



Popular Annual Financial Report

Fiscal Year Ending December 31, 2009

Mission



**To protect public health and enhance the environment
of our service community by providing clean water
services of exceptional quality and value**

Charleston Water System Popular Annual Financial Report Fiscal Year Ending December 31, 2009

About Us

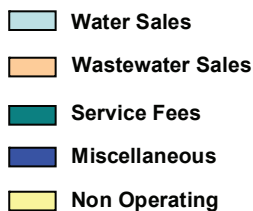
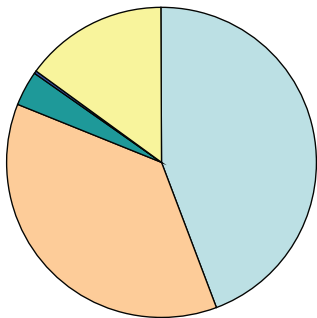
The current Charleston Water System came into existence in 1917 when the City of Charleston purchased the assets of the Charleston Light and Water Company. The Commissioners of Public Works, also known as Charleston Water System, was established by legislative act to direct and manage the operation of the water system. In 1961, the domain of Commissioners of Public Works was expanded when we assumed responsibility of the city sewer system. Today Charleston Water System serves 106,187 water accounts and 47,700 sewer accounts while maintaining over 1,700 miles of water pipe and 735 miles of sewer lines. The water treatment plant, located in Hanahan, pumped over 20 billion gallons of water to our customers in 2009 and our Plum Island Wastewater Treatment Plant, located on James Island, treated in excess of 18 billion gallons of raw sewage. Charleston Water System is governed by a board of five Commissioners. Three are elected-at-large seats with the two ex-officio seats filled by the Mayor of Charleston and the city council member who is chairman of the Committee on Water Supply.

About this Report

In an effort to strengthen our focus on customer service, we are pleased to present the 2009 Popular Annual Financial Report (PAFR). The PAFR is an unaudited summary of the financial activities of Charleston Water System which is a component unit of the City of Charleston. The information contained herein is drawn from the 2009 Comprehensive Annual Financial Report (CAFR) but presented in an easy to read and less technical format. The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Elliot Davis LLC. Copies of the CAFR are available for public viewing at our 103 Philip Street office downtown or online at www.charlestoncpw.com/financial_reports.htm

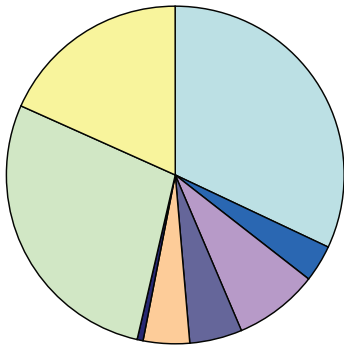
Financial Activity

Total Revenues - \$110,845,796

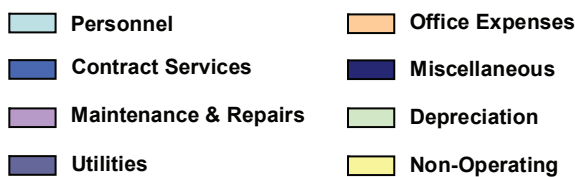


Water sales revenue remained relatively stagnant due to an overall decrease in consumption despite a 4% rate increase effective December 1, 2008. A change in policy that increased the billable wastewater volume from 90% to 95% and a 7% rate increase pushed wastewater sales up by 5.57%. Increases in various service fees were implemented to recover the cost incurred which resulted in an increase of 18% over prior year amounts. Non-operating revenues which include income from investments and capital contributions were significantly down in 2009. Investment income decreased almost 70% from \$8,218,472 in 2008 to \$2,502,465 in 2009 as a result of lower interest rates while the slow-down in housing development caused a 29% drop in capital contributions from \$19,754,358 to \$14,009,511.

Total Expenses - \$90,410,168



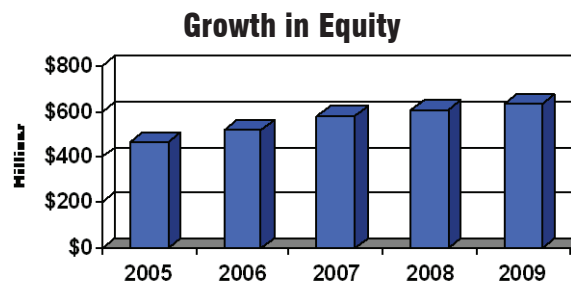
Like revenues, total expenses remained relatively flat in 2009. Implementation of a hiring freeze and the elimination of three vacant positions helped keep growth in expenses to less than one half of one percent over the previous year. However, there was some movement within the operating and non-operating classifications. A change in the depreciation rate for the water treatment plant in concert with an increase in total plant assets contributed to an increase of \$4,474,534 or 21% in the corresponding depreciation expense. Non-operating expenses decreased 25% from the prior year as interest expense decreased from \$19,387,111 in 2008 to \$15,411,436. This was due, in part, to the refinancing of \$83.7 million of 1998 callable bonds at a lower rate for a net present value savings of \$5.27 million over the life of the bonds.



With total revenues exceeding total expenses the overall financial condition of Charleston Water System remained stable as the local, state and national economy continued to decline. Total assets increased by only \$3.69 million as compared to \$18.84 million in 2008. This decline was primarily due to a slow down in development as a result of the economic downturn. A decrease in debt was the main cause of a lower total liability balance. The debt was reduced by refinancing a portion of debt at a lower rate and by the payment of principal over the past year.

Abbreviated Balance Sheet		
	2009	2008
Total Assets	\$ 1,130,238,940	\$ 1,126,553,139
Total Liabilities	\$ 500,088,517	\$ 516,838,344
Total Net Assets	\$ 630,150,423	\$ 609,714,795

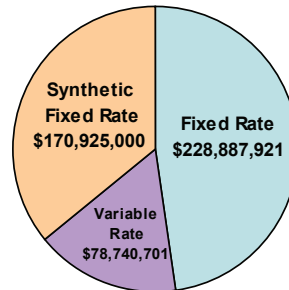
Total Net Assets (Equity) increased from 2008 to 2009 but at a slower pace than previous years.



Long Term Debt

Charleston Water System's long term debt is primarily comprised of revenue bonds issued to finance capital projects. These capital projects include improvements and expansions to the water and wastewater treatment plants, the water distribution system and the wastewater collection system. The total amount of revenue bonds outstanding at year end is \$478,553,622. A mixture of fixed rate, synthetic fixed rate and variable rate revenue bonds are used to achieve the lowest possible interest rates thereby lowering the overall cost of debt. The fixed rate bonds vary from 2% to 5.25% while the synthetic fixed rates range from 3.731% to 3.885%. Synthetic fixed rates are realized through the execution of interest rate swaps. The purpose of the swaps is to effectively change the associated variable rate bonds to fixed rate bonds. These transactions hedge against changes in the related variable rate interest obligations.

Revenue Bonds Outstanding



Bond Ratings

The interest rates available to a municipal bond issuer are dependent upon their credit worthiness. Charleston Water Systems has achieved a very good credit status. Our ratings from the three major credit rating agencies are as follows:

Standard and Poor's – AA+ (Upgraded from AA in 2009)

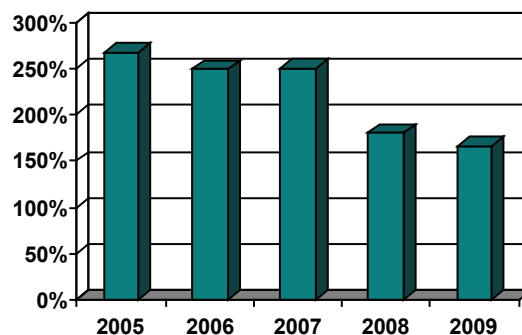
Moody's – Aa2

Fitch – AA

Debt Service Coverage

Debt Service Coverage is a measurement that demonstrates an entity's ability to pay its annual debt service which is comprised of both principal and interest. Charleston Water System's bond covenants require a coverage of at least 120% but an internal benchmark of 140% has been long established. The debt service coverage at the end of 2009 is 166%.

Debt Service Coverage



Financial Awards

Charleston Water System has received the Certificate of Achievement for Excellence in Financial Reporting for the 2008 fiscal year. The 2009 CAFR has been submitted for review.