolina
September 11, 2012

**GRAND STRAND WATER AND SEWER AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

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

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.

Recommendation:

We recommended 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.

Current Status

The Authority agreed with the finding and the recommended processes and procedures were implemented.