



ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2003

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Compliance

Report of Independent Certified Public Accountants on
Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

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INTRODUCTION

The Beaufort-Jasper Water and Sewer Authority, hereafter referred to as the “Authority,” is pleased to present its fourth Annual Financial Report developed in compliance with Statement of Governmental Accounting Standard No. 34, entitled “Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments” (hereafter “GASB 34”), and related standards. Although GASB 34 did not require implementation by the Authority until this fiscal year, management elected early implementation to enhance information provided to the users of its financial statements, and the Governmental Accounting Standards Board (GASB) has recognized the Authority for early implementation. The Annual Financial Report is also made available via the Internet (www.bjwsa.org). The use of the Internet is consistent with the Authority’s objective to provide greater information to the public in a more efficient manner, reducing paperwork, labor and communications costs. Recommendations for further enhancement to the Annual Financial Report are welcome, and may be submitted via our website.

Mission

The mission of the Authority is to protect the public health and the environment by providing (1) abundant, affordable and high quality drinking water; (2) environmentally sound and affordable wastewater treatment and disposal; and (3) efficient, reliable and courteous service. This mission serves as the foundation for the Authority’s Strategic Plan, operational and financial initiatives of the departments and functions, and performance development for employees and systems. The Annual Financial Report is one of many tools used to communicate historical financial condition and performance results.

Responsibility and Controls

The Authority has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Authority’s system of internal accounting controls is evaluated on an ongoing basis by the Authority’s internal financial staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

The Finance Committee of the Authority Board of Directors serves the role of an Audit Committee. It is composed of three members of the Board who are not employees and who provide a broad overview of management’s financial reporting and control functions. Periodically, this Committee meets with management and the independent external auditors to ensure these groups are fulfilling their obligations and to discuss auditing, controls, and financial reporting matters.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Authority’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unqualified (i.e. clean) opinion of our independent external auditors, Cherry, Bekaert & Holland, L.L.P., is included in this report. They have also performed a Single Audit of the Authority's federal awards, for which unqualified reports were the result. A summary of the Single Audit results may be found on the Authority's website, and the Data Control Form related to the Single Audit may be found on the Office of Management and Budget's website at <http://harvester.census.gov/sac>.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of the Authority's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the Authority's financial condition is strong. The Authority is well within its debt covenants and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights:

- The Authority issued \$47.14 million of revenue bonds in November 2001 to construct a new ultimate 45-MGD capacity water treatment plant in Jasper County, along with related transmission and distribution assets, and to refund \$5.835 million of higher rate revenue bonds and loan obligations. Construction of the 10-MGD phase one began in fiscal year 2002, with an expected completion date during the latter months of fiscal year 2004. At the end of this fiscal year, the water plant and the transmission main associated with the plant, represented 56% of the total cost in construction in progress.
- The Authority adopted a general consumption water and sewer rate increase of approximately 3.5% for most retail customers effective July 1, 2002. The Board has approved a Capital Improvement Program and has anticipated rate increases for the next three additional fiscal years to cover the supporting capital debt. Wholesale water customers' rates were also increased by varying amounts effective July 1, 2002 and are expected to remain at the same levels until fiscal year 2006. Additionally, the Authority increased capital contribution fees for water by 18% and for sewer by 30%, effective September 1, 2002. These fees are charged to all new customers who connect to the system.
- Total assets at year-end were \$254 million and exceeded liabilities in the amount of \$144 million (i.e. net assets). Of the \$18 million classified as unrestricted, \$12.2 million was board-restricted for capital activity and \$5.8 million was available to support short-term operations. Total assets and total net assets increased \$26 million and \$17 million, respectively. Unrestricted net assets increased by approximately \$2.7 million, due to an increase of \$1.4 million in board-restricted funds and an increase of \$1.2 million in funds available to support short-term operations. For the current fiscal year, sufficient operating income (excluding depreciation) and interest income was generated to cover the debt service and contributions to the contingency and depreciation fund (restricted asset), leaving a positive increase in unrestricted net assets available to support current operations.

