



# BRYAN, TRUESDALE, ADKINS & WILLIAMS, PA

*Certified Public Accountants and Financial Advisors*

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## ***Independent Auditor's Report***

To the ***Commissioners of Public Works  
of the City of Charleston***  
Charleston, South Carolina

We have audited the accompanying basic financial statements of the ***Commissioners of Public Works of the City of Charleston, a component unit of the City of Charleston, South Carolina*** (the Commission) as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2003 and 2002, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2004, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 through 11 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 express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, the statistical tables, the schedule of water operating expenses, the schedule of wastewater operating expenses and the schedule of net earnings are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Commission. The schedule of water operating expenses, the schedule of wastewater operating expenses and the schedule of net earnings have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Bryan, Truesdale, Adkins & Williams, PA*

March 26, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Commissioners of Public Works financial performance provides an overview of the Commission's financial activities for the fiscal year ended December 31, 2003, 2002 and 2001. This information should be read in conjunction with the financial statements.

### Financial Highlights

The Commissioners of Public Works financial operations remain healthy and modest system growth is expected. The Commission is well within its debt covenants and the more stringent financial policies and guidelines set by the Board and management. The following are financial highlights for fiscal year 2003:

- ❖ Total assets at year-end were \$778.26 million and exceeded liabilities of \$391.16 million. Total assets increased from fiscal year 2002 to 2003 by \$108.37 million. Of the total net assets, \$99.81 million were unrestricted. Net assets in the prior year were reclassified in order to be more consistent with the current year's presentation. Unrestricted net assets were decreased by \$12.73 million and net assets restricted for bond covenants were increased by the same amount. This change was made to properly present the amount of assets restricted for depreciation contingency under bond covenants. Prior year total net assets were not affected.
- ❖ Operating revenues decreased by 0.84% from \$67.42 million in 2002 to \$66.86 million in 2003.
- ❖ Operating expenses before depreciation increased by \$0.23 million or 0.65% compared to fiscal year 2002. Operating expenses including depreciation increased slightly by \$.55 million or 1.16%.
- ❖ Income from operations for the year was \$19.04 million representing a decrease in income from operations of \$1.11 million from fiscal year 2002. Income before contributions decreased by \$2.22 million from fiscal year 2002. Following the nationwide trend, the Commission felt the effects of declining interest rates. A significant portion of our investment income decreased as a result of the drop in interest rates and the Commission continued to use internal funds to finance capital improvements. Moreover, a decrease in interest expense offset decreased capital contributions and resulted in an increase in total net assets of \$28.84 million in 2003.
- ❖ In November of 2003, the Commission issued variable interest rate bonds of \$80.66 million and \$39.77 million of fixed rate bonds. In October of 2003, the Commission took advantage of refunding the 1991 capital improvement revenue

bonds. The Commission was able to reduce the amount being refinanced and lock into a synthetic fixed rate swap. The net present value savings from this transaction was \$2,508,345.

- ❖ Proceeds from the series 2003 bond issues will be used to fund design and construction of the new Ashley River Sewer Tunnel, design and construction of the Cooper Sewer Tunnel replacement, design of the new West Ashley Tunnel and to make necessary homeland security improvements. Also, part of the proceeds was used to refund existing debt.
- ❖ Debt service coverage was 194%, exceeding the 120% required by the bond covenant.
- ❖ Ratios of total operating revenues to total operating expenses were 1.40 for 2003 and 1.43 for 2002. Total water operating expenses to total operating revenues for 2003 was 29.33% and 28.60% for 2002. Total wastewater operating expenses to total operating revenues was 21.80% and 21.77% for 2003 and 2002 respectively.
- ❖ Funding is available to provide for the extension of the Daniel Island wastewater infrastructure including gravity trunk mains, pump stations and force mains. Several pump stations and sections of gravity sewer mains have recently been completed. The design for the 1.0 million gallons per day (MGD) Daniel Island Wastewater Treatment facility was completed.

### **Overview of Annual Financial Statements**

The Commission's annual financial report consists of the Management's Discussion and Analysis (MD&A), the Basic Financial Statements and Other Required Supplementary Information. The MD&A serves as an introduction to and should be read in conjunction with the basic audited financial statements. The basic financial statements include notes which explain in detail some of the information included in the basic financial statements.

The basic financial statements report information about the Commission using the full accrual basis of accounting in a manner similar to those used by private sector companies. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The basic financial statements include a balance sheet; statements of revenue, expenses and changes in fund net assets; statements of cash flows; and notes to the financial statements. The Commission accounts for its activities using a single *proprietary (enterprise) fund*. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The *balance sheet* provides information about the types and amounts of resources and obligations at year-end. The balance sheet presents information about all of the Commission's assets and liabilities, with the difference being reported as total net assets. Over time, a change in net assets is one indicator of whether the financial position of the Commission is improving or deteriorating.

The balance sheet provides information about the Commission 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. Information is provided about how net assets changed during the year. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user charges and fees, profitability and credit worthiness.

The *statement of cash flows* provides information about the Commission's cash receipts, cash payments and changes in cash resulting from operations, investments, and noncapital financing activities as well as capital and related financing activities. From the statement of cash flows, the reader can obtain comparative information on the source and use of cash and the change in the cash balance for each of the last two fiscal years.

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 the Commission's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. *Supplementary information* such as debt service coverage is also provided.

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

## Financial Analysis

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

<b>Condensed Financial Statements</b>			
<b>Condensed Balance Sheet</b>			
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Assets</b>			
Current assets and restricted assets	\$ 223,016,869	\$ 146,368,165	\$ 151,315,958
Noncurrent assets:			
Capital assets, net of depreciation	446,979,397	436,102,200	390,991,856
Construction in progress	103,919,230	83,559,202	90,253,562
Other Assets	4,344,399	3,858,681	5,535,930
<b>Total Assets</b>	<b>\$ 778,259,895</b>	<b>\$ 669,888,248</b>	<b>\$ 638,097,306</b>
<b>Liabilities</b>			
Current liabilities	\$ 8,923,130	\$ 11,290,780	\$ 8,322,214
Liabilities payable from restricted assets	17,664,307	17,722,872	14,650,261
Noncurrent Liabilities	364,571,933	282,615,443	292,437,417
<b>Total Liabilities</b>	<b>\$ 391,159,370</b>	<b>\$ 311,629,095</b>	<b>\$ 315,409,892</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	\$ 255,136,560	\$ 228,861,643	\$ 195,912,060
Restricted for capital projects, debt service and other purposes	32,157,841	28,834,353 *	26,076,711
Unrestricted	99,806,124	100,563,157 *	100,698,643
<b>Total Net Assets</b>	<b>\$ 387,100,525</b>	<b>\$ 358,259,153</b>	<b>\$ 322,687,414</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 778,259,895</b>	<b>\$ 669,888,248</b>	<b>\$ 638,097,306</b>

\*Net Assets restricted for bond covenants and unrestricted Net Assets were reclassified in order to be consistent with the current year's presentation.

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b><u>Operating Revenue</u></b>			
Water, sales and service	\$ 36,475,111	\$ 37,370,319	\$ 36,694,383
Wastewater, sales and service	27,469,715	27,287,040	26,967,936
Other operating revenues	2,914,558	2,767,463	2,786,637
<b>Total Operating Revenues</b>	<b>66,859,384</b>	<b>67,424,822</b>	<b>66,448,956</b>
<b><u>Operating Expenses</u></b>			
Expenses before depreciation	35,485,438	35,255,231 *	33,085,152 *
Depreciation	12,337,544	12,018,947	11,644,745
<b>Total Operating Expenses</b>	<b>47,822,982</b>	<b>47,274,178</b>	<b>44,729,897</b>
<b>Operating Income</b>	<b>19,036,402</b>	<b>20,150,644</b>	<b>21,719,059</b>
<b>Non-operating Revenue</b>			
(Expenses), Net	(12,508,653)	(11,402,668) *	(5,890,605) *
<b>Income before Contributions</b>	<b>6,527,749</b>	<b>8,747,976</b>	<b>15,828,454</b>
<b><u>Capital Contributions</u></b>			
Cash (impact, tap and engineering fees)	13,950,719	8,399,917	10,191,485
Grant reimbursements	113,756	247,446	259,505
Contributed systems	8,249,148	18,176,400	10,242,983
	<b>22,313,623</b>	<b>26,823,763</b>	<b>20,693,973</b>
<b>Increase in Net Assets</b>	<b>28,841,372</b>	<b>35,571,739</b>	<b>36,522,427</b>
<b>Beginning Net Assets</b>	<b>358,259,153</b>	<b>322,687,414</b>	<b>286,164,987</b>
<b>Ending Net Assets</b>	<b>\$ 387,100,525</b>	<b>\$ 358,259,153</b>	<b>\$ 322,687,414</b>

\* Transfers to primary government were reclassified as an operating expense and noted as an intergovernmental fee.

<b>Selected Data for Analysis</b>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b><u>Employees at year end</u></b>	<u>422</u>	<u>423</u>	<u>414</u>
<b><u>Active Customer accounts at year end:</u></b>			
Water	93,108	90,104	88,131
Wastewater	41,284	39,469	38,398
<b><u>Water sales and service</u></b>	<b>\$ 36,475,111</b>	<b>\$ 37,370,319</b>	<b>\$ 36,694,383</b>
<b><u>Wastewater sales and service</u></b>	<b>\$ 27,469,715</b>	<b>\$ 27,287,040</b>	<b>\$ 26,967,936</b>
<b><u>Average per employee:</u></b>			
Total operating revenues	\$ 158,435	\$ 159,397	\$ 160,505
Total operating expenses	\$ 113,325	\$ 111,759 *	\$ 105,398 *
<b><u>Ratio of Operating Revenues to:</u></b>			
Operating expenses	1.40	1.43	1.49
Operating expenses net of depreciation	1.88	1.91	2.01
Total assets	0.09	0.10	0.10
<b><u>Debt related ratio:</u></b>			
Debt to net worth	1.01	0.87	0.98
<b><u>Liquidity ratio:</u></b>			
Current ratio	8.39	5.04	6.59
<b><u>Profitability Ratios:</u></b>			
Return on assets	3.70%	5.31%	5.72%
<b><u>Debt service coverage</u></b>	<b>194%</b>	<b>185%</b>	<b>206%</b>

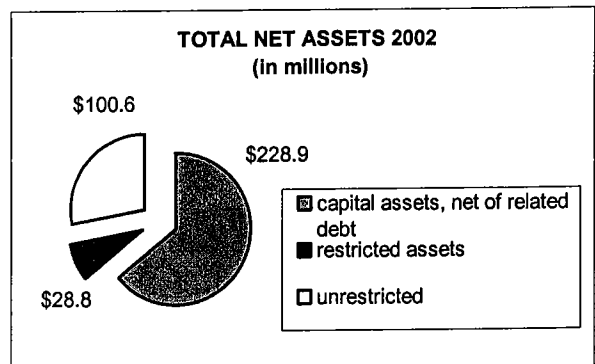
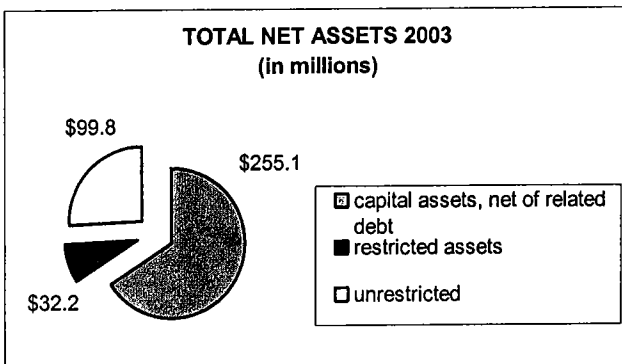
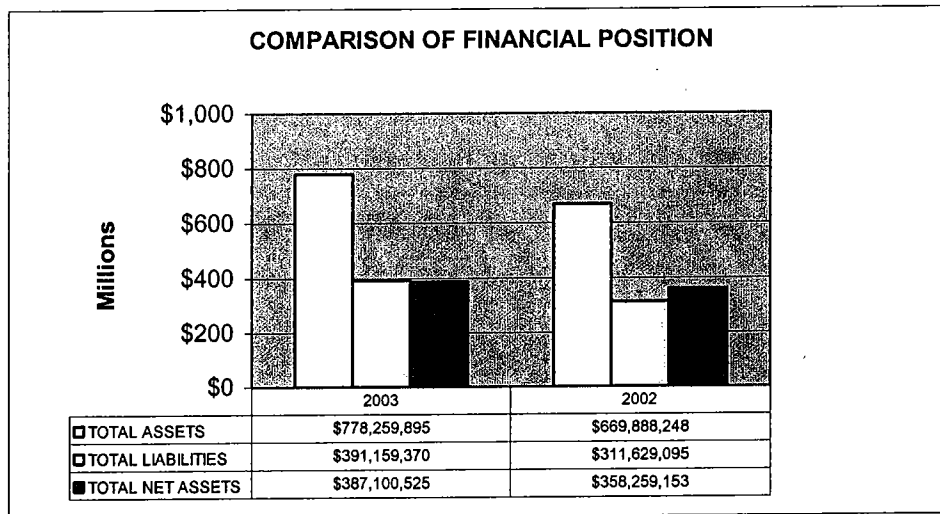
\* Transfers to primary government were reclassified as an operating expense and noted as an intergovernmental fee.

### General Trends and Significant Events

The local economy in the Charleston Metropolitan Area showed an encouraging increase in retail sales of 4.6% for the year 2003. Weather temperatures during fiscal year 2003 were consistent with normal temperatures for Charleston. Similar to temperatures, total precipitation for the Charleston area for the year 2003 returned to normal at 50.99 inches although some months in early spring and mid-summer showed above normal amounts of rainfall. As a result of the increased rainfall during months with normally high water consumption, water sales decreased by 2.39%. Wastewater sales, which do not have the same correlation to rainfall as water sales and fluctuate less because of the wastewater residential cap, showed an increase of 0.67%.

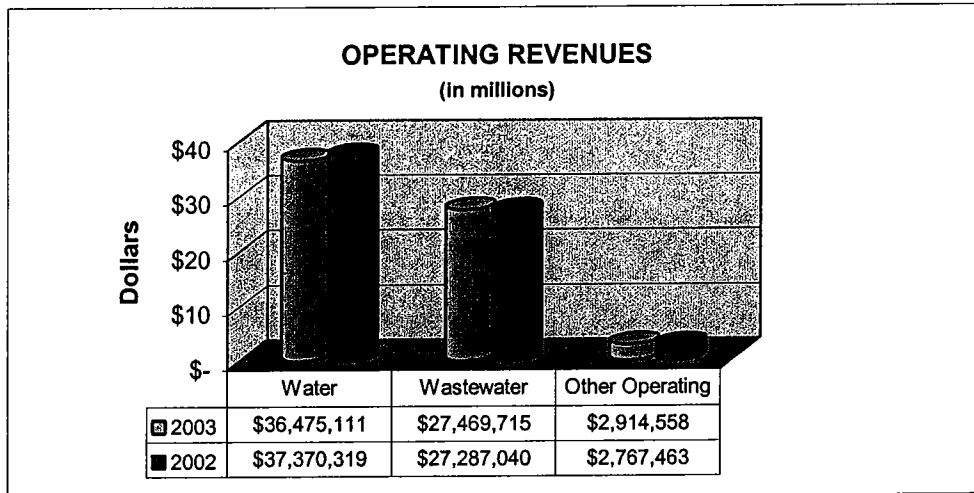
### Financial Condition

Total assets increased by 16.18% or \$108.37 million as a result of increases in restricted assets and noncurrent capital assets. Restricted assets increased due to the new bond issues and increases in construction in progress and depreciable fixed assets accounted for most of the increase in noncurrent capital assets. Net assets invested in capital assets, net of related debt, increased by \$26.27 million or 11.48%. Restricted net assets increased by \$3.32 million or 11.53% and unrestricted net assets decreased by \$0.76 million or 0.75%.



## Results of Operations

**Operating Revenues:** The majority of the Commission's operating revenue comes from water and wastewater sales and service. A smaller portion of the revenue is made up of other operating revenue that consists of origination fees, service charges, collection fees and some miscellaneous fees. The following chart depicts the Commission's revenues over the past two years:

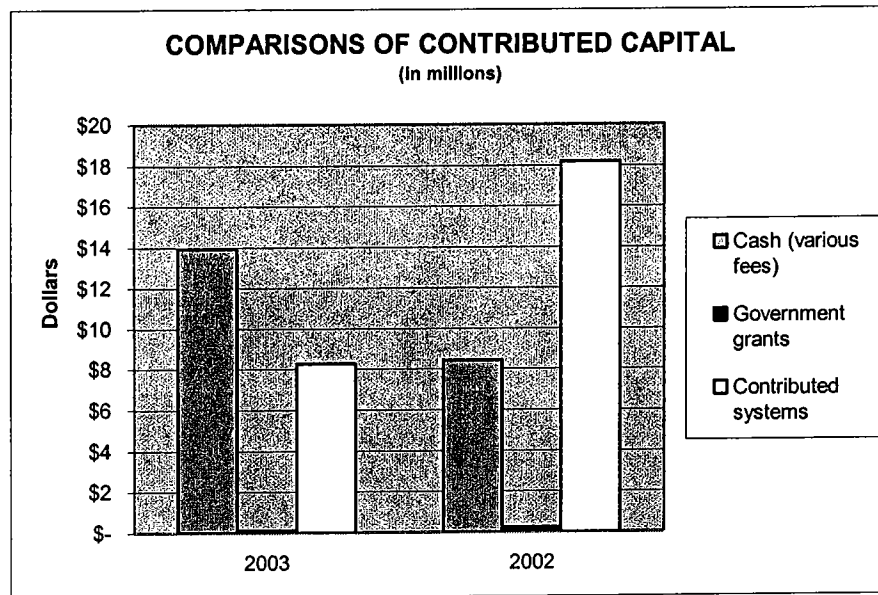


**Capital Contributions:** Effective January 1, 2001, the Commission adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which became effective for periods beginning after June 15, 2000. The types of nonexchange transactions the Commission engages in are primarily capital grants and contributed systems. GASB Statement No. 33 requires governments to recognize capital contributions to proprietary funds as revenues rather than contributed capital.

Capital contributions collected by the Commission are made up of three components: cash, grant reimbursements and contributed systems. The first component, cash, comes from various fees such as impact, tap, change-in-use and engineering fees. Water and wastewater tap fees are charged at the time of application for service to recover the costs to install the service. Impact fees are charged to recover the cost associated with expansion of major components of the water and wastewater systems. Change-in-use fees are charged to wastewater customers who require increased wastewater flow capacity. Engineering service fees are charged to offset the cost for engineering services, design and analysis work. The second component is from grant reimbursements from other governments and the third component is from systems usually contributed by developers or other governments.

Contributed systems were \$8.25 million in 2003 compared to \$18.18 million in 2002. This decrease was attributed to the decline in completed developments during 2003

which was offset by an increase in construction in progress. Increases in cash were mainly due to impact fees.



**Expenses:** The Commission operates the Hanahan Water Treatment Plant which is a surface water treatment plant with a finished water capacity of 118 million gallons per day (MGD). The Plum Island Water Pollution Control Plant is the major wastewater treatment facility and the Daniel Island Wastewater Treatment Plant is a smaller treatment facility. Combined treatment capacity is 36.5 MGD.

Total operating expenses of the Commission increased slightly by \$.55 million in fiscal year 2003 with personnel services accounting for 45.6% of total operating expenses compared to 45.8% in 2002. Total operating expenses for water and wastewater operations for the last two years are listed below:

	2003		2002		Variance
		% of Total		% of Total	
Personnel services	\$ 21,798,492	45.6%	\$ 21,656,411	45.8%	\$ 142,081
Contractual services	3,366,076	7.0%	3,130,867	6.6%	235,209
Maintenance and repairs	4,637,833	9.8%	4,503,492	9.5%	134,341
Utilities	2,933,021	6.1%	2,781,122	5.9%	151,899
Office expenses	2,061,617	4.3%	2,208,423	4.8%	(146,806)
Other service and charges	431,523	0.9%	346,997	0.7%	84,526
Provision for uncollectible debts	204,440	0.4%	198,495	0.4%	5,945
Depreciation and amortization	12,337,544	25.8%	12,018,947	25.4%	318,597
Intergovernmental fee	1,095,000	2.3%	1,095,000	2.3%	-
Less: O/H allocated to construction in progress	(1,042,564)	-2.2%	(665,576)	-1.4%	(376,988)
<b>Total Operating Expenses</b>	<b>\$ 47,822,982</b>	<b>100.0%</b>	<b>\$ 47,274,178</b>	<b>100.0%</b>	<b>\$ 548,804</b>

Personnel costs increased by \$0.14 million from 2002 to 2003. Throughout the year 2003, efforts were made to control personnel costs and office expenses. The number of employees decreased by one person in 2003. Office expenses decreased by 6.65%. Contractual services as well as depreciation and amortization increased.

**Rate Covenant**

The Commissioners of Public Works has covenanted to maintain rates and charges for our products and services which at all times shall be sufficient to pay operation and maintenance expense to keep the system in good repair and working order, to provide for the punctual payment of the principal and interest on all outstanding debt, to maintain the required amounts in the debt service and debt service reserve accounts, to build and maintain a reserve for depreciation for contingencies and improvements and to discharge all obligations imposed by the bond ordinance. The Commission has further covenanted to collect rates and charges which, together with other income, will reasonably yield annual net earnings of at least 120% of the annual principal and interest requirement. The net earnings available for debt service for 2002 and 2003 was 186% and 194% of the annual principal and interest requirement, respectively. In 2003, the Commission approved three years of rate increases to pay for the new series 2003 bond issue. Effective January 1, 2004, water and wastewater rates increased 3.3% and 5.5%, respectively.

**Capital Assets and Long-Term Debt**

At 2003 year-end, the City of Charleston Commissioners of Public Works had \$374.41 million in bonds outstanding versus \$292.49 million in 2002, an increase of 28%. The increase was due to the two new bond issues of \$96.50 million. Most of the new debt will be used to replace the Ashley Wastewater tunnel and for homeland security improvements. The Commissioners of Public Works continue to carry credit ratings of Aa3 by Moody’s and AA- by Standard and Poor’s. These credit ratings did not change for the fiscal year 2003. At the end of 2003, the Commissioners of Public Works had \$550.90 million invested in a broad range of capital assets, including buildings, water and sewer lines and water and sewer treatment plants. This amount represents a net increase (including additions and deletions) of \$31.24 million, or 6.01% over year-end 2002. Some of the larger projects completed this year include the following:

Azalea Avenue and Dorchester Road Improvement - Water	\$ 783,704
Chaplins Landing Water Main Extension	232,402
Greenhill Road and Williams Road Water Main	238,516
Beresford Hall - Water	311,833
Shipleigh Pump Station	1,275,959
Grimball Road Storage Facility Pump Improvements - Water	247,781
Jackson and Nassau Street Main Replacement	224,841
Headworks Screenings Improvements - Wastewater	305,231
Daniel Island Wastewater Treatment Plant Expansion	1,683,137
Seven Farms Road - Wastewater	432,697
Beresford Hall - Wastewater	773,859
	<u>\$ 6,509,960</u>

Additional detailed information on long-term debt activity and capital asset activity may be found in Notes to the Financial Statements, II. Detailed Notes on all Funds, Pages 23-28.

### **Other Potentially Significant Matters**

- ❖ The current wastewater treatment system for the City of Charleston was put into service with the completion of the Plum Island Water Pollution Control Plant in 1970. The Plant is located across the Ashley River from the Charleston Peninsula. Through a system of tunnels, wastewater is transported from the Peninsula to the treatment facility. In 1993, the lining in the tunnel from the Peninsula to the treatment facility was found to be failing, although the carrier pipe was intact. The Harbor Tunnel was replaced with a new 8' diameter concrete lined tunnel and construction was completed in 2002. The remaining three sections of the tunnel were inspected and found to be in very poor condition. A master plan for the replacement project was completed and a contingency plan for immediate response was put into place. The remaining three sections will be replaced based on a priority of extent of deterioration. Phase II of the master plan, replacement of the Ashley Tunnel, began construction in early 2004. In 2003, the Commission issued bonds, in part, to pay for the tunnel replacements. To repay the new debt, the Commission will raise rates over the next three years starting in 2004. Estimated cost for Phase II is \$25 million.
  
- ❖ The Hanahan Water Treatment Plant currently has a finished water storage capacity of 12.5 million gallons, and the water distribution system storage capacity is 14 million gallons. Recent events have raised the awareness of the vulnerability of treatment facilities to vandalism, sabotage and terrorist activity. CPW has completed a Vulnerability Assessment in accordance with the EPA requirements. This assessment recommended many improvements to the plant facility as well as the remote storage facilities that would result in improved security. There are many improvements that utilize advanced technology for water quality monitoring, surveillance and access as well as more traditional items such as fence enhancements. These improvements are under construction. Part of the homeland security improvements will be paid from the proceeds of the 2003 bonds issued by the Commission. Estimated cost is \$2 million.

### **Final Comments**

This financial report is designed to provide a general overview of the Commission's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, Commissioners of Public Works, P.O. Box B, Charleston, SC 29402-0017.

## **BASIC FINANCIAL STATEMENTS**

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
BALANCE SHEETS  
DECEMBER 31, 2003 AND 2002**

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ASSETS

	2003	2002
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 72,043,220	\$ 66,767,822
Investments	18,796,037	29,216,341
Accounts receivable -		
Customers, net of allowances for uncollectibles of \$21,700 and \$21,385	7,738,967	7,787,599
Other	3,491,209	1,248,079
Grants receivable	-	84,093
Accrued interest receivable	67,074	333,553
Notes receivable - current portion	29,893	28,157
Note receivable from primary government - current portion	63,982	60,456
Inventory of materials and supplies	2,345,192	2,235,003
Prepaid expenses	338,186	239,918
<b>TOTAL CURRENT ASSETS</b>	<b>104,913,760</b>	<b>108,001,021</b>
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents	68,798,150	26,975,833
Investments	49,124,671	11,257,720
Accrued interest receivable	180,288	133,591
<b>TOTAL RESTRICTED ASSETS</b>	<b>118,103,109</b>	<b>38,367,144</b>
<b>NONCURRENT ASSETS</b>		
<b>CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>	<b>550,898,627</b>	<b>519,661,402</b>
<b>OTHER ASSETS</b>		
Notes receivable - noncurrent portion	65,429	95,323
Note receivable from primary government - noncurrent portion	666,186	730,168
Bond issuance costs, net of accumulated amortization	3,612,784	3,033,190
<b>TOTAL OTHER ASSETS</b>	<b>4,344,399</b>	<b>3,858,681</b>
<b>TOTAL ASSETS</b>	<b>\$ 778,259,895</b>	<b>\$ 669,888,248</b>

LIABILITIES AND NET ASSETS

	2003	2002
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 4,098,034	\$ 5,849,759
Accrued salaries and related expenses	793,045	710,852
Accrued compensated absences	1,412,390	2,433,864
Due to other governments	1,914,117	1,687,090
Deposits and advances	614,271	506,503
Capital leases payable	91,273	102,712
<b>TOTAL CURRENT LIABILITIES</b>	<b>8,923,130</b>	<b>11,290,780</b>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Revenue bonds payable	10,655,000	10,265,000
Accrued revenue bond interest payable	7,009,307	7,457,872
<b>TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>17,664,307</b>	<b>17,722,872</b>
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds payable	363,755,958	282,219,936
Capital leases payable	195,758	287,031
Accrued compensated absences	472,969	108,476
Claims and judgments	147,248	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>364,571,933</b>	<b>282,615,443</b>
<b>TOTAL LIABILITIES</b>	<b>391,159,370</b>	<b>311,629,095</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	255,136,560	228,861,643
Restricted for:		
Capital projects	-	128,399
Debt service	18,772,812	14,559,406
Other bond covenants	13,385,029	14,146,548
Unrestricted	99,806,124	100,563,157
<b>TOTAL NET ASSETS</b>	<b>387,100,525</b>	<b>358,259,153</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 778,259,895</b>	<b>\$ 669,888,248</b>

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

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
STATEMENTS OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
YEARS ENDED DECEMBER 31, 2003 AND 2002**

	2003	2002
<b>OPERATING REVENUE</b>		
Charges for sales and services		
Water	\$ 36,475,111	\$ 37,370,319
Wastewater	27,469,715	27,287,040
Other operating revenues		
Origination fees	666,355	577,125
Service charges	1,303,984	1,323,416
Collection fees	670,702	635,765
Miscellaneous	273,517	231,157
<b>TOTAL OPERATING REVENUES</b>	<b>66,859,384</b>	<b>67,424,822</b>
<b>OPERATING EXPENSES</b>		
Personnel services	21,798,492	21,656,411
Contractual services	3,366,076	3,130,867
Maintenance and repairs	4,637,833	4,503,492
Utilities	2,933,021	2,781,122
Office expenses	2,061,617	2,208,423
Other service and charges	431,523	346,997
Provision for uncollectible debts	204,440	198,495
Depreciation and amortization	12,337,544	12,018,947
Intergovernmental fee	1,095,000	1,095,000
Less: overhead allocated to construction in progress	(1,042,564)	(665,576)
<b>TOTAL OPERATING EXPENSES</b>	<b>47,822,982</b>	<b>47,274,178</b>
<b>OPERATING INCOME</b>	<b>19,036,402</b>	<b>20,150,644</b>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Investment income	2,247,190	4,020,440
Gain (loss) on sale of fixed assets	94,961	(36,195)
Other	67,269	628,446
Interest expense	(14,918,073)	(16,015,359)
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<b>(12,508,653)</b>	<b>(11,402,668)</b>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<b>6,527,749</b>	<b>8,747,976</b>
Capital contributions	22,313,623	26,823,763
<b>INCREASE IN NET ASSETS</b>	<b>28,841,372</b>	<b>35,571,739</b>
<b>NET ASSETS</b>		
BEGINNING OF YEAR	358,259,153	322,687,414
<b>NET ASSETS</b>		
END OF YEAR	<b>\$ 387,100,525</b>	<b>\$ 358,259,153</b>

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

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2003 AND 2002**

Page 1 of 2

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and users	\$ 64,795,241	\$ 66,110,313
Cash paid to suppliers	(15,390,252)	(10,372,595)
Cash paid to employees	(22,226,032)	(21,430,543)
Cash paid to primary government	(1,095,000)	(1,095,000)
	<u>26,083,957</u>	<u>33,212,175</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Collections on notes receivable	28,158	26,520
Other nonoperating revenue	67,269	628,446
	<u>95,427</u>	<u>654,966</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase or construction of capital assets	(33,912,332)	(31,041,527)
Contributions in aid of construction	14,148,568	8,563,270
Proceeds from issuance of debt	91,066,638	-
Interest paid on debt	(14,844,013)	(13,738,125)
Principal paid on debt	(10,265,000)	(8,430,000)
Principal payments on capital lease obligation	(102,712)	(813,535)
Collections on notes receivable	60,456	1,540,131
Bond issuance costs	(483,725)	(30,241)
Proceeds from sales of assets	230,126	152,628
	<u>45,898,006</u>	<u>(43,797,399)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(75,585,650)	(34,548,623)
Proceeds from sale of investments	47,421,640	57,026,319
Income from investments	3,184,335	4,467,014
	<u>(24,979,675)</u>	<u>26,944,710</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	47,097,715	17,014,452
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>93,743,655</u>	<u>76,729,203</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 140,841,370</u>	<u>\$ 93,743,655</u>

(Continued)

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2003 AND 2002**

Page 2 of 2

	2003	2002
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 19,036,402	\$ 20,150,644
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	12,337,544	12,018,947
Provision for uncollectible debts	204,440	198,495
Overhead allocated to construction in progress	(1,042,564)	(665,576)
(Increase) decrease in operating assets:		
Receivables	(2,398,938)	(1,303,137)
Inventories	(110,189)	230,796
Prepaid expenses and deposits	(98,268)	(24,196)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(1,669,532)	2,466,511
Compensated absences	(509,733)	151,063
Deposits and advances	107,768	(104,527)
Amounts due to state and local governments	227,027	93,155
 Total adjustments	 7,047,555	 13,061,531
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 26,083,957	 \$ 33,212,175
 <b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Increase (decrease) in investment value due to unrealized gains (losses)	\$ (747,155)	\$ (242,759)
Acquisition of capital assets through contributions	\$ 8,249,148	\$ 18,176,400
Acquisition of capital assets through capital leases	\$ -	\$ 479,071
Interest capitalized on assets	\$ 505,890	\$ 261,180
Increase in outstanding debt obligations due to amortization of original issue discounts, premiums and deferred refunding costs	\$ 869,303	\$ 1,139,854
Increase in bond issuance cost due to amounts paid at closing, net of costs deferred due to refunding debt	\$ 255,081	\$ -
Amortization of bond issuance costs	\$ 159,212	\$ 160,949
 <b>RECONCILIATION TO BALANCE SHEETS</b>		
Unrestricted cash and cash equivalents	\$ 72,043,220	\$ 66,767,822
Restricted cash and cash equivalents	68,798,150	26,975,833
 TOTAL CASH AND CASH EQUIVALENTS	 \$ 140,841,370	 \$ 93,743,655

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

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to local governmental entities. The *Commissioners of Public Works of the City of Charleston* (the Commission) generally follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Commission has elected to follow subsequent private-sector guidance.

Following is a summary of the more significant accounting policies.

**A. Reporting Entity**

The State of South Carolina created the five member Commission in 1917 to administer water and wastewater services for residents of the City of Charleston, South Carolina (the City) and surrounding areas. Of the five Commissioners, the Mayor of the City and one City Councilman are ex-officio. The remaining three members are elected at large for staggered six-year terms.

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Reporting Entity*, which defines a primary government as an entity with a governing body elected in a general election, and which is legally separate and fiscally independent. Any entity that does not meet the above criteria is potentially a component unit of a primary government.

A component unit is a legally separate entity for which a primary government is financially accountable by virtue of the fact that it either appoints the governing board and is able to impose its will on the component unit, or the fact that it provides financial benefits or imposes a financial burden on the primary government.

Since the Commission is fiscally dependent on the City for approval of issuance of bonded debt, it meets the criteria for definition as a discretely presented component unit of the City. There are no entities which meet the criteria detailed above for inclusion with the Commission's financial statements as component units.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation**

The Commission accounts for its activities in an enterprise fund.

*Enterprise funds* are a type of proprietary fund used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Proprietary funds* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The accounting objective of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are charges to customers for sales and services. The Commission also recognizes as operating revenue the portion of origination fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments, including restricted assets, with original maturities of three months or less from the date of acquisition.

State statutes authorize the Commission to invest in the following:

1. Obligations of the United States and agencies thereof;
2. General obligations of the State of South Carolina or any of its political units;
3. Savings and loan association deposits to the extent insured by the Federal Deposit Insurance Corporation;
4. Certificates of deposit and repurchase agreements collateralized by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of certificates of deposit and repurchase agreements so secured, including interest; and
5. No-load open and closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit.

In addition, South Carolina State Statutes authorize the Commission to invest in the South Carolina Local Government Investment Pool (SCLGIP). The SCLGIP is an investment trust fund created by state legislation, in which public monies under the custody of any political subdivision in excess of current needs may be deposited. The SCLGIP is permitted to purchase obligations of the United States, its agencies and instrumentalities, and any corporation within the United States if such obligations bear any of the three highest ratings of at least two nationally recognized rating services. The SCLGIP is a 2a7-like pool, which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*," investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00.

The Commission has a number of financial instruments, none of which are held for trading purposes. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposits and repurchase agreements, are reported at cost. See Note II. A. for additional information.

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**2. Receivables**

**Accounts receivable** are shown net of an allowance for uncollectibles. At year-end the allowance account is adjusted to an amount based on prior years' experience and an analysis of specific accounts.

**Notes receivable** are stated at unpaid principal balances. Interest on notes is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding.

All of the notes have been issued to political subdivisions in the State of South Carolina for purchase of system capacity or to assist in system expansion. The notes are secured by some form of collateral. The risk of loss on the notes is the difference between the note amount and the market value of the collateral.

**Grants receivable** consist of reimbursements due for federal, state and locally funded projects and are accrued as revenue at the time the expenditures are made. When grant funds are received in advance, revenue recognition is deferred until qualifying expenditures are made.

**Accrued interest receivable** consists of earnings on investments which have been earned but for which payment is not yet due at year-end.

**3. Inventories and Prepaid Items**

Inventories consist of pipe and accessories, meters, chemicals and replacement parts and supplies for the operating systems and are valued at average cost. Inventories are reported as expenses when they are consumed.

Certain payments to vendors reflect expenses applicable to future accounting periods and are recorded as prepaid expenses.

**4. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. water and wastewater transmission lines) are defined by the Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Assets donated to the Commission are recorded at their estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the respective assets are charged to expense in the current period. Gains and losses arising from the sale or disposition of property are included in income currently.

Major expenditures for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of assets is included in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Interest capitalized on assets not acquired with tax exempt debt is the product of the average accumulated expenditures during the year for such assets and the weighted average interest rate on debt. Interest is not capitalized on assets acquired or constructed with gifts and grants. Interest costs are not capitalized when immaterial in amount, or for small projects under \$200,000, or those for which the construction period is less than six months in the current year.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Utility systems, treatment plants and buildings	25-100
Automotive equipment	5
Radio equipment	10
Furniture, fixtures and equipment	15
Data processing equipment	4

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

A significant portion of the Commission's capitalized net property, plant and equipment are considered infrastructure. These are assets that are immovable and normally only of value when used in carrying out the Commission's mission.

**5. Restricted Assets**

Certain proceeds of the Commission's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by applicable bond covenants.

- a. The current debt service accounts are used to segregate resources accumulated for debt service payments over the next twelve months.
- b. The debt service reserve accounts are used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service accounts.
- c. The bond construction account is used to report those proceeds of revenue bonds that are restricted for use in construction.
- d. The depreciation contingency account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

**6. Compensated Absences**

It is the Commission's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay vests when earned. Prior to January 1, 2003, sick leave vested at five percent per year after ten years of employment, payable upon retirement. Employees were compensated subsequent to year-end for sick leave vested at December 31, 2002. The liability for such compensation is reflected as a current liability at December 31, 2002. Subsequent to December 31, 2002, the Commission will not pay any amounts for accumulated sick leave when employees separate from service with the Commission for employees with less than 25 years of service. The amounts due to such individuals is reported as a fund liability. Vacation pay is accrued when earned, and is reported as a fund liability.

**7. Long-Term Obligations**

Long-term debt and other obligations financed by the Commission are reported as liabilities on the balance sheet. Bond premiums and discounts, as well as deferred refunding costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and, if applicable, deferred refunding costs. Issuance costs are reported as deferred charges (other assets) and amortized over the life of the bonds on the straight-line method.

**8. Equity Classifications**

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**9. Contributed Capital**

The Commission has received federal and state grants to pay a portion of the construction costs of the wastewater treatment facility. The Commission also receives contributions from contracting municipalities to finance interceptors constructed by the Commission.

**10. Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**11. Comparative Data**

Comparative total data for the prior year have been presented in order to provide an understanding of changes in the Commission's financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. Net assets restricted for bond covenants were increased and unrestricted net assets were decreased by \$12,730,000 in the prior year to properly present the amount of assets restricted for depreciation contingency under bond covenants.

**II. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of December 31, 2003, the Commission's carrying amount of deposits was \$57,832,976 and the bank balance was \$57,834,416. Of the bank balance, \$35,305,947 was covered by federal depository insurance or collateralized by securities held by the pledging financial institution's trust department or agent in the Commission's name, and \$22,528,469 was collateralized by securities held by the pledging financial institution, but not in the Commission's name.

As of December 31, 2002, the Commission's carrying amount of deposits was \$24,080,057 and the bank balance was \$24,306,477, of which \$19,300,376 was covered by federal depository insurance or collateralized by securities held by the pledging financial institution's trust department or agent in the Commission's name and \$5,006,101 was collateralized by securities held by the pledging financial institution, but not in the Commission's name.

Investments are categorized into three categories of credit risk:

- (1) Insured or registered, with securities held by the Commission or its agent in the Commission's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commission's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.

See Note I.C.1 for additional information.

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**II. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**A. Deposits and Investments (Continued)**

At December 31, 2003, the Commission's investment balances were as follows:

	Category			Fair Value
	1	2	3	
Federal Home Loan Bank	\$ 75,057,984	\$ -	\$ -	\$ 75,057,984
Government National Mortgage Association	-	50,237	-	50,237
U.S. Treasury STRIPS	378,735	4,443,600	-	4,822,335
U.S. Treasury SLUGS	700,000	-	-	700,000
Repurchase agreements	32,623,168	11,646,819	-	44,269,987
	<u>\$ 108,759,887</u>	<u>\$ 16,140,656</u>	<u>\$ -</u>	<u>124,900,543</u>
Investments not subject to categorization:				
Mutual funds				<u>26,023,559</u>
				<u>\$ 150,924,102</u>

At December 31, 2002, the Commission's investment balances were as follows:

	Category			Fair Value
	1	2	3	
Federal Farm Credit Bank	\$ 3,510,955	\$ -	\$ -	\$ 3,510,955
Federal Home Loan Bank	29,592,139	-	-	29,592,139
Federal Home Loan Mortgage Government National Mortgage Association	99,510	-	-	99,510
	-	62,225	-	62,225
U.S. Treasury STRIPS	371,461	4,306,800	-	4,678,261
U.S. Treasury SLUGS	700,000	-	-	700,000
U.S. Treasury Bonds	-	567,485	-	567,485
Repurchase agreements	39,927,331	8,954,567	-	48,881,898
	<u>\$ 74,201,396</u>	<u>\$ 13,891,077</u>	<u>\$ -</u>	<u>88,092,473</u>
Investments not subject to categorization:				
Mutual funds				<u>22,040,186</u>
				<u>\$ 110,132,659</u>

A reconciliation of cash and investments as shown on the balance sheets follows:

	2003	2002
Cash on hand	\$ 5,000	\$ 5,000
Carrying amount of deposits	57,832,976	24,080,057
Carrying amount of investments	<u>150,924,102</u>	<u>110,132,659</u>
<b>Total</b>	<b><u>\$ 208,762,078</u></b>	<b><u>\$ 134,217,716</u></b>
Cash and cash equivalents-unrestricted	\$ 72,043,220	\$ 66,767,822
Cash and cash equivalents-restricted	68,798,150	26,975,833
Investments-unrestricted	18,796,037	29,216,341
Investments-restricted	<u>49,124,671</u>	<u>11,257,720</u>
<b>Total</b>	<b><u>\$ 208,762,078</u></b>	<b><u>\$ 134,217,716</u></b>

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**II. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Capital Assets**

A summary of property, plant and equipment at December 31, 2003, follows:

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
Nondepreciable:				
Land	\$ 5,121,484	\$ 2,036,221	\$ 82,032	\$ 7,075,673
Construction in progress	83,559,202	39,555,948	19,195,920	103,919,230
Depreciable:				
Utility systems, treatment plants, and buildings	543,546,559	19,392,070	155,049	562,783,580
Equipment and furniture	26,481,418	1,913,905	437,427	27,957,896
	<u>658,708,663</u>	<u>62,898,144</u>	<u>19,870,428</u>	<u>701,736,379</u>
Less: accumulated depreciation				
Utility systems, treatment plants, and buildings	(120,333,234)	(10,168,594)	(135,150)	(130,366,678)
Equipment and furniture	(18,714,027)	(2,168,950)	(411,903)	(20,471,074)
	<u>(139,047,261)</u>	<u>(12,337,544)</u>	<u>(547,053)</u>	<u>(150,837,752)</u>
Net property, plant and equipment	<u>\$ 519,661,402</u>	<u>\$ 50,560,600</u>	<u>\$ 19,323,375</u>	<u>\$ 550,898,627</u>

A summary of property, plant and equipment at December 31, 2002, follows:

	Balance January 1, 2002	Additions	Deductions	Balance December 31, 2002
Nondepreciable:				
Land	\$ 4,627,181	\$ 495,703	\$ 1,400	\$ 5,121,484
Construction in progress	90,253,562	43,834,967	50,529,327	83,559,202
Depreciable:				
Utility systems, treatment plants and buildings	489,417,414	54,243,878	114,733	543,546,559
Equipment and furniture	24,852,382	2,520,890	891,854	26,481,418
	<u>609,150,539</u>	<u>101,095,438</u>	<u>51,537,314</u>	<u>658,708,663</u>
Less: accumulated depreciation				
Utility systems, treatment plants and buildings	(110,669,648)	(9,769,739)	(106,153)	(120,333,234)
Equipment and furniture	(17,235,473)	(2,249,208)	(770,654)	(18,714,027)
	<u>(127,905,121)</u>	<u>(12,018,947)</u>	<u>(876,807)</u>	<u>(139,047,261)</u>
Net property, plant and equipment	<u>\$ 481,245,418</u>	<u>\$ 89,076,491</u>	<u>\$ 50,660,507</u>	<u>\$ 519,661,402</u>

Interest costs incurred in the years ended December 31, 2003 and 2002, totaled \$15,423,963 and \$16,276,539, respectively. Of those amounts, interest of \$505,890 and \$261,180 was capitalized in the years ended December 31, 2003 and 2002, respectively. Depreciation expense was \$12,337,544 and \$12,018,947 in the years ended December 31, 2003 and 2002, respectively.

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**II. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Notes Receivable**

Notes receivable at December 31, 2003 and 2002, consist of the following:

	<u>2003</u>	<u>2002</u>
Issued January 2001 to the City of Charleston, in the amount of \$900,000, maturing in 2012, payable semi-annually, bearing interest at 5.75%, collateralized by real and personal property (See Note III. F.)	\$ 730,168	\$ 790,624
Issued December 2001 to the Town of Hollywood in the amount of \$150,000, maturing in 2005, payable monthly, bearing interest at 6%, collateralized by Local Option Sales Tax and Local Government Fund revenue.	<u>95,322</u>	<u>123,480</u>
Total notes receivable	825,490	914,104
Current portion of notes receivable	<u>(93,875)</u>	<u>(88,613)</u>
Non-current portion of notes receivable	<u>\$ 731,615</u>	<u>\$ 825,491</u>

**D. Changes in Long-term Liabilities**

A summary of long-term debt at December 31, 2003 follows:

	<u>January 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2003</u>	<u>Due within one year</u>
Revenue bonds payable	\$ 302,325,000	\$ 120,435,000	\$ (38,160,000)	\$ 384,600,000	\$ 10,655,000
Plus (less) deferred amounts					
For issuance premiums	6,865,804	-	(803,096)	6,062,708	-
For issuance discounts	(1,078,614)	(442,640)	1,078,614	(442,640)	-
On refunding costs	<u>(15,627,254)</u>	<u>(1,800,102)</u>	<u>1,618,246</u>	<u>(15,809,110)</u>	<u>-</u>
Total revenue bonds payable	292,484,936	118,192,258	(36,266,236)	374,410,958	10,655,000
Capital leases	389,743	-	(102,712)	287,031	91,273
Claims and judgments	720,000	3,502,854	(3,363,854)	859,000	711,752
Compensated absences	<u>2,542,340</u>	<u>2,109,881</u>	<u>(2,766,862)</u>	<u>1,885,359</u>	<u>1,412,390</u>
Total long-term liabilities	<u>\$ 296,137,019</u>	<u>\$ 123,804,993</u>	<u>\$ (42,499,664)</u>	<u>\$ 377,442,348</u>	<u>\$ 12,870,415</u>

A summary of long-term debt at December 31, 2002 follows:

	<u>January 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2002</u>	<u>Due within one year</u>
Revenue bonds payable	\$ 310,755,000	\$ -	\$ (8,430,000)	\$ 302,325,000	\$ 10,265,000
Plus (less) deferred amounts					
For issuance premiums	7,432,227	-	(566,423)	6,865,804	-
For issuance discounts	(1,157,213)	-	78,599	(1,078,614)	-
On refunding costs	<u>(17,254,932)</u>	<u>-</u>	<u>1,627,678</u>	<u>(15,627,254)</u>	<u>-</u>
Total revenue bonds payable	299,775,082	-	(7,290,146)	292,484,936	10,265,000
Capital leases	724,207	479,071	(813,535)	389,743	102,712
Claims and judgments	450,000	3,336,263	(3,066,263)	720,000	720,000
Compensated absences	<u>2,391,277</u>	<u>1,687,341</u>	<u>(1,536,278)</u>	<u>2,542,340</u>	<u>2,433,864</u>
Total long-term liabilities	<u>\$ 303,340,566</u>	<u>\$ 5,502,675</u>	<u>\$ (12,706,222)</u>	<u>\$ 296,137,019</u>	<u>\$ 13,521,576</u>

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**II. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**D. Changes in Long-term Liabilities (Continued)**

Included in accounts payable and accrued liabilities is \$711,752 and \$720,000 for the current portion of claims and judgments at December 31, 2003 and 2002 respectively. See Note III. A. 3 for additional information.

**E. Capital Leases**

The Commission has entered into various lease agreements to finance the acquisition of property and equipment. These leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is a schedule of the future minimum lease obligations and the net present value of the minimum lease payments at December 31, 2003.

<u>Year Ending December 31,</u>	<u>Amount</u>
2004	\$ 104,907
2005	104,907
2006	<u>104,907</u>
Total minimum lease payment	314,721
Less: amount representing interest	<u>(27,690)</u>
Present value of future minimum lease payments	<u>\$ 287,031</u>

	<u>2003</u>	<u>2002</u>
Current	\$ 91,273	\$ 102,712
Long-term	<u>195,758</u>	<u>287,031</u>
	<u>\$ 287,031</u>	<u>\$ 389,743</u>

The assets acquired through capital leases are as follows:

	<u>2003</u>	<u>2002</u>
Equipment	\$ 479,071	\$ 750,219
Less accumulated depreciation	<u>(87,830)</u>	<u>(279,437)</u>
	<u>\$ 391,241</u>	<u>\$ 470,782</u>

Included in depreciation expense is depreciation for buildings and equipment under capital leases in the amounts of \$79,541 and \$94,152, respectively, for the years ended December 31, 2003 and 2002.

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**II. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**F. Bonds and Notes Payable**

**1. Revenue Bonds**

Revenue bonds payable consist of bonded indebtedness secured by statutory liens on the pledged revenues. Revenue bonds outstanding at year-end are as follows:

Description	Interest Rates	2003	2002
\$196,335,000 City of Charleston, SC, Waterworks and Sewer System Refunding and Capital Improvement Revenue Bonds, Series 1991, maturing 1993 to 2022 Unamortized original issue discount	3.50% to 6.00%	\$ - -	\$ 33,090,000 (1,078,614)
\$176,570,000 City of Charleston, SC, Waterworks and Sewer System Refunding and Capital Improvement Revenue Bonds, Series 1998, maturing 1999 to 2024 Premium Deferred amount on refunding	3.25% to 5.25%	168,095,000 748,382 (7,631,175)	172,910,000 818,706 (8,329,432)
\$96,650,000 City of Charleston, SC, Waterworks and Sewer System Refunding Revenue Bonds, Series 2001, maturing 2002 to 2018 Premium Deferred amount on refunding	3.5% to 5.25%	96,070,000 5,314,326 (6,377,833)	96,325,000 6,047,098 (7,297,822)
\$80,665,000 City of Charleston, SC, Waterworks and Sewer System Refunding And Capital Improvement Revenue Bonds, Series 2003A, maturing 2019 to 2033 Deferred amount on refunding	variable	80,665,000 (1,800,102)	- -
\$39,770,000 City of Charleston, SC, Waterworks and Sewer System Capital Improvement Revenue Bonds, Series 2003B, maturing 2023 to 2028 Original issue discount	5.0%	39,770,000 (442,640)	- -
Total revenue bonds outstanding		374,410,958	292,484,936
Current portion of bonds payable		<u>(10,655,000)</u>	<u>(10,265,000)</u>
Long-term portion of bonds payable		<u>\$ 363,755,958</u>	<u>\$ 282,219,936</u>

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**II. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**F. Bonds and Notes Payable (Continued)**

As of December 31, 2003, revenue bond debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 10,655,000	\$ 14,652,664	\$ 25,307,664
2005	11,165,000	17,221,743	28,386,743
2006	11,665,000	16,705,827	28,370,827
2007	12,190,000	16,156,976	28,346,976
2008	12,765,000	15,537,095	28,302,095
2009-2013	74,365,000	66,922,050	141,287,050
2014-2018	95,380,000	45,304,772	140,684,772
2019-2023	59,505,000	25,730,696	85,235,696
2024-2028	43,120,000	15,136,338	58,256,338
2029-2033	53,790,000	5,962,500	59,752,500
Less unamortized original issue discount and deferred refunding cost plus amortization of premium	<u>(10,189,042)</u>	<u>-</u>	<u>(10,189,042)</u>
<b>Total</b>	<b><u>\$ 374,410,958</u></b>	<b><u>\$ 239,330,661</u></b>	<b><u>\$ 613,741,619</u></b>

The Water and Sewer Revenue Bonds, together with the interest thereon, are payable from revenues derived by the Commission from the operation of its system and monies on deposit in any fund or account established pursuant to the bond ordinance.

There are a number of limitations, restrictions, and covenants contained in the various bond indentures and ordinances. At December 31, 2003 and 2002, the Commission is in compliance with all significant restrictions and covenants, and no events of default occurred during 2003 and 2002.

**2. Defeased Debt**

On November 6, 2003, the Commission issued \$80.665 million in Revenue Bonds with a synthetic fixed interest rate of 3.795% to advance refund the remainder of outstanding 1991 Series bonds (\$23.9 million) with an average interest rate of 5.0 percent. The net proceeds of \$28.5 million (after payment of \$200 thousand in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Series bonds. As a result, the 1991 Series bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.8 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022 using the effective-interest method. The Commission completed the advance refunding to reduce its total debt service payments over the next 23 years by \$1.4 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2.5 million. All advance refunded debt was redeemed prior to December 31, 2003.

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**II. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**F. Bonds and Notes Payable (Continued)**

**3. Interest Rate Swap Agreement**

*Objective of the interest rate swap.* As a means to achieve an economic benefit when compared to the issuance of fixed rate bonds, the Commission entered into an interest rate swap agreement related to variable rate water and sewer system revenue bonds. The agreement was in connection with \$23,935,000 of Series 2003A refunding bonds issued in November 2003. The swap agreement was entered into at the time the bonds were issued. The purpose of the swap was to effectively change the variable rate bonds to fixed rate bonds, a derivative transaction undertaken to hedge against changes in the amount of future cash flows associated with variable interest obligations.

*Terms.* Under the swap the Commission pays the counterparty (a financial institution) a fixed payment of 3.795 percent. Comparative interest rates for fixed rate revenue bonds at the date of sale were 5 percent.

The Commission receives a variable payment of 59 percent of the one month London Interbank Offered Rate (LIBOR), not to exceed 5.5 percent. LIBOR is an international interest rate index that is the most commonly used for variable rate pricing.

The Series 2003A refunding bonds and related swap agreements mature on January 1, 2022. The notional amount of the swap equals the principal amount of the associated bonds and decreases simultaneously with the reduction in the principal amount of the associated bonds. As of December 31, 2003, the notional amount was \$23,935,000. Because interest rates have not changed significantly the swaps had no fair value to the Commission at December 31, 2003.

*Fair value and credit risk.* As of December 31, 2003, the Commission was not exposed to credit risk because the swap had no fair value. The swap counterparty was rated Aa1 by Moody's Investor Service (Moody's) and AA- by Standard & Poor's (S&P). To mitigate the potential for credit risk, the swap will be collateralized at fair value with cash and/or US Government securities, if the counterparty's credit rating falls below Aa3 by Moody's and AA- by S&P. Collateral will be posted with the Commission or its agent. The Commission will be required to collateralize the swap in a like manner if its general obligation debt rating ceases to be at least A3 by Moody's and A- by S&P.

*Termination risk.* Either the Commission or the counterparty may terminate the swap if the other party fails to perform. In addition, the swap may be terminated if (a) collateral is not delivered as required by the agreement within 15 days of a reduction in credit ratings as described above, or (b) either party's credit rating falls below Baa1 by Moody's or BBB+ by S&P. Termination could result in the Commission being required to make a termination payment.

As rates change, variable rate bond interest payments and net swap payments will vary. Assuming interest rates as of December 31, 2003, remain the same until the bonds mature, debt service requirements of the variable rate bonds and net swap payments would be as follows:

Year Ending December 31	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2004	\$ -	\$ 299,188	\$ 619,917	\$ 919,105
2005	-	299,188	619,917	919,105
2006	-	299,188	619,917	919,105
2007	-	299,188	619,917	919,105
2008	-	299,188	619,917	919,105
2009-2013	-	1,495,938	3,099,583	4,595,521
2014-2018	-	1,495,938	3,099,583	4,595,521
2019-2023	23,935,000	725,813	1,503,884	26,164,697
Total	<u>\$ 23,935,000</u>	<u>\$ 5,213,629</u>	<u>\$ 10,802,635</u>	<u>\$ 39,951,264</u>

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**II. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**G. Restricted Assets**

The balances of the restricted asset accounts are as follows:

	2003	2002
Revenue bond current debt service account	\$ 25,782,119	\$ 17,736,852
Revenue bond future debt service account	-	4,280,426
Revenue bond construction account	78,935,961	2,203,318
Revenue bond depreciation contingency account	13,385,029	14,146,548
Total restricted assets	\$118,103,109	\$ 38,367,144

**III. OTHER INFORMATION**

**A. Risk Management**

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters. For all of these risks, the Commission 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. The Commission pays an annual premium to the State Insurance Reserve Fund for its general insurance coverage. The State Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims.

The Commission has not significantly reduced insurance coverages from the previous year, and settled claims in excess of insurance coverage for the last three years were immaterial. For each of the insurance programs and public entity risk pools in which they participate, the Commission has effectively transferred all risk with no liability for unfunded claims.

**1. Health and Dental Insurance**

The Commission is self-insured for medical and dental coverage up to \$85,000 per employee and covered retiree and an aggregate limit of \$3,915,110 per plan year. Health claims are handled by an administrator and any recoveries under the stop-loss provision are determined as of December 31. The incurred but not reported (IBNR) is determined by the Commission's independent insurance administrator.

**2. Workers' Compensation Insurance**

The Commission has a specific excess workers' compensation and employer's liability indemnity policy with a private insurer that limits the Commission's risk of loss to \$275,000 per job-related injury or illness, up to \$1,000,000.

Liabilities are reported as a component of accounts payable and accrued liabilities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an amount for claims that have been incurred but not reported. Because actual liability for claims depends on such complex factors as inflation, change in legal doctrines and damage awards, the process used in computing such liability does not necessarily result in an exact amount. Liabilities for claims are reevaluated annually to take into consideration recently settled claims, the frequency of claims and any other relevant information. Non-incremental claims adjustment expenses have not been included as a part of the liability for claims and judgments.

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**III. OTHER INFORMATION (CONTINUED)**

**A. Risk Management (Continued)**

**3. Liabilities for claims and judgments**

Changes in the balance of liabilities for claims and judgments during the last two years were as follows:

	Year	Beginning Of Year Liability	Claims and Changes In Estimates	Claims Paid	End of Year Liability
Health and Dental Insurance	2003	\$ 470,000	\$ 3,201,027	\$ (3,169,027)	\$ 502,000
	2002	\$ 250,000	\$ 2,979,199	\$ (2,759,199)	\$ 470,000
Workers' Compensation Insurance	2003	\$ 250,000	\$ 301,827	\$ (194,827)	\$ 357,000
	2002	\$ 200,000	\$ 357,064	\$ (307,064)	\$ 250,000
Total claims and judgments	2003	\$ 720,000	\$ 3,502,854	\$ (3,363,854)	\$ 859,000
	2002	\$ 450,000	\$ 3,336,263	\$ (3,066,263)	\$ 720,000

**B. Contingent Liabilities and Commitments**

**1. Federal Grants**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the Commission. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

**2. Litigation**

The Commission is party to various legal proceedings, which normally occur in governmental operations. These lawsuits involve a contractual dispute between a company and a contractor of the Commission's and certain claims under contractual agreements. Although the outcome of these lawsuits is not presently determinable, it is the opinion of legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Commission.

**3. Construction commitments**

At December 31, 2003, the Commission has commitments under contracts for construction of various projects not completed of approximately \$13,135,706.

**C. Employees' Retirement Plan**

**1. Plan Description**

The Commission contributes to the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board. The SCRS provides retirement and disability benefits, annual cost-of-living adjustments on an ad-hoc basis, life insurance and survivor benefits to plan members and beneficiaries. The Plan's provisions are established and may be amended under Title 9 of the SC Code of Laws. The South Carolina Retirement System issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the SCRS. That report may be obtained by writing to the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960.

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**III. OTHER INFORMATION (CONTINUED)**

**C. Employees' Retirement Plan (Continued)**

**2. Funding Policy**

Plan members are required to contribute 6% of their annual covered salary and the Commission is required to contribute at an actuarially determined rate. The current rate is 6.7% of annual covered payroll. The Commission's contributions to SCRS for the years ended December 31, 2003, 2002, and 2001, of \$1,166,551, \$1,134,076, and \$1,054,313, were equal to the required contributions for each year, respectively.

Additionally, participating employers of the SCRS contribute .15% of payroll to provide a group life insurance benefit for their participants.

**D. Other Postemployment Benefits**

The Commission approves and provides postemployment health and dental care benefits for certain retirees and their dependents through their self-insured health and dental plan. See Note III. A. (1). A portion of the cost is borne by the retirees via premiums paid based on years of service and date of retirement as scheduled below. The Commission finances these benefits on a pay-as-you-go basis and incurred costs as follows:

	2003	2002
Claims paid	\$ 351,421	\$ 417,680
Less retiree contributions	(98,736)	(118,764)
Net cost	\$ 252,685	\$ 298,916

Premiums paid by retirees and their dependents are assessed based on premiums in effect at the employee's retirement date as follows:

	Monthly Premium	Number of Participants
Retired after November 30, 1995, with 30 years or more of service provided at current employee rate		
Single	\$ -	16
Retiree and children	\$ 82.00	3
Retiree and spouse	\$ 130.00	8
Family	\$ 164.00	2
Retired prior to December 1, 1995, or less than 30 years service		
Single	\$ 98.00	18
Retiree and children	\$ 125.00	2
Retiree and spouse	\$ 160.00	23
Family	\$ 206.00	2
Dental benefits		
Single	\$ 10.62	20
Family	\$ 25.78	42

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002**

**III. OTHER INFORMATION (CONTINUED)**

**E. Concentrations of Credit Risk**

The Commission grants credit to customers in the Charleston area of South Carolina. Accounts receivable and financed impact fees are financial instruments that potentially subject the Commission to credit risk. No collateral is required for credit granted to customers.

The Commission terminates services for accounts unpaid after 90 days. Additionally, the Commission participates in the State of South Carolina debt collection program whereby delinquent customer balances may be withheld from customers' state income tax refunds.

**F. Related Party**

During each of the years ended December 31, 2003 and 2002, the Commission contributed \$1,095,000 to the City (the primary government). This amount is reported as an intergovernmental fee in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

In addition, in January 2001, the City purchased real estate and personal property from the Commission, at a cost of \$965,000, in exchange for \$65,000 and a note payable to the Commission in semi-annual payments for 12 years at a rate of 5.75% (See Note II. C.). During the year ended December 31, 2003 and 2002, the Commission received payments on the notes as follows:

	2003	2002
Principal	\$ 60,456	\$ 57,124
Interest	44,604	47,936
Total	\$ 105,060	\$ 105,060

**G. Other item**

In March 1997, the Commission entered into a capital lease for land and buildings at the former Naval Base with the Charleston Naval Complex Redevelopment Authority. The lease term is for 25 years with total payments of \$1,250,000 payable over the first five years. If the U.S. Government conveys the property to the Authority during this lease term or any extensions thereof, the Commission has the option to purchase the property for \$1,250,000, against which there shall be applied a credit of the total amount paid in accordance with the lease.

**H. Subsequent Events**

Subsequent to December 31, 2003, the Commissioners approved various construction and engineering contracts totaling approximately \$33,000,000.

In addition, effective March 15, 2004, the Commission transferred wastewater systems with a carrying value of \$1,787,294 to the James Island Public Service District in accordance with the results of an arbitration settlement.

The Commission also approved a municipal capital lease agreement for \$502,250, bearing interest at 3.73 percent for seven years to fund the acquisition of a hypochlorite generating system.

## **OTHER FINANCIAL INFORMATION**

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
SCHEDULE OF WATER OPERATING EXPENSES  
YEAR ENDED DECEMBER 31, 2003, WITH COMPARATIVE  
TOTAL FOR YEAR ENDED DECEMBER 31, 2002**

	Source of Supply	Water Treatment	Raw Water Pumping	Potable Water Pumping
<b><u>MAINTENANCE</u></b>				
Dams & intakes	\$ 32,919	\$ -	\$ -	\$ -
Buildings and grounds	1,338	82,763	10,106	21,390
Maintenance and analytical	-	100,114	-	-
Equipment	3,558	223,860	26,959	57,074
Instrumentation	-	102,195	-	-
Chemicals	-	1,303,861	-	-
Pumping	-	129	541	6,126
Tanks and basin	-	24,091	-	-
Filters	-	6,315	-	-
Mains and accessories	-	-	-	-
Service lines	-	-	-	-
Backflow prevention	-	-	-	-
Meters	344	21,347	2,612	5,531
Vehicles	457	28,326	3,466	7,339
<b><u>OTHER</u></b>				
Personnel services	83,477	5,616,710	513,546	1,099,219
Outside services	6,560	406,458	49,683	105,177
General office	7,537	536,779	57,144	120,983
Education	1,208	87,873	9,153	19,377
Engineering	-	-	-	-
Utilities - electricity	4,005	198,296	371,884	773,195
Utilities - telephones	1,576	99,015	11,939	25,275
Utilities - fuel	118	7,252	25,524	51,133
Utilities - water and wastewater	36	2,240	274	580
Other	1,863	115,430	14,125	29,905
Subtotals	<u>\$ 144,996</u>	<u>\$ 8,963,054</u>	<u>\$ 1,096,956</u>	<u>\$ 2,322,304</u>

Less: Overhead allocated to construction in progress

Total Water Operating Expenses

Percentage of Total Operating Revenues

Water Distribution	Water Services	2003 Total	2002 Total
\$ -	\$ -	\$ 32,919	\$ 42,997
13,393	7,031	136,021	129,090
16,661	3,947	120,722	102,698
166,588	84,311	562,350	576,590
-	-	102,195	99,923
-	-	1,303,861	1,234,023
-	-	6,796	21,024
-	-	24,091	40,368
-	-	6,315	4,070
101,685	6,408	108,093	97,474
68	31,533	31,601	36,798
6,215	5,504	11,719	6,364
11,807	6,200	47,841	68,524
159,682	83,814	283,084	234,708
3,587,424	1,910,250	12,810,626	12,603,136
167,876	87,735	823,489	814,967
382,993	193,287	1,298,723	1,392,192
57,580	30,932	206,123	265,126
98,270	51,578	149,848	98,102
58,743	30,836	1,436,959	1,344,559
62,225	34,503	234,533	286,707
-	-	84,027	62,714
3,182	1,670	7,982	8,905
63,846	33,527	258,696	204,126
<u>\$ 4,958,238</u>	<u>\$ 2,603,066</u>	20,088,614	19,775,185
		(477,608)	(490,533)
		<u>\$ 19,611,006</u>	<u>\$ 19,284,652</u>
		<u>29.33%</u>	<u>28.60%</u>

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
SCHEDULE OF WASTEWATER OPERATING EXPENSES  
YEAR ENDED DECEMBER 31, 2003, WITH COMPARATIVE  
TOTAL FOR YEAR ENDED DECEMBER 31, 2002**

	Wastewater Treatment	Sludge Disposal	Lift Stations
<b><u>MAINTENANCE</u></b>			
Buildings and grounds	\$ 15,335	\$ 2,274	\$ 6,490
Mains and accessories	-	-	9,086
Instrumentation	66,138	-	-
Pumping	-	-	-
Equipment	377,737	77,614	238,571
Analytical	62,088	8,606	-
Chemicals	119,052	172,048	120,309
Vehicles	18,579	6,226	98,810
<b><u>OTHER</u></b>			
Personnel services	3,326,860	1,140,909	1,710,345
Grit and sludge disposal	-	579,967	-
Purchased treatment	1,327,231	-	-
Outside services	218,236	72,783	94,851
General office	258,173	82,936	162,487
Education	70,956	25,495	34,512
Utilities - electricity	616,055	6,775	293,600
Utilities - fuel	18,514	-	-
Utilities - telephone	56,747	19,013	41,237
Utilities - water and wastewater	20,309	6,802	9,095
Other	75,871	25,423	32,561
Subtotals	<u>\$ 6,647,881</u>	<u>\$ 2,226,871</u>	<u>\$ 2,851,954</u>

Less: Overhead allocated to construction in progress

Total Wastewater Operating Expenses

Percentage of Total Operating Revenues

<u>Collection</u>	<u>Hollywood/ Petersfield/ Meggett</u>	<u>2003 Total</u>	<u>2002 Total</u>
\$ 7,535	\$ 233	\$ 31,867	\$ 41,160
89,539	-	98,625	92,441
-	-	66,138	32,098
-	-	-	300
213,429	2,050	909,401	931,545
-	-	70,694	68,362
-	30,215	441,624	414,511
114,720	3,541	241,876	228,424
2,369,695	49,220	8,597,029	8,558,749
-	-	579,967	456,287
-	-	1,327,231	1,245,954
96,667	3,004	485,541	515,557
255,276	4,022	762,894	816,231
52,731	1,020	184,714	229,400
32,473	6,676	955,579	816,545
3	-	18,517	18,067
39,147	1,213	157,357	186,242
1,757	104	38,067	57,383
37,797	1,175	172,827	142,871
<u>\$ 3,310,769</u>	<u>\$ 102,473</u>	15,139,948	14,852,127
		<u>(564,956)</u>	<u>(175,043)</u>
		<u>\$ 14,574,992</u>	<u>\$ 14,677,084</u>
		<u>21.80%</u>	<u>21.77%</u>

**COMMISSIONERS OF PUBLIC WORKS  
OF THE CITY OF CHARLESTON  
SCHEDULE OF NET EARNINGS  
YEARS ENDED DECEMBER 31, 2003 AND 2002**

	2003	2002
Net income/Increase in net assets	\$ 28,841,372	\$ 35,571,739
Add:		
Depreciation and amortization expense	12,337,544	12,018,947
Interest on bonds	14,564,856	15,794,420
Amortization of prepaid bond expense	159,212	160,949
Loss on sale of fixed assets	-	36,195
Unrealized loss on investments	747,155	242,759
Contributions - City of Charleston	1,095,000	1,095,000
Subtotal	28,903,767	29,348,270
Deduct:		
Systems contributed by developers	8,249,148	17,455,526
Gain on sale of fixed assets	94,961	-
Interest earned on construction funds	638,738	830,409
Subtotal	8,982,847	18,285,935
Net earnings per bond ordinance	\$ 48,762,292	\$ 46,634,074
Net Earnings Coverage of 2002 Debt Service Requirement of \$25,180,746	N/A	185%
Net Earnings Coverage of 2003 Debt Service Requirement of \$25,090,173	194%	186%
Net Earnings Coverage of 2004 Debt Service Requirement of \$23,697,598	206%	N/A

Note: This schedule is not a financial statement prepared in accordance with generally accepted accounting principles. This schedule is a calculation of net earnings as defined by the 1991 Bond Ordinance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND INTERNAL CONTROL**



# BRYAN, TRUESDALE, ADKINS & WILLIAMS, PA

*Certified Public Accountants and Financial Advisors*

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## **Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards***

To the ***Commissioners of Public Works  
of the City of Charleston***  
Charleston, South Carolina

We have audited the basic financial statements of the ***Commissioners of Public Works of the City of Charleston, a component unit of the City of Charleston, South Carolina***, (the Commission) as of and for the year ended December 31, 2003, and have issued our report thereon dated March 26, 2004. 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.

### **Compliance**

As part of obtaining reasonable assurance about whether the Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Commission in a separate letter dated March 26, 2004.

This report is intended solely for the information and use of the audit committee, management, and the Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

*Bryan, Truesdale, Adkins & Williams, PA*

March 26, 2004