

Greenville Water

Financial Statements and
Supplementary Data

Years ended July 31, 2011 and 2010

Greenville Water

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Independent Auditors' Report

The Commissioners of Public Works
Greenville Water

We have audited the accompanying basic financial statements of Greenville Water (the "System") as of and for the years ended July 31, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial position of Greenville Water, as of July 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011 on our consideration of the System'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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary data on pages 23 through 29 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Cheng, Bekart + Holland, L.L.P.

Greenville, South Carolina

October 21, 2011

Management's Discussion and Analysis

Overview of the Financial Statements

The following is an overview of the financial activities of Greenville Water (the "System") for the fiscal years ended July 31, 2011 and 2010.

The basic financial statements of the System, which include the balance sheets, the statements of revenues, expenses and changes in net assets, and cash flows, are presented to display information about the reporting entity as a whole in accordance with GASB No. 34. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Condensed Financial Information

The following provides a summary of the activities of the System for the years 2011 and 2010 (in thousands):

	2011	2010
Revenues:		
Water supply and distribution	\$ 47,840	\$ 43,509
Sewer handling charges	1,531	1,469
Other operating revenues	3,334	3,488
Total operating revenues	52,705	48,466
Investment income	850	844
Total revenues	53,555	49,310
Expenses:		
Operations and maintenance	19,005	18,665
General and administrative	8,298	8,478
Depreciation and amortization	11,392	11,836
Provision for doubtful accounts	658	648
Interest expense	4,353	5,820
(Gain)/loss on disposal of capital assets	209	(111)
Total expenses	43,915	45,336
Capital contributions	141	488
Change in net assets	9,781	4,462
Net assets – beginning	369,307	364,845
Net assets – ending	\$ 379,088	\$ 369,307

Total operating revenue increased by 8.8%, due primarily to a 2.8% increase in total consumption and a 3.25% rate increase in February 2011. Higher consumption is primarily due to lower rainfall during September through January and May through July of the fiscal year ended July 31, 2011 as compared to the previous fiscal year.

Total expenses decreased by \$1.4 million.

On the balance sheets, the changes in assets, liabilities, and net assets are summarized as follows (in thousands):

	<u>2011</u>		<u>2010</u>
Assets:			
Current unrestricted assets	\$ 37,405	\$	42,001
Current restricted assets	25,731		26,068
Capital assets	457,865		451,356
Other noncurrent assets	898		890
	<u>521,899</u>		<u>520,315</u>
Liabilities:			
Current liabilities	13,458		14,670
Long-term liabilities	129,353		136,338
Total liabilities	<u>142,811</u>		<u>151,008</u>
Net assets:			
Invested in capital assets, net of related debt	333,748		318,992
Restricted for capital projects	25,731		26,068
Unrestricted	19,609		24,247
Total net assets	<u>379,088</u>		<u>369,307</u>
Total liabilities and net assets	\$ <u>521,899</u>	\$	<u>520,315</u>

The increase in capital assets is due to in-progress improvements and extensions to the water supply and distribution system. These improvements primarily include electrical upgrades at the Adkins Plant, repairs to the North Saluda spillway and various transmission main installations.

Long-term liabilities decreased, due primarily to a reduction in long-term debt from \$121.2 million in bonds outstanding in 2010 to \$114.2 in 2011.

Capital Assets

The System's capital assets include land and rights of way, buildings, equipment and furnishings, and water supply and distribution systems. Such amounts are detailed as follows (in thousands):

	<u>2011</u>		<u>2010</u>
Land and rights of way	\$ 8,808	\$	8,808
Water supply and distribution	344,907		337,058
Buildings	218,258		218,257
Equipment and furnishings	21,720		21,028
Construction	16,605		7,580
Total	<u>610,298</u>		<u>592,731</u>
Less accumulated depreciation	152,433		141,375
Total, net	\$ <u>457,865</u>	\$	<u>451,356</u>

The net increase in the System's capital assets during fiscal year 2011 was \$6.5 million or 1.4%. Capital additions for 2011 were \$17.6 million, including \$.1 million attributed to contributed capital and \$.4 million in capitalized interest.

Debt Administration

The System issues debt to cover part of the capital improvement requirements of the System. Current financial planning is to fund approximately 60% of the Capital Improvement Program for the next 10 years from bond issues. The balance is to be funded from System revenue.

At July 31, 2011, the total outstanding debt of the System was \$114.2 million, consisting of serial and term bonds, compared to \$121.2 million for fiscal year 2010. The total outstanding long-term debt at July 31, 2011 was as follows (in thousands):

<u>Issue Date</u>		
2010	\$	40,435
2005		69,105
2003		2,915
2002		<u>1,715</u>
Total long-term debt	\$	<u>114,170</u>

In July 2010, the System issued \$40,485,000 of Waterworks System Refunding Revenue Bonds, Series 2010, to pay the costs of advance refunding a portion of the outstanding Series 2002 and 2003 Bonds. The issuance consisted of serial bonds with stated rates ranging between 2.0% and 5.0% and maturing from 2011 to 2023.

In February 2005, the System issued \$85,790,000 of Waterworks System Refunding and Capital Improvement Revenue Bonds, Series 2005, to pay the costs of advance refunding a portion of the outstanding Series 1997 Bonds and other capital improvements. The issuance consisted of serial bonds with stated rates ranging between 2.2% and 5.0% and maturing from 2006 to 2025.

In February 2003, the System issued \$32,100,000 of Waterworks System Revenue Bonds, Series 2003, to pay a portion of the costs to expand the Adkins Water Filtration plant and other capital improvements. This issuance consisted of serial bonds with stated rates ranging between 2.5% and 5.25% and maturing from 2004 to 2020 and term bonds with a 4.750% stated interest rate and maturing in 2023.

In connection with the issuance of the 2010 bonds the System's bond ratings were reaffirmed and/or upgraded by all three rating agencies; AAA by S&P, Aaa by Moody's Investors Service, and AAA by Fitch.

Economic Factors and Next Year's Rates

The System continued to expand, and the number of new accounts grew by .6% for the fiscal year ended July 31, 2011 as compared to 1.1% for the previous fiscal year.

The System continued an annual water conservation awareness program in 2011. The purpose of the program is to inform our customers about common sense ways to conserve water. Long term conservation efforts are helpful to defer the need for major plant capacity expansions.

A cost of service analysis was completed in October 2010. Based on a revision to the report, the Commission approved an increase to the base rate in 2011 and adjustments to rate blocks two and three for volume charges for 2011. Future rate increases averaging 2% per year are predicted for the years 2012 through 2020. An update to this study is scheduled to be completed in November 2011.

Request for Information

This financial report is provided as an overview of the System's finances. Questions concerning any of the information in this report or requests for additional information should be directed to the office of Director of Finance, Greenville Water, 407 West Broad Street, Greenville, South Carolina 29601.

Greenville Water

Balance Sheets
July 31, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,891,673	\$ 6,978,917
Investments	16,062,338	24,779,695
Accounts receivable, less allowances for doubtful accounts of \$308,626 in 2011 and \$260,643 in 2010	8,974,432	8,507,449
Resale and maintenance inventory and supplies	1,054,425	1,349,674
Prepaid expenses	421,925	384,910
Total current unrestricted assets	37,404,793	42,000,645
Restricted assets:		
Cash and cash equivalents	2,067,208	2,788,381
Investments	23,663,676	23,279,897
Total current restricted assets	25,730,884	26,068,278
Total current assets	63,135,677	68,068,923
Capital assets:		
Land and rights of way	8,807,981	8,807,915
Water supply and distribution systems	344,907,266	337,057,594
Buildings	218,257,448	218,257,448
Equipment and furnishings	21,720,253	21,028,505
Construction in process	16,604,658	7,579,563
Gross capital assets	610,297,606	592,731,025
Less accumulated depreciation	(152,433,017)	(141,375,289)
Capital assets, net	457,864,589	451,355,736
Debt issuance costs	898,410	889,974
Total noncurrent assets	458,762,999	452,245,710
Total assets	\$ 521,898,676	\$ 520,314,633

Liabilities and Net Assets	<u>2011</u>	<u>2010</u>
Current liabilities:		
Accounts payable	\$ 2,242,172	\$ 4,115,571
Liabilities payable from current restricted assets	646,829	329,688
Current portion of bonds payable	7,410,000	7,020,000
Accrued expenses	<u>3,158,510</u>	<u>3,205,011</u>
Total current liabilities	<u>13,457,511</u>	<u>14,670,270</u>
Long-term liabilities:		
Deposits, net of current portion	5,960,550	6,073,033
Compensated absences, net of current portion	1,259,913	1,370,188
Accrued postretirement benefits	10,868,283	9,486,993
Bonds payable, net	<u>111,264,302</u>	<u>119,406,926</u>
Total long-term liabilities	<u>129,353,048</u>	<u>136,337,140</u>
Total liabilities	<u>142,810,559</u>	<u>151,007,410</u>
Net assets:		
Invested in capital assets, net of related debt	333,748,060	318,991,837
Restricted	25,730,884	26,068,278
Unrestricted	<u>19,609,173</u>	<u>24,247,108</u>
Total net assets	<u>379,088,117</u>	<u>369,307,223</u>
Total liabilities and net assets	<u>\$ 521,898,676</u>	<u>\$ 520,314,633</u>

See notes to financial statements.

Greenville Water

Statements of Revenue, Expenses, and Changes in Net Assets Years Ended July 31, 2011 and 2010

	2011	2010
Operating revenues:		
Water supply and distribution:		
Water sales	\$ 46,834,776	\$ 43,076,820
Tapping, installation, and service fees	586,097	64,004
Private fire protection charges	419,332	367,808
Sewer handling charges	1,531,149	1,469,489
Other operating revenues	3,334,044	3,488,127
Total operating revenues	52,705,398	48,466,248
Operating expenses:		
Operation of distribution system	8,630,528	8,721,642
Repair and maintenance of plant	10,102,736	9,443,040
General and administrative expenses	8,569,316	8,978,371
Depreciation	11,289,644	11,387,570
Provision for doubtful accounts	658,076	647,850
Total operating expenses	39,250,300	39,178,473
Operating income	13,455,098	9,287,775
Nonoperating revenues (expenses):		
Interest income	849,805	843,591
Interest expense on revenue bonds, net of capitalized interest of \$443,412 and \$124,988 in 2011 and 2010, respectively	(4,353,434)	(5,820,092)
Amortization of bond expense	(102,577)	(448,280)
(Loss) gain on disposal of fixed assets	(208,708)	111,275
Total nonoperating expenses	(3,814,914)	(5,313,506)
Income before capital contributions	9,640,184	3,974,269
Capital contributions	140,710	488,094
Change in net assets	9,780,894	4,462,363
Net assets at beginning of year	369,307,223	364,844,860
Net assets at end of year	\$ 379,088,117	\$ 369,307,223

See notes to financial statements.

Greenville Water

Statements of Cash Flows Years Ended July 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Receipts from customers	\$ 52,125,932	\$ 49,137,275
Payments to suppliers	(16,239,613)	(13,324,088)
Payments to employees	(11,794,553)	(11,616,327)
Net cash provided by operating activities	24,091,766	24,196,860
Cash flows from investing activities:		
Purchases of investments	(17,617,891)	(15,058,220)
Proceeds from sale of investments	25,951,469	21,903,751
Interest received on investments	837,894	840,868
Interest received on checking accounts	11,911	2,723
Decrease (increase) in restricted cash	721,173	(1,224,453)
Net cash provided by investing activities	9,904,556	6,464,669
Cash flows from capital and related financing activities:		
Purchases of capital assets	(17,871,495)	(19,819,702)
Proceeds from sale of capital assets	5,000	111,275
Proceeds from issuance of bonds	-	46,019,855
Pre-payment of interest on refunding of bond issue	-	(3,543,636)
Debt issuance costs	(111,013)	(331,213)
Interest payments on bonds	(5,086,058)	(6,012,528)
Principal payments on bonds	(7,020,000)	(48,690,000)
Net cash used in capital and related financial activities	(30,083,566)	(32,265,949)
Increase (decrease) in cash and cash equivalents	3,912,756	(1,604,420)
Cash and cash equivalents at beginning of year	6,978,917	8,583,337
Cash and cash equivalents at end of year	\$ 10,891,673	\$ 6,978,917

See notes to financial statements.

Greenville Water System

Statements of Cash Flows (continued)
Years Ended July 31, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 13,455,098	\$ 9,287,775
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,289,644	11,387,570
Provision for losses on accounts receivable	658,076	647,850
Changes in operating assets and liabilities:		
Accounts receivable	(1,125,059)	(442,218)
Inventories	295,249	2,810
Prepaid expenses	(37,015)	(164,340)
Accounts payable	(1,873,399)	920,535
Liabilities payable from current restricted assets	317,141	294,171
Accrued expenses	(46,501)	420,335
Deposits, net of current portion	(112,483)	465,395
Compensated absences, net of current portion	(110,275)	16,291
Accrued postretirement benefits	1,381,290	1,360,686
Net cash provided by operating activities	\$ 24,091,766	\$ 24,196,860
Supplemental noncash disclosure:		
Contributed capital assets	\$ 140,710	\$ 488,094
(Loss) gain on disposal of capital assets	\$ (208,708)	\$ 111,275
Amortization of bond expense	\$ (102,577)	\$ (448,280)
Amortization of bond premium	\$ 1,227,370	\$ 400,123
Amortization of bond valuation	\$ (494,746)	\$ (207,687)

See notes to financial statements.

Greenville Water

Notes to Financial Statements
July 31, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies

Organization

Greenville Water (the "System") was established in 1918 when the original nucleus of the present system was purchased from the Paris Mountain Water Company. The acquisition was authorized by a City of Greenville Referendum that also approved the issuance of general obligation bonds and the establishment of a "Board of Commissioners of Public Works". The System is governed by the Board of Commissioners of Public Works composed of five members, three elected for staggered six-year terms and two Ex-officio Commissioners, consisting of the Mayor and one City Council Member.

The System is a water utility that serves customers in the upstate region of South Carolina. Substantially all of the System's accounts receivable are unsecured and are due from residential and commercial customers in that area. Credit losses have consistently been within management's expectations.

Method of Accounting

The financial statements have been prepared in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as amended by GASB Statements No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Disclosures*. Statement No. 34 requires as supplementary information Management's Discussion and Analysis, which includes an analysis of the System's financial performance for the year and its financial position at year-end.

The System's accounting records are maintained on the full accrual basis in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities. The System accounts for its activities similar to those found in private business enterprises. The Financial Accounting Standards Board ("FASB") and its predecessor organizations have issued accounting and reporting standards for activities in the private sector. The System has elected not to apply the standards issued by those organizations after November 30, 1989 and has applied all applicable pronouncements issued by GASB.

Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System carries commercial insurance for these risks of loss, including employee health and accidental insurance. Health insurance was provided under a self-insured program with stop loss coverage in place both for individual claims as well as claims in the aggregate. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. During fiscal year 2011, management obtained third party insurance and concluded the self-insured portion. There are no significant reductions in insurance coverage from the previous year.

Greenville Water

Notes to Financial Statements
July 31, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposits with original maturities of three months or less. Unrestricted cash is invested each night through participation in a bank investment plan and bears interest at a variable rate. Under this agreement, the bank sells United States Treasury and Federal Agency securities to the System each night and repurchases the investments the next business day. The balance in these investments at July 31, 2011 and 2010 was zero for both years.

The System has a compensating balance agreement with a bank. Under this agreement, the System is required to reserve 10% of its monthly collected balance or be subject to various bank service charges.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the System reports all equity and debt securities at fair value in the balance sheets and all changes in fair value as income or loss in the statements of revenues, expenses, and changes in net assets. Such fair values are based on quoted market prices.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method; market is based on current replacement cost.

Capital Assets

Depreciation is calculated using the straight-line method over the following estimated useful lives:

	Estimated useful lives
Buildings	40-50 years
Water supply and distribution system	25-100 years
Equipment and furnishings	5-20 years

The System records impairment losses, if any, on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

Capitalized Interest

Interest costs, less related interest income, are capitalized into construction in progress during an extended period of construction.

Greenville Water

Notes to Financial Statements
July 31, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies, continued

Contributed Capital

The System received donations of land and rights of way, buildings, and water and distribution systems, principally water lines, from contractors as well as grants from the state and contributions from individual residents for the construction of certain water lines. The System accounts for these contributions under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires that contributions be reported in the statements of revenues, expenses, and changes in net assets.

Debt Issuance Costs

Debt issuance costs at July 31, 2011 and 2010 of \$898,410 and \$889,974, respectively, (net of accumulated amortization of \$277,700 and \$175,123, respectively) are being amortized over the term of the respective bonds.

Premium on Bonds Payable

The premium on bonds payable at July 31, 2011 and 2010 of \$9,946,529 and \$11,173,899, respectively, (net of accumulated amortization of \$3,590,706 and \$2,363,336, respectively) is being amortized over the term of the respective bonds.

Operating Revenues and Operating Expenses

Operating revenues consist of customer payments for services of the System. Revenues are recognized on water sales when customers consume the water. All other revenues are recognized when the services are performed. Operating expenses consist of depreciation, repair and maintenance, operation of the System, administration costs, and bad debt expense.

Income Taxes

The System is recognized as a public utility for federal income tax purposes. As such, gross income of the System is excluded from federal income taxes under Internal Revenue Code Section 115.

Restricted Cash and Investments

Certain cash and investment balances are restricted for debt service or capital expenditures by the System's Bond Ordinance. As of July 31, 2011, investments of \$17,577,913 were restricted for debt service and cash and cash equivalents and investments of \$8,152,971 were restricted for capital expenditures. As of July 31, 2010, investments of \$17,215,414 were restricted for debt service and cash and cash equivalents and investments of \$8,852,864 were restricted for capital expenditures. When an expense is incurred for purposes where both restricted and unrestricted assets are available, it is the System's policy to apply the restricted resources first.

Greenville Water

Notes to Financial Statements
July 31, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies, continued

Compensated Absences

The System has a general leave program which provides employees with "annual paid general leave days" that can be used for vacation, holidays, illness of employee, or employee's family personal business. The number of days that an employee is entitled to each year is determined by the employee's length of service. General leave days are earned each month (the number of days depends on length of service) beginning on the first day of the month following their employment date. Employees can carry a maximum of ninety days. The Water System has accrued \$1,399,913 and \$1,507,796 for this liability at July 31, 2011 and 2010, respectively, which is included in accrued expenses in the accompanying balance sheets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the fiscal year 2010 financial statement presentation to correspond to the fiscal year 2011 presentation. Total net assets and change in net assets are unchanged due to these reclassifications.

Note 2 - Cash Deposits

The System places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts. The System from time to time may have amounts on deposit in excess of the insured limits.

At July 31, 2011, the carrying value of cash deposits totaled \$12,953,231 with corresponding bank balances of \$15,562,165. At July 31, 2010, the carrying value of cash deposits totaled \$9,762,223 with corresponding bank balances of \$10,611,302. Of the bank balance at July 31, 2011, \$2,385,509 was insured by federal depository insurance and \$13,176,656 was collateralized with securities held by the financial institution in the System's name. Due to timing of receipt of customer payments as well as payments of System expenses, bank balances could exceed collateralized amounts from time to time.

As of July 31, 2011 and 2010, cash on hand was \$5,650 and \$5,075, respectively.

Greenville Water

Notes to Financial Statements July 31, 2011 and 2010

Note 3 - Investments

As of July 31, 2011, the System had the following investments and maturities:

		Less than 6 months	6-12 months	1-3 years
SC Investment Pool	\$ 24,217,693	\$ 24,217,693	\$ -	\$ -
Money Market Funds	<u>15,508,321</u>	<u>15,508,321</u>	<u>-</u>	<u>-</u>
	<u>\$ 39,726,014</u>	<u>\$ 39,726,014</u>	<u>\$ -</u>	<u>\$ -</u>

As of July 31, 2010, the System had the following investments and maturities:

		Less than 6 months	6-12 months	1-3 years
SC Investment Pool	\$ 33,208,083	\$ 33,208,083	\$ -	\$ -
Money Market Funds	<u>14,851,509</u>	<u>14,851,509</u>	<u>-</u>	<u>-</u>
	<u>\$ 48,059,592</u>	<u>\$ 48,059,592</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the System limits its investments to the State Investment Pool and by purchasing securities with maturities of less than five years.

Credit risk: The deposits and investments of the System are invested pursuant to statutes established by the State of South Carolina. The statutes allow for the investment of money in the following investments:

- a) Obligations of the United States and its Agencies
- b) General obligations of the State of South Carolina or any of its political units. Savings and loan association deposits to the extent they are insured by the Federal Deposit Insurance Corporation
- c) Certificates of deposit which are collaterally secured by securities of the type described above, held by a third party as escrow agent or custodian, at a market value not less than the amount of certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an Agency of the Federal government
- d) Collateralized repurchase agreements which are collateralized by securities as set forth in (a) and (b)
- e) South Carolina Pooled Investment Fund established and maintained by the State Treasurer

The South Carolina Pooled Investments are not evidenced by securities that exist in physical or book entry form and are unrated. The fair value of the South Carolina pooled investment is the same as the value of the pooled shares and is not rated. Regulatory oversight is provided by the South Carolina State Treasurer.

Greenville Water

Notes to Financial Statements July 31, 2011 and 2010

Note 3 - Investments, continued

Custodial Credit Risk: For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk: The System places no limit on the amount that the System may invest in any one issuer. More than 5% of the System's investments are in the South Carolina investment pool and in Money Market funds. These investments are 61% and 39%, respectively, of the System's 2011 total investments (69% and 31%, respectively, in 2010).

Note 4 - Capital Assets

The following is a summary of capital assets activity for the fiscal years ended July 31, 2011 and 2010:

	Balance July 31, 2009	Increases	Decreases	Balance July 31, 2010	Increases	Decreases	Balance July 31, 2011
Capital assets not being depreciated:							
Lands and rights of way	\$ 8,807,722	\$ 193	\$ -	\$ 8,807,915	\$ 66	\$ -	\$ 8,807,981
Construction in process	3,187,782	5,037,779	645,998	7,579,563	9,025,095	-	16,604,658
Total capital assets not being depreciated	<u>11,995,504</u>	<u>5,037,972</u>	<u>645,998</u>	<u>16,387,478</u>	<u>9,025,161</u>	<u>-</u>	<u>25,412,639</u>
Other capital assets:							
Water supply and distribution systems	322,664,460	14,426,088	32,954	337,057,594	8,295,296	445,624	344,907,266
Buildings	217,812,810	444,638	-	218,257,448	-	-	218,257,448
Equipment and furnishings	20,468,516	1,046,177	486,188	21,028,505	691,748	-	21,720,253
Total other capital assets at historical cost	<u>560,945,786</u>	<u>15,916,903</u>	<u>519,142</u>	<u>576,343,547</u>	<u>8,987,044</u>	<u>445,624</u>	<u>584,884,967</u>
Less accumulated depreciation for:							
Water supply and distribution systems	64,870,813	4,478,978	32,970	69,316,821	4,502,908	231,916	73,587,813
Buildings	52,574,067	5,347,958	-	57,922,025	5,356,096	-	63,278,121
Equipment and furnishings	13,060,900	1,560,634	485,091	14,136,443	1,430,640	-	15,567,083
Total accumulated depreciation	<u>130,505,780</u>	<u>11,387,570</u>	<u>518,061</u>	<u>141,375,289</u>	<u>11,289,644</u>	<u>231,916</u>	<u>152,433,017</u>
Other capital assets, net	<u>430,440,006</u>	<u>4,529,333</u>	<u>1,081</u>	<u>434,968,258</u>	<u>(2,302,600)</u>	<u>213,708</u>	<u>432,451,950</u>
Capital assets, net	<u>\$ 442,435,510</u>	<u>\$ 9,567,305</u>	<u>\$ 647,079</u>	<u>\$ 451,355,736</u>	<u>\$ 6,722,561</u>	<u>\$ 213,708</u>	<u>\$ 457,864,589</u>

Land and rights of way, buildings, and water supply and distribution systems are stated at cost, except certain assets totaling \$48,908,640 and \$48,767,930 as of July 31, 2011 and 2010, respectively. These assets, acquired through P.W.A. grants, through agreements with various water districts, and through donations by property developers and others are stated at amounts authorized by the Commissioners representing estimated fair values at dates of acquisition. Equipment and furnishings are stated at cost.

Greenville Water

Notes to Financial Statements July 31, 2011 and 2010

Note 5 - Disaggregate Payables

The following is a table of the details of certain of the current liabilities as of July 31:

	2011	2010
Accounts payable	\$ 2,242,172	\$ 4,115,571
Accounts payable from currently restricted assets	646,829	329,688
Miscellaneous accrued expense	446,708	302,578
Accrued employee benefits	894,054	1,079,191
Accrued payroll expense	286,093	294,062
Payable to other sewer authorities	1,158,091	1,187,576
Current portion, compensated absences	140,000	137,608
Current portion, deposits	233,564	203,996
Total payables and accrued expenses	\$ 6,047,511	\$ 7,650,270

Note 6 - Bonds Payable and Other Liabilities

In July 2010, the System issued Waterworks System Revenue Refunding Bonds, Series 2010, to pay the costs of advance refunding a portion of the Series 2002 and 2003 bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$3,543,636. This amount is being netted against the new debt and amortized over the old debt's life, which is shorter than the life of the refunding debt. The transaction also resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$3,019,669. The System issued Waterworks System Revenue Bonds, Series 2003 and 2002, primarily for expansion of the Adkins Filtration Plant. The bonds are secured by a pledge of, and lien upon, gross revenues less amounts required to fund the operation and maintenance of the System. The System's bond ordinance also restricts additional indebtedness and requires a certain net earnings level as defined.

During the year ending July 31, 2010, \$42,005,000 of the Series 2002 and 2003 bonds were defeased by issuing new debt and depositing the proceeds in an irrevocable trust to provide for all future debt service payments of the old debt. Thus, the defeased debt and the irrevocable trust are not included in the financial statements.

In February 2005, the System issued Waterworks System Refunding and Capital Improvement Revenue Bonds, Series 2005, to pay the costs of advance refunding a portion of the Series 1997 Bonds and to make improvements to the Water System. The reacquisition price exceeded the net carrying amount of the old debt by \$3,530,634. This amount is being netted against the new debt and amortized over the old debt's life, which is shorter than the life of the refunding debt. The transaction also resulted in an economic gain of \$2,729,883. The System issued Waterworks System Revenue Bonds, Series 1997 primarily for construction of the Table Rock/North Saluda Filtration Plant. The bonds are secured by a pledge of, and lien upon, gross revenues less amounts required to fund the operation and maintenance of the system. The System's bond ordinance also restricts additional indebtedness and requires a certain net earnings level as defined.

Greenville Water

Notes to Financial Statements July 31, 2011 and 2010

Note 6 - Bonds Payable and Other Liabilities, continued

The 1997 bonds were defeased by issuing new debt and depositing the proceeds in an irrevocable trust to provide for all future debt service payments of the old debt. Thus, the defeased debt of \$57,800,000 and the irrevocable trust are not included in the financial statements.

Changes in the total bonds payable during the fiscal years ended July 31, 2011 and 2010 are summarized below:

	Balance July 31, 2009	Additions	Deletions	Balance July 31, 2010	Additions	Deletions	Balance July 31, 2011
Revenue Bonds							
\$37,255,000 Waterworks System							
Revenue Bonds, Series 2002:							
Serial bonds, 3.0% to 5.25% interest maturing through 2020	\$ 22,170,000	\$ -	\$ 18,805,000	\$ 3,365,000	\$ -	\$ 1,650,000	\$ 1,715,000
Term bonds, 5.125% interest, maturing in 2022	5,505,000	-	5,505,000	-	-	-	-
\$32,100,000 Waterworks System							
Revenue Bonds, Series 2003:							
Serial bonds, 2.5% to 5.25% interest, maturing through 2020	18,090,000	-	13,800,000	4,290,000	-	1,375,000	2,915,000
Term bonds, 4.75% interest maturing in 2023	6,810,000	-	6,810,000	-	-	-	-
\$85,790,000 Waterworks System							
Revenue Bonds Series 2005:							
Serial bonds, 2.2% to 5% interest, maturing through 2025.	76,820,000	-	3,770,000	73,050,000	-	3,945,000	69,105,000
\$40,485,000 Waterworks System							
Revenue Bonds Series 2010:							
Serial bonds, 2% to 5% interest, maturing through 2023.	-	40,485,000	-	40,485,000	-	50,000	40,435,000
Total bonds payable	<u>129,395,000</u>	<u>40,485,000</u>	<u>48,690,000</u>	<u>121,190,000</u>	<u>-</u>	<u>7,020,000</u>	<u>114,170,000</u>
Premium on bonds payable	8,002,380	5,534,855	-	13,537,235	-	-	13,537,235
Amortization of bond premium	(1,963,213)	-	400,123	(2,363,336)	-	1,227,370	(3,590,706)
Unamortized deferral on revenue bond refundings	(2,601,024)	(3,543,636)	(207,687)	(5,936,973)	-	(494,746)	(5,442,227)
Current portion of bonds payable	(6,685,000)	(7,020,000)	(6,685,000)	(7,020,000)	(7,410,000)	(7,020,000)	(7,410,000)
Bonds payable, net	<u>\$ 126,148,143</u>	<u>\$ 35,456,219</u>	<u>\$ 42,197,436</u>	<u>\$ 119,406,926</u>	<u>\$ (7,410,000)</u>	<u>\$ 732,624</u>	<u>\$ 111,264,302</u>

Greenville Water

Notes to Financial Statements July 31, 2011 and 2010

Note 6 - Bonds Payable and Other Liabilities, continued

Changes in other liabilities during the fiscal years ended July 31, 2011 and 2010 are summarized below:

	Balance July 31, 2009	Additions	Deletions	Balance July 31, 2010	Additions	Deletions	Balance July 31, 2011
Deposits	\$ 5,815,422	\$ 781,708	\$ (320,101)	\$ 6,277,029	\$ 446,550	\$ (529,465)	\$ 6,194,114
Less current portion	(207,784)	(203,996)	207,784	(203,996)	(233,564)	203,996	(233,564)
Deposits, net of current portion	<u>\$ 5,607,638</u>	<u>\$ 577,712</u>	<u>\$ (112,317)</u>	<u>\$ 6,073,033</u>	<u>\$ 212,986</u>	<u>\$ (325,469)</u>	<u>\$ 5,960,550</u>
Accrued postretirement benefits	<u>\$ 8,126,307</u>	<u>\$ 1,792,574</u>	<u>\$ (431,888)</u>	<u>\$ 9,486,993</u>	<u>\$ 1,777,874</u>	<u>\$ (396,584)</u>	<u>\$ 10,868,283</u>
Compensated absences payable	\$ 1,488,818	\$ 18,978	\$ -	\$ 1,507,796	\$ -	\$ (107,883)	\$ 1,399,913
Less current portion	(134,921)	(137,608)	134,921	(137,608)	(140,000)	137,608	(140,000)
Compensated absences, net of current portion	<u>\$ 1,353,897</u>	<u>\$ (118,630)</u>	<u>\$ 134,921</u>	<u>\$ 1,370,188</u>	<u>\$ (140,000)</u>	<u>\$ 29,725</u>	<u>\$ 1,259,913</u>

The annual requirements to amortize to maturity all bonds payable outstanding, including interest payable, is as follows:

Fiscal year:	Revenue Bonds		
	Principal	Interest	Total
2012	\$ 7,410,000	\$ 5,359,925	\$ 12,769,925
2013	7,510,000	5,074,870	12,584,870
2014	7,835,000	4,733,525	12,568,525
2015	8,190,000	4,390,275	12,580,275
2016	8,565,000	4,017,625	12,582,625
2017-2021	49,465,000	13,430,500	62,895,500
2022-2025	25,195,000	1,890,450	27,085,450
Total	<u>\$ 114,170,000</u>	<u>\$ 38,897,170</u>	<u>\$ 153,067,170</u>

Management believes the System is in compliance with all significant financial debt covenants.

Note 7 - Employee Benefit Plans

Employees of the System participate in the South Carolina Retirement System's employees' retirement plan, a defined benefit, cost-sharing, multiple-employer, public employee retirement system ("PERS"). All full-time permanent System employees are required to participate in PERS.

Under PERS, employees who retire at or after age 65 or have 30 years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.82% of average final compensation times years of credited service. Final average compensation is the employee's salary over the twelve highest consecutive quarters. Benefits are fully vested after five years of service. Vested employees may retire at or after age 55 and receive reduced retirement benefits. PERS also provides death and disability benefits. Benefits are established by state statute.

Greenville Water

Notes to Financial Statements
July 31, 2011 and 2010

Note 7 - Employee Benefit Plans, continued

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws (as amended) prescribes requirements relating to membership, benefits, and employee/employer contributions for the plan. By law, the employee contribution requirement is 6.50% of annual salary and based on actuarial calculations, the System contributed 9.39% and 9.24% of the employee's annual salary through July 31, 2011 and 2010, respectively.

The System's required contributions in dollars and the percentage of those amounts contributed for the current year and the preceding two years were as follows:

July 31, 2011		Fiscal Years Ended				July 31, 2009	
Required	% Contributed	July 31, 2010		July 31, 2009		Required	% Contributed
		Required	% Contributed				
\$ 1,102,000	100%	\$ 1,088,000	100%	\$ 1,040,000		100%	

The South Carolina Retirement System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for PERS. The report may be obtained by writing to:

The South Carolina Retirement System
Fontaine Business Center
202 Arbor Lake Drive
Columbia, South Carolina 29223

Note 8 - Postretirement Benefits

Plan Description. The System's postretirement medical, dental and life insurance plan is a single employer defined benefit health and welfare plan administered by the System. The Plan provides medical, dental and life insurance benefits to eligible retirees and their spouses.

Funding Policy. The contribution requirements of the Plan are established and may be amended by the System. The required contribution is based on projected pay-as-you-go financial requirements. For the fiscal years ended July 31, 2011 and 2010, the System contributed \$396,584 and \$431,888 to the Plan, respectively. The Plan participants contributed \$132,556 or approximately 25% and \$148,587 or approximately 26% of the total cost for the fiscal years ended July 31, 2011 and 2010, respectively.

Annual OPEB Cost and Net OPEB Obligation. The Plan's annual Other Post-Employment Benefits ("OPEB") cost is calculated based on the System's Annual Required Contribution ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement 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 over a period not to exceed 30 years.

Greenville Water

Notes to Financial Statements July 31, 2011 and 2010

Note 8 - Postretirement Benefits, continued

The following table shows the components of the System's annual OPEB cost for the fiscal years ended July 31, 2011, 2010 and 2009, the amount actually contributed to the plan and the changes in the net OPEB obligation to the Plan:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ARC at year-end	\$ 1,864,803	\$ 1,864,803	\$ 1,606,826
Interest on Net OPEB obligation	428,908	356,384	300,910
Adjustment to ARC	<u>(515,837)</u>	<u>(428,613)</u>	<u>(361,897)</u>
Annual OPEB cost at year-end	1,777,874	1,792,574	1,545,839
Contribution made during the year	<u>(396,584)</u>	<u>(431,888)</u>	<u>(505,063)</u>
Increase in Net OPEB obligation	1,381,290	1,360,686	1,040,776
Net OPEB obligation at the beginning of the year	<u>8,047,056</u>	<u>6,686,370</u>	<u>5,645,594</u>
Net OPEB obligation at year-end	<u>\$ 9,428,346</u>	<u>\$ 8,047,056</u>	<u>\$ 6,686,370</u>

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation of the years ended July 31, 2011, 2010 and 2009 are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual OPEB cost	\$ 1,777,874	\$ 1,792,574	\$ 1,545,839
Percentage of annual OPEB cost contributed to the Plan	22.3%	24.1%	32.7%
Net OPEB obligation	\$ 9,428,346	\$ 8,047,056	\$ 6,686,370

Funded Status and Funding Progress. The Plan's funded status as of the most recent actuarial valuation dates are shown below:

	<u>August 1, 2009 (R)</u>	<u>August 1, 2009</u>	<u>August 1, 2008</u>
Actuarial Accrued Liability (AAL)	\$ 18,449,052	\$ 17,723,107	\$ 15,052,583
Actuarial Value of Asset	-	-	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ (18,449,052)	\$ (17,273,107)	\$ (15,052,583)
Covered payroll for active employees	N/A	N/A	N/A
Ratio of UAAL to covered payroll	N/A	N/A	N/A

(R) - Roll forward of prior year's results

Actuarial valuation of an ongoing Plan involves the estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The assumptions include employee turnover, mortality and health care trend rate, etc. The amounts determined regarding the funded status of the Plan and the ARC of the System are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. 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 type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan participants to that point. The actuarial cost method 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 calculation.

Greenville Water

Notes to Financial Statements
July 31, 2011 and 2010

Note 8 - Postretirement Benefits, continued

In the August 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate as follows:

	Medical	Dental
2009	6.5%	5.0%
2010	6.0%	5.0%
2011	5.5%	5.0%
2012	5.0%	5.0%

The medical costs include a 4.0% inflation assumption.

Medicare Prescription Drug Act

With respect to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, the System accounts for the effect of the Act as of August 1, 2004. The Actuary's analysis indicates that the System's Plan is actuarially equivalent to the Medicare Part D plan and qualifies for the federal subsidy.

Note 9 - Related Party Transactions

The System paid the City of Greenville \$271,350 and \$500,000 for the years ended July 31, 2011 and 2010, respectively, for use in an economic development partnership with the City.

Note 10 - Commitments

As of July 31, 2011, the System is obligated under contract for \$17,173,000 in construction projects. Of this amount, \$3,935,600 of the projects was incomplete as of July 31, 2011.

GREENVILLE WATER

Operated by the

COMMISSIONERS OF PUBLIC WORKS
OF THE
CITY OF GREENVILLE, SOUTH CAROLINA

SYSTEM INFORMATION

Prepared by

GREENVILLE WATER

COMMISSIONERS

Debra M. Sofield, Chair
Phillip A. Kilgore, Vice Chair
John F. Tynan, V, Commissioner
Knox H. White, Mayor/Ex-Officio
J. David Sudduth, Commissioner/Ex-Officio

EXECUTIVE STAFF

David H. Bereskin, Chief Executive Officer
Murray W. Dodd, Chief Operations Officer

SENIOR STAFF

Derrick J. Brown, Director of Finance
W. Frank Eskridge, Director of Governmental and Public Relations
K. C. Price, Director of Water Resources
Michael D. Sharpless, Director of Engineering

GREENVILLE WATER

OPERATING DATA

Fiscal Year 2011

Supply and Usage Data:

	<u>Million Gallons per Day</u>
Supply Available, Years of Drought	
Table Rock	16
North Saluda	26
Keowee (Future Expansion to 150 MGD)	<u>60</u>
Total Supply Available, Years of Drought	102
Combined Transmission Capacity, Gravity	46
Combined Transmission Capacity, Pumping	135
Average Water Usage:	
Table Rock/North Saluda Plant	28
Keowee	<u>29</u>
Total System, Average Daily Usage	57
Reserve Supply During Drought Years at Average Usage Rate	46

Comparative General Statistics for Past Four Fiscal Years:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Miles of Pipe (2"-72")	2,526	2,565	2,606	2,623
No. of Public Hydrants	9,675	9,845	10,008	10,064
Private Fire Protection Accounts	1,436	1,562	1,692	1,758
No. of Metered Accounts	164,047	164,102	165,910	166,820
Total Annual Sales (Million Gallons)	20,660	19,085	18,439	18,961
Total Annual Billing (Thousand Dollars)	53,909	50,042	48,466	52,705
Avg. No. of Quarterly Accts. Billed:	138,635	137,402	143,363	138,070
Residential	<u>17,548</u>	<u>17,564</u>	<u>18,095</u>	<u>17,781</u>
Others	156,183	154,966	161,458	155,851
Avg. Gallons Quarterly per Acct.	33,070	30,789	28,550	30,416
Avg. Quarterly Bill per Account (\$)				
Residential	50.71	49.20	45.73	50.70
All Accounts	73.62	71.78	67.36	74.76

Number of Customers:

Number of metered accounts, exclusive of private fire protection accounts, at the end of each of the fiscal years indicated:

2000	132,363	2004	147,563	2008	164,047
2001	136,597	2005	151,205	2009	164,102
2002	140,388	2006	155,960	2010	165,910
2003	144,038	2007	161,990	2011	166,820

Included in the 166,820 accounts listed above are 16 wholesale accounts that obtain their water supply from Greenville Water.

Average Daily Water Usage:

Combined quantities (MGD) of finished water supplied by the Stovall (Table Rock, North Saluda) and Adkins (Keowee) Treatment Plants for the fiscal years indicated:

2000	62.91	2004	56.41	2008	62.68
2001	61.30	2005	53.34	2009	55.00
2002	61.33	2006	59.40	2010	56.18
2003	56.74	2007	59.31	2011	57.00

Operational Earnings of the System:

Gross Operating Revenues, Operating Expenses (exclusive of depreciation) and Operational Income (exclusive of depreciation) for each of the fiscal years indicated:

<u>Fiscal Year</u>	<u>Gross Operating Revenue</u>	<u>Operating Expenses</u>	<u>Operating Income</u>
2000	31,417,362	14,767,624	16,649,738
2001	33,410,349	16,562,683	16,847,666
2002	33,837,632	17,394,675	16,442,957
2003	34,566,911	18,683,974	15,882,937
2004	36,233,883	19,869,970	16,363,913
2005	38,218,561	20,346,271	17,872,290
2006	49,324,486	22,980,256	26,344,230
2007	48,201,200	23,147,303	25,053,897
2008	53,908,661	25,945,208	27,963,453
2009	50,041,907	28,008,833	22,033,074
2010	48,466,248	27,290,903	21,175,345
2011	52,705,395	27,960,656	24,744,739

Capital Improvements from Earnings:

Amounts used or set aside (transferred to General Improvements Fund) for capital improvements to the System from System earnings during each of the fiscal years indicated:

2000	1,726,841	2004	6,759,962	2008	17,113,846
2001	4,960,104	2005	5,212,417	2009	16,271,712
2002	6,476,517	2006	6,312,297	2010	15,757,674
2003	2,853,134	2007	11,754,877	2011	14,332,422

GREENVILLE WATER

The American Pipe Manufacturing Company from Philadelphia was persuaded in 1889 to build a water system to serve the town of Greenville with a population of 8,600. This company was later known as the Paris Mountain Water Company, a corporation that secured its charter in South Carolina. The system operated under that name until 1918. The No. 1 reservoir was constructed on the northeast slopes of Paris Mountain and eight miles of 12-inch water main was installed to the city providing water service by gravity. This system was operating in June, 1890 and ten years later the No. 2 reservoir was constructed at a lower elevation on the side of Paris Mountain. Steam pumps and pressure filters were installed to deliver water from the No. 2 reservoir to the 12-inch gravity line.

The Commissioners of Public Works of the City of Greenville have owned its water system since 1918 when the original nucleus of the present system was purchased from the Paris Mountain Water Company for the sum of \$800,000. The acquisition was authorized by a City referendum that also approved the issuance of \$1,000,000 of general obligation bonds and the establishment of a "Board of Commissioners of Public Works" vested with the authority to acquire, operate and control the water system. The proceeds of the bond issue were used to purchase the facilities and to finance the development of a supplementary water supply on the Enoree River. From the beginning the Commission has operated the water system as a self-sustaining utility and the original bonds, together with subsequent issues, have been retired solely from System earnings. To more accurately identify the Commission in the public mind with the responsibility and service, the Commission adopted the name "Greenville Water" for all purposes except legal transactions.

Organization

The Commission is composed of five Commissioners, three elected for staggered six-year terms, and two Ex-officio Commissioners, consisting of the Mayor and one City Council Member. All Commissioners serve without remuneration. Elected Commissioners are Chair Deb Sofield, Vice Chair Phillip Kilgore, Jr. and John F. Tynan, V. Ex-officio members are Mayor Knox H. White and Council Member David Sudduth. The Commission is the policy-making body and approves all major operating procedures, expenditures, capital improvements and rates and charges, makes recommendations to City Council for the issuance of bonds and appoints the Chief Executive Officer. As a matter of policy, the Commission continually reviews recommendations of management relating to capital improvements, water usage trends and projections, along with revenue requirements to meet these needs.

The responsibility for day to day operations and management of Greenville Water is vested in its Chief Executive Officer. The Chief Executive Officer, David H. Bereskin, was appointed to his position on January 18, 2011, and is a graduate engineer and a registered civil engineer. The Chief Executive Officer is assisted by Murray W. Dodd, Chief Operations Officer; Derrick J. Brown, Director of Finance; W. Frank Eskridge, Director of Governmental and Public Relations; K. C. Price, Director of Water Resources, and Michael D. Sharpless, Director of Engineering. Messrs. Dodd, Brown, Eskridge, Price and Sharpless have been employed by the System since 1995, 1986, 1985, 2004 and 1995, respectively.

The main office, housing management offices, customer service, data processing, accounting and billing, meter reading and engineering, was constructed at 407 West Broad Street in 1991.

Except for the design of major engineering projects, for which consultants are employed, the Engineering and Operations Division designs and supervises construction in connection with the maintenance and extension of the distribution system. Construction and maintenance work is performed by the System's Construction and Maintenance Department personnel who maintain material inventories and service and maintain the System's vehicles and equipment. The construction and maintenance facility was completed in 1990. The Finance Division maintains all financial records involving operations and plant accounting, and the Business Services Division is responsible for meter reading, testing and repair of meters, customer service activities, customer accounting, billing and accounts receivable functions. The Laboratory Department performs required bacteriological and chemical analyses daily on the samples from the treatment plants and the distribution system in order to insure water quality in compliance with the standards of the Federal EPA and the State Department of Health and Environmental Control. State-certified personnel of the Plants Department are responsible for water treatment operations and Watershed personnel protect and maintain the System's watersheds and miles of transmission pipeline rights of way.

Presently, Greenville Water has an approved staffing pattern of 245 employees including engineers, accountants, chemists, bacteriologists, data processing technicians, skilled office workers, State-certified water treatment plant operators, skilled mechanics and equipment operators to indicate the range of expertise represented. All treatment plants, shops, offices and more than 100 service vehicles are radio equipped for instant communication.

Description of System

The small water system, purchased by the City over 90 years ago, has been developed by the Commission into a modern water utility that is serving a large portion of Greenville County's residents and some areas of three adjoining counties.

Greenville presently receives water from two large mountain "watersheds", comprising a total of 26,000 acres and located about 25 miles north and northwest of the City in the foothills of the Blue Ridge Mountains. Rainfall over these forested areas is filtered by nature as it seeps through the forest floors. The outcropping springs gradually gather into streams which flow into either of two man-made reservoirs, one on the headwaters of the South Saluda River (Table Rock) and the other on the headwaters of the North Saluda River. No one lives in the Commission-owned watershed areas and patrolmen keep trespassers out to guard against contamination of the water supply. Since there is no cultivated land within these drainage areas, silt and mud are not carried by rainfall into the reservoirs. As a result of this and the absence of agricultural or industrial waste entering the supplying streams, water in the reservoirs is clean, clear and relatively pure. In 1993, the Commissioners signed a Conservation Easement with The Nature Conservancy to further document the protection afforded these pristine lands.

The Table Rock Reservoir was placed in service in 1930 with a 30-inch pipeline serving the City. In 1939, a second 30-inch pipeline was installed to increase the gravity flow capacity to 18 million gallons per day. In 1954, a booster pumping station was installed to increase the capacity of these two lines to 30 million gallons per day. A new intake structure was completed on the Table Rock Reservoir in 2005. The North Saluda Reservoir was placed on line in January of 1961 with a 48-inch pipeline supplying the Greenville area. This line has a gravity capacity of 28 million gallons per day and, with the addition of the pumping station in 1973, the line capacity is 63 million gallons per day. Because of the high quality of their source water, these two sources needed only disinfection at treatment plants near each reservoir until requirements of the Surface Water Treatment Rule became effective. In July 2000, a 75 million gallon per day filtration plant was placed in service to provide filtration for all water derived from Table Rock and North Saluda. The Stovall plant incorporates Dissolved Air Flotation (DAF) technology in place of customary sedimentation basins and is currently the largest plant of this type in the United States. The new filtration plant also houses new and expanded central laboratory facilities and offices.

In addition to the two large mountain "watersheds", the Keowee facility was placed in service in 1985. Based upon the studies by the engineering firm of Black & Veatch, the Commissioners of Public Works approved the development of the additional water supply to meet the ever-increasing water demands of a growing city and surrounding suburban area. This conventional filtration facility, located in Pickens County, includes a raw water intake structure and pumping station at Lake Keowee, approximately two miles of raw water pipeline, the Adkins Filter Plant, 27 miles of 72-inch transmission main extending from the treatment plant to the existing distribution system, and two 8-million gallon reservoirs located at the high point of the transmission main. The original operating capacity of the Adkins Plant was 30 million gallons per day. An expansion to the Adkins Plant was completed in 2004 to provide the present operating capacity of 60 million gallons per day. The Adkins Filter Plant can be increased to 90 million gallons per day merely by the addition of more raw water pumping units when needed. This facility has the ultimate expansion capability of 150 million gallons per day to meet the projected long-range needs. The combined transmission capacities from the Adkins Plant (60 million gallons per day) and from the Stovall Plant (75 million gallons per day) totals 135 million gallons per day.

Two distribution reservoirs are located on the slopes of Paris Mountain and Roper Mountain at sufficient elevations to maintain adequate distribution system pressure levels during periods of high usage and to provide reserve capacity for fire protection. The existing transmission, feeder and distribution mains below the two distribution reservoirs are continually being extended, improved and fortified to meet the demands of the growing service area. The system is 100 percent metered to insure that all customers are treated equitably. A meter maintenance and replacement program insures that meter accuracy is maintained. Fire hydrants are provided throughout the system to meet the particular fire service rating classification of each area.

Planned Modifications

A project to install a 42-inch transmission main to replace an old 30-inch main from the Table Rock Reservoir is under construction with completion planned for 2011. A project to automate the meter reading process with AMR technology began in Fiscal Year 2007 and is estimated to be complete by January 2012. Electrical modifications and upgrades at the Adkins Plant intake structure, treatment plant and high service pump station were completed in 2011. Other modifications under construction include an active waterline replacement program and routine planned expansion of the distribution system and repairs to the spillway at the North Saluda Reservoir.

Future potential projects include a new shop facility and rehabilitation of the 72-inch transmission main. Other future projects include a distribution system pump station and storage tank, electrical upgrades and emergency generators at the North Saluda Pump Station and at the Gayley Pump Station, and replacing a 30-inch main from Coleman Road to Gayley Pump Station.

To improve upon a sound reliable operation Greenville Water is moving to monthly billing in fiscal year 2012. This will have three positive effects, revenue assurance, budgeting enhancements and conservation improvements.



**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Commissioners of Public Works
Greenville Water

We have audited the basic financial statements of the business-type activity information of Greenville Water (the "System"), as of and for the year ended July 31, 2011, which collectively comprises the System's financial statements and have issued our report thereon dated October 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System'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 a 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether the Systems' financial statements referred to above 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 that are required to be reported under *Government Auditing Standards*.

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

Cheng, Beckett + Holland, L.L.P.

Greenville, South Carolina
October 21, 2011