NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS:  Moody’s:  Aaa
S&P:  AAA
(Financial Security Assurance Inc. Insured; see “Ratings” herein)

In the opinion of Haynsworth Sinkler Boyd, P.A., Bond Counsel, assuming continuing compliance by the Authority with certain covenants, interest on the Series 2006 Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, and judicial decisions. Interest on the Series 2006 Bonds is not an item of tax preference in computing the alternative minimum taxable income of individuals or corporations. Interest on the Series 2006 Bonds will, however, be included in the computation of certain taxes, including alternative minimum tax for corporations. See “TAX EXEMPTION” for a brief description of alternative minimum tax treatment and certain other federal income tax consequences to certain recipients of interest on the Series 2006 Bonds. The Series 2006 Bonds and the interest thereon will also be exempt from all State, county, municipal, and school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer, and certain franchise taxes.

$58,750,000 BEAUFORT-JASPER WATER AND SEWER AUTHORITY, SOUTH CAROLINA

WATERWORKS AND SEWER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, SERIES 2006

Dated: Date of Delivery
Due: March 1, as shown below

The Beaufort-Jasper Water and Sewer Authority, South Carolina, Waterworks and Sewer System Improvement and Refunding Revenue Bonds, Series 2006 (the “Series 2006 Bonds”), are being issued by the Beaufort-Jasper Water and Sewer Authority (the “Authority”), a political subdivision and a special purpose district of the State of South Carolina, under the authority of the Constitution and laws of the State of South Carolina, including Chapter 17 of Title 6 and Chapter 21 of Title 11, Code of Laws of South Carolina 1976, as amended (together, the “Enabling Act”), and pursuant to the provisions of a Bond Resolution and a 2006 Series Resolution (i) to provide moneys to refund certain outstanding indebtedness of the Authority, (ii) to defeas or a portion of the costs of certain improvements to the System, (iii) to purchase a reserve policy to satisfy the debt service reserve fund requirement with respect to the Series 2006 Bonds by the payment of the reserve fund policy premium, (iv) to pay the municipal bond insurance premium, and (v) to pay certain costs and expenses of issuance of the Series 2006 Bonds.

Pursuant to the provisions of the Enabling Act, the Bond Resolution, and the 2006 Series Resolution, the Series 2006 Bonds are payable from and secured by a pledge of the Gross Revenues (as such term is defined herein) that remain after paying the costs of the operation and maintenance of the Authority’s waterworks and sewer system (the “System”). Additional bonds may hereafter be issued from time to time on a parity with the Series 2006 Bonds under the conditions prescribed by the Bond Resolution and the 2006 Series Resolution (“Additional Bonds”). See “SECURITY FOR THE SERIES 2006 BONDS” herein.

The scheduled payment of principal of and interest on the Series 2006 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2006 Bonds by Financial Security Assurance Inc.

THE SERIES 2006 BONDS ARE SUBJECT TO REDEMPTION PRIOR TO MATURITY AS MORE FULLY DESCRIBED HEREIN.

The Series 2006 Bonds do not constitute an indebtedness of the Authority within the meaning of any provision, limitation, or restriction of the Constitution or the laws of the State of South Carolina, other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license. The Authority is not obligated to pay any of the Series 2006 Bonds or the interest thereon except from the Gross Revenues that remain after paying the costs of the operation and maintenance of the Authority’s waterworks and sewer system, and neither the full faith and credit nor the taxing power of the Authority shall be deemed pledged to the payment of the Series 2006 Bonds. See “SECURITY FOR THE SERIES 2006 BONDS.”

<table>
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<tr>
<th>Due</th>
<th>Principal Amount</th>
<th>Interest Rate</th>
<th>Yield</th>
<th>Due</th>
<th>Principal Amount</th>
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<tr>
<td>March 1</td>
<td>$525,000</td>
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<td>3.560%</td>
<td>March 1</td>
<td>$2,445,000</td>
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<td>2017</td>
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<td>3.810</td>
<td>2026</td>
<td>550,000</td>
<td>4.250</td>
<td>4.330</td>
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$12,445,000 Term Bond due March 1, 2031 Interest Rate 4.500% – Yield 4.450%

1 Split serial maturity.
2 Yield to March 1, 2017 call.
3 Yield to March 1, 2018 call.

The Series 2006 Bonds are offered when, as, and if issued and delivered to and received by A.G. Edwards & Sons, Inc. (the “Underwriter”), subject to the approval of legality by Haynsworth Sinkler Boyd, P.A., Columbia, South Carolina, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by its counsel, Raymond H. Williams, P.A., Beaufort, South Carolina, by Haynsworth Sinkler Boyd, P.A., Columbia, South Carolina, as Disclosure Counsel, and for the Underwriter by its counsel, Murray Barnes Finister LLP, Atlanta, Georgia. The Series 2006 Bonds are expected to be available for delivery in definitive form through the facilities of DTC in New York, New York, on or about November 28, 2006, against payment therefor.

Dated: November 15, 2006
IN CONNECTION WITH THIS OFFERING, A.G. EDWARDS & SONS, INC. (THE “UNDERWRITER”) MAY
OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE
SERIES 2006 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN
MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement does not constitute an offering of any security other than the original
offering of the Series 2006 Bonds identified on the cover. No dealer, broker, salesman, or other person has
been authorized to give any information or to make any representations other than those contained in this
Official Statement and, if given or made, such other information or representations must not be relied upon
as having been authorized by the Authority or the Underwriter. This Official Statement does not constitute
an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2006 Bonds
by any person in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale.

The information and expressions of opinion herein are subject to change without notice, and neither
the delivery of this Official Statement nor the sale of any of the Series 2006 Bonds shall, under any
circumstances, create any implication that the information herein is correct as of any time subsequent to the
date of this Official Statement.

Upon execution and delivery, the Series 2006 Bonds will not be registered under the Securities Act
of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities
exchange. Neither the Securities and Exchange Commission nor any other federal, state, or other
governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or
approved the Series 2006 Bonds for sale.

Certain information contained in this Official Statement may have been obtained from sources other
than records of the Authority and, while believed to be reliable, is not guaranteed as to completeness or
accuracy and is not to be construed as a representation of the Underwriter. EXPRESSIONS OF OPINION IN
THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THIS OFFICIAL
STATEMENT NOR ANY SALE MADE UNDER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT
THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE AUTHORITY OR THE SYSTEM.

Other than with respect to information concerning Financial Security Assurance Inc. (“Bond
Insurer”) contained under the heading “MUNICIPAL BOND INSURANCE – The Bond Insurance Policy” and
“– Financial Security Assurance Inc.” and APPENDIX G - “Specimen Municipal Bond Insurance Policy”
herein, none of the information in this Official Statement has been supplied or verified by the Bond
Insurer, and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the
accuracy or completeness of such information; (ii) the validity of the Series 2006 Bonds; or (iii) the tax-
exempt status of the interest on the Series 2006 Bonds.

Reference herein to laws, rules, regulations, agreements, reports, and other documents, do not
purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by
reference to the particular document, the full text of which may contain qualifications of and exceptions to
statements made therein. Where full texts have not been included as Appendices to the Official Statement,
they will be furnished upon request.
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SUMMARY STATEMENT

The following Summary Statement is qualified in its entirety by the more detailed information and financial statements contained elsewhere in this Official Statement and the Appendices hereto (collectively, the “Official Statement”). Unless otherwise defined in this Summary Statement, all capitalized terms used in this Summary Statement shall have the meanings ascribed to them elsewhere in the Official Statement and in Appendix B - “Summary of Certain Provisions of the Bond Resolution and the 2006 Series Resolution.” The offering of the Series 2006 Bonds to potential investors is made only by means of this entire Official Statement, and no person is authorized to detach this Summary Statement from the Official Statement or to otherwise use it without the entire Official Statement.

The Issuer
Beaufort-Jasper Water and Sewer Authority (the “Authority”) is authorized to provide water and sewer service throughout all of Beaufort and Jasper Counties, except for certain incorporated municipalities therein. See “THE AUTHORITY” and APPENDIX A – “Economic and Demographic Data for Beaufort and Jasper Counties.”

The Series 2006 Bonds
The $58,750,000 Beaufort-Jasper Water and Sewer Authority Waterworks and Sewer System Improvement and Refunding Revenue Bonds, Series 2006, are being issued initially in book-entry-only form in principal amounts of $5,000 or any integral multiple thereof. See “THE SERIES 2006 BONDS.”

Dated Date and Date of Delivery of Bonds
The Series 2006 Bonds will be initially dated Date of Delivery and will bear interest from such date. It is expected that the Series 2006 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about November 28, 2006.

Interest Payments
Interest on the Series 2006 Bonds will be payable on each March 1 and September 1 commencing March 1, 2007 (calculated on the basis of a 360-day year of twelve 30-day months).

Maturities
The Series 2006 Bonds mature serially on March 1, 2008 through 2026, and as a term bond due March 1, 2031 as indicated on the front cover hereof.

Redemption
The Series 2006 Bonds maturing on or after March 1, 2018 shall be subject to redemption prior to maturity, at the option of the Authority, on and after March 1, 2017, in whole or in part at any time upon thirty (30) days notice, at a declining premium (expressed as a percentage of the principal amount being redeemed), plus interest accrued to the date of redemption, as set forth in “THE SERIES 2006 BONDS – Redemption – Optional Redemption.” The Series 2006 Bonds maturing March 1, 2031 are subject to mandatory sinking fund redemption at par plus interest accrued to the date of redemption on the dates and in the amounts set forth under “THE SERIES 2006 BONDS – Redemption – Mandatory Redemption.”

Purpose of the Issue
The Series 2006 Bonds are being issued to provide moneys to refund certain outstanding indebtedness of the Authority, to defray the cost of certain improvements to the Authority’s waterworks and sewer system (the “System”), to purchase a reserve policy to satisfy the debt service reserve fund requirement with respect to the Series 2006 Bonds, to pay the municipal bond insurance premium, and to pay the costs and expenses of issuance of the Series 2006 Bonds. See “PLAN OF FINANCE – Refunding” and “– The 2006 Project.”

Security
The Series 2006 Bonds, including interest thereon, are payable solely from, and secured by, the Gross Revenues that remain after paying the costs of the operation and maintenance of the System, and will be on a parity with the $82,851,170 aggregate outstanding principal amount Parity Obligations (based upon amounts outstanding at October 1, 2006, and after giving effect to the refunding). See “SECURITY FOR THE SERIES 2006 BONDS” and “DEBT STRUCTURE.”

Bond Insurance
Concurrently with the issuance of the Series 2006 Bonds, Financial Security Assurance Inc. (the “Bond Insurer”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. See “MUNICIPAL BOND INSURANCE.”

Tax Status of Interest on the Series 2006 Bonds
In the opinion of Haynsworth Sinkler Boyd, P.A., Bond Counsel, assuming continuing compliance by the Authority with certain covenants, interest on the Series 2006 Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, and judicial decisions. Interest on the Series 2006 Bonds is not an item of tax preference in computing the alternative minimum taxable income of individuals or corporations. Interest on the Series 2006 Bonds will, however, be included in the computation of certain taxes, including alternative minimum tax for corporations. See “TAX EXEMPTION AND RELATED MATTERS” for a brief description of alternative minimum tax treatment and certain other federal income tax consequences to certain recipients of interest on the Series 2006 Bonds. The Series 2006 Bonds and the interest thereon will also be exempt from all State, county, municipal, and school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer, and certain franchise taxes.
Professionals Involved in the Offering

Haynsworth Sinkler Boyd, P.A., Columbia, South Carolina, is serving as Bond Counsel and as Disclosure Counsel. Certain legal matters will be passed upon for the Authority by Raymond H. Williams, P.A., Beaufort, South Carolina, and for the Underwriter by Murray Barnes Finister LLP, Atlanta, Georgia. The financial statements of the Authority as of and for the Fiscal Years ended June 30, 2005 and 2006, included as Appendix C in the Official Statement, have been audited by Cherry Bekaert & Holland, L.L.P, Certified Public Accountants, Augusta, Georgia. The Underwriter is A.G. Edwards & Sons, Inc., Atlanta, Georgia. U.S. Bank, National Association, St. Paul, Minnesota, is serving as Trustee, Paying Agent, and Registrar.

Authorization

The Series 2006 Bonds are being issued pursuant to the provisions of Chapter 17 of Title 6 and Chapter 21 of Title 11 of the Code of Laws of South Carolina 1976, as amended, and resolutions adopted by the Board of the Authority. See “AUTHORIZATION AND PURPOSE OF SERIES 2006 BONDS – Authorization.”

Continuing Disclosure

The Authority has covenanted, pursuant to Section 11-1-85, Code of Laws of South Carolina of 1976, as amended, to file with a central repository for availability on the secondary bond market, when requested, an annual audit within thirty (30) days of its receipt and event-specific information within thirty (30) days of an event adversely affecting more than five percent (5%) of its revenues.

The Authority has undertaken, pursuant to a Continuing Disclosure Certificate, to comply with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, for the benefit of holders of the Series 2006 Bonds to provide certain financial information and operating data relating to the Authority by not later than 210 days after the end of each Fiscal Year commencing with the Fiscal Year beginning July 1, 2006 (the “Annual Information”), and to provide notices of the occurrence of certain enumerated events. The Annual Information will be filed by or on behalf of the Authority with each Nationally Recognized Municipal Securities Information Repository (the “NRMSIRs”) and to any State of South Carolina Information Depository which is hereafter created (“State Information Depository”). Notice of certain significant events will be filed by or on behalf of the Authority with NRMSIRs or the Municipal Securities Rulemaking Board and any State Information Depository that is hereafter created. The nature of the information to be provided in the Annual Information and the notices of certain significant events is set forth under the caption “CONTINUING DISCLOSURE.”

General

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of the Preliminary Official Statement and the Official Statement will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. Copies of the Preliminary Official Statement, the Official Statement, the Bond Resolution, and the 2006 Series Resolution and other relevant documents and information regarding the documents are available from the office of the Authority, 6 Snake Road, Okatie, South Carolina, 29910.

The Official Statement, including the cover page and the attached Appendices, contains specific information relating to the Series 2006 Bonds, the Authority, and the System and other information pertinent to this issue. See “DEBT STRUCTURE,” “THE AUTHORITY,” and Appendix C for financial information relating to the System.

All information included herein has been provided by the Authority except where attributed to other sources. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such reference or summary is qualified in its entirety by reference to each such document, statute, report or other instrument.
$58,750,000
BEAUFORT-JASPER WATER AND SEWER AUTHORITY, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, SERIES 2006

INTRODUCTION

This Official Statement of the Beaufort-Jasper Water and Sewer Authority, South Carolina (the “Authority”), which includes the cover page hereof and the Appendices hereto, provides information relating to the Authority and its $58,750,000 Waterworks and Sewer System Improvement and Refunding Revenue Bonds, Series 2006 (the “Series 2006 Bonds”). The Series 2006 Bonds, the Parity Obligations, the Junior Lien Bond and any Additional Bonds (as such terms are hereinafter defined) shall be referred to herein collectively as the “Bonds.” Included in this Official Statement are brief descriptions of the Series 2006 Bonds and the security therefor, the Authority, the waterworks and sewer system of the Authority (the “System”), and the resolutions pursuant to which the issuance of the Series 2006 Bonds has been authorized by the Authority. Also included is certain financial information relating to the Authority. All summaries of documents herein are qualified by reference to such documents in their entirety. Capitalized terms used and not otherwise defined herein have the meanings given to such terms in APPENDIX B hereto.

AUTHORIZATION AND PURPOSE OF THE SERIES 2006 BONDS

Authorization

The Series 2006 Bonds are issued pursuant to Chapter 17 of Title 6 and Chapter 21 of Title 11, Code of Laws of South Carolina of 1976, as amended (the “Enabling Act”), a bond resolution adopted by the Beaufort-Jasper Water and Sewer Authority Board (the “Board”) on August 26, 1999 and amended by the Board on September 23, 1999 (as so amended, the “Bond Resolution”), and a series resolution adopted by the Board on October 26, 2006 (the “2006 Series Resolution,” which together with the Bond Resolution, is referred to herein as the “Resolution”).

Purpose

The Series 2006 Bonds are being issued to provide moneys to refund certain outstanding indebtedness of the Authority, to provide moneys to defray the cost of certain improvements to the System (the “2006 Project,” as such term is more particularly defined herein), to purchase a reserve policy to satisfy the debt service reserve fund requirement with respect to the Series 2006 Bonds, to pay the municipal bond insurance premium, and to pay certain costs and expenses of issuance of the Series 2006 Bonds. See “PLAN OF FINANCE – Refunding” and “– The 2006 Project.”
THE SERIES 2006 BONDS

Form and Denomination

The Series 2006 Bonds will be dated the Date of Delivery, and will mature and bear interest in the amounts and at the rates (calculated on the basis of a 360-day year of twelve 30-day months) set forth on the cover page of this Official Statement. Interest on the Series 2006 Bonds will be payable on each March 1 and September 1 commencing March 1, 2007, until maturity or prior redemption. The Series 2006 Bonds will be issued as fully registered bonds in the denomination of $5,000 or integral multiples thereof, not exceeding the principal amount of the Series 2006 Bonds maturing in each year and each will be registered in the name of the holder (the “Holder”) as set forth on the registry book maintained at the designated corporate trust office of U.S. Bank, National Association, St. Paul, Minnesota, as registrar (in such capacity, the “Registrar”). The Series 2006 Bonds initially will be held in a book-entry-only system administered by The Depository Trust Company, New York, New York (“DTC”), whose nominee, Cede & Co., will be the initial registered owner of the Series 2006 Bonds. Principal of and redemption premium, if any, and interest on, the Series 2006 Bonds held in book-entry form shall be payable as described herein under the heading “THE SERIES 2006 BONDS – Book-Entry-Only System.”

Should the Series 2006 Bonds no longer be held in book-entry-only form, interest will be paid by check of U.S. Bank, National Association, St. Paul, Minnesota, as paying agent (in such capacity, the “Paying Agent”), mailed to each owner of the Series 2006 Bonds at the address shown on the registry book maintained by the Registrar on the fifteenth day of the calendar month next preceding each interest payment date or, upon request of any Holder of $1,000,000 or more in aggregate principal amount of Series 2006 Bonds, by wire transfer to an account specified in such request. Principal and redemption premium, if any, on Series 2006 Bonds not held in book-entry-only form will be payable at the designated corporate office of the Paying Agent.

Redemption

Optional Redemption

The Series 2006 Bonds maturing on or after March 1, 2018 are subject to redemption prior to maturity at the option of the Authority on and after March 1, 2017, in whole or in part at any time prior to maturity, upon at least thirty (30) days notice, at the respective redemption prices set forth below, expressed as a percentage of the principal amount of such Series 2006 Bonds to be so redeemed, plus interest accrued to the redemption date:

<table>
<thead>
<tr>
<th>Period During Which Redeemed (both dates inclusive)</th>
<th>Redemption Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1, 2017 to February 28, 2018</td>
<td>101%</td>
</tr>
<tr>
<td>March 1, 2018 and thereafter</td>
<td>100</td>
</tr>
</tbody>
</table>
Mandatory Redemption

The Series 2006 Bonds maturing on March 1, 2031, are subject to mandatory sinking fund redemption commencing on March 1, 2027 and will be redeemed (to the extent not previously redeemed) at 100% of the principal amount, plus interest accrued to the redemption date, on March 1 of each of the following years in the respective amounts for each year specified below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2027</td>
<td>$1,945,000</td>
</tr>
<tr>
<td>2028</td>
<td>2,455,000</td>
</tr>
<tr>
<td>2029</td>
<td>2,565,000</td>
</tr>
<tr>
<td>2030</td>
<td>2,680,000</td>
</tr>
<tr>
<td>2031*</td>
<td>2,800,000</td>
</tr>
</tbody>
</table>

*Final maturity.

The amount of any mandatory sinking fund redemptions will be reduced to the extent that Series 2006 Bonds of the applicable maturity have been purchased by the Authority or redeemed by the Authority pursuant to the optional redemption provisions of the Resolution, in such manner as the Authority shall direct, or, absent such direction, on a pro rata basis.

Notice of Redemption

For so long as DTC acts as securities depository for the Series 2006 Bonds under a book-entry-only system, U.S. Bank, National Association, as trustee (in such capacity the “Trustee”) shall send notices of redemption only to DTC or Cede & Co., DTC’s nominee. Any failure of DTC or a Direct Participant or, where appropriate, an Indirect Participant, to convey a redemption notice to a Beneficial Owner (as such terms are hereinafter defined) of a Series 2006 Bond will not affect the sufficiency or the validity of the redemption of any Series 2006 Bond.

Should the Series 2006 Bonds no longer be held in book-entry form and any of the Series 2006 Bonds, or portions thereof, be called for redemption, the Trustee shall give notice to the Holders of such Series 2006 Bonds to be redeemed, in the name of the Authority, of the redemption of such Series 2006 Bonds, or portions thereof, which notice shall specify the Series 2006 Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Series 2006 Bonds are to be redeemed, the numbers of the Series 2006 Bonds so to be redeemed, and, in the case of Series 2006 Bonds to be redeemed in part only, such notice shall also specify the respective portions thereof to be redeemed. Such notice shall also contain applicable CUSIP number or numbers, certificate numbers and the name and address of the Trustee and shall be sent to at least two national information services that disseminate redemption notices. A first notice shall be given by mailing a copy of the redemption notice by first class mail at least thirty (30) days prior to the date fixed for redemption to the Holder of each Series 2006 Bond to be redeemed, at the address shown on the registration books. In the event a Holder has not forwarded a Series 2006 Bond so called for redemption to the Trustee within thirty (30) days of the redemption date, the Trustee shall give a second notice by mailing a copy of such redemption notice by first class mail to any such Holder. Notwithstanding the foregoing, failure to give any such notice by mail, or any defect in the notice mailed to the Holder of any Series 2006 Bond, shall not affect the validity of the proceedings for the redemption of any other Series 2006 Bond.

Provided funds for their redemption are on deposit with the Trustee, all Series 2006 Bonds so called for redemption shall cease to bear interest on the specified redemption date and shall no longer be deemed to
be Outstanding under the Resolution. If said money shall not be so available on the redemption date, such Series 2006 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Registration and Transfer Provisions

Series 2006 Bonds Subject to the Book-Entry-Only System

For so long as DTC acts as securities depositary for the Series 2006 Bonds, the registration and transfer of ownership interests in Series 2006 Bonds shall be accomplished by book entries made by DTC and the Direct Participants and, where appropriate, the Indirect Participants, as described herein under the heading “THE SERIES 2006 BONDS – Book-Entry-Only System.”

Series 2006 Bonds Not Subject to the Book-Entry-Only System

Should the Series 2006 Bonds no longer be held in book-entry form, each Series 2006 Bond may be registered only upon the registration books of the Authority kept for that purpose by the Holder thereof in person or by his duly authorized attorney upon surrender thereof and an assignment with a written instrument of transfer satisfactory to the Trustee, duly executed by the Holder or his duly authorized attorney. Upon the transfer of any such registered Series 2006 Bond or Bonds, the Authority shall cause to be issued, in the name of the transferee, a new registered Series 2006 Bond or Bonds of the same aggregate principal amount as the unpaid principal amount of the surrendered Series 2006 Bond or Bonds. There shall be no charge to the Holder for such exchange or transfer of Series 2006 Bonds except that the Trustee may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Authority nor the Trustee shall be required to register, transfer, or exchange Series 2006 Bonds after the fifteenth day of the month immediately preceding a bond payment date until the subsequent bond payment date or after the mailing of any notice of redemption, or to register, transfer, or exchange any Series 2006 Bonds called for redemption.

The Authority and the Trustee may deem and treat the person in whose name any Series 2006 Bond shall be registered upon the registration books of the Authority as the absolute owner of such Series 2006 Bond, whether such Series 2006 Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of, premium (if any) and interest on such Series 2006 Bond and for all other purposes, and all such payments so made to any such Holder or, upon his order, shall be valid and effectual to satisfy and discharge the liability upon such Series 2006 Bond to the extent of the sum or sums so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary.

Book-Entry-Only System

Unless and until the book-entry-only system has been discontinued, the Series 2006 Bonds will be available only in book-entry form in principal amounts of $5,000 or any integral multiple thereof. DTC will act as securities depositary for the Series 2006 Bonds. The Series 2006 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s nominee). One fully-registered Series 2006 Bond will be issued for each maturity of the Series 2006 Bonds and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (“Direct Participants”)
deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry in Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turned, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (SCC, FICC, and EMCC, also subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange L.L.C., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2006 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2006 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2006 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2006 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2006 Bonds, except in the event that use of the book-entry-only system for the Series 2006 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2006 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. The deposit of Series 2006 Bonds with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2006 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2006 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2006 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2006 Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. Beneficial Owners of Series 2006 Bonds may wish to ascertain that the nominee holding the Series 2006 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to Cede & Co. If less than all of the Series 2006 Bonds of a maturity are being redeemed, DTC’s practice is to determine by lot the amount of interest of each Direct Participant of such maturity to be redeemed.
Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2006 Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Authority as soon as possible after the record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series 2006 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the Series 2006 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Direct Participants or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Direct or Indirect Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2006 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2006 Bonds in definitive form are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2006 Bonds in definitive form will be printed and delivered.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC’S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

SECURITY FOR THE SERIES 2006 BONDS

Pledge of Gross Revenues that Remain after Paying Operation and Maintenance Costs

All Bonds shall be payable solely from, and secured by, a pledge of the Gross Revenues (hereinafter defined) that remain after paying the costs of the operation and maintenance of the System. Such pledge and lien securing the Series 2006 Bonds shall at all times and in all respects be (1) on a parity with the pledges and liens made and given to secure the Parity Obligations and the Additional Bonds, and (2) superior to pledges and liens made and given to secure any other bonds or other obligations payable from the revenues of the System. See “DEBT STRUCTURE.” THE SERIES 2006 BONDS WILL NOT CONSTITUTE A GENERAL OBLIGATION OF THE AUTHORITY AND NEITHER THE FULL FAITH, THE CREDIT, NOR THE TAXING POWER OF THE AUTHORITY, THE STATE OF SOUTH CAROLINA, NOR ANY POLITICAL SUBDIVISION THEREOF, SHALL BE DEEMED TO BE PLEDGED THERETO.

“Gross Revenues” is defined by the Bond Resolution to mean (a) all receipts and revenues derived from the operation of the System, except for those allocable to the operation of Special Facilities (as hereinafter defined), (b) all proceeds from the sale or other disposition of any property owned directly or
beneficially by the Authority in connection with the System, (c) all interest and other income received directly or indirectly by the Authority from the investment of moneys or accounts relating to the System, and (d) all other unencumbered or unrestricted money to which the Authority, in connection with the System, may become entitled from any source whatsoever.

Rate Covenant

In the Bond Resolution, the Authority covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Authority which, together with other income, will yield annual Net Earnings (as defined below) in the current Fiscal Year equal to at least one hundred ten percent (110%) of the Annual Principal and Interest Requirements in such Fiscal Year for all Bonds Outstanding; and, promptly upon any material change in the circumstances that were contemplated at the time such rates and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, shall review the rates and charges for its services and shall promptly revise such rates and charges as necessary to comply with the foregoing requirement. Prior to the beginning of each Fiscal Year, the Board shall adopt an Annual Budget, including amended rate schedules, for such Fiscal Year that shall set forth in reasonable detail the estimated revenues and operating expenses and other expenses of the System for such Fiscal Year and that shall include the amount to be deposited during such Fiscal Year in the Depreciation and Contingent Fund. The Board may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.

The Authority further covenants and agrees in the Bond Resolution that it will maintain rates and charges for all services furnished by the System that at all times are sufficient (1) to maintain the Debt Service Funds and thus provide for the punctual payment of the principal of and interest on the Bonds; (2) to maintain the Debt Service Reserve Funds in the manner prescribed therein and in any applicable Series Resolutions; (3) to provide for the payment of the expenses of administration and operation and such expenses for maintenance of the System as may be necessary to preserve the same in good repair and working order; (4) to build and maintain a reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions to the System other than those necessary to maintain the same in good repair and working order; (5) to pay all amounts owing under a reimbursement agreement with any provider of a surety bond, insurance policy, letter of credit, or other funding instrument provided in connection with the funding of a Debt Service Reserve Fund for a Series of Bonds; (6) to discharge all obligations imposed by the Enabling Act and by the Bond Resolution; and (7) to provide for the punctual payment of the principal of and interest on all Junior Lien Bonds that may from time to time be Outstanding.

“Net Earnings” is defined by the Bond Resolution to mean, for the period in question, the net income of the System determined in accordance with then generally accepted accounting principles. Whether or not generally accepted accounting principles so require, however, Net Earnings are adjusted as follows: (a) revenue derived from service fees (including connection and tap fees, availability fees, impact fees and meter purchases) are included in income; (b) investment income not restricted to a purpose inconsistent with the payment of operating expenses or debt service is included in income; (c) the following are excluded from the calculation made to determine Net Earnings: (i) gains on the sale or other disposition of investments or fixed or capital assets, which do not result from the ordinary course of business, (ii) investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service including (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of borrowing by the Authority in connection with the System, (iii) any amounts received by way of government grants, and (iv) revenues derived from the operation of Special Facilities; and (d) the following are added back to such net income: (i) losses on the sale or other disposition of investments or fixed or capital assets which do not result from the ordinary course of business, (ii) depreciation allowances, (iii) amounts paid as interest on Bonds, (iv) the amortization of financing expenses,
underwriting discounts, call premiums, gains or losses on the extinguishment of debt due to the refinancing of the same, and other related or incidental non-recurring expenses resulting from the issuance or refinancing of Bonds, and (v) expenses resulting directly from the operation of Special Facilities to the extent that the revenues derived therefrom have been pledged to secure, and used for, the payment of Special Facilities Bonds.

Debt Service Reserve Fund

The Bond Resolution provides that any series resolution under which Bonds are issued may (but shall not be required to) provide for the establishment of a Debt Service Reserve Fund for any series of Bonds Outstanding. Each such Debt Service Reserve Fund shall, subject to the other provisions of the Bond Resolution, be maintained in an amount equal to the applicable Reserve Requirement (as defined in APPENDIX B), as determined pursuant to the applicable series resolution so long as the applicable series of Bonds shall be Outstanding. Each such fund is intended to insure the timely payment of the principal of and interest on the applicable series of Bonds, and to provide for the redemption of such series of Bonds prior to their stated maturities.

As summarized in APPENDIX B hereto, in lieu of the deposit of moneys into a Debt Service Reserve Fund, the Authority may satisfy all or a portion of the applicable Reserve Requirement by causing to be so credited thereto a surety bond, line of credit, or insurance policy payable to the Trustee for the benefit of the Holders of the applicable series of Bonds, or a letter of credit in an amount which together with other moneys on deposit in such Debt Service Reserve Fund is equal to the applicable Reserve Requirement.

See APPENDIX B hereto under the caption “THE BOND RESOLUTION – Establishment of Funds” and “— Disposition of Revenues” for a discussion of investments of amounts on deposit from time to time in Debt Service Reserve Funds and the obligation of the Authority to replenish amounts on deposit in such Funds in the event a fund balance is less than the applicable Reserve Requirement.

The 2006 Series Resolution has established a Reserve Requirement for the Series 2006 Bonds (the “2006 Reserve Requirement”) in an amount equal to the least of (a) the sum of the greatest remaining Annual Principal and Interest Requirement for the then-current and each future Fiscal Year with respect to the Series 2006 Bonds, or (b) the sum of ten percent (10%) of the proceeds (excluding accrued interest) from the sale of the Series 2006 Bonds at the time of issuance thereof, or (c) the sum of one hundred twenty-five percent (125%) of the average Annual Principal and Interest Requirements for the then-current and each future Fiscal Year with respect to the Series 2006 Bonds Outstanding, or (d) the maximum amount permitted by the Code to be funded with proceeds of the Series 2006 Bonds and to be invested without restriction as to yield. The 2006 Reserve Requirement of $5,246,146.05 will be satisfied at the date of issuance of the Series 2006 Bonds through a municipal bond debt service reserve insurance policy in such amount (the “Reserve Policy”) issued by Financial Security Assurance Inc.(the “Bond Insurer”) being deposited to the Debt Service Reserve Fund created for the Series 2006 Bonds (the “2006 Debt Service Reserve Fund”).

Debt Service Reserve Fund Policy

The Bond Insurer has delivered a commitment to issue the Reserve Policy. The Reserve Policy will provide that, upon notice from the Trustee to the Bond Insurer to the effect that insufficient amounts are on deposit in the Debt Service Fund established for the Series 2006 Bonds (the “2006 Debt Service Fund”) to pay the scheduled principal of (at maturity or pursuant to mandatory sinking fund redemption requirements) and interest on the Series 2006 Bonds, the Bond Insurer will promptly pay to the Trustee in accordance with the Reserve Policy an amount sufficient to pay such scheduled principal of and interest
on the Series 2006 Bonds or the available amount of the Reserve Policy, whichever is less. On the date that is the later of: (a) the day on which such scheduled principal and interest on the Series 2006 Bonds is Due for Payment (as defined in the Reserve Policy) or (b) the Business Day (as defined in the Reserve Policy) next following the Business Day on which the Bond Insurer receives Notice of Nonpayment (as defined in the Reserve Policy), the Bond Insurer will make a deposit of funds in an account with the Bond Insurer’s fiscal agent, or its successors, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Notice of Nonpayment) subject to the limitations of the Reserve Policy. The Reserve Policy secures only the Series 2006 Bonds.

The available amount of the Reserve Policy is the initial face amount of the Reserve Policy less the amount of any previous payments made thereunder by the Bond Insurer with the Trustee that have not been reimbursed by the Authority. The Authority and the Bond Insurer will enter into an Insurance Agreement (the “Insurance Agreement”), pursuant to which the Authority will be required to reimburse the Bond Insurer, with interest within one year of any payment, the amount of any payment made by the Bond Insurer with the Trustee under the Reserve Policy.

The available amount of the Reserve Policy is the initial face amount of the Reserve Policy less the amount of any previous payments made thereunder by the Bond Insurer with the Trustee that have not been reimbursed by the Authority. The Authority and the Bond Insurer will enter into an Insurance Agreement (the “Insurance Agreement”), pursuant to which the Authority will be required to reimburse the Bond Insurer, with interest within one year of any payment, the amount of any payment made by the Bond Insurer with the Trustee under the Reserve Policy.

No optional redemption of Series 2006 Bonds may be made until the Reserve Policy is fully reinstated. The Reserve Policy will be held by the Trustee for the benefit of the 2006 Debt Service Reserve Fund and is provided as an alternative to the Authority’s depositing funds equal to the 2006 Reserve Requirement. The Reserve Policy will be issued in the face amount equal to the 2006 Reserve Requirement and the premium therefor will be fully paid by the Authority at the time of delivery of the Series 2006 Bonds.

Additional Bonds

The Bond Resolution provides for the issuance from time to time of additional bonds on a parity in all respects with the Series 2006 Bonds (“Additional Bonds”), as more specifically described under the caption “THE BOND RESOLUTION – Additional Bonds” in APPENDIX B hereto.

The Authority may issue a Series of Additional Bonds if Net Earnings (during the most recent Fiscal Year for which audited financial statements of the Authority are completed) are certified by the Chief Financial Officer, by the Accountants, or by the Feasibility Consultants to be not less than one hundred twenty percent (120%) of the maximum Annual Principal and Interest Requirements on all Bonds Outstanding, and on the proposed Series of Additional Bonds. For purposes of this calculation, Net Earnings may be adjusted to reflect (1) any rate increases then adopted and to be in effect prior to or coincident with the issuance of the proposed Series of Additional Bonds, determined as though the rate increase had been in continuous effect during such recent Fiscal Year; (2) if proceeds of the proposed Series of Additional Bonds will be used to acquire a utility, system, or enterprise that is in existence and operating and whose current customers have or will become customers of the System prior to or concurrently with the issuance of the proposed Series of Additional Bonds, determined as though the rate increase had been in continuous effect during such recent Fiscal Year; (2) if proceeds of the proposed Series of Additional Bonds will be used to acquire a utility, system, or enterprise that is in existence and operating and whose current customers have or will become customers of the System prior to or concurrently with the issuance of the proposed Series of Additional Bonds, determined as though the rate increase had been in continuous effect during such recent Fiscal Year; (3) if proceeds of the proposed Series of Additional Bonds will be used to construct or to acquire a newly constructed utility, system, enterprise, or component of the System that will serve an existing customer base or currently populated area, one hundred percent (100%) of the Net Earnings that the Accountants or the Feasibility Consultants estimate would have been received during such Fiscal Year if the utility, system, or enterprise had been a part of the System throughout such recent Fiscal Year; (3) if proceeds of the proposed Series of Additional Bonds will be used to construct or to acquire a newly constructed utility, system, enterprise, or component of the System that will serve an existing customer base or currently populated area, one hundred percent (100%) of the Net Earnings, estimated by the Accountants or by the Feasibility Consultants, that will be received by the Authority from the newly constructed utility, system, enterprise, or component during the first Fiscal Year beginning after the earlier of the date on which such project is placed in service or the third anniversary of the date of delivery of the proposed Series of Additional Bonds; (4) in the event proceeds of the proposed Series of Additional Bonds will be used to pay interest on the proposed Series of Additional Bonds, one
hundred percent (100%) of the interest that will accrue on the proposed Series of Additional Bonds during the first twelve (12) full months following the date of delivery of the proposed Series and that will be paid from such proceeds, provided that any such interest accruing in such twelve-month period that is to be paid on a date within the Fiscal Year of maximum Annual Principal and Interest Requirements shall not be so added into such Net Earnings; and (5) in the event proceeds of the proposed Series of Additional Bonds will be used to construct or to acquire an expansion to the System, one hundred percent (100%) of the estimated earnings to be received by the Authority in the first Fiscal Year following the completion of the project, as certified by the Accountants or by the Feasibility Consultants, from customers under long-term contracts that extend for the life of the proposed Series of Additional Bonds; or

In lieu of satisfying the requirements of the preceding paragraph, the Authority may issue a Series of Additional Bonds if (a) Net Earnings (during the most recent Fiscal Year for which audited financial statements of the Authority are completed) are certified by the Chief Financial Officer, by the Accountants, or by the Feasibility Consultants to be not less than one hundred twenty percent (120%) of the Annual Principal and Interest Requirements during such Fiscal Year on all Bonds Outstanding, and (b) for each of the five Fiscal Years following the later of the date of the delivery of the Additional Bonds of the proposed Series, or the end of the period (if any) for which interest is funded from the proceeds of the Additional Bonds, Net Earnings, as forecasted by Accountants or by the Feasibility Consultants, will be not less than one hundred twenty percent (120%) of the Annual Principal and Interest Requirements on all Bonds then proposed to be Outstanding in each of such five Fiscal Years. If the proposed Series of Additional Bonds is to be issued in an aggregate principal amount of $2,500,000 or less, the calculations required by clause (b) above may be made by the Chief Financial Officer. For purposes of the calculations described in this paragraph, Net Earnings may be adjusted to reflect (1) any rate increases currently adopted and to be in effect prior to or coincident with the issuance of such proposed Series of Additional Bonds, determined as though such rate increases had been in continuous effect during such recent Fiscal Year; and (2) in the event a utility, system, or enterprise has or will become customers of the System other than from the proceeds of the proposed Series of Additional Bonds and whose current customers have or will become customers of the System prior to or concurrently with the issuance of the proposed Series of Additional Bonds, one hundred percent (100%) of the Net Earnings estimated by the Accountants or by the Feasibility Consultants that would have been received by the Authority during such Fiscal Year if the utility, system, or enterprise had been a part of the System during such recent Fiscal Year.

For further explanation of the foregoing provisions, see “THE BOND RESOLUTION – Additional Bonds” in APPENDIX B hereto.

Junior Lien Bonds and Special Facilities Bonds

The Bond Resolution provides that the Authority may from time to time issue Junior Lien Bonds and Special Facilities Bonds on the terms and conditions set forth therein. See APPENDIX B under the caption “THE BOND RESOLUTION – Additional Bonds.”

Establishment and Flow of Funds

The Bond Resolution provides that the funds discussed below are to be established and maintained for so long as sums remain due and payable with respect to Bonds Outstanding (the brief descriptions of these funds below are for convenience of reference only, and more complete descriptions are contained in the Bond Resolution). Except for the Debt Service Funds and Debt Service Reserve Funds, which are held by the Trustee, the funds described below are maintained by the Authority.
General Revenue Fund. All Gross Revenues of the System (with certain exceptions set forth in the Bond Resolution, including amounts received under certain fidelity bonds and insurance policies) are to be deposited in the general revenue fund established under the Bond Resolution (the “General Revenue Fund”). Money in the General Revenue Fund is to be withdrawn to provide for required payments to the Operation and Maintenance Fund (hereinafter defined), to pay principal and interest on the Bonds as the same become due by making the required payment to the Debt Service Funds, to provide for any required payments to the Debt Service Reserve Funds (on a parity with the obligation to reimburse any provider of a letter of credit, line of credit, insurance policy, or surety bond in satisfaction of the applicable Reserve Requirement), and to provide the payments required to the Depreciation and Contingent Fund. Allocations from the General Revenue Fund are to be made on or before the fifth business day from the end of each month in the order of priority set forth above.

Operation and Maintenance Fund. The operation and maintenance fund established under the Bond Resolution (the “Operation and Maintenance Fund”) is intended to provide for the payment of Operation and Maintenance Expenses. Money in the amount budgeted for Operation and Maintenance Expenses for the ensuing month shall be withdrawn each month from the General Revenue Fund and deposited to the Operation and Maintenance Fund. Withdrawals from this Fund may be made by or on order of the Authority in accordance with the annual budget of the Authority.

Debt Service Funds. Provision is next made for the payment of principal of and interest on all Bonds Outstanding. The Bond Resolution provides that separate debt service funds (each, a “Debt Service Fund”) shall be established for each series of Bonds. Each Debt Service Fund is intended to provide for the ratable payment of the principal of, redemption premium, if any, and interest on its respective series of Bonds as the same shall become due. The Bond Resolution provides that there be deposited into each Debt Service Fund the monthly fraction of the aggregate amount of interest to become due on the respective series of Bonds on the next ensuing interest payment date and the monthly fraction of the aggregate amount of principal of the Bonds becoming due and payable during the next succeeding twelve (12) months.

Withdrawals from the Debt Service Funds shall be made only by the Trustee, which shall transmit to each Bondholder, at such times as may be appropriate, the sums required to pay the principal of and interest on the respective series of Bonds. Moneys in a particular Debt Service Fund will be available only to pay principal of and interest on the particular series of Bonds for which such Fund was established.

Moneys in the Debt Service Funds shall be invested and reinvested at the direction of the Authority in Authorized Investments maturing not later than the date on which such money is required to pay the principal and/or interest next maturing on the respective series of Bonds.

Debt Service Reserve Funds. A series resolution may (but is not required to) provide for the establishment of a debt service reserve fund (each, a “Debt Service Reserve Fund”) for any series of Bonds. Each Debt Service Reserve Fund so established shall be maintained in an amount equal to the respective Reserve Requirement, if any, for the applicable series of Bonds. Funds in a particular Debt Service Reserve Fund will be available to secure only the payment of the series of Bonds for which such Fund has been established. See “SECURITY FOR THE BONDS – Debt Service Reserve Fund” and APPENDIX B under the caption “THE BOND RESOLUTION – Establishment of Funds” and “– Disposition of Revenues.”

Depreciation and Contingent Fund. The purpose of the depreciation and contingent fund established under the Bond Resolution (the “Depreciation and Contingent Fund”) is to provide a reasonable reserve for depreciation of the System, for contingencies and for improvements, betterments, and extensions of the System. Money in this Fund shall be used solely (a) for the purpose of restoring depreciated or obsolete items of the System; (b) for improvements, betterments, and extensions to the System, other than...
MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series 2006 Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Series 2006 Bonds when due as set forth in the form of the Policy included as APPENDIX G to this Official Statement. The Policy is not covered by any insurance security of guaranty fund established under New York, California, Connecticut, or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly-owned subsidiary of Financial Security Assurance Holdings, Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A. through its bank subsidiaries, is primarily engaged in the business of public finance, banking and net asset management in France, Belgium, and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2006, Financial Security’s combined policyholders’ surplus and contingency reserves were approximately $2,581,107,000 and its total net unearned premium reserve was approximately $1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, Financial Security’s consolidated shareholder’s equity was approximately $3,058,987,000 and its total net unearned premium reserve was approximately $1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Series 2006 Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc., 31 West 52nd Street, New York, New York, 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series 2006 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2006 Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.
Certain Rights of the Bond Insurer

The Bond Resolution confers certain rights on any insurer insuring a Series of Bonds. Among other things, the Bond Resolution provides that each such insurer is deemed to be the exclusive Holder of all Bonds insured by that insurer, for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies, but only during such times as such insurer’s municipal bond insurance policy results in the applicable Series of Bonds being rated in the highest rating category of each rating agency then rating such Series of Bonds. See APPENDIX B under the caption “THE BOND RESOLUTION – Insurer Rights.” The 2006 Series Resolution confers additional rights on the Bond Insurer, including the right of subrogation to the rights of the Holders of the Series 2006 Bonds to the extent of payment pursuant to the Policy. In addition, the 2006 Series Resolution provides that any acceleration of the Series 2006 Bonds or any annulment thereof is subject to the prior written consent of the Bond Insurer. For a summary description of certain rights of the Bond Insurer with respect to the Series 2006 Bonds, see APPENDIX B under the caption “THE 2006 SERIES RESOLUTION – Certain 2006 Bond Insurer Rights under the 2006 Series Resolution.”

PLAN OF FINANCE

The Series 2006 Bonds are being issued to provide moneys to refund certain outstanding indebtedness of the Authority, to defray a portion of the cost of the 2006 Project, to purchase the Reserve Policy to satisfy the 2006 Reserve Requirement, to pay the premium for the Policy, and to pay certain costs and expenses of issuance of the Series 2006 Bonds.

Refunding

A portion of the proceeds of the Series 2006 Bonds will be used to advance refund a portion of the Authority’s outstanding Waterworks and Sewer System Improvement and Refunding Bonds (Second Lien). Series 2001, being those Series 2001 Bonds maturing March 1, 2016, March 1, 2021, and March 1, 2026 and now outstanding in the aggregate principal amount of $42,165,000 (the “Refunded Bonds”). A portion of the proceeds of the Series 2006 Bonds will be deposited into an escrow fund (the “Escrow Fund”) established pursuant to an Escrow Deposit Agreement among the Authority, U.S. Bank, National Association, in its capacity as paying agent for the Refunded Bonds and U.S. Bank, National Association, as escrow agent (the “Escrow Agent”), and will be used to acquire certain United States Treasury securities (the “Government Obligations”) and to establish an initial cash balance. The Government Obligations and cash on deposit in the Escrow Fund will be held in trust by the Escrow Agent until used to pay the principal of, and the interest on the Refunded Bonds accruing during the defeasance period, and to refund the Refunded Bonds by redemption and payment on March 1, 2012. Upon such deposit, the Refunded Bonds will be considered defeased for all purposes under the 2001 Series Resolution, and the Authority’s liability with respect thereto will be limited to the Government Obligations and cash deposited to the Escrow Fund. Grant Thornton LLP will verify the mathematical accuracy of certain computations with respect to the sufficiency for such purposes of the Government Obligations and cash on deposit in the Escrow Fund. See “MISCELLANEOUS — Verification of Mathematical Computations.”

The 2006 Project

The 2006 Project includes the construction of a $30.7 million expansion to the Cherry Point Wastewater Reclamation Facility (“Cherry Point”), $17 million of which will be financed by the issuance of the Series 2006 Bonds and $13.7 million of which will be paid from cash on hand. Cherry Point serves areas south of the Broad River, including the rapidly developing Cherry Point/Okatie area of Beaufort and Jasper Counties where the Sun City Hilton Head retirement community is located, as well as greater Bluffton and southern Beaufort and Jasper Counties. The current facility consists of a 3.2 million gallons
per day ("mgd") carousel-type activated sludge wastewater process, which treats flows conveyed from approximately 200 sewer lift stations and associated collection systems, and provides disposal of reclaim-quality effluent to nine golf courses and the Authority’s 500-acre Great Swamp Effluent Management System. Cherry Point was completed in November of 1995, expanded to 1.6 mgd in 2001 when the former Rose Hill Wastewater Treatment Plant was decommissioned, and expanded again to 3.2 mgd in 2004 when the Authority’s Bluffton Wastewater Treatment Plant was decommissioned. The 2006 Project will be the third expansion of Cherry Point and will increase plant capacity to 7.5 mgd. Construction for an interim expansion to 4.4 mgd is underway and construction of the final expansion to 7.5 mgd began in November 2006, and the 2006 Project will be completed by May 2008. A summary of the components of the 2006 Project, together with the costs thereof and the amount to be funded from proceeds of the Series 2006 Bonds and the Authority’s moneys follows:

<table>
<thead>
<tr>
<th><strong>Project Description</strong></th>
<th><strong>Cost</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering Design &amp; Construction Admin/Inspection</td>
<td>$2,375,000</td>
</tr>
<tr>
<td>Interim Expansion to 4.4 MGD</td>
<td>$2,600,000</td>
</tr>
</tbody>
</table>

**Components of Expansion to 7.5 MGD:**
- New Headworks and Flow Control Structure: $4,800,000
- One new 3.75 MGD bioreactor (Bioreactor #3): $8,700,000
- One new 110’ secondary clarifier (Clarifier #3): $3,900,000
- Two new 12-disc filter units: $1,800,000
- New Ultraviolet Disinfection unit and effluent pumping structure: $3,900,000
- New Recycled/Waste Activated Sludge Pump Station & miscellaneous structures: $2,625,000

**TOTAL PROJECT COST**: $30,700,000

*Cost includes an allocation of contractor overhead and profit, equipment allowances, general site and electrical costs.

**Capital Improvement Plan**

On April 27, 2006 the Authority approved its ten year capital improvement plan (the “Capital Improvement Plan”), of which the 2006 Project is a part, for the ensuing Fiscal Years. All construction projects involving expansions, extensions, upgrades, improvements, and replacements are planned for and budgeted through the Capital Improvement Plan. The Capital Improvement Plan is funded by the capital funds generated from capacity fee collections, transfers from Gross Revenues into the Contingency and Depreciation Fund, the issuance of debt, and the receipt of grants. As revenues are received, they are designated as Water Capital, Sewer Capital, or Contingency and Depreciation (C&D) funds. The C&D account is primarily utilized for renewal and replacement projects. The Capital Improvement Plan projects funding sources and designates uses by the type of project (i.e., water, sewer, or renewal and replacement). The Capital Improvement Plan is generally approved every three years, but is reviewed and updated annually to adjust for actual cash balances and to incorporate the full impact of the financial plan into the upcoming operating budget.

The Capital Improvement Plan process is used to evaluate both near term (3-year) and long term (10-year) infrastructure needs and funding options. Recommended projects are a result of master plan or other engineering studies, staff recommendation, and requests made by local governments. Projects are classified as either non-discretionary or discretionary. Non-discretionary projects must be completed to adapt to increases in flow demands, replace defective systems or equipment, eliminate possible unsafe conditions, or to meet contractual or regulatory requirements. Discretionary projects may be necessary to
better serve existing and future customers, to benefit the environment and public health, or to increase system reliability, safety, productivity, or efficiency. While non-discretionary projects are automatically included in the Capital Improvement Plan, discretionary projects are rated by the Authority’s management and included in the plan as funding allows, starting with the highest ranking priority projects. All recommendations are approved by the Capital Projects Committee, the Finance Committee for funding, and, in turn, the Board.

In November 2005, the Authority completed its first comprehensive Water and Wastewater Master Plan. The Master Plan represents the Authority’s best evaluation of the major water and sewer improvements that will be needed to support the projected growth in the current service area and their immediate surroundings through the year 2025. The Master Plan Executive Summary is included as Appendix I. The Master Plan is a key component to the Authority’s Capital Improvement Planning process and is also used to develop long term Operations and Maintenance strategies. The Master Plan identified $78,780,000 of water projects and $58,350,000 of sewer projects required to support the projected growth in demands through the year 2015. Many of these projects are incorporated in the Authority’s current 10-year Capital Improvement Plan (CIP). The near term (3-year) CIP lists 131 projects at an estimated cost of approximately $105,300,000 and the major projects included are: the Cherry Point Wastewater Plant Expansion (“The 2006 Project”) at a cost of $30,700,000; Administrative Building Expansion at a cost of $4,500,000; Argent West Off-site Utility Extensions at a cost of $5,000,000; Sewer Pump Station Replacements at a cost of $6,800,000; New Regional Sewer Pump Stations at a cost of $4,500,000; Point South Wastewater Plant Expansion at a cost of $3,000,000; and The Military Sewer Consolidation Project at a cost of $12,100,000. The long term (10-year) CIP has an additional 93 projects at an estimated cost of $152,900,000. The long term major projects are: Effluent Disposal Projects at a cost of $6,000,000; St. Helena Wastewater Plant Expansion at a cost of $5,000,000; Hardeeville Wastewater Plant Expansion at a cost of $20,000,000; Hardeeville to Pritchardville 36” Waterline Extension at a cost of $4,200,000; Sewer Gravity Line Rehabilitation at a cost of $8,000,000; and Purrysburg Water Treatment Plant Expansion at a cost of $16,500,000. The 10-year CIP is projected to be funded by cash (67%), borrowing (32%) and grants/aid-to construction (1%).

For a Summary of the Capital Improvement Plan and Sources of Funding, see Appendix D hereto.
### SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds to be derived from the issuance and sale of the Series 2006 Bonds:

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Amount of Series 2006 Bonds</td>
<td>$58,750,000.00</td>
</tr>
<tr>
<td>Net Original Issue Premium or Discount</td>
<td>2,882,979.45</td>
</tr>
<tr>
<td>2001 Debt Service Fund</td>
<td>526,645.31</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$62,159,624.76</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit to Construction Fund</td>
<td>$17,000,000.00</td>
</tr>
<tr>
<td>Deposit to Escrow Fund(^{(1)})</td>
<td>44,236,936.00</td>
</tr>
<tr>
<td>Issuance Expenses(^{(2)})</td>
<td>922,688.76</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$62,159,624.76</strong></td>
</tr>
</tbody>
</table>

\(^{(1)}\) See “PLAN OF FINANCE — Refunding” above.
\(^{(2)}\) Includes Underwriter’s discount, premiums for Policy and Reserve Policy, printing costs, professional fees, and other issuance expenses
DEBT STRUCTURE

Parity Obligations as of October 1, 2006

<table>
<thead>
<tr>
<th>Date of Issuance</th>
<th>Original Principal Amount</th>
<th>Outstanding Principal Amount</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 3, 1990</td>
<td>$2,414,566</td>
<td>$856,905</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>(assumed by Authority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 25, 2002)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993 Series (assumed</td>
<td>$5,197,143</td>
<td>$2,613,323</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>by Authority November</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1, 1999)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 21, 1994</td>
<td>$10,875,908</td>
<td>$6,102,816</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>March 21, 1996</td>
<td>$1,678,871</td>
<td>$1,034,544</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>February 23, 1998</td>
<td>$517,387</td>
<td>$360,539</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>June 12, 1998</td>
<td>$5,967,213</td>
<td>$4,391,486</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>November 1, 1999</td>
<td>$9,400,000</td>
<td>$7,424,000</td>
<td>Publicly Held</td>
</tr>
<tr>
<td>January 13, 2000</td>
<td>$9,444,000</td>
<td>$7,142,000</td>
<td>Publicly Held</td>
</tr>
<tr>
<td>January 28, 2000</td>
<td>$2,641,643</td>
<td>$2,003,703</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>April 28, 2000</td>
<td>$2,446,356</td>
<td>$1,958,956</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>November 17, 2000</td>
<td>$2,690,749</td>
<td>$2,173,532</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>December 14, 2000</td>
<td>$876,001</td>
<td>$712,762</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>(assumed by Authority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 25, 2002)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 4, 2001</td>
<td>$820,415</td>
<td>$717,232</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>December 5, 2001</td>
<td>$47,140,000</td>
<td>$45,515,000</td>
<td>Publicly Held</td>
</tr>
<tr>
<td>March 4, 2002</td>
<td>$4,636,945</td>
<td>$4,053,759</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>March 26, 2002</td>
<td>$4,186,243</td>
<td>$3,788,273</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>February 11, 2003</td>
<td>$4,101,506</td>
<td>$3,663,543</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>February 28, 2003</td>
<td>$1,177,139</td>
<td>$1,062,464</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>October 27, 2003</td>
<td>$4,637,938</td>
<td>$4,271,752</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>June 25, 2004</td>
<td>$25,519,942*</td>
<td>$22,762,735</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>June 24, 2005</td>
<td>$2,802,500*</td>
<td>$2,406,846</td>
<td>State Revolving Fund</td>
</tr>
<tr>
<td>TOTALS</td>
<td><strong>$149,172,465</strong></td>
<td><strong>$125,016,170</strong></td>
<td>As of 10/01/06</td>
</tr>
</tbody>
</table>

* Final Loan amount has not been determined.

Junior Lien Obligation

The sole junior lien obligation of the Authority is the now outstanding $1,496,879.84 of the original principal $1,766,660.33 original principal amount Junior Lien Revenue Bond, Series 2004 (the “2004 Junior Lien Bond”) of the Authority, dated as of December 29, 2004. The 2004 Junior Lien Bond is payable as a fully amortized principal and interest payment in the amount of $183,176.22 on July 1 in each year 2007 through 2016, inclusive. The 2004 Junior Lien Bond bears interest at the rate of 3.85% per annum.

Other than the Parity Obligations and the Junior Lien Obligation, there is currently outstanding no additional indebtedness of the Authority secured by the Gross Revenues of the System.
Debt Service Requirements of the Authority

The following table shows the debt service requirements for the designated Fiscal Years on the Parity Obligations and the debt service on the Series 2006 Bonds:

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30</th>
<th>Parity Obligations</th>
<th>Series 2006 Bonds</th>
<th>Total Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
<td>Total</td>
</tr>
<tr>
<td>2007 $8,598,161.36</td>
<td>$707,232.71</td>
<td>$707,232.71</td>
<td>$9,305,394.07</td>
</tr>
<tr>
<td>2008 7,969,102.44</td>
<td>525,000.00</td>
<td>3,262,675.00</td>
<td>11,231,777.44</td>
</tr>
<tr>
<td>2009 7,966,195.04</td>
<td>575,000.00</td>
<td>3,291,675.00</td>
<td>11,257,870.04</td>
</tr>
<tr>
<td>2010 7,970,200.97</td>
<td>605,000.00</td>
<td>3,298,675.00</td>
<td>11,268,875.97</td>
</tr>
<tr>
<td>2011 7,970,188.23</td>
<td>630,000.00</td>
<td>3,299,475.00</td>
<td>11,269,663.23</td>
</tr>
<tr>
<td>2012 7,934,535.87</td>
<td>690,000.00</td>
<td>3,334,275.00</td>
<td>11,268,810.87</td>
</tr>
<tr>
<td>2013 7,933,775.84</td>
<td>720,000.00</td>
<td>3,333,225.00</td>
<td>11,267,000.84</td>
</tr>
<tr>
<td>2014 7,842,356.84</td>
<td>840,000.00</td>
<td>3,424,425.00</td>
<td>11,266,781.84</td>
</tr>
<tr>
<td>2015 7,689,598.69</td>
<td>1,025,000.00</td>
<td>3,575,825.00</td>
<td>11,265,423.69</td>
</tr>
<tr>
<td>2016 7,027,367.14</td>
<td>2,170,000.00</td>
<td>4,679,825.00</td>
<td>11,707,192.14</td>
</tr>
<tr>
<td>2017 5,200,832.47</td>
<td>2,265,000.00</td>
<td>4,688,025.00</td>
<td>9,888,857.47</td>
</tr>
<tr>
<td>2018 5,139,060.27</td>
<td>2,445,000.00</td>
<td>4,759,775.00</td>
<td>9,898,835.27</td>
</tr>
<tr>
<td>2019 5,098,833.04</td>
<td>2,590,000.00</td>
<td>4,800,862.50</td>
<td>9,899,695.54</td>
</tr>
<tr>
<td>2020 4,771,843.36</td>
<td>3,045,000.00</td>
<td>5,126,362.50</td>
<td>9,898,205.86</td>
</tr>
<tr>
<td>2021 3,709,119.73</td>
<td>4,260,000.00</td>
<td>6,189,112.50</td>
<td>9,898,232.23</td>
</tr>
<tr>
<td>2022 3,365,388.65</td>
<td>4,820,000.00</td>
<td>6,536,112.50</td>
<td>9,901,501.15</td>
</tr>
<tr>
<td>2023 3,189,623.96</td>
<td>5,235,000.00</td>
<td>6,710,112.50</td>
<td>9,899,736.46</td>
</tr>
<tr>
<td>2024 2,483,997.10</td>
<td>6,205,000.00</td>
<td>7,418,362.50</td>
<td>9,902,359.60</td>
</tr>
<tr>
<td>2025 1,885,729.24</td>
<td>7,110,000.00</td>
<td>8,028,625.00</td>
<td>9,914,354.24</td>
</tr>
<tr>
<td>2026 1,747,547.91</td>
<td>550,000.00</td>
<td>1,133,400.00</td>
<td>2,880,947.91</td>
</tr>
<tr>
<td>2027 425,372.13</td>
<td>1,945,000.00</td>
<td>2,505,025.00</td>
<td>2,930,397.13</td>
</tr>
<tr>
<td>2028 -</td>
<td>2,455,000.00</td>
<td>2,927,500.00</td>
<td>2,927,500.00</td>
</tr>
<tr>
<td>2029 -</td>
<td>2,565,000.00</td>
<td>2,927,025.00</td>
<td>2,927,025.00</td>
</tr>
<tr>
<td>2030 -</td>
<td>2,680,000.00</td>
<td>2,926,600.00</td>
<td>2,926,600.00</td>
</tr>
<tr>
<td>2031 -</td>
<td>2,800,000.00</td>
<td>2,926,000.00</td>
<td>2,926,000.00</td>
</tr>
<tr>
<td>$115,918,830.28</td>
<td>$58,750,000.00</td>
<td>$43,060,207.71</td>
<td>$217,729,037.99</td>
</tr>
</tbody>
</table>

Note: Totals may not add due to rounding.
THE AUTHORITY

Creation and Powers

Creation; Function

The Authority was created pursuant to the provisions of Act No. 784 enacted during the 1954 Session of the General Assembly of the State of South Carolina (the “Act”) as a body politic and corporate. Section 1 of the Act provides that the function of the Authority is to acquire supplies of fresh water capable of being used for industrial and domestic purposes and to distribute such water for industrial and domestic use within its service area. In order to carry out such purpose, the Authority was empowered to construct such reservoirs, impounding dams or dikes, canals, conduits, aqueducts, tunnels, water distribution facilities and water mains and lines as the Authority deems necessary. During its 1969 Session, the General Assembly of the State of South Carolina enacted Act No. 598, which enlarged the functions and powers of the Authority to include the construction of facilities that provide for the collection, treatment, and disposal of sewage in densely populated areas of Beaufort County. The Authority has no taxing power for the purposes of defraying operational and maintenance costs, and its only source of revenue is the fees and charges derived from the operation of its System and facilities.

Service Area

As originally provided under the provisions of Section 3 of the Act, the service area of the Authority comprised all of Beaufort County, except for the areas located within the City of Beaufort and the Town of Port Royal, wherein the Authority was authorized to provide service only with the consent of the governing body of such municipalities. Having obtained the required consents, in 1999 and 2003 respectively, pursuant to Agreements of Consolidation and Transfer, the Authority acquired the waterworks and sewer system of the City of Beaufort (“Beaufort System”) and the Town of Port Royal (“Port Royal System”) and obtained exclusive franchises for furnishing water and wastewater collection, treatment and disposal services within those municipalities.

In order to provide an entity capable of providing water and sewer service in Jasper County, which is contiguous to Beaufort County, the General Assembly of the State of South Carolina created the Jasper County Water and Sewer Authority by the provisions of Act No. 598 of the year 1971. The original service area of the Jasper County Water and Sewer Authority included all of Jasper County, except areas served by municipally owned waterworks and sewer systems (including the Town of Ridgeland and the City of Hardeeville).

In 1983, the Authority and the Jasper County Water and Sewer Authority were consolidated with the resulting entity being called the Beaufort-Jasper Water and Sewer Authority. Pursuant to an Agreement of Consolidation and Transfer, in 2002, the Authority acquired the waterworks and sewer system of the City of Hardeeville (“Hardeeville System”) and obtained an exclusive franchise for furnishing water and non-exclusive franchise for providing wastewater collection, treatment and disposal services within the City. See APPENDIX H - MAP OF THE AUTHORITY’S SERVICE AREA.

The General Assembly has at various times created additional special purpose districts authorized to provide, and that now provide, water and/or sewer service to residents and businesses located within Beaufort County, which public service districts occupy portions of the stated service area of the Authority. By general statutory authority, the Beaufort County Council has in certain instances expanded the area of those other special purpose districts and, in so doing, has explicitly diminished the service area
of the Authority. All such other special purpose districts are located on the Beaufort County sea islands, in particular Hilton Head Island and Fripp Island. The Authority is empowered to enter contracts with such other special purpose districts for the purpose of providing wholesale water or sewer treatment services and has entered into several contracts with other such special purpose districts. See “THE SYSTEM – Wholesale Water Customers, Rates, Fees and Charges” herein.

Membership

The Act provides that the Authority is governed by a board (the “Board”) that consists of nine members who are appointed by the Governor of South Carolina upon recommendation of the legislative delegations for Beaufort County and Jasper County. Recommendations of the legislative delegations are determined in the following manner: (1) seven of the members are resident electors of Beaufort County— (a) three members are recommended by the governing body of Beaufort County, (b) one member is recommended by each of the governing bodies of the City of Beaufort, the Town of Port Royal, and the Town of Bluffton, and (c) one member is selected by a majority of the members of the legislative delegation for Beaufort County; and (2) two members are residents of Jasper County—one member is recommended by each of the governing bodies of the City of Hardeeville and the Town of Ridgeland.

The following table sets forth the members of the Board, their principal occupations, the governmental bodies that recommended them, and the expiration of their terms of office:

<table>
<thead>
<tr>
<th>MEMBER</th>
<th>PRINCIPAL OCCUPATION</th>
<th>APPOINTED BY</th>
<th>TERM EXPIRES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mark C. Snyder</td>
<td>Real Estate Business Owner</td>
<td>City of Hardeeville</td>
<td>July 1, 2011</td>
</tr>
<tr>
<td>Michael L. Bell</td>
<td>Public School Manager</td>
<td>Town of Bluffton</td>
<td>July 1, 2010</td>
</tr>
<tr>
<td>David M. Taub, Ph.D.</td>
<td>Private Consultant, Biological Research</td>
<td>City of Beaufort</td>
<td>July 1, 2012</td>
</tr>
<tr>
<td>James A. Carlen, III</td>
<td>Retired College Athletic Director and Business Executive</td>
<td>Beaufort County</td>
<td>July 1, 2010</td>
</tr>
<tr>
<td>Brandy M. Gray</td>
<td>Operations Manager</td>
<td>Town of Port Royal</td>
<td>July 1, 2009</td>
</tr>
<tr>
<td>James P. O’Neal*</td>
<td>Brigadier General, U.S. Army (Retired)</td>
<td>Beaufort County</td>
<td>July 1, 2006</td>
</tr>
<tr>
<td>Vacant</td>
<td></td>
<td>Beaufort County</td>
<td></td>
</tr>
<tr>
<td>John D. Rogers*</td>
<td>Private School Headmaster</td>
<td>Town of Ridgeland</td>
<td>July 1, 1998</td>
</tr>
<tr>
<td>Charlie H. White</td>
<td>Public School Principal (Retired)</td>
<td>Beaufort County Legislative Delegation</td>
<td>July 1, 2008</td>
</tr>
</tbody>
</table>

* Successors have not been named. Pursuant to the terms of the Act, a Board member may remain in office until his successor has been appointed.

The General Manager of the Authority is William Dean Moss, Jr. who, for the two years prior to joining the Authority in 1986, was a private consultant in the area of land use, planning, and environmental management. Prior to working as a consultant, Mr. Moss was employed as Chief of Planning/Deputy Director of the Phoenix Active Management Area for the Arizona Department of Water Resources. Mr. Moss has a Masters of Regional Planning from the University of North Carolina at Chapel Hill and a Bachelor of Arts from the University of Denver.

The Deputy General Manager of Finance and Administration is Terry R. Murray. Ms. Murray has a Masters of Public Administration and a Bachelor of Arts from Arizona State University. Prior to joining the Authority in 1992, Ms. Murray was a business and management consultant with the University
of South Carolina. Prior to her consulting work, Ms. Murray was Planning Director for the State of Arizona.

The Deputy General Manager of Operations is Edward R. Saxon, a professional engineer licensed to practice in South Carolina (PE#9136). Prior to joining the Authority in 1989, Mr. Saxon was employed by E. I. DuPont de Nemours and its subsidiary, Conoco Inc., and held various engineering positions. Mr. Saxon attended the University of South Carolina and obtained both Bachelor of Science and Masters of Engineering degrees in Mechanical Engineering.

**Historical Summary of Revenues, Expenses, Debt Service Coverage and Selected Balance Sheet Data**

The following table summarizes the Net Earnings and debt coverage of the System, as derived from the Authority’s audited financial statements for the indicated periods. The succeeding tables summarize selected balance sheet data of the Authority as derived from the Authority’s audited financial statements for the indicated periods.

[[table appears on following page]]
## Net Earnings and Debt Coverage

**Fiscal Year Ended June 30**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Water</td>
<td>8,963,445</td>
<td>9,708,300</td>
<td>12,991,369</td>
<td>13,574,916</td>
<td>16,372,404</td>
</tr>
<tr>
<td>Retail Sewer</td>
<td>5,410,832</td>
<td>6,347,515</td>
<td>7,907,729</td>
<td>9,014,473</td>
<td>10,887,631</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>2,176,478</td>
<td>2,473,021</td>
<td>2,580,845</td>
<td>3,001,615</td>
<td>4,037,797</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td>20,686,217</td>
<td>22,153,295</td>
<td>26,587,072</td>
<td>28,728,507</td>
<td>35,151,589</td>
</tr>
<tr>
<td><strong>Operating Expense</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of Supply</td>
<td>340,719</td>
<td>504,642</td>
<td>475,373</td>
<td>467,529</td>
<td>470,263</td>
</tr>
<tr>
<td>Water Treatment</td>
<td>1,776,727</td>
<td>1,874,625</td>
<td>2,132,490</td>
<td>2,957,024</td>
<td>3,251,150</td>
</tr>
<tr>
<td>Transmission and Distribution</td>
<td>2,331,875</td>
<td>2,072,613</td>
<td>2,233,613</td>
<td>2,695,529</td>
<td>2,957,852</td>
</tr>
<tr>
<td>Laboratory and Testing</td>
<td>113,042</td>
<td>120,880</td>
<td>178,453</td>
<td>214,720</td>
<td>250,682</td>
</tr>
<tr>
<td>Franchise Fee</td>
<td>378,062</td>
<td>394,240</td>
<td>418,874</td>
<td>434,838</td>
<td>519,081</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,748,074</td>
<td>4,446,057</td>
<td>4,813,392</td>
<td>5,750,180</td>
<td>6,367,653</td>
</tr>
<tr>
<td>General and Administrative</td>
<td>2,492,471</td>
<td>2,581,815</td>
<td>2,736,892</td>
<td>2,872,791</td>
<td>3,282,304</td>
</tr>
<tr>
<td>Wastewater</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collection and Transmission</td>
<td>1,306,870</td>
<td>1,559,206</td>
<td>1,635,080</td>
<td>1,794,163</td>
<td>2,083,516</td>
</tr>
<tr>
<td>Wastewater Treatment</td>
<td>1,148,511</td>
<td>1,441,531</td>
<td>1,826,302</td>
<td>1,986,896</td>
<td>2,152,968</td>
</tr>
<tr>
<td>Wastewater Disposal</td>
<td>107,961</td>
<td>115,853</td>
<td>95,511</td>
<td>85,915</td>
<td>105,712</td>
</tr>
<tr>
<td>Sludge Management</td>
<td>89,126</td>
<td>153,933</td>
<td>207,990</td>
<td>298,492</td>
<td>292,966</td>
</tr>
<tr>
<td>Laboratory and Testing</td>
<td>122,260</td>
<td>163,592</td>
<td>209,399</td>
<td>230,253</td>
<td>255,165</td>
</tr>
<tr>
<td>Franchise Fee</td>
<td>173,199</td>
<td>193,302</td>
<td>247,951</td>
<td>260,513</td>
<td>325,468</td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,353,219</td>
<td>5,466,060</td>
<td>6,349,990</td>
<td>7,606,544</td>
<td>8,292,789</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>1,008,535</td>
<td>1,021,075</td>
<td>1,448,586</td>
<td>1,540,900</td>
<td>1,776,363</td>
</tr>
<tr>
<td></td>
<td>19,490,651</td>
<td>22,109,924</td>
<td>25,009,896</td>
<td>29,196,287</td>
<td>32,383,932</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>1,195,566</td>
<td>43,371</td>
<td>1,577,176</td>
<td>(467,780)</td>
<td>2,767,657</td>
</tr>
<tr>
<td>Add Non Operating Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Income</td>
<td>416,585</td>
<td>324,461</td>
<td>255,562</td>
<td>680,500</td>
<td>1,457,482</td>
</tr>
<tr>
<td>Contributed Capital – cash</td>
<td>7,786,679</td>
<td>7,921,826</td>
<td>7,840,116</td>
<td>10,786,524</td>
<td>13,105,543</td>
</tr>
<tr>
<td>Add Depreciation</td>
<td>8,101,293</td>
<td>9,912,117</td>
<td>11,163,382</td>
<td>13,356,724</td>
<td>14,660,442</td>
</tr>
<tr>
<td><strong>Net Income Available for Debt Service</strong></td>
<td>$17,500,123</td>
<td>$18,201,775</td>
<td>$20,836,236</td>
<td>$24,355,968</td>
<td>$31,991,124</td>
</tr>
<tr>
<td><strong>Annual Debt Service</strong>*</td>
<td>$5,462,898</td>
<td>$7,524,602</td>
<td>$8,639,960</td>
<td>$9,698,641</td>
<td>$9,246,655</td>
</tr>
<tr>
<td><strong>Principal and Interest Coverage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Contributed Capital Fees</td>
<td>3.20</td>
<td>2.42</td>
<td>2.41</td>
<td>2.51</td>
<td>3.46</td>
</tr>
<tr>
<td>Without Contributed Capital Fees</td>
<td>1.78</td>
<td>1.37</td>
<td>1.50</td>
<td>1.40</td>
<td>2.04</td>
</tr>
<tr>
<td><strong>Required Coverage Per Bond Resolution</strong></td>
<td>1.10</td>
<td>1.10</td>
<td>1.10</td>
<td>1.10</td>
<td>1.10</td>
</tr>
</tbody>
</table>

* These figures represent the actual debt service paid by the Authority with respect to all debt.

** The Bond Resolution of the Authority requires 1.10 coverage (with contribution capital fees) on parity bonds only.
### Condensed Balance Sheets

#### Fiscal Year Ended June 30

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Producing Assets</td>
<td>$144,983,194</td>
<td>$159,137,167</td>
<td>$181,849,312</td>
<td>$237,130,856</td>
<td>$240,945,315</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>24,300,314</td>
<td>50,600,047</td>
<td>59,784,443</td>
<td>27,253,947</td>
<td>48,480,417</td>
</tr>
<tr>
<td>Current Assets (including designated &amp; restricted)</td>
<td>56,846,200</td>
<td>42,085,029</td>
<td>35,435,461</td>
<td>38,710,066</td>
<td>49,851,337</td>
</tr>
<tr>
<td>Other Noncurrent Assets</td>
<td>2,185,257</td>
<td>2,140,395</td>
<td>2,412,724</td>
<td>2,313,401</td>
<td>2,164,599</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$228,314,965</td>
<td>$253,962,638</td>
<td>$279,481,940</td>
<td>$305,408,270</td>
<td>$341,441,668</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td>$ 8,490,994</td>
<td>$ 10,703,384</td>
<td>$ 9,611,010</td>
<td>$11,213,601</td>
<td>$10,752,566</td>
</tr>
<tr>
<td>Long Term Liabilities</td>
<td>92,638,308</td>
<td>99,449,830</td>
<td>109,009,503</td>
<td>116,006,917</td>
<td>125,726,761</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$101,129,302</td>
<td>$110,153,214</td>
<td>$118,620,513</td>
<td>$127,220,518</td>
<td>$136,479,327</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in Capital Assets, Net of Related Liabilities</td>
<td>$109,069,905</td>
<td>$122,562,214</td>
<td>$137,330,237</td>
<td>$147,289,803</td>
<td>$161,344,729</td>
</tr>
<tr>
<td>Restricted for Capital Activity and Debt Service</td>
<td>2,729,892</td>
<td>3,166,852</td>
<td>1,757,826</td>
<td>1,177,595</td>
<td>1,910,358</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>15,385,866</td>
<td>18,080,358</td>
<td>21,773,364</td>
<td>29,720,354</td>
<td>41,707,254</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>$127,185,663</td>
<td>$143,809,424</td>
<td>$160,861,427</td>
<td>$178,187,752</td>
<td>$204,962,341</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td>$228,314,965</td>
<td>$253,962,638</td>
<td>$279,481,940</td>
<td>$305,408,270</td>
<td>$341,441,668</td>
</tr>
</tbody>
</table>

#### Summary of Fixed Assets

#### Fiscal Year Ended June 30

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, Plant &amp; Equipment in service</td>
<td>$181,482,010</td>
<td>$205,443,624</td>
<td>$239,214,852</td>
<td>$307,053,588</td>
<td>$324,183,811</td>
</tr>
<tr>
<td><strong>Net Property, Plant &amp; Equipment in service</strong></td>
<td>144,983,194</td>
<td>159,137,167</td>
<td>181,849,312</td>
<td>237,130,856</td>
<td>240,945,315</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>24,300,314</td>
<td>50,600,047</td>
<td>59,784,443</td>
<td>27,253,947</td>
<td>48,480,417</td>
</tr>
</tbody>
</table>
Management’s Discussion and Analysis

Beaufort and Jasper Counties had the highest population growth in the State of South Carolina during the decade of the 1990s with growth rates of forty percent (40%) and thirty-four percent (34%), respectively. This trend has continued, fueled by large residential developments primarily in southern Beaufort County. Over the five years ending with calendar year 2005, Beaufort County and Jasper County’s population increased by fourteen percent (14%) and three-and-a-half percent (3.5%), respectively, adding 17,600 people to the Authority’s service area. Beaufort County was one of one-hundred counties nationwide with the largest percentage increases in housing units between the years 2000 and 2005. Sun City Hilton Head, a large retirement and recreation development, has built 5,500 housing units alone in southern Beaufort County. Similar developments have been approved and are in the process of being constructed in Jasper County.

Since Fiscal Year 2002, retail water and sewer revenues have increased approximately eighty-two percent (82%) and one-hundred-one percent (101%), respectively. This growth is attributable to the population increase within the Authority’s service area, rate increases, and the acquisition of two municipal utility systems; one owned by the City of Hardeeville and the other by the Town of Port Royal.

The Authority’s acquisition program began in November 1999, when the Authority acquired the water and wastewater utility systems of the City of Beaufort (the “Beaufort System”) for a net purchase price of approximately $783,000 and the obligation to pay a franchise fee of $515,000 per year. The capital assets acquired included the Southside Wastewater Treatment Plant, water and wastewater transmission, distribution and disposal lines, various pump stations, metering and monitoring equipment, vehicles, and other support assets, with a net book value of approximately $8.3 million. The Authority also assumed the outstanding debt for these assets, which resulted in the net purchase price. Prior to the acquisition, the City of Beaufort was one of the Authority’s single largest wholesale customers, purchasing approximately thirty-three percent (33%) of the water production and providing approximately twenty-eight percent (28%) of the water service revenue during its last five Fiscal Years as a wholesale customer. The Authority charged the City of Beaufort an average wholesale rate of $1.55 per thousand gallons. Beginning in early November 1999, service to the City of Beaufort’s approximate 10,000 water and 5,750 wastewater customers became the responsibility of the Authority. In Fiscal Year 2006, the Authority realized an average retail water rate of $4.03 per thousand gallons from this area.

In February 2002, the Authority acquired the water and wastewater utility systems of the City of Hardeeville (the “Hardeeville System”) for a net purchase price of $2.578 million. The capital assets acquired included the Hardeeville Wastewater Treatment Plant, water and wastewater transmission, distribution and disposal lines, various pump stations, metering and monitoring equipment and other support assets, with a net book value of approximately $4.8 million. In addition, the Authority acquired approximately $700,000 in debt service fund assets, as well as assumed debt of $2.9 million, resulting in the net purchase price of approximately $2.6 million. Unlike the City of Beaufort, the City of Hardeeville was not previously a wholesale water customer of the Authority. The City of Hardeeville’s approximate 900 water and 750 wastewater customers were additions to the Authority’s retail customer base and represented new system demands. In Fiscal Year 2006, the Authority realized an average retail water rate of $3.75 per thousand gallons from these customers.

In July 2003, the Authority acquired the water and wastewater utility systems of the Town of Port Royal (the “Port Royal System”) for a net purchase price of $3,935,700. The capital assets acquired included water and wastewater transmission, distribution and disposal lines, various pump stations, metering and monitoring equipment and other support assets with a net book value of approximately $4.4 million. As was the case with the City of Beaufort, the Town of Port Royal was a wholesale water customer of the
Authority, purchasing approximately five percent (5%) of the total water production during its last five Fiscal Years as a wholesale customer. Prior to the acquisition, the Authority charged the Town of Port Royal an average wholesale water rate of $1.84 per thousand gallons. Beginning in Fiscal Year 2004, the Town of Port Royal’s 3,500 water and 950 wastewater customers became the responsibility of the Authority. In Fiscal Year 2006, the Authority realized an average retail water rate of $4.01 per thousand gallons from these customers.

The largest wholesale water customers of the Authority include the United States Department of the Navy (the “Navy”), Broad Creek Public Service District (“Broad Creek PSD”), Hilton Head No. 1 Public Service District (“Hilton Head No. 1 PSD”), Fripp Island Public Service District (“Fripp Island PSD”), Harbor Island Utilities, Inc. (“Harbor Island”), Warsaw, Eustis & Oak Water Company, Inc. (“Water Eustis & Oak”), Callawassie Development Corporation (“Callawassie Island”), and Water Oak Utilities, Inc. (“Water Oak Utility/Moss Creek.” The Authority also provides wholesale water services to the Levy-Limehouse-Bellinger Hill Water Company pursuant to an informal agreement. Wholesale water sales have decreased approximately seven percent (7%) over the previous five-year period primarily because of the acquisition of the Port Royal System and the conversion of those customers from wholesale to retail accounts. However, usage has also varied among the Authority’s other wholesale customers and no additional wholesale customers were acquired during this period.

Hilton Head No. 1 PSD and Broad Creek PSD (collectively known as the “Island Districts”) are special purpose districts that provide water services on Hilton Head Island. Due to heavy reliance on, and the discovery of salt-water intrusion in, a floridan aquifer that served as a source of water for the Island Districts, the South Carolina Department of Health and Environmental Control (the “SCDHEC”) mandated that the Island Districts limit withdrawals from the floridan aquifer beginning in July of 1999. Contracts for the provision of water, therefore, were entered into between the Authority and the Island Districts in December of 1995, with the Authority agreeing to construct necessary expansions and upgrades to the System in order to provide potable water to the Island Districts. The Island Districts represented approximately fifty-five percent (55%) and fifty-two percent (52%) of wholesale water purchases for Fiscal Years 2005 and 2006, respectively. See “THE SYSTEM - Wholesale Water Customers, Rates, Fees and Charges” ON PAGE 42 FOR A DISCUSSION OF THE ISLAND DISTRICTS’ PLANS TO CONSTRUCT A WATER WELL AND REVERSE OSMOSIS PLANT THAT WILL REDUCE THE ISLAND DISTRICTS’ WATER PURCHASES FROM THE AUTHORITY.

Wastewater revenues increased one-hundred-one percent (101%) over the past five years. While the acquisition of the Hardeeville System in 2002 and the Port Royal System in 2003 contributed to the growth in wastewater revenues, the increase is due primarily to new residential development in the Authority’s service area. Of approximately 10,600 new wastewater customers added to the System over the past five years, only 1,700 were the result of the acquisitions. Wastewater rates were increased approximately twenty-seven percent (27%) over the five-year period for the average residential customer using 7,000 gallons per month. These rate increases were adopted to support the Authority’s 2002 capital improvement program and to recover the operating cost of providing wastewater services.

While operating revenues increased approximately seventy percent (70%) over the five-year period, operating expenses only increased sixty-six percent (66%), which resulted in an operating income increase of more than one hundred thirty percent (130%). Operating revenues included a nineteen percent (19%) overall rate increase for the average retail customer, which was slightly less than the originally forecasted increase of twenty percent (20%) to cover the 2002 capital improvement program. Of the operating expense increase, approximately fifty-three percent (53%) and eighty-four percent (84%) were related to water and wastewater, respectively. The water increase was due directly to cost increases, customer growth, system acquisitions, and the operation of the Purrysburg Water Treatment Plant, which began in the later part of
Fiscal Year 2003. The increase for wastewater was due directly to cost increases, customer growth, acquisition of the Hardeeville Wastewater Treatment Plant, major pump station contributions, and depreciation.

The Authority acquired major assets through acquisition of other systems, a large capital improvement program begun in 2002, and developer contributions of systems. The Authority’s aggressive depreciation strategy of these assets increased depreciation expense approximately seventy percent (70%) for water and ninety percent (90%) for wastewater. The increase in wastewater depreciation, wastewater collection and distribution, wastewater treatment, and other wastewater expenses is a direct result of acquiring the Hardeeville Wastewater Treatment Plant in 2002, the expansion of the Cherry Point Wastewater Treatment Plant in 2004, and significant developer contributions and system upgrades directly related to customer growth.

An annual franchise fee of $515,000, payable in monthly installments, was included in the Agreement of Consolidation and Transfer with the City of Beaufort. The franchise fee is increased based on retail rate increases enacted by the Authority. The Agreement of Consolidation and Transfer with the City of Hardeeville and the Town of Port Royal requires the Authority to pay an annual franchise fee of five percent (5%) of gross sales within the corporate limits of the respective municipalities. In addition, the Authority pays an annual franchise fee to the Town of Bluffton of five percent (5%) of gross sales within its corporate limits. During the Fiscal Years ended June 30, 2005 and June 30, 2006, franchise fees were paid to these four municipalities in the amounts of $695,351 and $844,549, respectively. These amounts were allocated to water and sewer based upon allocation factors used in the respective periods. Franchise fee payments have increased fifty-three percent (53%) over the past five years due to the City of Hardeeville and Town of Port Royal acquisitions, as well as customer growth in some of these areas.

Total assets have increased approximately fifty percent (50%), or $113,126,703, over the five-year period. Of this increase, thirty-one percent (31%), or $35,350,025, was attributable to an increase in liabilities and sixty-nine percent (69%), or $77,776,678, to an increase in net assets directly resulting from capital contributions and retained earnings (unrestricted net assets).

The Authority collects water and wastewater capacity fees to ensure that current customers do not bear the entire burden of growth. New customers pay on a residential equivalent unit basis the cost of the water and/or wastewater capacity represented by the new account. Most of these fees are paid in blocks of capacity purchased by residential and commercial real estate developers and wholesale customers. Because the Authority restricts the use of capacity fee revenue to capital investment in the System, these contributions do not impact operating income. Capacity fee revenues increased by twenty-one and one half percent (21.5%) to $13.1 million in Fiscal Year 2006, as compared to $10.8 million in Fiscal Year 2005. Over the past five years, capacity fee revenues have increased approximately sixty-eight percent (68%).

As discussed more fully under the heading “SECURITY FOR THE BONDS – Rate Covenant” above and in APPENDIX B hereto, the Authority has covenanted and agreed in the Bond Resolution that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Authority, together with other income, that will yield annual Net Earnings in the Fiscal Year equal to at least 1.10 times the sum of the annual debt service payments on the Bonds. The Authority has a stricter internal policy of maintaining water and sewer rates at levels sufficient to produce net operating earnings at least equal to a target goal of 1.25 times debt service coverage without the addition of the capital contribution fees. Over the five-year period, debt service coverage has not fallen below 2.4 times and has exceeded 3.0 times in two of those years, recognizing a strong fiscal performance with an ability to meet obligations on the part of the Authority. Management expects to complete several acquisitions during
the next few years as governments and citizens become aware of the cost savings, enhanced environmental management and other benefits of utility consolidation. See “THE SYSTEM - Service Area Expansions” ON PAGE 33 FOR A DISCUSSION OF A PROPOSED CONTRACT BETWEEN THE AUTHORITY AND THE U.S. NAVY PURSUANT TO WHICH THE AUTHORITY WOULD ACQUIRE TITLE TO THE ON-BASE WATERWORKS AND SEWER SYSTEMS OF FOUR MILITARY INSTALLATIONS WITHIN THE AUTHORITY’S SERVICE AREA.
The following table sets forth the forecast financial performance for the Authority for each of the Fiscal Years 2007 to 2011.

### Beaufort-Jasper Water & Sewer Authority

**Forecast Financial Performance**

**FY 2007 - FY 2011**

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<tbody>
<tr>
<td><strong>Revenue Available for Debt Service</strong>&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Income&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>$36,268,292</td>
<td>$39,143,629</td>
<td>$42,889,191</td>
<td>$45,540,753</td>
<td>$48,088,179</td>
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<tr>
<td>Less Operating Expense&lt;sup&gt;(3)&lt;/sup&gt;</td>
<td>(19,951,656)</td>
<td>(22,193,738)</td>
<td>(24,656,289)</td>
<td>(27,297,240)</td>
<td>(30,079,364)</td>
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<tr>
<td>Net Income Available For Debt Service</td>
<td>16,316,636</td>
<td>16,949,891</td>
<td>18,232,902</td>
<td>18,243,513</td>
<td>18,008,815</td>
<td></td>
</tr>
<tr>
<td>Capital Contribution Fee Revenues&lt;sup&gt;(4)&lt;/sup&gt;</td>
<td>17,370,520</td>
<td>16,299,159</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td></td>
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<tr>
<td><strong>Total Available For Debt Service</strong></td>
<td>$33,687,156</td>
<td>$33,249,050</td>
<td>$28,232,902</td>
<td>$28,243,513</td>
<td>$28,008,815</td>
<td></td>
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**Debt Service**

**Parity Bonds**

- Existing Debt Obligations<sup>(5)</sup> | 8,598,161 | 7,969,102 | 7,966,195 | 7,970,201 | 7,970,186 | 7,970,188 |
- Planned Additional Bonds<sup>(6)</sup> | - | - | - | - | 140,722 | 140,722 |
- **Parity Debt Service** | 9,305,394 | 11,231,777 | 11,257,870 | 11,409,598 | 11,410,385 |

- **Junior Lien Bond** | 183,176 | 183,176 | 183,176 | 183,176 | 183,176 |

- **Other Debt Instruments**<sup>(7)</sup> | 674,622 | 583,934 | 554,313 | 547,085 | 547,085 |

- **Non-Parity Debt Service** | 857,798 | 767,110 | 737,489 | 730,261 | 730,261 |

- **All Debt Service** | $10,163,192 | $11,998,887 | $11,995,359 | $12,139,859 | $12,140,646 |

**Debt Service Coverage**

On Parity Debt

- With Capital Contribution Fees | 3.62 | 2.96 | 2.51 | 2.48 | 2.45 |
- Without Capital Contribution Fees | 1.75 | 1.51 | 1.62 | 1.60 | 1.58 |

On All Debt

- With Capital Contribution Fees | 3.31 | 2.77 | 2.35 | 2.33 | 2.31 |
- Without Capital Contribution Fees | 1.61 | 1.41 | 1.52 | 1.50 | 1.48 |

<sup>(1)</sup> These forecasts do not include the impact of the Proposed Navy Contract which is discussed below.

<sup>(2)</sup> Net Income forecasts are based on the assumption of growth of 3,700 new customers per year, plus the following rate increases:

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</tr>
</thead>
<tbody>
<tr>
<td>Wholesale Water</td>
<td>15%</td>
<td>15%</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Water</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale Sewer</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Sewer</td>
<td>7%</td>
<td>4%</td>
<td></td>
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</tbody>
</table>

<sup>(3)</sup> Expenses are forecast based on the Authority’s FY 2007 Budget escalating at about 9% per year due to known and expected changes in operations, growth, and inflation.

<sup>(4)</sup> Capital Contribution Fee Revenue forecasts for FY 2007 and 2008 are based on real estate development projects identified and known by Authority staff; forecasts for FY 2009 and beyond are based on historical averages.

<sup>(5)</sup> Only includes that portion of the debt service on the Series 2001 Bonds that was not refunded.

<sup>(6)</sup> Includes planned SRF loans.

<sup>(7)</sup> Includes eight unsecured loans payable to GMAC, Palmetto State Bank, the Town of Port Royal, and the Beaufort County School District.
THE FINANCIAL FORECAST IS BASED SOLELY UPON ASSUMPTIONS MADE BY THE AUTHORITY, INCLUDING, WITHOUT LIMITATION, ASSUMPTIONS AS TO RATES FOR WATER AND SEWER SERVICE, STABILITY AND GROWTH OF THE CUSTOMER BASE, AND OPERATING EXPENSES. THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH SUCH ASSUMPTIONS, OR THAT THE FORECASTED RESULTS WITH BE ACHIEVED. THE ACHIEVEMENT OF THE FINANCIAL FORECAST WILL BE AFFECTED BY ECONOMIC CONDITIONS AND OTHER UNCONTROLLABLE FACTS AND IS DEPENDENT UPON THE OCCURRENCE OF FUTURE EVENTS WHICH CANNOT BE ASSURED. THUS, THE ACTUAL RESULTS ACHIEVED MAY VARY FROM THOSE FORECAST, AND SUCH VARIATIONS COULD HAVE AN ADVERSE EFFECT UPON THE AUTHORITY’S NET INCOME AVAILABLE FOR DEBT SERVICE.

Employees, Employee Relations and Pension Plan

As of June 30, 2006, the Authority had 139 employees and 143 authorized positions. The employees are not unionized and there is currently no movement to unionize known to the Authority. The General Manager states that, in his opinion, employee relations are very good.

The Authority is a member of the South Carolina Retirement System (the “Retirement System”). The contributory retirement plan provided through the Retirement System requires employees of the Authority to each pay 6.25 percent, as of June 30, 2006, of gross wages into the plan and all permanent employees to be members of the Retirement System. Upon termination or separation, employees are entitled to a refund of contributions made to the retirement plan plus six percent (6%) interest. The Authority also pays 7.55%, as of June 30, 2006, of gross wages into the Retirement System for its employees. Additionally, the Authority provides life insurance through the Retirement System to all employees who have been with the Authority for more than one year. This policy provides for a one-year salary to be paid to the employee’s beneficiary upon death. The cost to the Authority for this insurance is currently .15% of earnable compensation. See NOTE 9 TO FINANCIAL STATEMENTS ATTACHED AS APPENDIX C FOR ADDITIONAL INFORMATION CONCERNING THE PLAN AND THE RETIREMENT SYSTEM.

Budget

The Authority prepares a pro forma budget annually. The Deputy General Manager, Finance and Administration, and the Finance Committee of the Board monitor actual revenues and expenses versus budgeted figures on a monthly basis.

The process used to prepare the budget involves participation of all department heads, senior management, the Finance, Personnel, and Capital Projects Committees, and Board members of the Authority. Each department prepares an expense budget that is justified through a review process with senior management. Capital purchase budgets are prepared in the same manner. Debt service is calculated by the accounting department. Revenue projections are based on historical data. Wholesale revenue projections are based on usage information supplied by wholesale customers. Retail revenue projections are based on historical usage of retail water customers and certain other factors considered relevant by management. Any significant deviations between budgeted amounts and actual results are investigated and reconciled.
Hurricanes

Due to the location of the Authority, the services provided by the System might be disrupted due to the occurrence of a hurricane or other weather phenomena. To date, no significant disruption of service has been caused by such an event. The Authority, in accordance with the requirements of its Bond Resolution, is insured against any physical loss or damage in an amount that it believes to be sufficient, although such insurance would not cover any loss of revenue due to interruption of service to customers or diminution in customer use of services.

To prepare for emergencies like hurricanes, the Authority has implemented and periodically tests a well documented Hurricane Plan and a sophisticated Integrated Contingency (Emergency) Plan. The purpose of these procedures is to set forth the Authority’s objectives and strategies for managing its water and wastewater systems in the event of an emergency or disaster. As hurricane season approaches, all employees are consistently trained, and the Authority is placed on a high level of preparedness. The Authority also partners with Beaufort County and Jasper County to leverage resources during recovery efforts. Beaufort County is a recognized leader in emergency preparedness within the State. Together with the counties, the Authority participates in region wide hurricane preparedness exercises. In order to better understand the problems a utility could face in recovering from a major storm, the Authority sent crews to Long Beach, Mississippi and Pass Christian, Mississippi to assist in the restoration of water and sewer systems damaged by Hurricane Katrina.

Additionally, the Authority has retained a consultant to provide project management services necessary to maximize the Authority’s cost recovery from its insurance carrier and the Federal Emergency Management Agency (FEMA) for assets lost or damaged during a natural disaster, and for work necessary to prepare for and protect assets from an impending disaster. Following a disaster, the Authority and the consultant will coordinate recovery efforts, collect data, assess damage and/or loss, estimate costs, manage data and documents among work teams, and prepare reports in an expeditious and effective manner.

As part of the Contingency and Depreciation Fund, the Authority maintains a minimum balance of $3.75 million dollars to cover immediate needs for operation and capital costs in the event of a disaster. A minimum of three months’ operating costs are also maintained within the operations and maintenance fund to ensure that the Authority will be able to meet current obligations should a disaster prevent or delay the collection of revenues to sustain the system. Additionally, the Board has designated capital funds at its disposal which are also available for system recovery in the event of a disaster.

Insurance

The Authority maintains insurance relating to the Authority’s assets through the State Budget and Control Board Office of South Carolina Insurance Reserve Fund and two private insurance companies. The Authority maintains property and casualty insurance on the System as follows: 85% of the replacement value of the above ground water assets (currently $44,947,896) and 85% of the replacement value of the above ground wastewater assets (currently $23,688,753). There is a $3,000 deductible for each claim. Water and sewer system structures made of concrete such as pump station wet wells, accretion basins, claripiers, are not insured because these structures are designed and constructed to withstand natural and manmade disasters. The Authority self-insures the remaining 15% of the replacement value of the water and wastewater assets of the System (equal to $12,112,349). General liability insurance is also maintained by the Authority, with a coverage limit of $1,000,000 for each occurrence and a $1,000,000 overall limit. The Authority also maintains coverage for flood and earthquake, heavy equipment, trailers, pumps and generators, mobile and communication equipment, electronic data and media, boiler and machinery, and automobile liability. The Authority participates
with the State Accident Fund, a fully-insured plan, in providing workers’ compensation coverage for all employees.

The Constitution and statutes of the state of South Carolina provide, generally, that it is the public policy of the State of South Carolina that there is no waiver of sovereign immunity of governmental bodies and that governmental bodies shall be immune from liability for damages. The Authority, however, may not be able to rely upon the defense of sovereign immunity and may be subject to liability in the event of suits alleging causes of action founded upon various federal laws, such as suits filed pursuant to 42 U.S.C. § 1983, alleging deprivation of federal constitutional or statutory rights of an individual and suits alleging anti-competitive practices and violations of federal antitrust laws by the Authority in the exercise of its delegated powers. Moreover, the Authority may be subject to certain state law claims under the South Carolina Tort Claims Act, S.C. Code Ann. § 15-78-10 through -190 (Supp. 1995), and the South Carolina Whistleblower Act, S.C. Code Ann. § 8-27-10 through -50 (Supp. 1995), which are express waivers of sovereign immunity.

Environmental Concerns

The Authority has no compliance problems with its System, nor are any consent orders in place. The Authority and its engineers have also evaluated the current and projected requirements of the Federal Safe Drinking Water Act to determine the impacts of this legislation and its implementing regulations. Based on this evaluation, the Authority has concluded that it is now, and is projected to continue to be, in substantial compliance with these laws. The Authority does not anticipate any major investment will be needed to maintain compliance.

**The System**

**General**

*Basic Service Area; Demographics*

As previously discussed, the Authority’s service area includes the unincorporated portions of Beaufort and Jasper Counties, as well as within the corporate limits of the City of Beaufort, the Town of Bluffton, the Town of Port Royal and the City of Hardeeville. While the majority of the services provided by the Authority has been in Beaufort County, the Authority has also in recent years begun providing services in Jasper County, with the construction of the Cherry Point/Okatie area water and sewer systems and the acquisition of the Palm Key, Point South, and Hardeeville systems.

Beaufort County is located in the southern part of South Carolina, approximately forty miles north of Savannah, Georgia, and eighty miles south of Charleston, South Carolina. Beaufort County has approximately 160,000 residents and has experienced significant population growth as a result of its attraction as a resort and retirement location. The area economy is influenced by several factors, including the United States Marine Corps recruit training facility at Parris Island, the Naval Hospital and Marine Corps Air Station, tourism and retirement/recreational development associated with Sun City, Hilton Head, Fripp and Dataw Islands, and the seafood and truck farming industries generally. Additional information with respect to Beaufort County is set forth in APPENDIX A.

Jasper County is located in the southern part of South Carolina, to the west of and adjacent to Beaufort County, and forms the boundary with Georgia. Jasper County is located between Charleston and Savannah and has seven interchanges on the North/South corridor of Interstate 95. Jasper County covers 662 square miles and was formed in 1912 from neighboring Beaufort and Hampton counties. Jasper County
has a population of approximately 20,000, according to Census 2000. Traditionally, the economy of Jasper County has been based on agriculture, including the production of forest products, row crops, vegetables, and livestock. Additional information with respect to Jasper County is set forth in APPENDIX A.

Service Area Expansions

The Authority began providing water services in Fiscal Year 2000 on Hilton Head Island through a wholesale arrangement with two special purpose districts, Hilton Head No. 1 PSD and Broad Creek PSD. Contracts for the provision of water on a wholesale basis were entered into with Hilton Head No. 1 PSD and Broad Creek PSD in December of 1995. Water supply services to Hilton Head No. 1 PSD began on July 1, 1999, and to Broad Creek PSD on August 1, 1999. See “THE SYSTEM – Wholesale Water Customers, Rates, Fees and Charges” herein.

In addition, the Authority entered into an Agreement of Consolidation and Transfer with the City of Beaufort, pursuant to which the City of Beaufort transferred its waterworks and sewer system (the “Beaufort System”) to the Authority. The Agreement was approved by the qualified electors of the city in a referendum held on May 4, 1999. Pursuant to the Agreement, the Authority obtained an exclusive franchise to provide water and wastewater collection, treatment, and disposal services within the City of Beaufort for a period of forty (40) years. The grant of this exclusive franchise was also approved by the qualified electors of the city in the referendum. The Authority paid the City of Beaufort a net purchase price of $783,000 in exchange for the Beaufort System. In addition, the Authority also agreed to pay in full or to assume certain outstanding indebtedness of the City of Beaufort. The Authority also agreed to pay an annual franchise fee of $515,000, which will increase based on retail rate increases enacted by the Authority. The Authority acquired the Beaufort System subject to, and expressly assumed, the liabilities of the City of Beaufort in connection with the Beaufort System. The System Consolidation closed on November 1, 1999.

In 2002, the Authority acquired the waterworks and sewer system of the City of Hardeeville, South Carolina (the “Hardeeville System”). In August of 2001, Hardeeville’s City Council approved the form of an Agreement of Consolidation and Transfer with the Authority and scheduled a referendum to be held in Hardeeville on November 6, 2001. The outcome of the referendum was favorable, and in early 2002, the City of Hardeeville transferred its water and sewer system to the Authority and granted the Authority an exclusive franchise to provide water service and a nonexclusive franchise to provide sewer service for a period of thirty (30) years. In exchange, the Authority promised to pay $2,578,000 over a fifteen-year period and assumed or repaid existing indebtedness of the City of Hardeeville in an approximate amount of $2,900,000. The final note to the City of Hardeeville was in the amount of $2,378,000, resulting from a $200,000 reduction given in exchange for capacity credits. During 2005, the Authority negotiated to pay the City of Hardeeville the full amount and refinanced $1,776,660 with Branch Banking & Trust Company at a more favorable interest rate. The Authority also agreed to pay a monthly franchise fee of five percent (5%) of gross water and sewer sales within the corporate limits of the City of Hardeeville, with a minimum annual payment of $60,000.

In 2003, the Authority entered into an Agreement of Consolidation and Transfer with the Town of Port Royal, pursuant to which the Town of Port Royal transferred its waterworks and sewer system (the “Port Royal System”) to the Authority. The Agreement was approved by the qualified electors of the Town in a referendum held on May 6, 2003, granting the Authority an exclusive franchise to provide water service and wastewater collection, treatment, and disposal services within the Town of Port Royal for a period of forty (40) years. The grant of this exclusive franchise was approved by the qualified electors of the Town of Port Royal in the referendum. The Authority paid the Town of Port Royal a net purchase price of $3,935,700 in exchange for the Port Royal System. In addition, the Authority agreed to
pay in full or to assume certain outstanding indebtedness of the Town of Port Royal, as well as pay an annual franchise fee of five percent (5%) of gross sales within the corporate limits of the Town of Port Royal. The Authority acquired the Port Royal System subject to, and expressly assumed, the liabilities of the Town of Port Royal in connection with the Port Royal System. The System consolidation closed on July 1, 2003.

In 1977, the Town of Bluffton granted the Authority an exclusive franchise to provide water services within the Town of Bluffton for a period of forty (40) years under a Water Services Agreement. The exclusive franchise was approved by the qualified electors of the Town of Bluffton. In 2001, the Water Services Agreement was amended to further grant the Authority a non-exclusive franchise to provide wastewater collection, treatment and disposal services within the Town of Bluffton for as long as the agreement remains effective. In exchange for the franchises, the Authority has agreed to pay to the Town of Bluffton an annual franchise fee of five percent (5%) of gross water and sewer sales within the Town of Bluffton’s corporate limits.

Proposed Navy System Acquisition

Description of the Privatization Proposal.

In 2003, under the Bush Administration’s Utilities Privatization Initiative, the Navy solicited proposals to privatize water and sewer services at certain military installations. The solicitation defined privatization as “the conveyance of utility system ownership to a private entity who will be responsible for the operation, maintenance and capitalization of the infrastructure for the foreseeable future and for the provision of safe and reliable utility services to the Department of Navy in exchange for reasonable compensation.” In response to Solicitation No. N62467-00-R-1801, the Authority proposed to privatize the on-base waterworks and sewer systems of four military installations in the Authority’s service area—the Marine Corp Air Station Beaufort (“MCAS-Beaufort”), Laurel Bay Housing, Naval Hospital, and the Marine Corp Recruit Depot Parris Island (“Parris Island Recruit Depot”), collectively the “Navy System”. The Authority’s proposal was accepted and the parties have negotiated a privatization contract (the “Proposed Navy Contract”) which is now awaiting approval by higher ranking military and Administration officials.1

Under the Proposed Navy Contract, the Authority will own and operate the Navy System and the Navy System will become part of the System. It is anticipated that the Authority will purchase the Navy System for $12.4 million and that the Navy will pay the Authority $17 million to upgrade the Navy System and $20.2 million to demolish two of the Navy’s existing sewer plants and consolidate the sewer flows from the Navy installations into the Authority’s regional plant. The Authority will charge the Navy a flat fee to operate and maintain the Navy System in order to provide water and sewer service to the four installations. The Authority will determine the Navy’s fees using its Cost of Service Model (the “CoS Model”). The CoS Model is the rate-making mechanism used by the Authority’s to allocate the adopted budget among various water and sewer customer classes.

Immediately after purchasing the Navy System, the Authority will undertake several related capital projects, referred to as Initial System Modifications (“ISMs”). The ISMs are of two types: general system upgrades and the sewer consolidation project. The Proposed Navy Contract will obligate the Navy to reimburse the Authority for the ISMs, with payments to the Authority from the Navy beginning in the sixth year of the contract which is expected to be Fiscal Year 2013. The Authority

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1 The Authority currently provides wholesale water services to the Navy pursuant to the Navy Contract discussed infra at page 39.
expects to defray the initial cost of the ISMs in the first five years from a combination of $5 million in cash on hand as well as $23.5 million in loan proceeds from the South Carolina Budget and Control Board.

Payment Obligations Established by the Contract. The basic payments required under the Proposed Navy Contract are referred to collectively as the “Service Fee,” which consists of four components: (1) a monthly water service charge and a monthly wastewater service charge (the “Facilities Charge”), payable from the Navy to the Authority and stated as a fixed charge based upon the Authority’s prospective budgets and cost of service model; (2) an initial system modifications charge (the “ISM Charge”), payable from the Navy to the Authority, which is the price of all approved ISMs and stated as a fixed price amortized over twenty (20) years at an annual rate of four percent (4%); (3) non-routine service charges (the “NRCs”), payable from either party to the other for non-routine items; and (4) a purchase price credit (“Purchase Price Credit”), payable from the Authority to the Navy, which is the purchase price of the Navy System amortized over twenty-five (25) years at an interest rate of five percent (5%). According to current projections, the Service Fee will result in an annual net payment to the Authority due to the fact that the ISM Charge is forecasted to exceed the payment of the Purchase Price Credit. Therefore, even if no services are delivered, the Navy remains obligated to pay the net ISM Charge. In the event the Navy installations all closed and the Authority provided no service to them, the ISM Charge and the Purchase Price Credit components of the Service Fee are not terminated.

Benefits and Risks of the Contract. Under the Proposed Navy Contract, the Authority will gain new assets valued at $12.4 million, and the Navy will pay to rehabilitate them to industry standard condition. The Navy System will become integrated into the System and, through the Facilities Charge, will share proportional costs of future upgrades and expansions to the system. Two of the Navy System Wastewater Treatment Plants are subject to a Compliance Schedule issued by the SCDHEC with respect to their discharges, requiring that the systems comply with new effluent standards by the year 2009. The Proposed Navy Contract contemplates the closure of these two plants and the subsequent transfer of their wastewater flows into the Authority’s new Port Royal Island Water Reclamation Facility, which will significantly improve the water quality for the area. Therefore, the SCDHEC has worked, and is expected to continue to work, closely with the Authority throughout the transfer and consolidation process.

The Authority has no right to terminate the Proposed Navy Contract; however, the Navy has the right to terminate the Proposed Navy Contract either “for default” (which means that the Authority has failed to perform its obligations under the Proposed Navy Contract) or “for convenience” (meaning that termination is in the Government’s interest). Under either termination scenario, the Navy has the right to take title to the Navy System from the Authority:

(1) If the Authority fails to perform its obligations under the Proposed Navy Contract, the Navy may terminate the Proposed Navy Contract for default and take title to the Navy System. Under this scenario, the Authority’s rights are very limited.

(2) If the Navy terminates the Proposed Navy Contract for convenience and takes title to the Navy System from the Authority, the Purchase Price Credit would likely end and the Authority would remain responsible for debt service on the revenue bonds issued to finance the ISMs. The Navy has agreed, however, to reimburse the Authority for the ISMs such that the Navy would be required to repay the balance of the System Modifications. Since the Authority is using some cash on hand to implement the ISMs, the outstanding balance on any revenue bond issued to finance the ISMs, will be less than the balance of the System Modifications. The Navy’s payment of the balance of such System Modifications could be delayed for a time, but, during the interim, the Navy has agreed to
continue to pay the ISM Charge after termination for convenience. Thus, under this scenario, the risks are generally that the Authority (a) may lose a portion of the revenue generated by the Facilities Charge, (b) may lose the paid-in equity in the Navy System by way of prior Purchase Price Credits, and (c) may suffer a delay in, or diminution of, the repayment of the System Modifications.

(3) If the Navy terminates the Proposed Navy Contract for convenience and does not take title to the Navy System, the risks are generally that the Authority (a) may lose the revenue generated by the Facilities Charge and might be unable to use the Navy System for other purposes until a new use for the System is determined, and (b) may have to pay debt service on the bonds issued to finance the ISM Charge from its general revenues until the termination procedure is completed. Under the Proposed Navy Contact, however, even if the Authority keeps the System, the Navy is still obligated to pay the ISM Charge. While the Proposed Navy Contract does not specifically address payment of the Purchase Price if the Authority keeps the System, the balance of the Purchase Price would likely be payable in termination proceedings. Thus, the remaining balance of the Purchase Price would be netted out against the unpaid ISM Charge.

(4) If the Navy does not terminate the Proposed Navy Contract, but the installations become dormant, the flow of funds would remain the same except the Navy would not be required to pay the Facilities Charge. The risk to the Authority under this scenario is in purchasing and maintaining a non-revenue generating system. Again, even in this scenario, which the Authority has termed the “Dormancy Scenario,” the Navy remains obligated to pay the ISM Charge.
The chart below forecasts the impact on revenues based upon the assumption that the government closed all four military installations after the Authority assumed $23.5 million in debt to defray the cost of the acquisition and consolidation project and that the government did not allow the property to be redeveloped. In this scenario, no Facilities Charge would be paid to the Authority and no charge for non-routine items would be owing. In addition, under such a scenario, the Authority would also lose sales to the Navy as a wholesale water customer. However, the government would continue to pay the Initial System Modification Charge and the Authority would continue to offset that payment with the Purchase Price Credit.

### Beaufort-Jasper Water & Sewer Authority

#### Risks Associated With Proposed Navy Contract

**Forecast Financial Performance First Six Years After Execution of Proposed Navy Contract**

**Dormancy – “Worst-Case” Scenario Considered**

**FY 2008 – FY 2013**

<table>
<thead>
<tr>
<th></th>
<th>FY 2008 Year 1</th>
<th>FY 2009 Year 2</th>
<th>FY 2010 Year 3</th>
<th>FY 2011 Year 4</th>
<th>FY 2012 Year 5</th>
<th>FY 2013 Year 6</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Available for Debt Service</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incremental Change from Proposed Contract</td>
<td>1,128,039</td>
<td>2,276,088</td>
<td>2,428,746</td>
<td>2,491,188</td>
<td>2,855,611</td>
<td>5,620,198</td>
</tr>
<tr>
<td>Including Proposed Navy Contract</td>
<td>34,377,089</td>
<td>30,508,990</td>
<td>30,672,259</td>
<td>30,500,03</td>
<td>31,178,042</td>
<td>33,432,057</td>
</tr>
<tr>
<td><strong>Adjustments Assuming Dormancy with No Military Demand</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deduct Facilities Charge Revenue</td>
<td>(3,633,948)</td>
<td>(4,668,576)</td>
<td>(4,786,746)</td>
<td>(4,868,726)</td>
<td>(5,247,091)</td>
<td>(5,342,624)</td>
</tr>
<tr>
<td>Deduct Wholesale Water Revenue (Commodity Contract)</td>
<td>(1,100,106)</td>
<td>(1,142,417)</td>
<td>(1,142,417)</td>
<td>(1,142,417)</td>
<td>(1,318,174)</td>
<td>(1,318,174)</td>
</tr>
<tr>
<td>+ Savings from Reduced Privatization O&amp;M</td>
<td>1,544,948</td>
<td>1,419,341</td>
<td>1,384,854</td>
<td>1,404,392</td>
<td>1,418,333</td>
<td>1,425,644</td>
</tr>
<tr>
<td>+ Savings from Reduced Water Production</td>
<td>170,000</td>
<td>185,300</td>
<td>201,977</td>
<td>220,155</td>
<td>239,969</td>
<td>261,566</td>
</tr>
<tr>
<td><strong>Adjusted Total Available for Debt Service</strong></td>
<td>31,357,983</td>
<td>26,302,638</td>
<td>26,329,927</td>
<td>26,113,407</td>
<td>26,271,079</td>
<td>28,458,469</td>
</tr>
<tr>
<td><strong>Adjusted Total Available for Debt Service w/o Capital Contribution Fees</strong></td>
<td>15,058,824</td>
<td>16,302,638</td>
<td>16,329,927</td>
<td>16,113,407</td>
<td>16,271,079</td>
<td>18,458,469</td>
</tr>
<tr>
<td><strong>Purity Debt Service</strong></td>
<td>$11,231,777.44</td>
<td>$11,257,870.04</td>
<td>$11,713,909.97</td>
<td>$12,562,196.23</td>
<td>$14,017,114.87</td>
<td>$14,513,867.84</td>
</tr>
<tr>
<td><strong>Purity Debt Service Coverage Without Capital Contribution Fees</strong></td>
<td>1.34</td>
<td>1.45</td>
<td>1.39</td>
<td>1.28</td>
<td>1.16</td>
<td>1.27</td>
</tr>
</tbody>
</table>

Assumptions, except as indicated in the table, are the same as set forth in the footnotes to the Forecast Financial Performance Table set forth on page 28 of this Official Statement.
Water Service

The Authority currently sells water on a wholesale basis to nine wholesale customers and serves approximately 40,546 retail water customers in the City of Beaufort, the City of Hardeeville, the Town of Port Royal and the Town of Bluffton, as well as to areas of unincorporated Beaufort and Jasper Counties. For the Fiscal Year ended June 30, 2006, the System’s wholesale water customers accounted for approximately thirty-four percent (34%) of the total water sold and approximately eleven percent (11%) of the total operating revenues of the System. During the Fiscal Year ended June 30, 2006, the average daily demand from the System was approximately 20 mgd with a peak use of approximately 30.6 mgd. During the same period, the System’s retail water customers accounted for approximately thirty-one percent (31%) of total water sold and approximately forty-seven percent (47%) of total operating revenue. Of the remaining operating revenue, approximately thirty-one percent (31%) is attributable to sewer service, and approximately eleven percent (11%) is attributable to other income such as ancillary charges, including significant tap fee revenue directly related to customer growth.

The Authority is authorized by the South Carolina General Assembly, as the successor agency to the South Carolina Water Resources Commission, to withdraw up to 100 mgd from the Savannah River and to transfer up to 60 mgd of the withdrawal from the Savannah River Basin. With the exception of the Palm Key and Point South areas, which are served by wells, the System’s water is withdrawn from the Savannah River at river mile 39.1 and brought to the Authority’s two conventional surface water treatment plants. The Chelsea Water Treatment Plant (“Chelsea WTP”) is located at the intersection of South Carolina Highways Nos. 170 and 54, three miles east of South Carolina Highways No. 462 and receives river water through an 18-mile earthen canal. The Chelsea WTP currently has a treatment capacity of 24 mgd. A 30-inch water transmission line runs from the Chelsea WTP north onto Port Royal Island and south along South Carolina Highways Nos. 170 and 278 to Hilton Head Island and southern Jasper County. The Purrysburg Water Treatment Plant (“Purrysburg WTP”) was commissioned in March 2004 and is located in southern Jasper County on Highway 34 near the river intake and has a treatment capacity of 10 mgd. The Purrysburg WTP serves southern Jasper County, southern Beaufort County and Hilton Head Island and is connected to the Authority’s water system via 36” and 30” transmission mains. The Authority’s water system consists of approximately 880 miles of transmission/distribution lines, ranging from 6 inches to 36 inches, that distribute water throughout the Authority’s service area. The Authority’s water distribution system has treated water storage capacity of 11.75 million gallons through fourteen elevated and ground storage tanks located throughout the service area. Regarding finished water storage tanks at the water treatment plants, two tanks at the Chelsea WTP and one tank at Purrysburg WTP have a combined capacity of 8.5 million gallons. Chelsea WTP also utilizes two aquifer storage and recovery (“ASR”) well systems for seasonal storage of up to 800 million gallons of treated surface water in the floridan aquifer and recovery at a rate of 3.0 mgd to the distribution system.

The Point South ground water system was acquired by the Authority in May of 1997, and is supplied by two wells with a combined capacity of 2.45 mgd. The Point South system was built by the developer of the Point South commercial area in Jasper County to serve the development.

The Palm Key ground water system was acquired by the Authority in November 1994, and is supplied by one well with a capacity of 118,800 gallons per day. The Palm Key system was built by the developer of the Palm Key resort in Jasper County to serve that resort.

Many of the components of the Authority’s water system currently are being expanded and improved. See APPENDIX D for a summary description of the planned expansion of the System.
Wholesale Water Customers, Rates, Fees and Charges

Other than contractual limitations, the Authority has no limit on its ability to set rates. The Authority sets its wholesale water rates based upon differing cost of service to each wholesale customer. All facilities of the United States of America, Department of the Navy (the “Navy”) are included within the “Military” classification described below. Other wholesale customers are: Fripp Island PSD, Harbor Island, Warsaw Eustis & Oaks; Callawassie Island; Water Oak Utility/Moss Creek; Hilton Head No. 1 PSD; Broad Creek PSD; and Levy-Limehouse-Bellinger Hill Water Company. During the present and four previous Fiscal Years, wholesale water rates per 1,000 gallons by area were as follows:

<table>
<thead>
<tr>
<th>Area</th>
<th>Fiscal Year Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>Military</td>
<td>1.45</td>
</tr>
<tr>
<td>Levy-Limehouse-Bellinger Hill Water Company</td>
<td>-</td>
</tr>
<tr>
<td>A-1 Fripp Island PSD</td>
<td>1.84</td>
</tr>
<tr>
<td>A-2 Warsaw Eustis &amp; Oaks</td>
<td>1.84</td>
</tr>
<tr>
<td>A-3 Harbor Island</td>
<td>1.84</td>
</tr>
<tr>
<td>B-1 Callawassie Island</td>
<td>1.40</td>
</tr>
<tr>
<td>B-2 Water Oak Utility/Moss Creek</td>
<td>1.73</td>
</tr>
<tr>
<td>B-3 Hilton Head Island No. 1 PSD; Broad Creek PSD</td>
<td>1.24</td>
</tr>
</tbody>
</table>

(1) Rate changes are effective July 1 of the applicable Fiscal Year.
(2) Adopted by the Board June 30, 2006.

The Authority’s rates are based on a cost of service rate study for the System. The study was completed in the spring of 1995 and is updated annually. The rate model was adopted by the Board and was implemented in the Fiscal Year ended June 30, 1996.

The objectives of the rate model are as follows:

- The rate structure is revenue neutral with its primary objective being to improve equity among customer classes.
- Capital and operating costs are more directly allocated to the customers who have caused the Authority to incur those costs.
- Wholesale customers who have paid a share of their capital costs through capital contribution fees or other capital payments receive credit in their rates in proportion to their contribution.
- Capital costs are allocated on the basis of the customers’ long-term capacity needs. Part of the debt service costs for excess capacity is shifted from current customers to those who will be using the capacity in the future.
- Supply, treatment and administrative costs are allocated System-wide while transmission and distribution costs are allocated on a geographical basis. This allocation of costs permits the extension of water facilities throughout the service area to those requesting new services without unduly burdening existing customers.
for transmission costs and helps attract new customers by allowing them to share supply, treatment and administrative costs on an average cost basis.

The following are general summaries of certain provisions of contracts between the Authority and its wholesale water customers, including the Navy. The summaries as hereinafter set forth do not purport to be complete, and for further information reference is made to the various contracts, copies of which are available from the Authority upon request.

**Navy Wholesale Water Contract**

**General.** The Authority has provided water on a wholesale basis to the Navy since 1963. The first contract with the Navy was entered into on June 12, 1963. On July 1, 1998, the Authority and the Navy entered into a new contract (the “Navy Contract”), pursuant to which the Authority agreed to provide potable water service to several naval installations in the Authority’s service area. The term of the Navy Contract is indefinite, but may be terminated at the option of the Navy by giving notice sixty (60) days in advance of the effective date of the termination. The Authority has agreed to provide, at its own expense, and to operate and maintain all facilities necessary to furnish water service in the amounts and locations as follows:

<table>
<thead>
<tr>
<th>#</th>
<th>Location</th>
<th>Estimated maximum daily demand</th>
<th>Estimated average daily volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>U.S. Marine Corps Recruit Depot, Parris Island, South Carolina (“Parris Island Recruit Depot”)</td>
<td>1,906,400 gallons</td>
<td>953,200 gallons</td>
</tr>
<tr>
<td>2</td>
<td>U.S. Marine Corps Air Station, Beaufort, South Carolina (“MCAS-Beaufort”)</td>
<td>686,800 gallons</td>
<td>338,400 gallons</td>
</tr>
<tr>
<td>3</td>
<td>U.S. Naval Hospital, Beaufort, South Carolina (“Naval Hospital”)</td>
<td>235,125 gallons</td>
<td>104,500 gallons</td>
</tr>
<tr>
<td>4</td>
<td>Laurel Bay Housing Project, MCAS, Beaufort, South Carolina (“Laurel Bay Housing”)</td>
<td>888,500 gallons</td>
<td>444,250 gallons</td>
</tr>
<tr>
<td>5</td>
<td>Ordnance Area, MCAS, Beaufort, South Carolina</td>
<td>13,428 gallons</td>
<td>6,714 gallons</td>
</tr>
<tr>
<td>6</td>
<td>Scout Fishing Pond Facilities, MCAS, Beaufort, South Carolina</td>
<td>6,734 gallons</td>
<td>3,367 gallons</td>
</tr>
</tbody>
</table>

Note: The Navy is neither obligated to use nor restricted to the estimated requirements.

The Navy may, upon notice to the Authority, designate any location within the service area of the Navy Contract at which water service is to be discontinued or commenced. Such changes must be as mutually agreed upon by the Navy and the Authority. In addition, the Navy must give the Authority reasonable notice of any material changes anticipated in the volume or characteristics of the water service required at each location.
Rates. Rates under the Navy Contract are set for three-year periods (each, a “Rate Period”). The current Rate Period commenced on July 1, 2006 and will end on June 30, 2009. The rate for each Rate Period is based on the average of the Authority’s forecasted costs during the Rate Period that are reasonably allocable to services provided under the Navy Contract. Rates remain constant during a Rate Period unless the Authority demonstrates through a cost-of-service study that an interim rate adjustment is appropriate.

The Navy Contract provides that the Navy’s water rate must be levied in three distinct categories: (i) a flat monthly fee to recover customer-related operation and maintenance costs; (ii) a flat monthly capacity charge to recover the Navy’s share of the Authority’s debt service, contingency and depreciation allowances, and annual capital outlay; and (iii) a volumetric rate per thousand gallons to recover demand-related operation and maintenance costs. The volumetric rate for the current Rate Period is $1.69 per 1,000 gallons.

Either the Authority or the Navy may request a change in the rates or terms and conditions of the Navy Contract, and both parties have agreed to enter into negotiations in the event that the other party requests such a change. During the term of the Navy Contract, the Authority may not charge the Navy a rate in excess of that applicable to any other customer of the Authority of the same class and under similar terms and conditions.

Miscellaneous. The Navy has granted the Authority a revocable permit to enter Navy property when necessary for the operation and maintenance of the facilities required to provide water service. The Navy may, however, limit the Authority’s right of access in any manner considered necessary for national security, public safety, and other reasons. The Authority has retained title to the facilities constructed pursuant to the Navy Contract, and must operate and maintain such facilities at its own expense. The Authority is responsible for loss of or damage to such facilities, except that the Navy is responsible if the loss or damage is attributable to the Navy’s negligent acts or omissions. The Navy also has a right of access to the Authority’s on-base facilities upon reasonable notice or in the case of an emergency.

Base Closure Considerations. The U.S. Department of Defense conducted a Base Realignment and Closure evaluation of Beaufort area installations during 1994 and announced on February 28, 1995, that MCAS-Beaufort, the Naval Hospital, Parris Island Recruit Depot, and Laurel Bay Housing would not be closed. Two new U.S. Navy Fighter Squadrons were assigned to MCAS-Beaufort beginning in the winter of 1999. The Department of Defense did indicate at that time that, as part of its “Efficient Facilities Initiative,” base closure reviews would continue in the future and another BRAC round was concluded in September 2005. None of the Beaufort area installations were reduced in size and a small increase (20 persons +/-) was announced for MCAS-Beaufort.

Although still an important single customer, the Navy is a decreasing segment of the Authority’s total water market. In 1985, the Authority sold forty-two percent (42%) of the water it produced to the Navy. In Fiscal Year ended June 30, 2006, however, the Navy accounted for only ten percent (10%) of the Authority’s total water production and accounted for less than six percent (6%) of total water sales.
Water sales to four Navy installations for the Fiscal Year ended June 30, 2006, were as follows:

<table>
<thead>
<tr>
<th>Installation</th>
<th>FY 2006 Water Sales</th>
<th>Percent of Military Water Sales</th>
<th>Percent of Total FY 2006 Water Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parris Island Recruit Depot</td>
<td>$544,584</td>
<td>47.42%</td>
<td>2.69%</td>
</tr>
<tr>
<td>Naval Hospital</td>
<td>40,149</td>
<td>3.50</td>
<td>0.20</td>
</tr>
<tr>
<td>MCAS-Beaufort</td>
<td>255,449</td>
<td>22.23</td>
<td>1.26</td>
</tr>
<tr>
<td>Laurel Bay Housing</td>
<td>308,341</td>
<td>26.85</td>
<td>1.52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,148,523</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>5.67%</strong></td>
</tr>
</tbody>
</table>

**Other Wholesale Water Contracts**

**General.** The Authority has long term contracts to supply water at wholesale rates to water distribution systems owned by municipalities, special purpose districts and private corporations. The Authority’s wholesale water customers being provided water pursuant to long term supply contracts (in addition to the Navy) are as follows:

- Broad Creek PSD
- Hilton Head No. 1 PSD
- Fripp Island PSD
- Harbor Island
- Warsaw Eustis & Oaks
- Callawassie Island
- Water Oak Utility/Moss Creek
- Levy-Limehouse-Bellinger Hill Water Company

**Broad Creek PSD and Hilton Head No. 1 PSD.** When they were created in the 1960s, Broad Creek PSD together with Hilton Head No. 1 PSD relied for potable and irrigation water on a Floridian aquifer at approximately 200 to 300 feet below sea level. Due to heavy reliance on and the discovery of salt-water intrusion in the Floridan aquifer, the SCDHEC mandated that the Island Districts limit withdrawals from the Floridan aquifer beginning in July 1999. To obtain a supplemental source of water, the Island Districts entered into nearly identical Water Sale and Purchase Contracts (the “Water Purchase Contracts”) with the Authority. Broad Creek PSD entered into its Water Purchase Contract with the Authority on December 8, 1995; Hilton Head No. 1 PSD on December 19, 1995.

Pursuant to the Water Purchase Contracts, the Authority constructed the necessary expansions and upgrades to the System in order to provide water to the Island Districts, and each Island District, in exchange, acquired the right to draw a certain amount of water per day, their “Allocated Volume,” expressed in gallons per day. Water flows to the Island Districts through four components of the System (collectively, the “Components”). The first Component is the Authority’s plant (the “Plant”). The second Component is “Segment One” (pipe and pumps from the Plant to McGarvey’s Corner). The third component is “Segment Two” (pipe and pumps from McGarvey’s Corner to Mackays Creek). The fourth Component is “Segment Three” (pipe and pumps under Mackays Creek, onto Hilton Head Island, and to the meter connecting to the Island District’s system). All four components are owned and operated by the Authority.

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1 The Authority provides wholesale water service to this entity pursuant to an informal agreement.
The Water Purchase Contracts provide an agreed-upon price to each Island District for an amount of water capacity not to exceed 8.3 mgd in the aggregate. Broad Creek PSD initially reserved an allocated volume of 2 mgd, while Hilton Head No. 1 PSD initially reserved an allocated volume of 3 mgd. In 2002, Hilton Head No. 1 PSD purchased an additional 1 mgd of capacity. In order to obtain the right to draw its allocated volume, each Island District agreed to make several different types of payments. The payments due under the Water Purchase Contracts have either been paid, or are payable regardless of how much water is drawn by the Island Districts, except for two forms of payment known as the “Operation and Maintenance Charge” and the “System Depreciation Charge.”

The “Operation and Maintenance Charge” was designed to cover that portion of the cost of operating and maintaining the System attributable to providing water to the Island Districts. It is based on budget estimates. At the beginning of each of its Fiscal Years, the Authority estimates its “Operation and Maintenance Expenses” (which include smaller capital items actually paid out of the operation and maintenance budget) for the upcoming Fiscal Year. The Authority also projects the total number of gallons of water that it will produce during the upcoming Fiscal Year. The expenses divided by the total number of gallons provide a per-gallon Operation and Maintenance Rate. Thus, the Island Districts pay, each month in arrears, that rate times the gallons actually used by them during the preceding month.

The “System Depreciation Charge” was designed to build a reserve (the “Water System Depreciation and Contingent Account”) for purposes of repair, replacement, and capital improvements that were too large for the operation and maintenance budget but not large enough to warrant the issuance of improvement bonds. Like the Operation and Maintenance Charge, the System Depreciation Charge is based on budgetary estimates. Prior to each Fiscal Year, the Authority determines the amount that needs to be deposited into the Water System Depreciation and Contingent Account. This amount cannot be more than the amount that would cause the balance in the Water System Depreciation and Contingent Account to exceed twenty percent (20%) of the replacement value of the entire System (other than Segment Three). That deposit is then divided by the total projected water usage for the upcoming Fiscal Year to arrive at a per-gallon rate. Thus, the Island District pays, each month in arrears, that rate times the number of gallons drawn by it during the preceding month.

Hilton Head No. 1 PSD recently informed the Authority that it was contemplating the construction of a water well and treatment system to serve as an auxiliary source of water in the future. This source will in part serve as a replacement for the two floridan aquifer wells that have been abandoned because of salt water contamination since the Water Purchase Contracts were signed. The Authority estimates that it will take eighteen (18) months to bring the new well on line. Consequently, the Authority will continue to be the Island Districts’ supplier of water during at least one more peak season, approximately a six month period from May to October. After the new well is operational, the Island Districts will retain the right to purchase up to 6 mgd from the Authority; however, they will not be obligated to exercise this right. The Water Purchase Contracts do, however, obligate the Island Districts to collectively continue to purchase a minimum of 1 mgd from the Authority. Should both Island Districts choose to purchase only the 1 mgd minimum, the Authority projects a negative impact on its wholesale revenues in the amount of $1.2 million per year. The Authority believes that the decline in wholesale water revenues from the Island Districts will be replaced by increased revenues from retail customers as the Authority anticipates adding 3,700 new retail customers per year going forward based upon historical data and the Authority’s Master Plan. See Executive Summary of Master Plan at APPENDIX I.

_Fripp Island PSD_. The water service contract with Fripp Island Public Service District (“Fripp Island PSD”) provides that (i) Fripp Island PSD will purchase all of its drinking water from the Authority and will pay the Authority in accordance with the customary billing procedures established for all of the
Authority’s wholesale water customers; and (ii) the Authority will deliver up to 1,415,000 gallons of water per day on a maximum daily basis to Fripp Island PSD at a minimum pressure (as measured at the Authority’s master meter of 30 psi) for a period of five (5) years commencing on July 1, 2002. Under the contract, the volumetric rate charged is to be a reasonable allocation of the Authority’s costs of service to Fripp Island PSD. The Authority’s rate-making process must recognize the allocation of costs between wholesale and retail customer classes so as not to charge Fripp Island PSD the Authority’s cost of serving its own retail customers. The allocation of debt to Fripp Island PSD is based upon total water demand, estimated or actual peak demand by Fripp Island PSD relative to other customers, and capital contributions made to the Authority by Fripp Island PSD. The rate also includes allocated costs of operations and maintenance, annual contributions to the Authority’s Contingency and Depreciation Fund, annual capital expenditures that are not debt-financed, and potentially other costs. The average wholesale rate applicable to Fripp Island PSD is currently $2.15 per thousand gallons.

The original water service contract with Fripp Island PSD is dated January 12, 1984, and was extended for a five year term on January 12, 1994. The contract was amended in 2002 and presently provides for automatic extensions for successive five-year terms in perpetuity unless the parties mutually agree to renegotiate the terms of the contract or notice of the intent to renegotiate is given by either party at least three years prior to the end of any term. Any disputes arising under the contract are to be resolved by a panel of three persons made up of a representative appointed by the Authority, a representative appointed by Fripp Island PSD, and a representative selected by the two appointed representatives.

Harbor Island. The water service contract with Harbor Island Utilities, Inc. (“Harbor Island”), dated as of July 21, 1986, provides that the Authority will supply Harbor Island with 377,850 gallons of potable water per day. The Authority has agreed to provide such water at the prevailing Area A-3 wholesale rate, plus a transportation charge that is passed on to Harbor Island. The average wholesale rate applicable to Harbor Island is currently $2.15 per thousand gallons. The contract provides for a minimum term of ten years, which is automatically extended in successive five-year increments unless the parties mutually agree to renegotiate the contract.

Warsaw Eustis & Oaks. The water service contract with Warsaw, Eustis & Oaks Water Company, Inc. (“Warsaw Eustis & Oaks”), dated as of October 21, 1971, provides that the Authority will furnish water in such quantity as may be required by Warsaw Eustis & Oaks, which serves an area located on St. Helena Island in Area A-2. The Authority has agreed to provide such water at the wholesale water rate charged the Authority’s similar Area A-2 customers, and such rate is subject to modification at the end of each Fiscal Year of the Authority. Any increase or decrease in rates must be based on a demonstrable increase or decrease in the cost of performance under the contract. The average wholesale rate applicable to Warsaw Eustis & Oaks is currently $2.15 per thousand gallons. The contract provides an initial term of forty (40) years, which may be renewed or extended for any term as may be mutually agreed upon by the Authority and Warsaw Eustis & Oaks. In the event of a shortage of water, the Authority may reduce the amount of water delivered to Warsaw Eustis & Oaks based on the same ratios or proportion as the reduction to the Authority’s other wholesale customers.

Callawassie Island. The water service contract with Three Fountainview Corporation, dated as of January 21, 1983, and subsequently assigned to Callawassie Development Corporation (“Callawassie Island”), provides that the Authority will furnish Callawassie Island with a maximum of 405,000 gallons of potable water per day and that the Authority would provide such water at the wholesale water rates in effect from time to time for any comparable wholesale customer. On December 28, 2004, a Promissory Note, principal sum of $163,395.00, together with interest at a rate of five percent (5%) per annum, was executed by Callawassie Island, pursuant to which Callawassie Island purchased 133,252 gallons of water per day from the Authority. The principal and interest on the Promissory Note are payable over eight (8)
quarterly installments, which commenced on April 1, 2005; continuing on July 1, 2005; October 1, 2005; January 1, 2006; April 1, 2006; July 1, 2006; October 1, 2006; with final payment and all other sums due thereunder due and payable on or before January 1, 2007. The average wholesale rate applicable to Callawassie Island is currently $1.64 per thousand gallons.

*Water Oak Utility/Moss Creek.* Under the water supply contract with the Water Oak Utility, Inc. (“Water Oak Utility/Moss Creek”), dated as of January 13, 1992, the Authority agreed to provide up to a maximum of 400,000 gallons of water per day to a development known as Moss Creek Plantation. Water Oak Utility/Moss Creek has agreed to pay $1.00 per gallon as capital contribution fees for such reserved capacity. The wholesale water rate is equal to the wholesale water charges as set by the Authority from time to time. Such water rate is currently $2.02 per 1,000 gallons. Water Oak Utility/Moss Creek is required to pay a surcharge equal to $.15 per 1,000 gallons of the average daily flow in any month exceeding 400,000 gallons per day. The Agreement was revised July 31, 1997, such that Authority assumed from Water Oak Utility/Moss Creek the responsibility for providing retail water service to Colleton River Plantation.
Wholesale and Retail Water Selected Data

The following table sets forth the gallons purchased by each of the Authority’s nine wholesale customers and by all of its retail customers for the ten Fiscal Years ended June 30, 2006:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Beaufort (1)</td>
<td>764,146</td>
<td>811,657</td>
<td>818,306</td>
<td>205,912</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Town of Port Royal (2)</td>
<td>261,545</td>
<td>270,897</td>
<td>305,796</td>
<td>311,724</td>
<td>330,278</td>
<td>308,416</td>
<td>239,897</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chelsea-Chechessee (3)</td>
<td>9,527</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Warsaw Eustis &amp; Oaks</td>
<td>27,585</td>
<td>26,316</td>
<td>26,636</td>
<td>27,184</td>
<td>31,288</td>
<td>31,199</td>
<td>29,537</td>
<td>30,864</td>
<td>30,016</td>
<td>32,698</td>
</tr>
<tr>
<td>Fripp Island PSD</td>
<td>168,624</td>
<td>156,076</td>
<td>180,535</td>
<td>185,710</td>
<td>180,295</td>
<td>192,821</td>
<td>168,963</td>
<td>175,659</td>
<td>171,813</td>
<td>193,184</td>
</tr>
<tr>
<td>Harbor Island</td>
<td>46,302</td>
<td>45,481</td>
<td>33,810</td>
<td>37,874</td>
<td>39,480</td>
<td>37,476</td>
<td>35,067</td>
<td>39,906</td>
<td>36,284</td>
<td>38,007</td>
</tr>
<tr>
<td>Callawassie Island</td>
<td>34,054</td>
<td>43,777</td>
<td>56,663</td>
<td>77,493</td>
<td>112,785</td>
<td>112,684</td>
<td>84,576</td>
<td>75,224</td>
<td>76,611</td>
<td>85,000</td>
</tr>
<tr>
<td>Broad Creek PSD (4)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>178,260</td>
<td>147,531</td>
<td>178,468</td>
<td>184,968</td>
<td>129,372</td>
<td>129,997</td>
<td>131,105</td>
</tr>
<tr>
<td>Hilton Head No. 1 PSD (4)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>554,544</td>
<td>1,197,048</td>
<td>1,180,709</td>
<td>924,881</td>
<td>988,516</td>
<td>1,124,422</td>
<td>1,089,935</td>
</tr>
<tr>
<td>Water Oak Utility/Moss Creek</td>
<td>143,979</td>
<td>125,186</td>
<td>98,540</td>
<td>105,118</td>
<td>116,427</td>
<td>92,233</td>
<td>79,808</td>
<td>93,054</td>
<td>80,246</td>
<td>111,408</td>
</tr>
<tr>
<td>Total Wholesale Excluding Navy</td>
<td>1,455,762</td>
<td>1,479,390</td>
<td>1,520,286</td>
<td>1,683,819</td>
<td>2,155,132</td>
<td>2,134,006</td>
<td>1,747,697</td>
<td>1,532,595</td>
<td>1,649,389</td>
<td>1,681,337</td>
</tr>
<tr>
<td>United States Department of Navy</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Naval Hospital</td>
<td>40,042</td>
<td>34,835</td>
<td>36,489</td>
<td>40,862</td>
<td>39,957</td>
<td>42,353</td>
<td>42,117</td>
<td>30,108</td>
<td>24,407</td>
<td>24,168</td>
</tr>
<tr>
<td>Parris Island Recruit Depot</td>
<td>337,040</td>
<td>342,595</td>
<td>366,777</td>
<td>420,858</td>
<td>480,516</td>
<td>620,874</td>
<td>414,364</td>
<td>390,109</td>
<td>311,357</td>
<td>327,145</td>
</tr>
<tr>
<td>Laurel Bay Housing</td>
<td>156,116</td>
<td>157,933</td>
<td>162,178</td>
<td>214,257</td>
<td>189,392</td>
<td>202,158</td>
<td>180,852</td>
<td>163,409</td>
<td>171,696</td>
<td>184,631</td>
</tr>
<tr>
<td>Total Navy</td>
<td>654,312</td>
<td>641,643</td>
<td>673,481</td>
<td>831,636</td>
<td>824,474</td>
<td>981,987</td>
<td>769,866</td>
<td>690,497</td>
<td>619,183</td>
<td>689,481</td>
</tr>
<tr>
<td>Total Wholesale</td>
<td>2,110,074</td>
<td>2,121,033</td>
<td>2,193,767</td>
<td>2,515,455</td>
<td>2,979,606</td>
<td>3,115,993</td>
<td>2,517,563</td>
<td>2,223,092</td>
<td>2,268,572</td>
<td>2,370,818</td>
</tr>
<tr>
<td>Total Retail (5)</td>
<td>799,908</td>
<td>972,246</td>
<td>1,087,912</td>
<td>2,110,167</td>
<td>2,747,277</td>
<td>2,955,758</td>
<td>2,967,054</td>
<td>3,845,948</td>
<td>4,031,825</td>
<td>4,547,196</td>
</tr>
<tr>
<td>Total Volume</td>
<td>2,909,982</td>
<td>3,093,279</td>
<td>3,281,679</td>
<td>4,625,622</td>
<td>5,726,883</td>
<td>6,071,751</td>
<td>5,484,617</td>
<td>6,069,040</td>
<td>6,300,397</td>
<td>6,918,014</td>
</tr>
</tbody>
</table>

(1) In November 1999, the Authority acquired the City of Beaufort system and now provides retail water service to the former customers of the City of Beaufort.
(2) In July of 2003, the Authority acquired the Town of Port Royal system and now provides retail water service to the former customers of the Town of Port Royal.
(3) In August of 1997, the Authority acquired the Chelsea-Chechessee Water Company, Inc.
(5) See Retail Water Volume table on page 47.
The following table sets forth for the Fiscal Year ended June 30, 2006, the total billings by the Authority to each of the System’s wholesale customers. Prorated revenue figures for these billings are based upon the Authority’s audited financial statements for Fiscal Year 2006 as set forth in APPENDIX C.

### Wholesale Water Customers

<table>
<thead>
<tr>
<th>Customer</th>
<th>Billings</th>
<th>% of Total Wholesale Water Revenue*</th>
<th>% of Total Water Revenue*</th>
<th>% of Total Operating Revenue*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hilton Head No. 1 PSD</td>
<td>$1,580,406</td>
<td>41.0%</td>
<td>7.8%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Fripp Island PSD</td>
<td>405,464</td>
<td>10.5</td>
<td>2.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Water Oak Utility/Moss Creek</td>
<td>225,044</td>
<td>5.8</td>
<td>1.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Broad Creek PSD</td>
<td>190,102</td>
<td>4.9</td>
<td>0.9</td>
<td>0.5</td>
</tr>
<tr>
<td>Callawassie Island</td>
<td>139,398</td>
<td>3.6</td>
<td>0.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Harbor Island</td>
<td>91,597</td>
<td>2.4</td>
<td>0.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Warsaw Eustis &amp; Oaks</td>
<td>70,301</td>
<td>1.8</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total Wholesale Excluding Navy</strong></td>
<td><strong>$2,702,312</strong></td>
<td><strong>70.0%</strong></td>
<td><strong>13.3%</strong></td>
<td><strong>7.6%</strong></td>
</tr>
<tr>
<td>United States Department of Navy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parris Island Recruit Depot</td>
<td>$544,584</td>
<td>14.2%</td>
<td>2.7%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Laurel Bay Housing</td>
<td>308,341</td>
<td>8.0</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>MCAS-Beaufort</td>
<td>255,449</td>
<td>6.7</td>
<td>1.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Naval Hospital</td>
<td>40,149</td>
<td>1.1</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total Navy</strong></td>
<td>$1,148,523</td>
<td>30.0%</td>
<td>5.7%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Other Wholesale</td>
<td>2,922</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Wholesale</strong></td>
<td><strong>$3,853,757</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>19.0%</strong></td>
<td><strong>10.9%</strong></td>
</tr>
</tbody>
</table>

*Based on prorated revenue figures; see APPENDIX C.

### Retail Water Customers, Rates, Fees and Charges

The Authority currently serves Beaufort County retail customers located in the City of Beaufort, the Town of Port Royal, the City of Hardeeville, the Town of Bluffton and in the unincorporated areas of Beaufort and Jasper Counties. The total number of retail water customers at the end of Fiscal Year 2006 was approximately 40,500. In addition, pursuant to an operating agreement, the Authority manages the Levy-Limehouse-Bellinger-Hill Water System, which serves approximately 800 retail customers. The Authority is reimbursed monthly for operating deficits incurred in connection with operating and managing the Levy-Limehouse-Bellinger-Hill Water System.
The following table sets forth the gallons purchased by retail customers by area from the Authority, in thousands of gallons, for the ten Fiscal Years ended June 30, 2006:

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Beaufort(1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>348,846</td>
<td>520,903</td>
<td>504,265</td>
<td>487,437</td>
<td>505,568</td>
<td>491,854</td>
<td>496,045</td>
</tr>
<tr>
<td>Gray’s Hill/Burton</td>
<td>39,421</td>
<td>37,577</td>
<td>41,160</td>
<td>189,045</td>
<td>258,752</td>
<td>276,421</td>
<td>284,490</td>
<td>394,967</td>
<td>413,638</td>
<td>449,361</td>
</tr>
<tr>
<td>Lady’s Island/Cat Island</td>
<td>206,821</td>
<td>216,015</td>
<td>234,508</td>
<td>330,487</td>
<td>427,639</td>
<td>443,418</td>
<td>410,369</td>
<td>448,557</td>
<td>412,802</td>
<td>481,668</td>
</tr>
<tr>
<td>Point South</td>
<td>-</td>
<td>22,429</td>
<td>21,425</td>
<td>22,284</td>
<td>22,804</td>
<td>23,664</td>
<td>24,323</td>
<td>21,143</td>
<td>22,726</td>
<td>19,631</td>
</tr>
<tr>
<td>St. Helena/Dataw Island</td>
<td>120,521</td>
<td>131,305</td>
<td>136,460</td>
<td>238,942</td>
<td>337,519</td>
<td>323,678</td>
<td>306,359</td>
<td>327,996</td>
<td>292,636</td>
<td>314,674</td>
</tr>
<tr>
<td>Bluffton(2)</td>
<td>327,406</td>
<td>389,190</td>
<td>446,127</td>
<td>647,697</td>
<td>813,628</td>
<td>955,305</td>
<td>1,011,597</td>
<td>1,150,146</td>
<td>1,171,149</td>
<td>1,352,218</td>
</tr>
<tr>
<td>Palm Key</td>
<td>79</td>
<td>182</td>
<td>176</td>
<td>381</td>
<td>363</td>
<td>737</td>
<td>372</td>
<td>675</td>
<td>814</td>
<td>86,607</td>
</tr>
<tr>
<td>Okatie(3)</td>
<td>105,660</td>
<td>175,548</td>
<td>208,055</td>
<td>332,485</td>
<td>365,669</td>
<td>358,090</td>
<td>295,871</td>
<td>433,487</td>
<td>405,119</td>
<td>486,960</td>
</tr>
<tr>
<td>Hardeeville/So. Jasper Cty.(4)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>70,180</td>
<td>146,236</td>
<td>135,751</td>
<td>136,196</td>
<td>181,970</td>
<td></td>
</tr>
<tr>
<td>Town of Port Royal(5)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>138,330</td>
<td>144,875</td>
<td>166,454</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other/Special Commercial (SCE&amp;G)</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>289,328</td>
<td>540,016</td>
<td>511,608</td>
</tr>
<tr>
<td>Total Retail</td>
<td>799,908</td>
<td>972,246</td>
<td>1,087,912</td>
<td>2,110,167</td>
<td>2,747,277</td>
<td>2,955,758</td>
<td>2,967,054</td>
<td>3,845,948</td>
<td>4,031,825</td>
<td>4,547,196</td>
</tr>
</tbody>
</table>

(1) The Authority acquired the City of Beaufort’s system in November 1999.
(2) Includes the Town of Bluffton and greater Bluffton area, Ashley Plantation Apts., Belfair, Chelsea, Colleton River, Pritchardville, Rose Hill, etc.
(3) For Fiscal Year ended June 30, 2004 and thereafter, Okatie included SCE&G commercial.
(4) The Authority acquired the City of Hardeeville’s system in February 2002.
(5) The Authority acquired the Town of Port Royal’s system in July 2003.
The following table sets forth the retail water sales within each of the System’s retail service areas for the Fiscal Year ended June 30, 2006:

**Retail Water Revenues By Area\(^{(1)}\)**

<table>
<thead>
<tr>
<th>Area</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Beaufort</td>
<td>$1,996,779</td>
</tr>
<tr>
<td>Gray’s Hill/Burton</td>
<td>1,821,570</td>
</tr>
<tr>
<td>Lady’s Island/Cat Island</td>
<td>1,869,723</td>
</tr>
<tr>
<td>Point South</td>
<td>66,650</td>
</tr>
<tr>
<td>St. Helena/Dataw Island</td>
<td>1,277,269</td>
</tr>
<tr>
<td>Bluffton</td>
<td>5,027,007</td>
</tr>
<tr>
<td>Palm Key</td>
<td>298,282</td>
</tr>
<tr>
<td>Okatie</td>
<td>1,958,453</td>
</tr>
<tr>
<td>Hardeeville/So. Jasper Cty.</td>
<td>682,007</td>
</tr>
<tr>
<td>Town of Port Royal</td>
<td>667,415</td>
</tr>
<tr>
<td>Other/Special Commercial</td>
<td>245,789</td>
</tr>
<tr>
<td><strong>Total Retail Revenues</strong></td>
<td><strong>$15,910,944</strong></td>
</tr>
</tbody>
</table>

\(^{(1)}\) Amounts include only revenues provided by retail water sales and no other revenues provided from retail water services. Prorated billing adjustments (accruals) made at the end of the Fiscal Year are also not included since these are based on estimates and are not calculated by area.

The Authority’s current monthly retail water rates effective as of July 1, 2004 are:

**Retail Water Rates**

- **Residential and Commercial**
  - $5.00 minimum bill
  - $3.32 per 1,000 gallons

The following table compares the average monthly bill of a residential retail customer using 7,000 gallons of water of the Authority against that of retail water customers served by other providers in the region:

**Retail Water Rate Comparisons**

<table>
<thead>
<tr>
<th>Provider</th>
<th>Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beaufort-Jasper Water and Sewer Authority</td>
<td>$28.24</td>
</tr>
<tr>
<td>Charleston Water System (inside city limits)</td>
<td>$23.96</td>
</tr>
<tr>
<td>Charleston Water System (outside city limits)</td>
<td>$42.90</td>
</tr>
<tr>
<td>Georgetown County</td>
<td>$16.20</td>
</tr>
<tr>
<td>Grand Strand Water and Sewer Authority</td>
<td>$23.08</td>
</tr>
<tr>
<td>Mt. Pleasant Waterworks</td>
<td>$17.28</td>
</tr>
<tr>
<td>Myrtle Beach (inside city limits)</td>
<td>$17.64</td>
</tr>
<tr>
<td>Myrtle Beach (outside city limits)</td>
<td>$35.28</td>
</tr>
<tr>
<td>North Myrtle Beach</td>
<td>$25.98</td>
</tr>
</tbody>
</table>
Other fees and charges for retail water services of the Authority are one-time fees as follows:

<table>
<thead>
<tr>
<th>Service</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tap Fee (¾ inch tap-35 GPM)</td>
<td>$625</td>
</tr>
<tr>
<td>Capital Contribution Fee</td>
<td>$800/Residential Equivalent Unit</td>
</tr>
<tr>
<td></td>
<td>[$2.00/gpd x 400 gal.]</td>
</tr>
<tr>
<td>Account Service Fee</td>
<td>$15</td>
</tr>
</tbody>
</table>

Tap fees for residential customers requiring connections larger than the standard ¾ inch tap are as follows:

- 1 inch: $775
- 1-1/2 inches: $975
- 2 inches and over: Actual Cost

**Sewer Facilities**

The Authority’s wastewater collection system consists of gravity pipelines, lift stations and force mains conveying wastewater to seven active treatment plants. The three largest wastewater treatment plants are the Port Royal Island Water Reclamation Facility (“Port Royal”), the Cherry Point Wastewater Reclamation Facility (“Cherry Point”), and the Hardeeville Wastewater Treatment Plant (“Hardeeville”) with permitted capacities of 7.5 mgd, 3.2 mgd, and 1.01 mgd. The combined permitted capacity of the additional four plants is approximately 1.3 mgd. Many of the components of the Authority’s sewer system currently are being expanded and upgraded to meet demands in the rapidly growing areas of southern Beaufort and Jasper Counties, to increase System reliability, and to meet regulatory requirements. See “PLAN OF FINANCE – Capital Improvement Plan” for a description of the planned expansion of the Authority’s sewerage facilities and APPENDIX D. Other wastewater services include industrial pretreatment programs, water reclamation for irrigation and sludge, and septage disposal.

**Port Royal Island Water Reclamation Facility.** The newest component of the Authority’s sewer system is the Port Royal Island Water Reclamation Facility (“Port Royal”). This state of the art system was commissioned in August 2006 and serves all of Port Royal Island, which is north of the Broad River and west of the Beaufort River. The plant consists of a 7.5 mgd activated sludge wastewater process, followed by filtration and UV disinfection, which treats flows conveyed from approximately 80 sewer lift stations and associated collection systems, and provides disposal of reclaim-quality effluent to the Beaufort River.

**Cherry Point.** The Cherry Point Wastewater Reclamation Facility (“Cherry Point”) serves areas south of the Broad River, including the rapidly developing Cherry Point/Okitie area of Beaufort and Jasper Counties where the Sun City Hilton Head retirement community is located, as well as greater Bluffton and southern Beaufort and Jasper Counties. The facility consists of a 3.2 mgd carousel-type activated sludge wastewater process, which treats flows conveyed from approximately 200 sewer lift stations and associated collection systems, and provides disposal of reclaim-quality effluent to nine golf courses and the Authority’s 500-acre Great Effluent Management System. Cherry Point was completed in November of 1995, expanded to 1.6 mgd in 2001 when the former Rose Hill Wastewater Treatment Plant was decommissioned, and expanded again to 3.2 mgd in 2004 when the former Bluffton Wastewater Treatment Plant was decommissioned. The Authority operates a regional sludge dewatering facility at Cherry Point. Sludge is received at this site from both remote Authority wastewater facilities and from other utilities within the service area. The dewatered sludge is disposed of at the Hickory Hill
Landfill, approximately five miles from Cherry Point, and the Authority is charged a tipping rate of $9.80 per ton. In exchange, the Authority operates the landfill’s leachate pretreatment facility, which is metered and billed at the Authority’s current sewer rate. At the current rate of usage, Waste Management predicts that the landfill has fifty years of service life remaining. Cherry Point is currently undergoing a third expansion to 7.5 mgd, which is the project for which the Series 2006 Bonds are being issued. The average daily flow is approximately 2.6 million gallons.

Hardeeville. The Authority acquired the Hardeeville Wastewater Treatment Plant (“Hardeeville”) in 2001 as part of a consolidation agreement with the City of Hardeeville. The plant consists of a 1.01 mgd carousel-type activated sludge process, which treats flows conveyed from approximately 35 sewer pump stations and associated collection systems in the Hardeeville area and discharges treated effluent to the Savannah River. Average daily flow is approximately 400,000 gallons. The Authority anticipates that the U.S. Environmental Protection Agency (the “EPA”) may, at the end of November 2006, promulgate a Final Rule establishing a “zero additional Waste Load Allocation” standard with regard to dissolved oxygen for dischargers into certain impaired segments of the Savannah River that may affect the Authority’s Hardeeville Wastewater Treatment Plant’s discharge permit. The Authority understands that the reason for the limited standard is the inability of the EPA and various state agencies of South Carolina and Georgia to reach an agreement on a less restrictive Savannah River water quality standard. If the Final Rule is as anticipated, all existing discharge permits along the River would remain effective at their present limits. The ability of the Authority to modify or expand its discharge of effluent into the Savannah River without constructing treatment system improvements, however, may be significantly limited unless the standard is modified. Nevertheless, it is not expected that the resolution of this issue will have a materially adverse effect on the Authority’s ability to meet its financial obligations.

St. Helena. The St. Helena Wastewater Treatment Plant (“St. Helena”) was constructed in 1985 to serve Dataw Island and surrounding areas, and was transferred to the Authority pursuant to an agreement with Alcoa South Carolina, Inc., the developer of Dataw Island, in return for the Authority’s agreement to operate and maintain St. Helena and to provide sewer service to customers on Dataw Island. St. Helena, which also serves Lady’s Island, consists of a 0.6 mgd activated sludge wastewater process, and treats flows conveyed from approximately 45 sewer lift stations and associated collection systems. Effluent from St. Helena is sprayed on the Dataw Island golf courses and on Henry’s Sod Farm. The average daily flow is approximately 340,000 gallons per day.

Point South. The Authority accepted ownership of the Point South Wastewater Treatment Plant (“Point South”) in 1998. Point South consists of a 125,000 gallon-per-day aerated lagoon treatment plant, two lift stations, a collection system, and an effluent disposal system. Point South serves hotels, restaurants, and convenience stores in the area at the U.S. 17 exit on Interstate 95. Average daily flow is approximately 55,600 gallons. A project is currently underway to expand Point South to 0.6 mgd to accommodate the growth being experienced in this part of the Authority’s service area.

Palm Key. The Palm Key Wastewater Treatment Plant (“Palm Key”) has a capacity of 66,000 gallons per day and serves the Palm Key resort development in Jasper County. This wastewater system was built to Authority specifications by the developer, and the Authority accepted ownership and responsibility of the wastewater system in November 1994. The Palm Key development is still in its infancy and flows are very low. Average daily flow is less than 3,100 gallons.

Palmetto Bluff. The Palmetto Bluff Wastewater Treatment Plant (“Palmetto Bluff”) has a capacity of 500,000 gallons per day and serves the Palmetto Bluff resort. This wastewater system was
built to Authority specifications by the developer, and the Authority accepted ownership and responsibility for the wastewater system in 2004. At a future time to be determined by the Authority, and at the expense of the developer of Palmetto Bluff, the flows going to Palmetto Bluff will be diverted to Cherry Point, and Palmetto Bluff will be converted to a storage lagoon for treated effluent. Average daily flow is approximately 20,000 gallons.

**Moss Creek.** The Authority purchases capacity in the Moss Creek facility, which is owned by Water Oak Utility, Inc., to service retail sewer customers in Colleton River Plantation.

**Southside (City of Beaufort) and Shell Point.** In 1999, the Authority entered into a Consolidation and Transfer Agreement with the City of Beaufort pursuant to which the city transferred its sewer collection system and the 2 mgd Southside Wastewater Treatment Plant (“Southside (City of Beaufort)” to the Authority. Southside (City of Beaufort) began operations in the early 1970s. The Consolidation and Transfer Agreement granted the Authority an exclusive franchise to provide sewer service within the City of Beaufort for a period of forty (40) years. The 0.5 mgd Shell Point Wastewater Treatment Plant (“Shell Point”) was constructed in 1988 and provided wholesale and retail sewer service in an unincorporated area adjacent to the City of Beaufort and the Town of Port Royal. Both Southside (City of Beaufort) and Shell Point discharge to the Beaufort River, a 303d listed stream. Section 303(d) of the Clean Water Act establishes that states must list waters for which technology-based limits alone do not ensure attainment of applicable water quality standards. Once the impaired waters are identified, Section 303(d) requires that the states establish total maximum daily loads (TMDLs) that will meet water quality standards for each listed water. The Beaufort River is on the 303d list due to the documented depressed dissolved oxygen levels in the stream. Thus, in 2004, the SCDHEC issued new permits for Southside (City of Beaufort) and Shell Point that included more stringent TMDL based discharge limits. Because the treatment processes at Southside (City of Beaufort) and Shell Point could not meet the new TMDL limits, the plants were decommissioned in September 2006, and their flows diverted to the Port Royal Island Water Reclamation Facility.

**Proposed Navy System Acquisition.** As previously discussed, the Authority may acquire the waterworks and wastewater treatment systems of four military installations located within its service area. Under the terms of the Navy Contract presently in effect, the government pays the Authority a negotiated flat rate for all wastewater collection, treatment, and disposal services provided to the installations. The negotiated flat rate is effective for three-years after which time the rate can be renegotiated. Under the Proposed Navy Contract, the government would continue to pay the Authority a flat negotiated rate for wastewater collection and disposal services, also for a three-year period; however, the Navy will pay for the treatment of wastewater under a separate arrangement.
Sewer Customers, Services and Rates

Presented below is information regarding the number of customers served by the Authority’s sewerage facilities and the average daily flow treated at each facility:

### Sewer Customer Base
**as of June 30, 2006**

<table>
<thead>
<tr>
<th>Plant</th>
<th>Residential</th>
<th>Commercial</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southside (City of Beaufort)</td>
<td>5,748</td>
<td>983</td>
<td>6,731</td>
</tr>
<tr>
<td>Shell Point</td>
<td>3</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>St. Helena</td>
<td>1,384</td>
<td>180</td>
<td>1,564</td>
</tr>
<tr>
<td>Moss Creek</td>
<td>243</td>
<td>16</td>
<td>259</td>
</tr>
<tr>
<td>Palm Key</td>
<td>50</td>
<td>1</td>
<td>51</td>
</tr>
<tr>
<td>Cherry Point</td>
<td>14,105</td>
<td>956</td>
<td>15,061</td>
</tr>
<tr>
<td>Palmetto Bluff</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Point South</td>
<td>-</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Hardeeville</td>
<td>768</td>
<td>167</td>
<td>935</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22,301</strong></td>
<td><strong>2,346</strong></td>
<td><strong>24,647</strong></td>
</tr>
</tbody>
</table>

(1) These plants were decommissioned and their flows diverted to the Port Royal Water Reclamation Facility in August 2006.

The following table sets forth the ten largest customers of the Authority’s sewer system:

### Largest Sewer Customers

<table>
<thead>
<tr>
<th>User Name</th>
<th>User’s Service or Business</th>
<th>2006 Billed Revenues*</th>
<th>% of Total 2006 Billed Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bluffton House Apartments</td>
<td>Multifamily residential</td>
<td>$155,884</td>
<td>1.43%</td>
</tr>
<tr>
<td>Resort Services</td>
<td>Laundry</td>
<td>103,886</td>
<td>0.95</td>
</tr>
<tr>
<td>Naval Hospital</td>
<td>Hospital (military)</td>
<td>83,086</td>
<td>0.76</td>
</tr>
<tr>
<td>Beaufort Memorial Hospital</td>
<td>Hospital</td>
<td>62,266</td>
<td>0.57</td>
</tr>
<tr>
<td>Old South Apartments</td>
<td>Multifamily residential</td>
<td>61,698</td>
<td>0.57</td>
</tr>
<tr>
<td>Waterford Apartments</td>
<td>Multifamily residential</td>
<td>53,512</td>
<td>0.49</td>
</tr>
<tr>
<td>Beaufort County Council</td>
<td>Jail</td>
<td>45,951</td>
<td>0.42</td>
</tr>
<tr>
<td>South Carolina Dept. of Highways</td>
<td>Public transportation</td>
<td>32,792</td>
<td>0.30</td>
</tr>
<tr>
<td>Best Western</td>
<td>Hotel/Motel</td>
<td>32,148</td>
<td>0.30</td>
</tr>
<tr>
<td>Ramada Limited</td>
<td>Hotel/Motel</td>
<td>29,913</td>
<td>0.27</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>10,226,495</td>
<td>93.94</td>
</tr>
<tr>
<td><strong>Total Wastewater Revenues</strong></td>
<td></td>
<td><strong>$10,887,631</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

*Based on prorated revenue figures; see APPENDIX C.
The following table sets forth the average daily flows, permitted capacities, and maximum daily average peak flows for each of the Authority’s sewerage facilities as of June 30, 2006:

Average Daily Flows, Permitted Capacities and Maximum Daily Average Peak Flows  
(gallons per day)

<table>
<thead>
<tr>
<th>Plant</th>
<th>Average Daily Flow</th>
<th>Permitted Capacity</th>
<th>Maximum Daily Average Peak Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southside (City of Beaufort) (1)</td>
<td>1,277,500</td>
<td>2,000,000</td>
<td>1,562,900</td>
</tr>
<tr>
<td>Shell Point (1)</td>
<td>347,400</td>
<td>535,000</td>
<td>466,900</td>
</tr>
<tr>
<td>St. Helena</td>
<td>342,200</td>
<td>600,000</td>
<td>484,200</td>
</tr>
<tr>
<td>Moss Creek (2)</td>
<td>20,800</td>
<td>328,000</td>
<td>25,900</td>
</tr>
<tr>
<td>Palm Key</td>
<td>3,100</td>
<td>66,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Cherry Point/Okatie</td>
<td>2,542,900</td>
<td>3,200,000</td>
<td>3,048,000</td>
</tr>
<tr>
<td>Palmetto Bluff</td>
<td>18,900</td>
<td>500,000</td>
<td>113,000</td>
</tr>
<tr>
<td>Point South</td>
<td>55,600</td>
<td>125,000</td>
<td>99,600</td>
</tr>
<tr>
<td>Hardeeville</td>
<td>412,200</td>
<td>1,010,000</td>
<td>936,000</td>
</tr>
</tbody>
</table>

(1) These plants were decommissioned and their flows diverted to the Port Royal Water Reclamation Facility in August 2006.
(2) The Authority purchases treatment capacity in the Moss Creek facility, which is owned by Water Oak Utility, Inc., in order to service retail sewer customers in Colleton River Plantation.

The Authority’s current monthly sewer rates effective as of July 1, 2005 are:

Residential and Commercial Sewer Rates

Residential Sewer
- $5.00 basic facilities charge
- $5.30 per 1,000 gallons
- $42.00 maximum per month

Commercial Sewer
- $5.00 basic facilities charge
- $5.30 per 1,000 gallons
The table below is a comparison of retail sewer customers monthly bill (per 7,000 gallons) of the Authority against other providers of sewer services in the region:

### Retail Sewer Rate Comparisons
**per 7,000 gallons (Monthly Bill)**

<table>
<thead>
<tr>
<th>Provider</th>
<th>Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beaufort-Jasper Water and Sewer Authority</td>
<td>$42.00</td>
</tr>
<tr>
<td>Charleston Water System (inside city limits)</td>
<td>$74.56</td>
</tr>
<tr>
<td>Charleston Water System (outside city limits)</td>
<td>$103.24</td>
</tr>
<tr>
<td>Georgetown County</td>
<td>$22.62</td>
</tr>
<tr>
<td>Grand Strand Water and Sewer Authority</td>
<td>$20.01</td>
</tr>
<tr>
<td>Mt. Pleasant Waterworks</td>
<td>$31.33</td>
</tr>
<tr>
<td>Myrtle Beach (inside city limits)</td>
<td>$16.66</td>
</tr>
<tr>
<td>Myrtle Beach (outside city limits)</td>
<td>$33.32</td>
</tr>
<tr>
<td>North Myrtle Beach</td>
<td>$23.27</td>
</tr>
</tbody>
</table>

Other fees and charges for sewer services of the Authority are one-time fees as follows:

<table>
<thead>
<tr>
<th>Fee</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tap Fee</td>
<td>$500</td>
</tr>
<tr>
<td>Capital Contribution Fee</td>
<td>$2,700/Residential Equivalent Unit ($9.00/gpd x 300 gal.)</td>
</tr>
<tr>
<td>Inspection Fee</td>
<td>$50</td>
</tr>
</tbody>
</table>
UNITED STATES BANKRUPTCY CODE

The obligation of the Authority under the 2006 Series Resolution should be considered with reference to Chapter 9 of the United States Bankruptcy Code, 11 U.S.C. § 901, et seq., as amended (the “Bankruptcy Code”) and other laws affecting creditors’ rights and public instrumentalities generally. Chapter 9 permits a municipality, political subdivision, public agency, or other instrumentality of a state that is insolvent or unable to meet its debts as such debts mature to file a petition in the United States Bankruptcy Court for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of its creditors; provides that the filing of the petition under that Chapter operates as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner but does not limit or impair the power of the state to control a municipality by legislation; directs a petitioner to file a plan for the adjustment of its debts; permits the petitioner in its plan to modify the rights to payment of its creditors; and provides that the plan must be accepted in writing by or on behalf of the creditors of each class of claims holding at least two-thirds in amount and more than one-half in number of the creditors which have accepted or rejected the plan. The plan may be confirmed notwithstanding the negative vote of one or more classes of claims if the court finds that the plan is in the best interest of creditors, is feasible, and is fair and equitable with respect to the dissenting classes of creditors. A petitioner has the right to reinstate or otherwise modify indebtedness under its plan varying from the original maturity schedule of such indebtedness notwithstanding any provision in the documents under which the indebtedness arose relating to the insolvency or financial condition of the debtor before the confirmation of the plan, the commencement of a case under the Bankruptcy Code, or the appointment of or taking possession by a trustee in a case under the Bankruptcy Code or by a receiver or other custodian prior to the commencement of a case under the Bankruptcy Code.

TAX-EXEMPTION AND RELATED MATTERS

Federal Income Tax Generally

On the date of issuance of the Series 2006 Bonds, Haynsworth Sinkler Boyd, P.A., Columbia, South Carolina (“Bond Counsel”), will render an opinion that, assuming continuing compliance by the Authority with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and the applicable regulations promulgated thereunder (the “Regulations”) and further subject to certain considerations described in “Collateral Federal Tax Considerations” below, under existing statutes, regulations, and judicial decisions, interest on the Series 2006 Bonds is excludable from the gross income of the registered owners thereof for federal income tax purposes. Interest on the Series 2006 Bonds will not be treated as an item of tax preference in calculating the alternative minimum taxable income of individuals or corporations; however, interest on the Series 2006 Bonds will be included in the calculation of adjusted current earnings in determining the alternative minimum tax liability of corporations. The Code contains other provisions that could result in tax consequences, upon which no opinion will be rendered by Bond Counsel, as a result of (i) ownership of the Series 2006 Bonds or (ii) the inclusion in certain computations (including, without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

The opinion of Bond Counsel will be limited to matters relating to the authorization and validity of the Series 2006 Bonds and the tax-exempt status of interest on the Series 2006 Bonds as described herein. Bond Counsel makes no statement regarding the accuracy and completeness of this Official Statement.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Series 2006 Bonds for federal income tax purposes. Bond Counsel’s opinions are based upon existing
law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts of circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service (the “IRS”) or the courts; rather, such opinions represent Bond Counsel’s professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinions.

The opinion of Bond Counsel described above is subject to the condition that the Authority comply with all requirements of the Code and the Regulations, including, without limitation, certain limitations on the use, expenditure, and investment of the proceeds of the Series 2006 Bonds and the obligation to rebate certain earnings on investments of proceeds to the United States Government, that must be satisfied subsequent to the issuance of the Series 2006 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2006 Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2006 Bonds. The opinion of Bond Counsel delivered on the date of issuance of the Series 2006 Bonds is conditioned on compliance by the Authority with such requirements and Bond Counsel has not been retained to monitor compliance with the requirements subsequent to the issuance of such Series 2006 Bonds.

State Tax Exemption

Bond Counsel is of the further opinion that the Series 2006 Bonds and the interest thereon are exempt from all taxation by the State of South Carolina, its counties, municipalities, and school districts except estate, transfer, or certain franchise taxes. Interest paid on the Series 2006 Bonds is currently subject to the tax imposed on banks by Section 12-11-20, Code of Laws of South Carolina 1976, as amended, which is enforced by the South Carolina Department of Revenue and Taxation as a franchise tax. The opinion of Bond Counsel is limited to the laws of the State of South Carolina and federal tax laws. No opinion is rendered by Bond Counsel concerning the taxation of the Series 2006 Bonds or the interest thereon under the laws of any other jurisdiction.

Collateral Federal Tax Considerations

Prospective purchasers of the Series 2006 Bonds should be aware that ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Bond Counsel expresses no opinion concerning such collateral income tax consequences and prospective purchasers of Series 2006 Bonds should consult their tax advisors as to the applicability thereof.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series 2006 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent the holders thereof from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series 2006 Bonds. Prospective purchasers of the Series 2006 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.
The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Series 2006 Bonds. Bond Counsel’s engagement with respect to the Series 2006 Bonds ends with the issuance of the Series 2006 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the holders of the Series 2006 Bonds regarding the tax-exempt status of the Series 2006 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the holders of the Series 2006 Bonds, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2006 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2006 Bonds, and may cause the Authority or the holders of the Series 2006 Bonds to incur significant expense, regardless of the ultimate outcome. Under certain circumstances, the Authority may be obligated to disclose the commencement of an audit under the Continuing Disclosure Certificate. See “Continuing Disclosure” herein.

**UNDERWRITING**

The Underwriter, A.G. Edwards & Sons, Inc., Atlanta, Georgia (the “Underwriter”), has agreed, subject to certain conditions, to purchase all, but not less than all, of the Series 2006 Bonds from the Authority at a purchase price of $61,262,854.45, which is equal to par plus net original issue premium of $2,882,979.45 and less an underwriters’ discount of $370,125. The Underwriter intends to offer the Series 2006 Bonds to the public initially at the offering prices set forth on the cover page of this Official Statement, which prices may subsequently change without requirement of prior notice. The Series 2006 Bonds may be offered and sold to certain dealers, dealer banks, and banks acting in the capacity of agents at prices lower than such public offering prices. The Underwriter reserves the right to join with other dealers and underwriters in offering the Series 2006 Bonds to the public.

**LITIGATION**

No litigation is presently pending or, to the knowledge of the Authority, threatened in any court to restrain or enjoin the issuance or delivery of any of the Series 2006 Bonds or the collection of revenues pledged or to be pledged to pay the principal of and interest on the Series 2006 Bonds, or in any way contesting or affecting the validity of the Series 2006 Bonds, the Resolution, or the power to collect and pledge revenues to pay the Series 2006 Bonds, or contesting the power or authority of the Authority to issue the Series 2006 Bonds or to enact the 2006 Series Resolution.
RATINGS

The Series 2006 Bonds are expected to be assigned a rating of Aaa by Moody’s Investors Service, Inc. (“Moody’s”) and a rating of AAA by Standard & Poor’s Ratings Services (“S&P”), a Division of The McGraw-Hill Companies, Inc., on the basis of the Policy that will be issued by the Bond Insurer upon issuance of the Series 2006 Bonds. Moody’s has also assigned an underlying rating of Aa2 to the Series 2006 Bonds, and S&P has assigned an underlying rating of AA- to the Series 2006 Bonds. Such ratings reflect only the respective views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2006 Bonds.

AUDITED FINANCIAL INFORMATION

The financial statements as of and for the Fiscal Years ended June 30, 2005 and 2006, included in APPENDIX C relating to the System, have been audited by Cherry Bekaert & Holland, L.L.P., Augusta, Georgia, Certified Public Accountants, as set forth in their report dated August 5, 2006, and are included herein in reliance upon such reports.

LEGAL MATTERS

All of the legal proceedings in connection with the authorization and issuance of the Series 2006 Bonds are subject to the approval of Haynsworth Sinkler Boyd, P.A., Columbia, South Carolina, Bond Counsel. Certain legal matters in connection with the Series 2006 Bonds will be passed on by Haynsworth Sinkler Boyd, P.A., Columbia, South Carolina, as Disclosure Counsel, and for the Underwriter by its counsel, Murray Barnes Finister LLP, Atlanta, Georgia. Certain matters will be passed on for the Authority by its general counsel, Raymond H. Williams, P.A., Beaufort, South Carolina.

The various legal opinions to be delivered concurrently with the delivery of the Series 2006 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

CONTINUING DISCLOSURE

The Authority has covenanted, pursuant to Section 11-1-85, Code of Laws of South Carolina 1976, as amended, to file with a central repository for availability in the secondary bond market, when requested, an annual independent audit within thirty (30) days of its receipt and event specific information within 30 days of an event adversely affecting more than five percent (5%) of Gross Revenues of the Authority.

In accordance with the requirements of Rule 15c2-12, as amended (the “Rule”) promulgated by the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as amended, the
Authority will agree, in a Continuing Disclosure Certificate to be delivered upon the issuance of the Series 2006 Bonds, to provide:

(i) to each nationally recognized municipal securities repository (each a “NRMSIR”) and to any State of South Carolina Information Depository hereafter created, if any (the “State Information Depository”), certain annual financial information and operating data, including audited financial statements, generally consistent with the information under the caption “DEBT STRUCTURE,” and under the heading “THE AUTHORITY – Insurance”, and the information contained in the Tables entitled “Wholesale Water Rates by Area,” “Wholesale and Retail Water Selected Data,” and “Wholesale Water Customers” under the heading “THE SYSTEM – Wholesale Water Customers, Rates, Fees and Charges;” in the Tables entitled “Retail Water Volume,” “Retail Water Rates,” and “Retail Water Revenues by Area” under the heading “THE SYSTEM – Retail Water Customers, Rates, Fees and Charges;” and the Tables entitled “Sewer Customer Base,” “Residential and Commercial Sewer Rates,” and “Largest Sewer Customers” under the heading “THE SYSTEM – Sewer Customers, Services, and Rates.” The Continuing Disclosure Certificate requires such information to be available within 210 days after the end of the Fiscal Year of the Authority, (currently June 30) and will be made available, in addition to the NRMSIR’s to each holder of Series 2006 Bonds who makes request for such information. The annual financial information will be filed with respect to the Fiscal Year of the Authority commencing July 1, 2007, and each Fiscal Year thereafter;

(ii) in a timely manner to each NRMSIR or to the Municipal Securities Rulemaking Board (“MSRB”) and State Information Repository, notice of the occurrence of any of the following events with respect to the Series 2006 Bonds, if, in the judgment of the Authority, such event is material;

(a) principal and interest payment delinquencies;
(b) non-payment related defaults;
(c) unscheduled draws on debt service reserves reflecting financial difficulties;
(d) unscheduled draws on credit enhancements reflecting financial difficulties;
(e) substitution of credit or liquidity providers, or their failure to perform;
(f) adverse tax opinions or events affecting the tax-exempt status of the Series 2006 Bonds;
(g) modifications to rights to certificate holders;
(h) Series 2006 Bond calls;
(i) defeasance;
(j) release, substitution, or sale of property securing repayment of the securities; and
(k) rating changes.

The Authority may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the Authority, such other event is material with respect to the Series
2006 Bonds, but the Authority does not undertake to commit to provide any such notice of occurrence of any material event except those events listed above;

(iii) in a timely manner, to each NRMSIR or to the MSRB, notice of a failure (of which the Authority has knowledge) by the Authority to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The foregoing information and notices can be obtained from the Office of the Authority, 6 Snake Road, Okatie, South Carolina, 29910, Attention: Terry Murray, Deputy General Manager of Finance and Administration.

The Authority agreed to provide continuing disclosure on its prior Series of Bonds and has at all times been in compliance with this obligation, having timely filed the required annual financial information as required every Fiscal Year thereafter. The Authority reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Authority; provided that any such modification will be done in a manner consistent with the Rule. The Authority reserves the right to terminate its obligation to provide annual financial information and notice of material events as set forth above, if and when the Authority no longer remains an obligated person with respect to the Series 2006 Bonds within the meaning of the Rule. The Authority acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Holders of the Series 2006 Bonds and shall be enforceable by the Holders of the Series 2006 Bonds; provided that the Holders’ right to enforce the provisions of the undertaking shall be limited to a right to obtain specific enforcement of the Authority’s obligations pursuant to the undertaking and any failure by the Authority to comply with the provisions of the undertaking shall not be an event of default with respect to the Series 2006 Bonds.

MISCELLANEOUS

Verification Agent

The arithmetical accuracy of certain computations in the schedules provided by the Underwriter on behalf of the Authority relating to (a) computations of anticipated receipts of principal and interest on the Escrow Obligations and the anticipated payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Series 2006 Bonds and the Escrow Obligations was examined by Grant Thornton LLP. Such computations were based solely upon assumptions and information supplied by the Underwriter on behalf of the Authority. Grant Thornton LLP has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions made, or the achievability of future events.

The references herein to the Bond Resolution, 2006 Series Resolution, the Enabling Act and the Act are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to such documents for full and complete statements of their provisions. Copies of these documents are available from the Office of the Authority, 6 Snake Road, Okatie, South Carolina, 29910, Attention: Terry Murray, Deputy General Manager of Finance and Administration.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.
The execution of this Official Statement and its delivery have been duly authorized by the Authority.

BEAUFORT-JASPER WATER AND SEWER AUTHORITY, SOUTH CAROLINA

By: /s/ Mark C. Snyder
Chairman of the Board
APPENDIX A

ECONOMIC AND DEMOGRAPHIC DATA FOR BEAUFORT AND JASPER COUNTIES
APPENDIX A

ECONOMIC CHARACTERISTICS OF BEAUFORT AND JASPER COUNTIES

Commerce and Industry

Beaufort County, located on the southeastern coast of South Carolina, includes the port city of Beaufort and the resort of Hilton Head Island. Beaufort County’s early economy was based on the indigo, rice and cotton plantations, and Beaufort’s Port Royal was the site of a thriving shipbuilding industry. Reconstruction and the decline of the cotton crop took a toll on the area’s economy after the Civil War. It was not until the port expanded and the Parris Island military training facility opened in 1882 that the economy began to thrive. The strength of the local military presence was further enhanced when the Marine Corps Air Station joined Parris Island in 1942. In 1949, the 250-bed Naval Hospital was opened. In recent years, the area’s economy has grown from a combination of tourism, new business and residential development. In 1994, the Del Webb Corporation chose Beaufort and Jasper counties for its development of a 6,000-acre, 8,600-unit residential retirement community, which has added jobs to the counties’ employment growth and has been a catalyst for commercial and residential development in the region.

Ten metropolitan areas in North Carolina and South Carolina were among the country’s 100 fastest-growing cities and towns between 2000 and 2005. The combined Hilton Head Island and Beaufort region had a population growth of 12.5% to almost 160,000 – the 70th largest jump in the country.

Jasper County is located in the southwestern section of South Carolina and forms the boundary with Georgia on the western side. Jasper County, covering 662 square miles, is situated between the historic port cities of Charleston and Savannah. The Town of Ridgeland, the county seat, lies in the center of the county. Formed in 1912, Jasper County is South Carolina’s third youngest county - the 44th of 46 counties to be formed in the State. Jasper County has since grown to a population of over 20,000. Jasper County offers three major industrial parks as well as membership with four contiguous counties in the nation’s first multi-county industrial complex. The labor force in a 30-mile radius numbers exceeds 200,000.

The proximity of first class port facilities contributes to the competitiveness and success of many area businesses. In 2003, more than 15 million tons of containerized, breakbulk and bulk cargo moved through the South Carolina Ports Authority facilities in Port Royal, Charleston and Georgetown. Port Royal specializes in cement and fertilizer cargoes, handling 130,000 tons of cargo in 2003. The port is served by the State’s 2,600-mile railroad network. Interstate and rail connection systems provide easy access to the ports of Savannah, Charleston, Jacksonville and Georgetown. Savannah, Georgia and Charleston, South Carolina (the largest container-cargo port in the Southeast) are approximately 45 minutes and 60 minutes, respectively, from most locations in Beaufort County. Another port facility with convenient access to shipping services, the Jasper County Marine Terminal Project, is currently under development in Jasper County. For more than a decade, Jasper County has been planning the South Atlantic International Terminal, a new deep-water terminal to be situated on the north side of the lower Savannah River. SSA Marine, America’s foremost terminal company and a global industry leader, will design, build and operate the terminal under a 32-year contract with Jasper County. SSA Marine has committed to invest approximately $450 million, generating approximately 450 jobs at the terminal and 95,000 additional jobs in the surrounding area. The facilities at the 1,863-acre terminal site include a 3,600-foot ship berth, a 200-acre container yard and eight gantry cranes. Between 550,000 and 1.1 million containers are projected to move through the terminal annually in the first decade.

In March, 2006, the Greater Beaufort-Hilton Head Economic Partnership announced their purchase of the Beaufort Commerce Park. Located off Highway 21 in Beaufort, the Partnership purchased the 195-acre park for $15,000 per acre. The master plan includes extension of water service lines, drainage and storm water management, construction of speculative buildings and a comprehensive development plan.
Canada-based wood products manufacturer Greenline Industries announced in November 2005 plans to relocate a portion of its manufacturing business to northern Beaufort County to the abandoned Vanguard Building. The initial investment of $3 million is anticipated to bring 50 jobs, with 50 more in the next two years.

In February, 2005, the Greater Beaufort-Hilton Head Partnership assisted Atlanta-based hotel chain Microtel Inns and Suites with plans to open an 80-room hotel along the U.S. Highway 278 corridor that connects Hilton Head Island with the mainland.

In July 2004, Haven Homes Southeast, Inc., a maker of upscale modular and specialty homes, opened an 85,000 square-foot manufacturing plant and a state-of-the-art sales and design office in Jasper County. Situated on a 21-acre site, the plant will produce custom designed homes and commercial structures. The $4 million investment is expected to create 60 jobs at the facility in its first year.

The New River Campus at the Technical College of the Lowcountry (TCL) opened Fall 2006. The new state-of-the-art educational facility features one large tiered-classroom, four advanced technology classrooms, seven technical and computer laboratories as well as student services areas. The 31,000-square foot facility is the first building on the new Bluffton campus, and as such will function as a complete campus within one building. Teaching spaces are equipped with distance learning capability. Plans to expand TCL’s campus began in 2001 when Beaufort County pledged $7 million from a tax increment financing district. Jasper County has also contributed toward this development project.

**Population Growth**

The following table shows population information for Beaufort and Jasper Counties:

<table>
<thead>
<tr>
<th>Year</th>
<th>Beaufort County</th>
<th>Jasper County</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>51,136</td>
<td>11,885</td>
</tr>
<tr>
<td>1980</td>
<td>65,364</td>
<td>14,504</td>
</tr>
<tr>
<td>1990</td>
<td>86,425</td>
<td>15,487</td>
</tr>
<tr>
<td>2000</td>
<td>120,937</td>
<td>20,678</td>
</tr>
<tr>
<td>2004(1)</td>
<td>135,725</td>
<td>21,193</td>
</tr>
</tbody>
</table>

(1) July 1, 2004 estimate.

Source: U.S. Bureau of the Census; South Carolina Budget & Control Board, Division of Research and Statistics.

**Per Capita Income**

Beaufort County ranked 1st in per capita personal income in 2004 out of the 46 counties in the State of South Carolina. The following table shows the per capita personal income in Beaufort County and Jasper Counties, residence adjusted, for the years shown:

<table>
<thead>
<tr>
<th>Year</th>
<th>Beaufort County</th>
<th>Jasper County</th>
<th>South Carolina</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>n/a</td>
<td>n/a</td>
<td>$28,352</td>
<td>$34,586</td>
</tr>
<tr>
<td>2004</td>
<td>36,570</td>
<td>21,833</td>
<td>27,185</td>
<td>33,050</td>
</tr>
<tr>
<td>2003</td>
<td>34,781</td>
<td>20,250</td>
<td>25,972</td>
<td>31,484</td>
</tr>
<tr>
<td>2002</td>
<td>33,948</td>
<td>18,813</td>
<td>25,361</td>
<td>30,810</td>
</tr>
<tr>
<td>2001</td>
<td>34,292</td>
<td>18,129</td>
<td>24,994</td>
<td>30,574</td>
</tr>
</tbody>
</table>

Source: State Budget and Control Board, Office of Research and Statistical Services, Economic Research Section; U.S. Bureau of Economic Analysis.
Retail Sales

The following table shows the level of retail sales over the last five years for which information is available for businesses located in Beaufort and Jasper Counties:

<table>
<thead>
<tr>
<th>Beaufort County</th>
<th>Jasper County</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Retail Sales</td>
</tr>
<tr>
<td>2005</td>
<td>$3,646,847,632</td>
</tr>
<tr>
<td>2004</td>
<td>3,414,415,525</td>
</tr>
<tr>
<td>2003</td>
<td>3,158,157,797</td>
</tr>
<tr>
<td>2002</td>
<td>2,994,734,542</td>
</tr>
<tr>
<td>2001</td>
<td>2,917,924,095</td>
</tr>
</tbody>
</table>

Source: South Carolina Department of Revenue, Administrative Division.

Major Employers (Beaufort County)

Some of the larger industrial and manufacturing employers located within Beaufort County, their products and approximate number of employees are shown in the following table:

<table>
<thead>
<tr>
<th>Name</th>
<th>Product or Service</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resort Services Inc.</td>
<td>Cleaning chemicals</td>
<td>265</td>
</tr>
<tr>
<td>Island Packet</td>
<td>Daily newspaper publisher</td>
<td>100</td>
</tr>
<tr>
<td>NUFARM Specialty Products, Inc.</td>
<td>Chemical intermediates, dyes, surfactants</td>
<td>92</td>
</tr>
<tr>
<td>Beaufort Gazette</td>
<td>Newspapers (publishing &amp; printing)</td>
<td>77</td>
</tr>
<tr>
<td>Rea Construction</td>
<td>Asphalt hot mix</td>
<td>65</td>
</tr>
<tr>
<td>Athena Corp.</td>
<td>Polymer bathtubs, countertops, showers</td>
<td>54</td>
</tr>
<tr>
<td>Kigre Inc.</td>
<td>Solid state laser components, laser glass</td>
<td>45</td>
</tr>
<tr>
<td>Data Publishing Co., Inc.</td>
<td>Yellow pages publishing</td>
<td>34</td>
</tr>
<tr>
<td>2 Stroke International</td>
<td>Engines &amp; parts</td>
<td>30</td>
</tr>
<tr>
<td>Caribbean Clear International Ltd.</td>
<td>Water purification systems (pools)</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: South Carolina Industrial Directory, published by the S.C. Department of Commerce.

Major Employers (Jasper County)

Some of the larger industrial and manufacturing employers located within Jasper County, their products and approximate number of employees are shown in the following table:

<table>
<thead>
<tr>
<th>Name</th>
<th>Product or Service</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kwalu</td>
<td>Contract seating &amp; furnishing market</td>
<td>80</td>
</tr>
<tr>
<td>Silver Star Trailers LLC</td>
<td>Aluminum horse trailers</td>
<td>80</td>
</tr>
<tr>
<td>CareCore National</td>
<td>Ambulatory health care services</td>
<td>70</td>
</tr>
<tr>
<td>Haven Homes, Inc.</td>
<td>Single family housing construction</td>
<td>60</td>
</tr>
<tr>
<td>Walsh Fabrication</td>
<td>Countertops</td>
<td>55</td>
</tr>
<tr>
<td>John White Logging</td>
<td>Logging</td>
<td>30</td>
</tr>
<tr>
<td>Lowcountry Concrete Inc.</td>
<td>Ready mix concrete</td>
<td>28</td>
</tr>
<tr>
<td>Conex Concrete Express, Inc.</td>
<td>Ready mix concrete</td>
<td>20</td>
</tr>
<tr>
<td>Fred Gretsch Enterprises Ltd.</td>
<td>Drums</td>
<td>14</td>
</tr>
<tr>
<td>Timber Products Inc.</td>
<td>Logging</td>
<td>11</td>
</tr>
</tbody>
</table>

Labor Force

The composition of the civilian force in Beaufort and Jasper Counties for 2005 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Beaufort County</th>
<th>Jasper County</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>976</td>
<td>500</td>
<td>1,476</td>
<td>1.79%</td>
</tr>
<tr>
<td>Construction</td>
<td>6,602</td>
<td>869</td>
<td>7,471</td>
<td>9.08%</td>
</tr>
<tr>
<td>TCU</td>
<td>1,773</td>
<td>158</td>
<td>1,931</td>
<td>2.35%</td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>9,967</td>
<td>852</td>
<td>10,819</td>
<td>13.15%</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>6,173</td>
<td>142</td>
<td>6,315</td>
<td>7.67%</td>
</tr>
<tr>
<td>Services</td>
<td>40,602</td>
<td>3,517</td>
<td>44,119</td>
<td>53.60%</td>
</tr>
<tr>
<td>Government</td>
<td>8,798</td>
<td>1,376</td>
<td>10,174</td>
<td>12.36%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>74,891</strong></td>
<td><strong>7,414</strong></td>
<td><strong>82,305</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

Source: South Carolina Employment Security Commission

Unemployment

Beaufort County had the 2nd lowest unemployment rate and Jasper County had the 3rd lowest unemployment rate in South Carolina as of August 2006, at 4.5% and 4.8%, respectively. The annual unemployment rates for Beaufort and Jasper Counties and the State of South Carolina for the last five years are shown below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Beaufort County</th>
<th>Jasper County</th>
<th>South Carolina</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>4.5%</td>
<td>5.0%</td>
<td>6.8%</td>
<td>5.1%</td>
</tr>
<tr>
<td>2004</td>
<td>4.7</td>
<td>5.5</td>
<td>6.8</td>
<td>5.5</td>
</tr>
<tr>
<td>2003</td>
<td>4.5</td>
<td>5.9</td>
<td>6.7</td>
<td>6.0</td>
</tr>
<tr>
<td>2002</td>
<td>4.0</td>
<td>5.1</td>
<td>5.9</td>
<td>5.8</td>
</tr>
<tr>
<td>2001</td>
<td>3.9</td>
<td>4.3</td>
<td>5.2</td>
<td>4.7</td>
</tr>
</tbody>
</table>


Labor Force and Employment (Beaufort County)

The labor force participation rates of residents of Beaufort County for the last five years are as follows:

<p>| (By Place of Residence)                        |</p>
<table>
<thead>
<tr>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civilian Labor Force</td>
<td>51,096</td>
<td>53,693</td>
<td>56,267</td>
<td>59,186</td>
</tr>
<tr>
<td>Employment</td>
<td>49,128</td>
<td>51,547</td>
<td>53,732</td>
<td>56,419</td>
</tr>
<tr>
<td>Unemployment</td>
<td>1,968</td>
<td>2,146</td>
<td>2,535</td>
<td>2,767</td>
</tr>
<tr>
<td>% of Labor Force Unemployed</td>
<td>3.9%</td>
<td>4.0%</td>
<td>4.5%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Workers involved in labor disputes are included among the employed. Total employment also includes agricultural workers, proprietors, self-employed persons, workers in private households and unpaid family workers.

Labor Force and Employment (Jasper County)

The labor force participation rates of residents of Jasper County for the last five years are as follows:

(By Place of Residence)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civilian Labor Force</td>
<td>9,010</td>
<td>9,236</td>
<td>9,526</td>
<td>9,829</td>
<td>10,511</td>
</tr>
<tr>
<td>Employment</td>
<td>8,691</td>
<td>8,766</td>
<td>8,966</td>
<td>9,288</td>
<td>9,985</td>
</tr>
<tr>
<td>Unemployment</td>
<td>391</td>
<td>470</td>
<td>560</td>
<td>541</td>
<td>526</td>
</tr>
<tr>
<td>% of Labor Force Unemployed</td>
<td>4.3%</td>
<td>5.1%</td>
<td>5.9%</td>
<td>5.5%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Workers involved in labor disputes are included among the employed. Total employment also includes agricultural workers, proprietors, self-employed persons, workers in private households and unpaid family workers.


Facilities Located Within or Serving the Counties

Transportation. South Carolina’s highway system is the fifth largest state-maintained highway system in the United States, with over 790 miles of interstate highways. Interstates I-95, I-16 and I-26 link Beaufort and Jasper Counties to destinations throughout the south and east coast.

The Savannah/Hilton Head International Airport is located approximately 45 miles from Beaufort in Savannah, Georgia and is operated by the Savannah Airport Commission. Built in 1994 at a cost of approximately $43 million, the 275,000 square-foot terminal has ten gates with loading bridges, a 9,351-foot east-west runway, a 7,001-foot north/south runway, and approximately 3,000 short and long-term parking spaces. The airlines servicing the airport are AirTran, American Eagle, Continental Express, Delta/Delta Connection, Northwest, United Express and US Airways.

The Beaufort County Airport, located on Lady’s Island at U.S. Highway 21, is located two miles from downtown Beaufort. It has a runway of approximately 3,430 feet and offers pilot controlled lighting, precision approach path indicator, airport beacon and tie-down, as well as flight training. The Hilton Head Airport, located on Hilton Head Island at Highway 278, is serviced by US Airways Express. Runway 3 is approximately 4,300 feet long and Runway 21 is 1,311 feet long. The airport offers dusk-dawn lighting, airport beacon, non-precision instrument approach, medium intensity runway edge lights, flight training and aircraft rentals.

Ridgeland Airport, a small aircraft airport located in Jasper County, has a 3,100-foot, paved and lighted runway and offers 100 LL fuel, major airframe and major power plant repairs.

South Carolina boasts a 2,600-mile railroad network that facilitates rail service from almost every county in the state. Seaboard System Railroad (CSX Corp.) and Norfolk-Southern Railroad Corporation serve nearly all of the continental United States from South Carolina.

Public Education. The Beaufort County School District presently operates 29 fully-accredited schools: 18 elementary schools, 6 middle schools, 4 high schools and one vocational center. Approximately 18,159 students were enrolled during the 2005-06 school year, based on a 135-day average daily membership. The Jasper County School District presently operates 4 fully-accredited schools: two elementary schools, one middle school and one high school. Approximately 3,010 students were enrolled during the 2005-06 school year, based on a 135-day average daily membership. All public schools in both counties are fully accredited by the South Carolina Department of Education and the Southern Association of Colleges and Schools. Full accreditation assures quality standards with regard to class size, personnel qualifications, facilities, instructional materials and curriculum.
Higher Education. Institutions of higher learning serving Beaufort and Jasper Counties include the University of South Carolina-Beaufort (USCB) which had a Fall 2005 enrollment of 1,319. USCB’s historic campus on the banks of the Intracoastal Waterway in the heart of downtown Beaufort is now the North Campus of the State’s newest four-year university. South Campus, which opened in 2004, sits at the gateway to Hilton Head Island and has new on-campus residential living at Palmetto Village. The 200-acre South Campus also offers state-of-the-art science labs and South Carolina’s newest library with its own cyber café. Undergraduate research opportunities are afforded in the labs and at the research center on USCB’s barrier island. USCB provides a liberal arts curriculum, emphasizing the study and appreciation of the area’s unique geography, ecology, history and culture. USCB also offers a Bachelor of Science degree in Hospitality Management and a Human Services degree. In addition to offering baccalaureate degrees, USCB offers Associates of Arts and Associate of Science degrees to military personnel at the Marine Corps Air Station and Parris Island Recruit Depot. USCB also partners with the Extended Graduate Campus of USC-Columbia to make graduate education available to citizens of the Lowcountry.

One of 16 colleges comprising the South Carolina Technical College System, the Technical College of the Lowcountry (TCL) traces its origin to the Mather School founded in 1868. TCL is a comprehensive, public, two-year college dedicated to serving the diverse educational needs of Beaufort, Colleton, Hampton and Jasper counties. TCL provides quality, affordable academic and technical programs leading to Associate Degrees, Diplomas and Certificates, and prepares graduates with knowledge and skills for transfer to senior colleges and for careers in computer technology, industrial technology, engineering technology, occupational technology, business, health sciences and public service. TCL had a Fall 2005 enrollment of 1,689.

Medical Facilities. Beaufort Memorial Hospital, which opened in 1944, is licensed for 197 beds – 169 acute, 14 rehab and 14 mental health. The hospital is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations and has a quality medical staff of more than 150 board-certified or board-eligible physicians. The largest hospital between Savannah, Georgia and Charleston, South Carolina, Beaufort Memorial Hospital is situated on the Atlantic Intercoastal Waterway and is one of the few hospitals in the country with its own emergency dock. Beaufort Memorial’s new Keyserling Cancer Center is the only center in the region offering image-guided, intensity-modulated radiotherapy – the latest in radiation therapy technology. This new image-guided technology produces three-dimensional images to track movement of a cancerous tumor during treatment. The $6.5 million, 24,000-square foot radiation oncology facility serves patients who historically commuted to Hilton Head Island, Charleston and Savannah.

The Naval Hospital, Beaufort was opened in 1949 and provides general medical, surgical and emergency services to active duty Navy and Marine Corps personnel as well as retired military personnel and military dependents residing in the Beaufort area. Naval Hospital, Beaufort consists of the hospital and two Branch Medical Clinics – one at Marine Corps Recruit Depot, Parris Island and the other at Marine Corps Air Station, Beaufort. Naval Hospital, Beaufort is one of the few military facilities which is a complete military compound in itself. Located on the grounds of the Naval Hospital, Beaufort are 53 family housing single-story units, two Bachelor Enlisted quarters with the ability to accommodate approximately 190 residents, a Navy Exchange retail store, gas station and a Mini Mart with package store. Recreational facilities include two softball fields, swimming pool, lighted tennis and basketball courts, outdoor fitness course, a gym, fishing pier and a children’s playground.

Financial Institutions. According to the State Board of Financial Institutions, Beaufort County is served by 69 branches of commercial banks, eight branches of savings and loan associations and one credit union. As of June 30, 2005, in Beaufort County, local banks reported deposits of $2,528,435,000, savings and loan associations reported deposits of $254,378,000, and the credit union reported deposits of $44,963,000. Jasper County is served by six branches of commercial banks with the banks reporting deposits of $113,458,000 as of June 30, 2005.

Recreation. The entire county of Beaufort is referred to as South Carolina’s Treasured Coast because of its rich history, heritage, arts and culture. Fishing, sailing, shrimping and crabbing are popular activities for visitors. Local marinas offer rental boats and arrange charter fishing excursions. The Lowcountry’s salt-marsh ecosystem is one of the world’s most productive and unspoiled, and is easy to explore from a Beaufort base. The A.C.E. Basin is the vast wilderness created at the juncture of the Ashepoo, Combahee and Edisto Rivers. Guided boat tours allow visitors to photograph hundreds of species of birds, and guided kayak tours offer a more active role in coastal discovery. Hunting Island State Park, located 16 miles east of historic Beaufort, was built by the Civilian Conservation Corps in the 1930s. This 5,000 acre park and its three miles of natural beach hosts more than one
million visitors a year. In the center of the park stands an historic lighthouse which gives a magnificent view of the shoreline. Hunting Island is also a popular nesting ground for the Loggerhead turtle, and the park has a hatchery for the study and preservation of the species.

Jasper County is renowned as a sportsman’s paradise offering hunting for deer, turkeys, quail, doves, waterfowl and other game. It boasts a large number of hunting clubs, some operated from ante bellum plantations. The Savannah Wildlife Refuge is a protected environment, home to a wide variety of wildlife including ducks, geese, wading birds, shorebirds and several endangered and/or threatened species such as bald eagles, wood storks and manatees. The refuge also provides nesting areas for wood ducks, great horned owls, bald eagles and osprey. More than 38 miles of river and 25 miles of streams and creeks flow within the refuge boundaries. The county-owned Sergeant Jasper Park encompasses 442-acres of pine wetland providing favorable habitat for a variety of waterfowl, plant life and a profusion of migratory birds. The area is rich in American history, hosting battle sites for the Cusabo Indians, colonial-era turbulence, and a Civil War battle. Sergeant Jasper Park offers day use amenities including access to several small fishing lakes, a spacious meeting building, canopy picnic grove, and a children’s playground. The hardwood and pine wetland ecosystem is favorable for bird watching and nature study.

The Jasper County Courthouse is listed on the National Register of Historic Places and has been the first and only center of county government since it was built in 1915. Jasper County’s public library in Ridgeland – Pratt Memorial Library - is significant for the more than 200 portraits and maps it houses relating to Lowcountry history. Some 250 rare books and archeological artifacts tell the history of the area. Outside, the library is adorned by a beautiful garden. The library was formerly a part of the Ridgeland Elementary School built in the 1920s.

The Lowcountry’s newest asphalt short track, the Hardeeville Motor Speedway (HMS), is located directly off I-95 in Hardeeville. The HMS has 1/3-mile high-banked and 1/5 flat speedways featuring close short track racing, 2,500 seats and a first-class lighting system.

Highway 278 Widening Project

Beaufort County Council, the South Carolina Department of Transportation, and APAC-Southeast, Inc. are embarking on a road improvement and widening project through the southern portion of Beaufort County. US 278 is known as the transportation “lifeline” for Hilton Head Island because it connects Hilton Head Island with the mainland and runs through Greater Bluffton, one of the fastest growing areas in the State of South Carolina. US 278 is the only transportation link for several thousand workers who commute between the Island and the mainland each day and for more than two million visitors to resort areas each year. US 278 is also the only route of escape in the event of a hurricane evacuation. Due to the enormous growth and development throughout the region in recent years, US 278 has exceeded its capacity by 10,000 vehicles daily. This figure is increasing as more homes and commercial establishments are constructed. The Highway 278 widening project is scheduled to be completed in October 2006.
APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION
AND THE 2006 SERIES RESOLUTION
APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of some of the terms of the Bond Resolution and the 2006 Series Resolution. This summary does not purport to be complete and reference is made to the entire text of the Bond Resolution and the 2006 Series Resolution, copies of which are available during the initial offering of the Series 2006 Bonds from the Underwriter. Capitalized terms not otherwise defined herein have the meanings given to those terms in the Official Statement.

DEFINITIONS

“2006 Debt Service Reserve Fund” means the fund of that name established by the 2006 Series Resolution.

“2006 Debt Service Reserve Fund Policy” means the debt service reserve fund policy of the 2006 Bond Insurer to be acquired by the Authority in satisfaction of the 2006 Reserve Requirement, and includes any substitute therefor.

“2006 Reserve Requirement” means, with respect to the Series 2006 Bonds and as of any date of calculation, the least of (a) the sum of the greatest remaining Annual Principal and Interest Requirement for the then-current and each future Fiscal Year with respect to the Series 2006 Bonds, (b) the sum of ten percent (10%) of the proceeds (excluding accrued interest) from the sale of the Series 2006 Bonds at the time of issuance of such Series, (c) the sum of one hundred twenty-five percent (125%) of the average Annual Principal and Interest Requirements for the then-current and each future Fiscal Year with respect to the Series 2006 Bonds Outstanding, or (d) the maximum amount permitted by the Code to be funded with proceeds of the Series 2006 Bonds and to be invested without restriction as to yield.

“2006 Series Resolution” means the Resolution adopted by the Board on October 26th, 2006, entitled “A Resolution Providing for the Issuance and Sale of Waterworks and Sewer System Improvement and Refunding Revenue Bonds, Series 2006, of the Beaufort-Jasper Water and Sewer Authority, South Carolina, and Other Matters Relating Thereto.”

“Accountant” means an independent firm of certified public accountants of suitable standing who audit the books, records, and accounts of the Authority.

“Accreted Value” means the amounts set forth in and the amounts computed pursuant to a formula set forth in a Series Resolution, or determined in the manner provided in a Series Resolution, authorizing the issuance of Bonds in the form of Capital Appreciation Bonds, the Accreted Value of which will be determined in, or in the manner provided by, such Series Resolution.

“Annual Budget” means the budget or amended budget of the Authority in effect as provided in or adopted pursuant to the Bond Resolution.

“Annual Principal and Interest Requirement” means, with respect to any particular Fiscal Year and to a Series of Bonds Outstanding, an amount (other than amounts paid from proceeds of Bonds) equal to the sum of (1) all interest payable on such Series of Bonds that are issued as Current Interest Bonds during such Fiscal Year plus (2) any Principal Installment of such Series of Bonds during such Fiscal Year. For purposes of computing “Annual Principal and Interest Requirement”, the rate of interest used to determine (1) above is a rate per annum equal to (a) with respect to any Series of Bonds which bear interest at a fixed rate, the rate of interest borne or to be borne by such Bonds, and (b) with respect to any Series of Variable Rate Bonds, the interest rate will be assumed to be the higher of:

(i) the actual rate on the date of calculation, or if the Variable Rate Bonds are not yet Outstanding, the initial rate (if established and binding);
(ii) if the Variable Rate Bonds have been Outstanding for at least twelve (12) months, the average rate over the twelve months immediately preceding the date of calculation;

(iii) (1) if interest on the Variable Rate Bonds is intended by the Authority to be excludable from gross income under the applicable provisions of the Code, the Bond Buyer “Revenue Bond Index” (or comparable index if such is no longer published) published not earlier than two weeks prior to the sale date, plus fifty (50) basis points, or (2) if interest is not intended to be so excludable, the interest rate on Government Obligations with comparable maturities plus fifty (50) basis points; provided, however, that for purposes of any rate covenant measuring actual debt service coverage during a test period, Variable Rate Bonds will be deemed to bear interest at the actual rate per annum applicable during the test period; and

(iv) in the case of Variable Rate Bonds in which the financial covenants are based on the synthetic fixed rate under a swap, utilization of the synthetic fixed rate under a swap for purposes of performing any required calculations under the applicable legal documentation is permitted only if such documentation and the applicable swap satisfy the requirements specified by the Insurer of such Series of Bonds.

“AUTHORITY” means the Beaufort-Jasper Water and Sewer Authority, South Carolina. References to actions required of or permitted by the Authority means actions taken by or under its Board.

“AUTHORIZED INVESTMENTS” means, within the limitations set forth in the Bond Resolution, any investments now or hereafter permitted under Section 6-5-10 of the South Carolina Code or under Chapter 6 of Title 6 of the South Carolina Code, or any successor statute, as the same may be further limited pursuant to the provisions of a Series Resolution.

“BOARD” means the governing body of the Beaufort-Jasper Water and Sewer Authority.

“BOND COUNSEL” means an attorney or firm of attorneys of recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Authority and satisfactory to the Trustee.

“BOND INSURER” or “2006 BOND INSURER” means Financial Security Assurance, Inc.

“BOND PAYMENT DATE” means each date as prescribed by any applicable Series Resolution on which interest on any of the Bonds is payable, or on which both principal and interest is payable on any of the Bonds according to their respective terms.


“BONDHOLDER” or “HOLDER”, or any similar term, when used with reference to a Bond or Bonds, means any person who is the registered owner of any Outstanding Bond.

“BONDS” means the bonds payable from the revenues of the Authority and issued in accordance with the provisions of the Bond Resolution.

“CAPITAL APPRECIATION BONDS” means Bonds that bear interest payable at maturity, upon redemption prior to maturity or prior to maturity at the date set forth in, or in the manner provided in, the Series Resolution authorizing the issuance of such Bonds in the amounts determined by reference to the Accreted Value of such Capital Appreciation Bonds in accordance with the provisions of the Series Resolution authorizing the issuance of such Capital Appreciation Bonds.
“CHIEF FINANCIAL OFFICER” means the individual designated by the Board as the Chief Financial Officer (presently, the Deputy General Manager for Finance and Administration), in writing delivered to the Trustee, or in the absence of such designation, the individual to whom the Board has delegated in writing delivered to the Trustee the responsibility of supervising and maintaining records and accounts relating to the collection and disbursement of the revenues derived from the operation and maintenance of the System.

“CODE” means the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued thereunder, in each case, as from time to time in force.

“CURRENT INTEREST BONDS” means Bonds that are not Capital Appreciation Bonds.

“DEBT SERVICE FUND” means, with respect to any Series of Bonds, the fund or account so designated and designed to provide for the payment of the principal of and interest on all Bonds Outstanding of such Series, as established by the provisions of the Bond Resolution.

“DEBT SERVICE RESERVE FUND” means, with respect to any Series of Bonds, the fund or account so designated and established for such Series of Bonds by the authorizing Series Resolution, and designed to insurie the timely payment of the principal of and interest on all Bonds Outstanding of that Series and to provide for the redemption of such Bonds prior to their stated maturity.

“DEFEASANCE OBLIGATIONS,” unless otherwise provided in a Series Resolution for a particular Series of Bonds, means non-callable (i) Government Obligations and (ii) evidences of ownership of a proportionate interest in specified Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian.

“DEPRECIATION AND CONTINGENT FUND” means the fund or account designed to provide for contingencies, for the replacement of depreciated or obsolete parts of the System and for improvements, betterments, and extensions of the System.

“ENABLING ACT” means Chapter 17 of Title 6 and Chapter 21 of Title 11, South Carolina Code of Laws, 1976, as amended, and all other statutory authorizations authorizing and enabling the Authority to adopt the Bond Resolution.

“EVENTS OF DEFAULT” means those events set forth in Section 13.01 of the Bond Resolution.

“FEASIBILITY CONSULTANTS” means any independent firm of consultants, engineers, or accountants employed by the Authority and having the skill and experience in utility financing and rate design, and the design and operation of water and sewer facilities.

“FISCAL YEAR” means the period of twelve (12) calendar months, beginning on July 1 of each year, and ending on June 30 of the following year, constituting the fiscal year of the Authority, unless the same has been changed pursuant to the authorization contained in Section 3.01 of the Bond Resolution.

“GENERAL REVENUE FUND” means the account or accounts established and maintained by the Authority in such fashion as to adequately reflect all of the receipts and revenues derived from the operation of the System and all interest and other income earned by the Authority in connection with the System.

“GOVERNMENT OBLIGATIONS” means (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America are pledged; and (b) obligations, specifically including interest payment strips, including without limitation REFCORP interest strips, the payment of the principal (if any), the premium (if any) and the interest (if any) on which is fully guaranteed as a full faith and credit obligation of the United States of America.
“GROSS REVENUES” or “GROSS REVENUES OF THE SYSTEM” means:

(a) all receipts and revenues derived from the operation of the System, except for those allocable to the operation of Special Facilities,

(b) all proceeds from the sale or other disposition of any property owned directly or beneficially by the Authority in connection with the System,

(c) all interest and other income received directly or indirectly by the Authority from the investment of moneys or accounts relating to the System, and

(d) all other unencumbered or unrestricted money to which the Authority in connection with the System, may become entitled from any source whatsoever.

“INSURER”, with respect to any Series of Bonds, means an insurance company that has written a Municipal Bond Insurance Policy covering such Series of Bonds.

“JUNIOR LIEN BONDS” means any revenue bonds or other obligations issued by the Authority that are secured by pledges of and liens on the revenues of the System which are junior and subordinate in all respects to the pledges and liens made to secure Bonds.

“NET EARNINGS” means, for the period in question, the net income of the System, determined in accordance with then generally accepted accounting principles, but whether or not generally accepted accounting principles so require, it is adjusted as follows:

(a) revenue derived from service fees (including connection and tap fees, availability fees, impact fees and meter purchases) is included in income;

(b) investment income not restricted to a purpose inconsistent with the payment of operating expenses or debt service is included in income;

(c) there is excluded from the calculation made to determine Net Earnings:

(i) gains on the sale or other disposition of investments or fixed or capital assets, which do not result from the ordinary course of business,

(ii) investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service including (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of borrowing by the Authority in connection with the System,

(iii) any amounts received by way of government grants, and

(iv) revenues derived from the operation of Special Facilities; and

(d) there is added back to such net income:

(i) losses on the sale or other disposition of investments or fixed or capital assets that do not result from the ordinary course of business,

(ii) depreciation allowances,

(iii) amounts paid as interest on Bonds,
(iv) the amortization of financing expenses, underwriting discounts, call premiums, gains or losses on the extinguishment of debt due to the refinancing of the same, and other related or incidental non-recurring expenses resulting from the issuance or refinancing of Bonds, and

(v) expenses resulting directly from the operation of Special Facilities to the extent that the revenues derived therefrom have been pledged to secure, and used for, the payment of Special Facilities Bonds.

“OPERATION AND MAINTENANCE FUND” means the fund or account designed to provide for the payment of all expenses incurred in connection with the administration and operation of the System, including such expenses as are reasonably necessary to preserve the System in good repair and working order, the fees and charges of the Trustee and the Registrar or any Paying Agent, the costs of required audits, and the premiums for all insurance and fidelity bonds required by the Bond Resolution, in accordance, as nearly as may be practicable, with the Annual Budget then in effect.

“OUTSTANDING”, when used with reference to the Bonds means, as of any date, all such Bonds theretofore or then being authenticated and delivered except:

(a) Bonds cancelled at or prior to such date;

(b) Bonds in lieu of or in substitution for which other Bonds have been executed and delivered;

(c) Bonds deemed to have been paid as provided in Article XVI of the Bond Resolution; and

(d) for purposes of any consent or other action to be taken by the holders of a specified percentage of Bonds, Bonds held by, or for the account of the Authority, or by any person controlling, controlled by, or under common control with the Authority.

“PAYING AGENT” means the financial institution that is authorized by the Board to pay the principal of or interest and redemption premium, if any, on any Bonds. Pursuant to the provisions of the Bond Resolution, the Trustee serves as the Paying Agent.

“PRINCIPAL INSTALLMENT” means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds that would be retired by reason of the payment when due of, and application in accordance with, any mandatory sinking fund payment payable before such future date, plus (ii) any mandatory sinking fund payment due on such certain future date, together with the aggregate amount of the premiums, if any, applicable to such mandatory sinking fund payments, plus (iii) with respect to any Capital Appreciation Bonds required to be paid on such certain future date, the Accreted Value of such Capital Appreciation Bonds.

“REFUNDED BONDS” means the now outstanding $45,515,000 of the $47,140,000 original principal amount Waterworks and Sewer System Improvement and Refunding Revenue Bond (Second Lien), Series 2001, of the Authority, dated as of December 5, 2001, maturing March 1, 2013, March 1, 2016, March 1 2021, and March 1, 2026.

“REGISTRAR” means the Trustee or any bank or trust company that is authorized by the Board to maintain an accurate list of those who from time to time are the Holders of Bonds of a particular Series and to effect the transfer of such Bonds in accordance with the Bond Resolution.

“RESERVE REQUIREMENT” means, as of any date of calculation, the debt service reserve requirement, if any, established by a Series Resolution authorizing a Series of Bonds.

“SERIAL BONDS” means the Bonds of any Series which are stated to mature in installments and for which there are no mandatory sinking fund provisions.
“SERIES” means all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction and designated as a single Series by the authorizing Series Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds.

“SERIES 2006 BONDS” means the Bonds of the Authority authorized by the 2006 Series Resolution, which are designated “Beaufort-Jasper Water and Sewer Authority, South Carolina, Waterworks and Sewer System Improvement and Refunding Revenue Bonds, Series 2006.”

“SERIES RESOLUTION” means a resolution of the Board authorizing the issuance of a Series of Bonds pursuant to the Bond Resolution in accordance with the terms and provisions thereof, adopted by the Board.

“SPECIAL FACILITIES” means facilities financed with the proceeds of Special Facilities Bonds.

“SPECIAL FACILITIES BONDS” means obligations issued in accordance with Section 6.02 of the Bond Resolution, as described under the heading “Additional Obligations – Special Facilities Bonds” below.

“SOUTH CAROLINA CODE” means the Code of Laws of South Carolina, 1976 as from time to time amended.

“STATE” means the State of South Carolina.

“SYSTEM” means the Waterworks and Sewer System of the Authority as the same is now, or in accordance with the provisions of the Bond Resolution may be, constituted, all property real and personal, used and useful therefor, all apparatus and equipment used in connection therewith, and all acquisitions, replacements, enlargements, improvements, extensions, additions, and betterments that may be made thereto at any time hereafter. During such time as any Special Facilities Bonds issued to finance Special Facilities are outstanding, the term “System” does not include such Special Facilities.

“TERM BONDS” means the Bonds of any Series that are stated to mature in a single year and that are subject to mandatory sinking fund redemption prior to the stated maturity date.

“TRUSTEE” means the financial institution serving as Trustee pursuant to the Bond Resolution and which has such other duties, privileges, and functions as are set forth therein.

“VARIABLE RATE BONDS” means, for any period of time, any Bonds that during such period bear interest at a variable rate. Bonds the interest rate on which has been fixed for the remainder of the term thereof are no longer deemed Variable Rate Bonds.

THE BOND RESOLUTION

Authorization of Bonds in a Series

The Bond Resolution authorizes the Authority to issue a Series of Bonds pursuant to the provisions of a Series Resolution. A Series of Bonds may be issued on a parity with the Outstanding Bonds from time to time for the purposes of:

(1) obtaining funds for the expansion and improvement of the System;

(2) providing funds for the payment of any bond anticipation note or notes that may have been issued in anticipation of the issuance and sale of Bonds;

(3) refunding Bonds or other obligations issued to provide land or facilities that are or are to become a part of the System, or that are or were payable in whole or in part from revenues of the System;

(4) providing funds for the payment of interest due on such Bonds;
(5) funding a Debt Service Reserve Fund or restoring the value of the cash and securities in a Debt Service Reserve Fund to the amount equal to its Reserve Requirement; and

(6) paying the costs of issuance of Bonds, including any credit enhancement therefor,

Bonds of any Series may be authorized to be issued in the form of Serial Bonds or Term Bonds, with or without mandatory sinking fund payments, or Capital Appreciation Bonds, or a combination of any of them, and may bear interest in whatever manner and payable at whatever frequency as is prescribed by the applicable Series Resolution.

Bonds of a Series may be issued only if the following conditions are satisfied.

1. There must exist, on the occasion of the issuance of the Bonds, no default in the payment of the principal of or interest on any Bonds, or any Junior Lien Bonds then Outstanding.

2. There must be on deposit in each Debt Service Reserve Fund the amount equal to the applicable Reserve Requirement, unless:

   a. the Series Resolution and any previous Series Resolutions provide for successive monthly payments beginning in the first month following the date of the issuance of the Bonds of any such Series in substantially equal monthly amounts (the “Monthly Series Payments”), so that by the end of the period so determined by the Series Resolution there will be in the applicable Debt Service Reserve Fund an amount equal to the applicable Reserve Requirement with respect to such Bonds; and

   b. there are no unremedied defaults of any Monthly Series Payments required to have been made under any previous Series Resolutions.

3. Except in the case of Bonds issued for the purpose of refunding any Bonds and that meet the test described in paragraph (4) below:

   a. Net Earnings during the most recent Fiscal Year for which audited financial statements of the Authority are completed must be certified by the Chief Financial Officer, by the Accountants or by the Feasibility Consultants on the basis of such audited financial statements, to be not less than one hundred twenty percent (120%) of the maximum Annual Principal and Interest Requirements on all Bonds Outstanding, and on such proposed Series of Bonds. For purposes of this calculation, Net Earnings may be adjusted to reflect (1) any rate increases currently adopted and to be in effect prior to or coincident with the issuance of such proposed Series of Bonds and determined pro forma as though such rate increases had been in continuous effect during such recent Fiscal Year; (2) in the event proceeds of the proposed Series of Bonds will be used to acquire a utility, system, or enterprise that is in existence and operating and whose current customers have become customers of the System prior to the issuance of the proposed Series of Bonds or will become customers of the System concurrently with the issuance of such proposed Series of Bonds, 100% of the Net Earnings that the Accountants or the Feasibility Consultants estimate would have been received during such Fiscal Year if the utility, system, or enterprise had been a part of the System throughout such recent Fiscal Year; (3) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire a newly-constructed utility, system, enterprise, or component of the System that will serve an existing customer base and currently-populated area, 100% of the Net Earnings, estimated by the Accountants or by the Feasibility Consultants, to be received by the Authority during the first Fiscal Year beginning after the earlier of (a) the date on which such project constructed or acquired with the proceeds of the proposed Series of Bonds is placed in service and (b) the third anniversary of the date of delivery of the proposed Series of Bonds, from the newly-constructed or to-be-constructed utility, system, enterprise, or component of the System; (4) in the event proceeds of such proposed Series of Bonds will be used to pay interest on such proposed Series, 100% of the interest that will accrue on such Series of Bonds during the first twelve (12) full months following the date of delivery of the proposed Series and that will be paid from such proceeds,
provided that any such interest accruing in such twelve month period that is to be paid on a date within the Fiscal Year of maximum Annual Principal and Interest Requirements may not be so added into such Net Earnings; and (5) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire an expansion to the System and to the extent not included by sub-paragraph (3), 100% of estimated Net Earnings to be received by the Authority in the first Fiscal Year following the completion of such project, certified by the Accountants or by the Feasibility Consultants, from customers under long-term contracts which extend for the life of such proposed Series of Bonds; or

(b) (i) Net Earnings during the most recent Fiscal Year for which audited financial statements of the Authority are completed must be certified by the Chief Financial Officer, by the Accountants, or by the Feasibility Consultants on the basis of such audited financial statements to be not less than one hundred twenty percent (120%) of the Annual Principal and Interest Requirements during such Fiscal Year on all Bonds Outstanding. For purposes of this calculation, Net Earnings may be adjusted to reflect (1) any rate increases currently adopted and to be in effect prior to or coincident with the issuance of such proposed Series of Bonds and determined pro forma as though such rate increases had been in continuous effect during such recent Fiscal Year; and (2) in the event a utility, system, or enterprise has been or is being acquired by the System other than from the proceeds of the proposed Series of Bonds and whose current customers have become customers of the System prior to the issuance of the proposed Series of Bonds or will become customers of the System concurrently with the issuance of such proposed Series of Bonds, 100% of the Net Earnings estimated by the Accountants or by the Feasibility Consultants that would have been received by the Authority during such Fiscal Year if the utility, system, or enterprise had been a part of the System during such recent Fiscal Year; and

(ii) for each of the five (5) Fiscal Years following the later of the date of the delivery of the Bonds of such proposed Series, or the period (if any) for which interest is funded from the proceeds of such Bonds, Net Earnings, as forecasted by Accountants or by the Feasibility Consultants, will be not less than one hundred twenty percent (120%) of the Annual Principal and Interest Requirements on all Bonds then proposed to be Outstanding. In the instance of any Series of Bonds in the aggregate principal amount of $2,500,000 or less, this calculation may, unless provided to the contrary in any Series Resolution, be made by the Chief Financial Officer.

(4) In the case of Bonds issued for the purpose of refunding any Series of Bonds either:

(a) the Annual Principal and Interest Requirements of the refunding Bonds must not exceed one hundred ten percent (110%) of the Annual Principal and Interest Requirements of the Series of Bonds being refunded for any Fiscal Year, until a time subsequent to the last maturity of Bonds not refunded and that remain Outstanding following the issuance of the refunding Bonds; or

(b) The earnings tests prescribed by either (a) or (b) of paragraph (3) must be satisfied.

(5) If any Series of Bonds contains Variable Rate Bonds:

(a) the Series Resolution must provide for and specify a maximum interest rate on the Bonds and on any reimbursement obligation to a liquidity provider for such Bonds;

(b) the liquidity provider, if any, for such Bonds must be rated in one of the two highest short-term rating categories by any rating agencies then rating such liquidity provider; and

(c) any accelerated principal payments or any interest computed at a rate in excess of that on such Bonds due to the liquidity provider for such Bonds pursuant to any reimbursement
agreement with such liquidity provider must be subordinate to the payment of debt service on all Bonds. If, however, the tests referred to in paragraph (3) or, if applicable, paragraph (4) above are calculated (and met) assuming that the accelerated principal payment and the excess interest amount will be paid to the liquidity provider, then such accelerated principal payment and excess interest amount may be on a parity with the payment of debt service on all Bonds.

(6) All amounts owing under any reimbursement agreement with any provider of a surety bond, insurance policy, letter of credit, or other funding instrument provided in connection with the funding of a Debt Service Reserve Fund for a Series of Bonds must have been paid.

Additional Obligations

Junior Lien Bonds. Notwithstanding that Bonds may be Outstanding, the Authority may, at any time, and without limitation and free of all conditions, issue Junior Lien Bonds in any amount payable from the revenues of the System, provided that the pledge of revenues and any lien upon the revenues of the System granted for the protection of the Junior Lien Bonds must be and remain subordinate and inferior in all respects to the pledges of revenues and liens upon such revenues made or authorized for the Bonds.

By proceedings authorizing the issuance of Junior Lien Bonds, the Authority may provide for the accession of such Junior Lien Bonds to the status of Bonds provided all of the following conditions are met:

(1) the Junior Lien Bonds must have been issued for a purpose or purposes described under the heading “Authorization of Bonds in a Series” above;

(2) there must exist on the date of accession (a) no default in the payment of the principal of or interest on any Bonds, or any Junior Lien Bonds then Outstanding; (b) no default in the performance of any duties required under the provisions of the Bond Resolution; and (c) no amount owed by the Authority with respect to the full funding of a Debt Service Reserve Fund, either by way of cash or reimbursement of any other funding mechanism;

(3) there must be deposited in the Debt Service Fund for the Series of newly-acceded Bonds the amounts that would have been required under the Bond Resolution to be accumulated therein on the date of accession if the Junior Lien Bonds had originally been issued as Bonds;

(4) on the date of accession, the earnings tests described under the heading “Authorization of Bonds in a Series” must have been met;

(5) if the proceedings require a Reserve Requirement to be maintained for the Series of newly-acceded Bonds, then in such event, there must be on deposit on the date of accession in a Debt Service Reserve Fund an amount equal to the Reserve Requirement established for the Junior Lien Bonds that are being acceded to the status of Bonds;

(6) the Authority must obtain an opinion of Bond Counsel that (a) the Bond Resolution and the proceedings authorizing the Junior Lien Bonds have been duly adopted and are in full force and effect; (b) the Junior Lien Bonds have been duly and lawfully authorized and executed by the Authority and are valid and binding upon, and enforceable against, the Authority (except to the extent limited by the operation of bankruptcy, insolvency, and similar laws); and (c) the Bond Resolution creates the valid pledge that it purports to create of the revenues and of moneys and securities on deposit in any of the funds established by the Bond Resolution; and

(7) if the Junior Lien Bonds were issued with variable rates, the provisions described under the heading “Authorization of Bonds in a Series” above applicable to Variable Rate Bonds must have been satisfied.
Special Facilities Bonds. The Authority has the right to enter into contracts, leases or other agreements to construct, operate, and pay the costs of Special Facilities to be financed by its issuance of Special Facilities Bonds, subject to the following conditions:

(1) it must be determined to the satisfaction of the Authority that the rents, revenues, or receipts to be derived from the Special Facilities will be at least (a) equal to the principal, interest, and any reserve requirements contained in the Resolution authorizing such Special Facilities Bonds and (b) sufficient to pay all operation, maintenance, and other costs and expenses applicable to the Special Facilities; and

(2) the revenues derived from Special Facilities need not be deposited in the General Revenue Fund, and may be pledged to secure Special Facilities Bonds; but no debt service or other costs or expense related to any Special Facilities may be paid from System revenues deposited in the General Revenue Fund, except surplus moneys as described in the Bond Resolution.

The term “Special Facilities” includes all or a portion of utility facilities and rights to all or a portion of the use of, or the capacity available from, any such facilities, provided the acquisition of such facilities then be permitted or authorized by the provisions of the South Carolina Code.

Lease Financing Agreements. The Authority has right to enter into capital leases or other lease financing agreements secured by a lien on the equipment comprising a part of the System. The aggregate principal amount of such obligations outstanding at any time, however, may not exceed ten percent (10%) of the property, plant, and equipment of the System less accumulated depreciation, as shown on the audited balance sheet of the Authority for the most recent Fiscal Year for which audited financial statements are available.

Rate Covenant

In the Bond Resolution, the Authority covenants and agrees that it will maintain rates and charges for all services furnished by the System that are sufficient (1) to maintain the Debt Service Funds and thus provide for the punctual payment of the principal of and interest on the Bonds; (2) to maintain the Debt Service Reserve Funds in the manner prescribed in the Bond Resolution and in any applicable Series Resolutions; (3) to provide for the payment of the expenses of administration and operation and such expenses for maintenance of the System as may be necessary to preserve the same in good repair and working order; (4) to build and maintain a reserve for depreciation of the System, for contingencies and for improvements, betterments, and extensions to the System other than those necessary to maintain the same in good repair and working order; (5) to pay all amounts owing under a reimbursement agreement with any provider of a surety bond, insurance policy, letter of credit, or other funding instrument provided in connection with the funding of a Debt Service Reserve Fund for a Series of Bonds; (6) to discharge all obligations imposed by the Enabling Act and by the Bond Resolution; and (7) to provide for the punctual payment of the principal of and interest on all Junior Lien Bonds that may from time to time be Outstanding.

The Authority further covenants and agrees in the Bond Resolution that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Authority that, together with other income, will yield annual Net Earnings in the current Fiscal Year equal to at least one hundred ten percent (110%) of the sum of the Annual Principal and Interest Requirements in such Fiscal Year for all Bonds Outstanding; and, promptly upon any material change in the circumstances that were contemplated at the time such rates and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, must review the rates and charges for its services and must promptly revise such rates and charges as necessary to comply with the foregoing requirement. Prior to the beginning of each Fiscal Year, the Board will adopt an Annual Budget, including amended rate schedules, for such Fiscal Year that sets forth in reasonable detail the estimated revenues and operating expenses and other expenses of the System for such Fiscal Year and that includes the amount to be deposited during such Fiscal Year in the Depreciation and Contingent Fund. The Board may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.
Establishment of Funds

For so long as any sum remains due and payable on the Bonds, the following funds or accounts must be established and maintained.

The General Revenue Fund. The Bond Resolution requires the establishment and maintenance of the General Revenue Fund to accurately reflect the Gross Revenues of the System and Net Earnings. Except as permitted by the Bond Resolution, all Gross Revenues of the System must be deposited into the General Revenue Fund. Money in the General Revenue Fund may be withdrawn and made use of only in the manner and in the order of priority specified in the Bond Resolution and described below. If the Authority maintains, from an accounting standpoint, proper records of receipts and disbursements for the General Revenue Fund, the General Revenue Fund may be used for the purposes of the Operation and Maintenance Fund, as described below.

The Operation and Maintenance Fund. The Bond Resolution requires the establishment of an Operation and Maintenance Fund, which is intended to provide for the payment of all expenses incurred in connection with the administration and operation of the System, including any expenses reasonably necessary to keep the System in good repair and working order, the fees and charges of the Trustee and the custodian or trustee of any fund, the costs of audits required under the Bond Resolution, and the premiums for all insurance and fidelity bonds required by the Bond Resolution. Withdrawals from the Operation and Maintenance Fund are made by or on the order of the Authority in accordance, as nearly as may be practicable, with the Annual Budget then in effect.

The Debt Service Funds. The Bond Resolution requires the establishment of a Debt Service Fund for each Series of Bonds Outstanding. The Debt Service Funds are intended to provide for the payment of the principal of, redemption premium, if any, and interest on the Bonds as they fall due. Except as provided in the Bond Resolution, all money in each Debt Service Fund may be used only to pay the principal of, redemption premium, if any, and interest on the corresponding Series of Bonds, and for no other purpose. The Debt Service Funds are maintained in the custody and under the control of the Trustee, except that with respect to a Series of Bonds that is purchased by a single institution and thereafter held by a single Bondholder, and for which there is not established a Reserve Requirement, the Debt Service Fund established for such Series of Bonds may be held by the Holder of that Series of Bonds.

Money in the Debt Service Funds is invested by the Trustee at the direction of the Chief Financial Officer in Authorized Investments. Any earnings from investments are added to and become a part of the Debt Service Fund in which the investments are held, and are credited against payments that would otherwise be made to such Debt Service Fund.

The Debt Service Reserve Funds. A Series Resolution may create a Debt Service Reserve Fund for the Series of Bonds authorized thereby. Each Debt Service Reserve Fund is intended to ensure the timely payment of the principal of, and premium, if any, and interest on the related Series of Bonds, and to provide for the redemption of the Bonds prior to their stated maturities. Each Debt Service Reserve Fund is maintained in an amount equal to the Reserve Requirement established by the relevant Series Resolution. Money in each Debt Service Reserve Fund may be used only for the following purposes:

(1) to prevent default in the payment of the principal of or interest on the applicable Series of Bonds, by reason of the fact that money in the Debt Service Fund is insufficient for such purposes;

(2) to pay the principal of, interest on, and redemption premium of the applicable Series of Bonds in the event that all Outstanding Bonds of such Series are to be redeemed as a whole; or

(3) to effect partial redemption of the applicable Series of Bonds; but subsequent to any partial redemption, the market value of the cash and securities in the Debt Service Reserve Fund must not be less than the applicable Reserve Requirement.

The Debt Service Reserve Funds are kept in the complete custody and control of the Trustee.
Money in the Debt Service Reserve Funds is invested by the Trustee at the direction of the Chief Financial Officer in Authorized Investments. The earnings from such investments are added to the applicable Debt Service Reserve Fund. If the value of the securities and money in any Debt Service Reserve Fund exceeds its Reserve Requirement, the excess may be used to effect partial redemption of the Series of Bonds or may be transferred into the Debt Service Fund for such Series of Bonds.

If a Debt Service Reserve Fund is created by the provisions of a Series Resolution, the Authority may satisfy the applicable Reserve Requirement by causing to be credited thereto a surety bond, letter of credit, insurance policy, or other funding instrument.

The Depreciation and Contingent Fund. The Bond Resolution requires the establishment of a Depreciation and Contingent Fund to provide a reasonable reserve for depreciation of the System, for contingencies, and for improvements, betterments, and extensions of the System. Money in this fund may be used only (1) to restore depreciated or obsolete items of the System; (2) for improvements, betterments, and extensions to the System, other than for those things reasonably necessary to maintain the System in good repair and working order; (3) to defray the cost of unforeseen contingencies; (4) to prevent defaults of Bonds, and Junior Lien Bonds; and (5) for optional redemption of Bonds.

The Authority must determine the amount to be maintained in the Depreciation and Contingent Fund not less frequently than annually. Each month, there is deposited into the Depreciation and Contingent Fund one-twelfth (1/12th) of the estimated annual requirement for the fund. Withdrawals from this fund are made by or on order of the Authority.

The Capitalized Interest Account. The Authority may establish a capitalized interest account to provide for the payment of interest on the Bonds of a particular Series. Any such account must be created by the Series Resolution relating to the issuance of the Bonds of such Series. The Series Resolution must provide for the disposition of any earnings from the investment of the funds in any such capitalized interest account.

Investments of Funds

Whenever, in the opinion of the Authority, it becomes desirable to invest money in any of the funds described above (other than the Debt Service Funds and the Debt Service Reserve Funds, provisions for which are set forth above), the Authority may make Authorized Investments. Earnings from investments are deposited into the General Revenue Fund except as provided above for the Debt Service Funds, the Debt Service Reserve Funds, and the Capitalized Interest Accounts, and unless the Board determines pursuant to the Annual Budget that earnings on amounts in the Depreciation and Contingent Fund may remain therein.

Disposition of Revenues

The Gross Revenues of the System (other than customers’ deposits and that money the disposition of which is controlled by other provisions of the Bond Resolution) are declared by the Bond Resolution to be a part of, and from time to time are promptly deposited into, the General Revenue Fund. Dispositions from the General Revenue Fund are made on or before the fifth business day prior to the end of each month, in the following order of priority.

Deposits for Operation and Maintenance Fund. There is deposited in the Operation and Maintenance Fund the amount necessary for the ensuing month for the payment of all expenses expected to be incurred in connection with the administration and operation of the System, including any expenses reasonably necessary to preserve the System in good repair and working order, the fees and charges of the Trustee and the Registrar or any Paying Agent, the costs of audits required under the Bond Resolution, and the premiums for all insurance and fidelity bonds required by the Bond Resolution.

Payments for Bonds. Provision is next made for the payment of principal of, premium, if any, and interest on the Bonds without priority of any Bonds over any other Bonds. To that end:
(1) there is deposited into each Debt Service Fund the monthly fraction of the aggregate amount of interest to become due on the respective Series of Bonds on the next ensuing Bond Payment Date;

(2) there is deposited into each Debt Service Fund the monthly fraction of the Principal Installment of the respective Series of Bonds next becoming due and payable; and.

(3) if, on the occasion when the deposits required by paragraphs (1) and (2) above are to be made, the sum total of the deposits required thereby plus previous monthly deposits and the remaining deposits to be made prior to the next succeeding Bond Payment Date, will be less than the sum required to effect the payment of the next succeeding installment of either principal or interest on the respective Series of Bonds, a sum equal to such deficiency must be added to the deposits.

**Deposits for the Debt Service Reserve Funds; Valuation.** Deposits are next made, to the extent necessary, into the respective Debt Service Reserve Funds. The market value of the cash and securities in each Debt Service Reserve Fund must be calculated as of the last day of each Fiscal Year (such calculation to be made within forty-five (45) days after such date) in order to determine if each Debt Service Reserve Fund then contains its Reserve Requirement.

If the aggregate market value of the cash and securities in a Debt Service Reserve Fund is determined to be less than its Reserve Requirement because moneys have been withdrawn to prevent a default in the payment of the applicable Series of Bonds, then there must be paid into such Debt Service Reserve Fund, on the last Business Day of each of the twelve (12) months following such a determination, one-twelfth \((\frac{1}{12})\) of the amount necessary to re-establish in such Debt Service Reserve Fund its Reserve Requirement. The Authority may, however, fully re-establish such Reserve Requirement in a more timely fashion than as so prescribed. Except as set forth in the Bond Resolution, any other deficiency in any Debt Service Reserve Fund must be met through the payment of four (4) equal monthly payments, each of which is equal to twenty-five (25%) percent of the deficiency, beginning on the last business day of the month following such determination.

The value of any Authorized Investments in a Debt Service Reserve Fund is calculated as set forth in the Bond Resolution.

**Deposits for the Depreciation and Contingent Fund.** There is next deposited into the Depreciation and Contingent Fund an amount that is one-twelfth \((\frac{1}{12})\) of the sum that has been currently determined by the Board to be the estimated requirement therefor for the then current Fiscal Year.

**Payments for Junior Lien Bonds.** Provision is next made for the payment of any other indebtedness that is junior and subordinate to the Bonds, in the order of priority contemplated by the proceedings authorizing their issuance.

**Use of Surplus Money.** All money remaining after making the payments described above may be disposed of for any lawful purpose in such manner as the Board from time to time determines.

**Modification of Bond Resolution**

**Without Bondholder Approval.** Provided that the security for the Bonds is not lessened or impaired, the Board may at any time and without Bondholder approval adopt a resolution supplementing the Bond Resolution for any one or more of the following purposes:

(1) to provide for the issuance of a Series of Bonds in accordance with the Bond Resolution;

(2) to add to the covenants and agreements of the Authority in the Bond Resolution;

(3) to surrender any right, power, or privilege reserved to or conferred upon the Authority by the Bond Resolution;
(4) To implement an addition to the System; and

(5) to cure, correct, and remove any ambiguity or inconsistent provisions contained in the Bond Resolution.

With Bondholder Approval. The rights and duties of the Authority and the Bondholders and the terms and provisions of the Bond Resolution may be modified by a resolution adopted by the Board with the consent of the Holders of sixty-six and two-third percent (66-2/3%) in principal amount of all Outstanding Bonds of each Series that would be affected by the modification, but no such modification may, without the consent of the Holders of all Bonds affected by such change or modification:

(1) extend the maturity of any payment of principal or interest due upon any Bond;

(2) reduce the amount that the Authority is required to pay by way of principal, interest, or redemption premium on any Bond;

(3) change the type of currency in which the Authority is obligated to pay the principal, interest, and redemption premium of any Bond;

(4) permit the creation of a pledge of or a lien upon the revenues the System prior to or equal to the Bonds;

(5) permit preference or priority of any Bonds to others;

(6) alter or modify certain provisions of the Bond Resolution, including the conditions for issuance of additional Bonds, the establishment of funds, and the disposition of revenues;

(7) reduce the percentage required for the written consent to the modification of the provisions of the Bond Resolution.

Events of Default

Each of the following events is an “Event of Default” under the Bond Resolution:

(1) failure to pay the principal of any of the Bonds when the same becomes due and payable, either at maturity or by proceedings for redemption;

(2) failure to pay any installment of interest on any of the Bonds when the same becomes due and payable;

(3) failure to pay any installment of either interest or principal on any Junior Lien Bonds when the same becomes due and payable, or the existence of any other event of default with respect to the Junior Lien Bonds;

(4) the Authority is for any reason rendered incapable of fulfilling its obligations under the Bond Resolution;

(5) the occurrence of certain events of bankruptcy or insolvency;

(6) the Authority defaults in the performance of any other of the covenants, conditions, agreements or provisions contained in the Bonds or in the Bond Resolution, and the default continues for thirty days after a written notice of default has been given to the Authority by any Bondholder. If, however, the default cannot be corrected within thirty days, the Authority may avoid default by instituting corrective action within the thirty day period and diligently pursuing such action until the default is corrected;
the Authority defaults under any reimbursement agreement with a provider of a surety bond, insurance policy, letter of credit, or other funding instrument provided in connection with the funding of a Debt Service Reserve Fund; and

any other Events of Default specified in a Series Resolution.

Paragraph (6) above is subject to the following limitation: If by reason of force majeure the Authority is unable to carry out its agreements contained in the Bond Resolution (other than certain specified provisions of the Bond Resolution), the Authority will not be deemed in default during such inability. The term “force majeure” is defined to mean, without limitation, acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of South Carolina or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, tunnels or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Authority. The settlement of strikes, lockouts, and other industrial disturbances is entirely within the discretion of the Authority, and the Authority is not be required to settle strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when the Authority believes settlement to be unfavorable.

Remedies

Acceleration; Annulment of Acceleration. Upon the occurrence of an Event of Default, the Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds Outstanding must, declare all Bonds Outstanding immediately due and payable. Any Series Resolution may, however, confer upon the Insurer, if any, of such Series of Bonds the right to prevent such acceleration.

At any time after the principal of the Bonds has been so declared due and payable, and before the entry of final judgment in any action instituted on account of such default, or before the completion of the enforcement of any other remedy under the Bond Resolution, the Trustee may annul the declaration and its consequences for any Bonds not then due by their terms if:

(1) moneys have been deposited in each Debt Service Fund sufficient to pay all matured installments of interest and principal (other than principal then due only because of such declaration) of all Outstanding Bonds;

(2) moneys have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances, and liabilities of the Trustee;

(3) all other amounts then payable by the Authority have been paid or a sum sufficient to pay the same has been deposited with the Trustee; and

(4) every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) has been remedied to the satisfaction of the Trustee.

Additional Remedies. Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Bonds Outstanding must, proceed to protect and enforce its rights and the rights of the Bondholders under the Bond Resolution by any actions that the Trustee, being advised by counsel, deems expedient.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding, must institute any suits and proceedings as it may be advised by counsel to be necessary or expedient:

(1) to prevent any impairment of the security under the Bond Resolution by any acts that may be unlawful or in violation of the Bond Resolution; or
(2) to preserve or protect the interests of the Bondholders, provided that such request is in accordance with law and the provisions of the Bond Resolution and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders of Bonds not making such request.

Application of Revenues and Other Moneys After Default. If an Event of Default occurs and is not remedied, the Authority, upon demand of the Trustee, must pay or cause to be paid over to the Trustee all moneys and securities then held by the Authority that are credited to any fund under the Bond Resolution and all Gross Revenues.

Order of Payment. During the continuance of an Event of Default, the Trustee applies all moneys, securities, Gross Revenues, payments, and receipts in its possession and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable and proper charges of the Trustee;

(2) to the payment of the necessary costs of operating and maintaining the System;

(3) to the payment of interest, principal, and redemption premium, if any, then due on the Bonds, as follows:

(a) Unless the principal of all of the Bonds has become or has been declared due and payable,

(i) First: To the payment of the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination; and

(ii) Second: To the payment of the persons entitled thereto of the unpaid Principal Installments (and redemption premiums, if any) of any Bonds that have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available are not sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination;

(b) if the principal of all of the Bonds has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without discrimination except as to any differences in the respective rates of interest specified in the Bonds;

(4) for the purposes and to the respective funds described under the heading “Funds, Account, and Other Payments” above.

Control of Proceedings. If an Event of Default has occurred and is continuing, the Holders of at least a majority in aggregate principal amount of Bonds then Outstanding have the right, at any time, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Bond Resolution or for the appointment of a receiver, provided that such direction is in accordance with law and the provisions of the Bond Resolution and, in the sole judgment of the Trustee, is not unduly prejudicial to the
interests of the Bondholders not joining in such direction. Nothing contained in the Bond Resolution impairs the right of the Trustee in its discretion to take any other action under the Bond Resolution that it may deem proper and that is not inconsistent with such direction by Bondholders.

Individual Bondholder Action Restricted. No Holder of any Bond has the right to institute any proceeding for the enforcement of the Bond Resolution or for any remedy unless (1) an Event of Default has occurred with respect to the payment of principal of or interest on the Bonds, or of which the Trustee has actual notice or has been notified in writing by the Authority or by the Holders of at least twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding, (2) the Holders of at least 25% in aggregate principal amount of Bonds Outstanding have made written request to the Trustee to proceed to exercise the powers granted in the Bond Resolution or to institute such proceeding in its own name, (3) such Bondholders have offered the Trustee reasonable indemnity, and (4) the Trustee fails or Refuses to exercise its powers granted in the Bond Resolution or to institute such proceeding in its own name for a period of sixty days after receipt of the request and offer of indemnity.

No Bondholder has any right to disturb or prejudice the security of the Bond Resolution or to enforce any right thereunder except in the manner provided in the Bond Resolution and for the equal benefit of the Holders of all Bonds Outstanding. Nothing contained in the Bond Resolution impairs the right of any Bondholder to receive payments of the principal of or interest on such Bond on the due date thereof or to institute suit for the enforcement of any such payment on or after such due date.

Waiver of Event of Default. No delay or omission of the Trustee or of any Bondholder to exercise any right accruing upon an Event of Default impairs any such right or is construed to be a waiver of the Event of Default or an acquiescence therein. The Trustee may waive any Event of Default that in its opinion has been remedied before the entry of final judgment or decree in any proceeding instituted by it under the provisions of the Bond Resolution, or before the completion of the enforcement of any other remedy under the Bond Resolution.

The Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Bonds then Outstanding (including, if more than one Series of Bonds is Outstanding, the Holders of a majority in principal amount of all Bonds then Outstanding of each such Series), must waive any Event of Default, except that a default in the payment of the principal of, premium, if any, or interest on any Bond may not be waived without the written consent of the Holders of all the Bonds at the time Outstanding.

Notice of Default. Within thirty days after receipt of the required notice of an Event of Default or the occurrence of an Event of Default relating to the payment of principal of or interest on any Bonds, the Trustee must, unless the Event of Default has been cured, give written notice of the Event of Default by first class mail to each Holder of Bonds then Outstanding. Unless the default relates to the payment of principal of, premium, if any, or interest on any of the Bonds, the Trustee may withhold such notice if, in its sole judgment, it determines that the withholding of such notice is in the best interests of the Bondholders.

Trustee

Functions of the Trustee. The Trustee has the following functions:

(1) to authenticate the Bonds of all Series that may be issued;

(2) to act as custodian of the Debt Service Funds;

(3) to act as custodian of the Debt Service Reserve Funds;

(4) to act as Paying Agent for the Bonds;

(5) unless otherwise prescribed by any Series Resolution, to act as Registrar for the Bonds and to maintain registration books therefor, which must at all times accurately reflect the names and addresses all Bondholders; and
(6) to make reports to the Authority on a monthly or such other basis as may be requested by the Authority, but not less often than semi-annually, that establish balances on hand, list investments made for any fund handled by the Trustee, establish the market value of the Debt Service Reserve Funds, and list all securities, if any, pledged pursuant to the Bond Resolution.

**Resignation and Removal of Trustee; Successor Trustee.** The Trustee may at any time resign and be discharged of its duties and obligations under the Bond Resolution by giving at least sixty days notice of the date when such resignation is intended to take effect. The resignation takes effect upon the date specified in the notice unless a successor is appointed before such date, in which case the resignation takes effect immediately upon, but not before, the appointment and qualification of the successor.

The Trustee may be removed at any time by the Holders of not less than fifty percent (50%) of the principal amount of Bonds at such time Outstanding. In addition, the Trustee may be removed at any time by the Board with the consent of the Holders of not less than fifty percent (50%) of the principal amount of Bonds then Outstanding. Any removal of the Trustee takes effect immediately upon, but not before, the appointment and qualification of the successor.

If the Trustee resigns, is removed, becomes incapable of acting, is adjudged bankrupt or insolvent, or is placed in receivership or under the control of a public official, a successor must be promptly appointed by a resolution of the Authority. The successor must be a bank or a trust company, duly chartered pursuant to the laws of the United States or of the State, and must have a combined capital and surplus of not less than $100,000,000. Immediately after appointing a successor Trustee, the Authority must give written notice of the appointment to the Bondholders.

If no appointment of a successor Trustee is promptly made, any Bondholder may apply to any court of competent jurisdiction for the appointment of a successor and the court may, after such notice, if any, as such court may prescribe, appoint a successor.

**Trustee to Secure Funds and Securities Held in Trust.** Unless secured as trust funds in the manner provided by the regulations of the Comptroller of the Currency, all funds in the custody of the Trustee in excess of the amount insured by the Federal Deposit Insurance Corporation must be invested in Authorized Investments.

**Defeasance**

Subject to the provisions of any Series Resolution, if all of the Bonds issued pursuant to the Bond Resolution have been paid and discharged, then the obligations of the Authority under the Bond Resolution, the pledge of revenues made thereby, and all other rights granted thereby cease and terminate. Bonds are deemed to have been paid and discharged under each of the following circumstances:

1. the Trustee holds, at the stated maturities of such Bonds, in trust and irrevocably appropriated thereto, sufficient money for the payment thereof;

2. if default in the payment of the principal of such Bonds or the interest thereon has occurred and thereafter tender of such payment has been made, and the Trustee then holds in trust and irrevocably appropriated thereto, sufficient money for the payment thereof to the date of the tender of such payment; or

3. if the Authority deposits with the Trustee, or any other bank that would otherwise meet the applicable chartering, capital, and surplus requirements, in an irrevocable trust money or Defeasance Obligations, the principal of and interest on which when due (without reinvestment thereof) will provide money that, together with the money, if any, deposited at the same time, is sufficient to pay, when due, the principal, interest, and redemption premium, if any, due and to become due on and prior to the maturity, or, if the Commission has irrevocably elected to redeem Bonds, on and prior to the redemption date, of such Bonds.
Acquisition of Additional Utilities

The Bond Resolution specifies that none of its provisions will prevent the combining of the System with any other utility system or enterprise of whatever type, provided that the proposed combination is permitted under South Carolina law and that the requirements set forth below are met. No such combination, however, may impair the validity or priority of the pledge of revenues and the lien thereon created by the Bond Resolution, or enlarge the provisions of the Bond Resolution relating to the issuance and the securing of Bonds. In addition, the Authority has the right from time to time to add other utilities, enterprises, activities, and facilities (which, as of the date of adoption of the Bond Resolution, were not included in the definition of the “System”) to the definition of the “System” under the Bond Resolution, provided that:

(A) the Board first determines that such utilities, enterprises, activities, or facilities are of a similar public utility nature as were the utilities constituting the System as of the date of the adoption of the Bond Resolution;

(B) the Board adopts an appropriate amendatory resolution to the Bond Resolution;

(C) the Authority and the Trustee receive an opinion of Bond Counsel to the effect that the acquisition is authorized under the Bond Resolution and South Carolina law and will not adversely affect the excludability of interest on any Bonds which were intended upon their issuance to be exempt from federal income taxation; and

(D) for each of the 5 Fiscal Years following the date of the additions to the System, Net Earnings, as forecasted either by Feasibility Consultants with a reputation for expertise in the type of enterprise being added to the System or by the Accountants, will not be less than one hundred ten percent (110%) of the Annual Principal and Interest Requirements on all Bonds then proposed to be Outstanding in each of such 5 Fiscal Years. If, however, Bonds are being issued to acquire or improve the acquired utility, this paragraph (D) does not apply, and the Authority must instead meet the requirements of the Additional Bonds test described above before issuing such Bonds and acquiring such utility.

Insurer Rights

The Bond Resolution provides that each Insurer, if any, shall be deemed to be the exclusive Holder of all Bonds insured by that Insurer, for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies, but only during such times as such Insurer’s municipal bond insurance policy results in the applicable Series of Bonds being rated in the highest rating category of each rating agency then rating such Series of Bonds. In addition, any provision of the Bond Resolution that expressly recognizes or grants rights in or to an Insurer may not be amended in any manner that affects the rights of such Insurer thereunder without the prior written consent of each such Insurer.

The Bond Resolution further provides that, to the extent an Insurer makes payment of the principal of or interest on any Bonds, it becomes the owner and Holder of such Bonds, appurtenant coupons, or right to payment of such principal of or interest on such Bonds and is fully subrogated to all of the registered Holders’ rights thereunder, including the registered Holders’ rights to payment thereof. If the principal of and/or interest on any Bonds is paid by the Insurer pursuant to the terms of its municipal bond insurance policy, then (i) such Bonds are deemed to continue to be “Outstanding” under the Bond Resolution, and (ii) the assignment and pledge of the revenues and all covenants, agreements, and other obligations of the Authority to the registered Holders will continue to exist, and the Insurer will be fully subrogated to all of the rights of such registered Holders.

THE 2006 SERIES RESOLUTION

General

As previously discussed above under the heading “Authorization of Bonds in a Series,” Bonds issued pursuant to the Bond Resolution are to be authorized by the adoption of a Series Resolution. Accordingly, the 2006 Series Resolution sets forth the purposes for which the Series 2006 Bonds are being issued and the disposition of the
proceeds of the Series 2006 Bonds and establishes the 2006 Reserve Requirement. In addition, the 2006 Series Resolution establishes the date of the issue, and the method for determining the interest rates, maturity schedule, principal and interest payment dates or maturity dates, and redemption provisions with respect to the Series 2006 Bonds. The 2006 Series Resolution also establishes the form of the Series 2006 Bonds, commits the Authority to undertake certain continuing disclosures, and authorizes the execution and delivery by the Authority of a purchase contract for the Series 2006 Bonds and certain Insurer documentation.

2006 Reserve Requirement

The 2006 Reserve Requirement shall initially be met through the purchase of the 2006 Debt Service Reserve Fund Policy from Financial Security Assurance, Inc. pursuant to which a surety bond will be issued in the amount of the 2006 Reserve Requirement and will be credited by the Trustee to the 2006 Debt Service Reserve Fund.

Certain 2006 Bond Insurer Rights under the 2006 Series Resolution

As described above under the heading “THE BOND RESOLUTION – Insurer Rights,” the Bond Resolution confers certain rights to all Insurers. The 2006 Series Resolution confers certain additional rights to Financial Security Assurance, Inc. (the “2006 Bond Insurer”), which has issued its Municipal Bond Insurance Policy for the Series 2006 Bonds (the “Policy”). Among other things, any acceleration of the Series 2006 Bonds or any annulment thereof is subject to the prior written consent of the 2006 Bond Insurer. In addition, in determining whether a payment default has occurred or whether a payment on the Series 2006 Bonds has been made under the Bond Resolution, no effect shall be given to payments made under the Policy. Further, neither the Bond Resolution nor the 2006 Series Resolution may be amended without the prior written consent of the 2006 Bond Insurer.

Pursuant to the provisions of Section 8.02 of the 2006 Series Resolution, the Chairman of the Board and the Deputy General Manager for Finance and Administration are authorized to determine whether the provisions listed under said Section 8.02 are to be included in the agreement between the 2006 Bond Insurer for the Series 2006 Bonds and the Authority. They have determined that while the 2006 Bond Insurer shall be deemed to be the sole Holder of the Series 2006 Bonds for matters related to “Events of Default” and “Remedies” under the Bond Resolution, the 2006 Bond Insurer shall not be deemed to be the sole Holder of the Series 2006 Bonds for purposes of consenting to amendments to the Bond Resolution. Thus, any amendments to the Bond Resolution which require the consent of Holders must be consented to by the Holders as provided in Article XII of the Bond Resolution and as discussed above must also receive the consent of the 2006 Bond Insurer.
APPENDIX C

AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED
JUNE 30, 2005 AND 2006
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[Introductory Section (pages 2-18) and Statistical Section (pages 60-72)  
Intentionally Omitted from this Appendix C]
Financial Section
We have audited the accompanying balance sheets of Beaufort-Jasper Water and Sewer Authority (the “Authority”) as of and for the years ended June 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beaufort-Jasper Water and Sewer Authority as of June 30, 2006 and 2005, and the results of its operations and 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 August 5, 2006 on our consideration of Beaufort-Jasper Water and Sewer Authority’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management’s discussion and analysis on pages 21 through 29 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 this information and express no opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Beaufort-Jasper Water and Sewer Authority taken as a whole. The introductory section, the supplementary information, and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements. The introductory section and statistical section 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.

Augusta, Georgia
August 5, 2006
Overview
The following management’s discussion and analysis (MD&A) serves as an introduction to the financial statements of the Beaufort-Jasper Water and Sewer Authority (the Authority) for the fiscal year ended June 30, 2006. The MD&A represents management’s examination and analysis of the Authority’s financial condition and performance and should be read in conjunction with the financial information of the transmittal letter in the introductory section, the financial statements as presented in the financial section of this report, and the supplementary financial data. The financial statements include: balance sheets; statements of revenues, expenses, and changes in net assets; statements of cash flows; and notes to the financial statements.

The balance sheets present the financial position of the Authority as of a specific date. This statement provides information about the nature and amount of resources (assets) and obligations (liabilities), with the difference reported as net assets. Increases and decreases in net assets may serve as an indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present the results of the business activities and information about how the net assets changed during the course of the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information on the Authority’s cost recovery. Rate setting policies use different methods of cost recovery not fully addressed by generally accepted accounting principles. These policies seek to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The statements of cash flows present the cash activities of the Authority segregated in the following three major categories: operating, investing, and capital and related financing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information essential to fully understand the data provided in the statements. Supplementary information contains additional financial data, such as budgetary comparisons, expenses by classification, and debt service coverage. Although not a required part of the financial statements, this data enhances information provided to users.

Financial Highlights
- **Financial Position** continues to be strong, with adequate cash and debt service coverage. Of the $41.7 million unrestricted net assets, $29.3 million is board-designated for capital funding and $12.4 million is available to provide for current operations (compared to $9.1 million prior year). Unrestricted net assets increased approximately $12 million, or 40%, over prior year, with the majority ($8.7 million) related to board-designated funding for capital investment.

- **Debt and debt service coverage including capacity fees increased.** Debt service actually decreased during the fiscal year, but is expected to increase in fiscal year 2007 as payments for new debt are incurred. The increase in net assets is evidenced by the increase in Equity to Long-Term Debt from 1.54 to 1.63. Debt service coverage (excluding capacity fees) increased from 140% to 204% for fiscal year 2006, continuing to remain significantly above the 125% requirement established by the Board. This increase in debt service coverage (excluding capacity fees) is a direct result of an increasing customer base, increased customer usage, and increased investment income. Debt service coverage (including capacity fees) increased to 346%, compared to 251% prior year, exceeding the 110% required by the bond covenants. In addition to the aforementioned increase in debt service before capacity fees, the increase with capacity fees is also attributable to the continued rate of developer contributions and the significant increase in capacity fees which are set aside by the Board for capital investment in growth projects.
• **Total operating revenues** were $35.2 million, an increase of approximately 22%, or $6.4 million, over the prior year due to retail water and wastewater usage and customer growth. Average residential monthly customer consumption in kgals (thousands of gallons) for the year increased from 6.27 to 6.72 and 6.16 to 6.56 for water and wastewater usage, respectively. In addition to direct usage revenues, increased growth is also directly related to the significant increase in other operating revenues, such as tap fees.

• **Total operating expenses** were approximately $32.4 million, an increase of 10.9%, or $3.2 million, over the prior year. Depreciation expense accounted for $14.6 million of total operating expense and $1.3 million of the increase over prior year. Excluding depreciation, total operating expenses were $17.7 million, an increase of 11.9%, or $1.9 million, over the prior year. Excluding depreciation, water operating expenses increased 11.3%, or $1.1 million, over the prior year, and wastewater operating expenses increased 12.8%, or $795 thousand, over the prior year.

• **Operating income** was $2.7 million for 2006 compared to a ($468 thousand) operating loss for 2005, an increase in operating margin of approximately $3.2 million. The increase resulted primarily from increased usage and growth revenue, as noted above. For fiscal year 2006, $1.98 was generated from operating revenues for every $1.00 expensed (excluding depreciation and non-operating expenses), an increase of $0.17 or 9.4% from the prior year.

• **Net cash provided by operating activities** represented 46% of operating revenues for both fiscal years ending 2006 and 2005. Although customer growth combined with usage enabled the Authority to generate $16.2 million from operations to support capital and financing activities, as compared to $13.1 million during the prior fiscal year, delayed billings increased receivables and, therefore, did not increase the percentage of net cash provided from revenues.

• **Capacity fees and developer contributions of systems** remained strong at $13.1 million and $14.3 million, respectively, for fiscal year 2006. This represents a significant increase of 21.5%, or approximately $2.3 million, over 2006 capacity fees of $10.8 million. Developer contributions, which were $11.5 in 2005, increased approximately 25% or $2.8 million, of which $1.05 million represented cash contributions. The Authority continues to ensure that current customers do not bear the entire burden of growth by internally designating capacity fees to expand or upgrade the system.

### Financial Position

The following comparative condensed balance sheets provide an analysis of the change in financial position from the previous fiscal years:

#### Condensed Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>June 30, 2005</th>
<th>2004</th>
<th>2006 to 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dollars</td>
<td>$ (in thousands)</td>
<td>$ (in thousands)</td>
<td>$ (in thousands)</td>
</tr>
<tr>
<td></td>
<td>Increase (decrease)</td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Capital assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Producing assets</td>
<td>$240,945,315</td>
<td>$237,130,856</td>
<td>$181,849,312</td>
<td>$59,196,003</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>48,480,417</td>
<td>27,253,947</td>
<td>59,784,443</td>
<td>32,530,496</td>
</tr>
<tr>
<td>Current assets (including designated &amp; restricted)</td>
<td>49,851,337</td>
<td>38,710,066</td>
<td>35,435,461</td>
<td>14,415,876</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>2,164,599</td>
<td>2,313,401</td>
<td>2,412,724</td>
<td>(88,323)</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$341,441,668</td>
<td>$305,408,270</td>
<td>$279,481,940</td>
<td>$62,964,098</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>$10,752,566</td>
<td>$11,213,601</td>
<td>$9,611,010</td>
<td>$742,591</td>
</tr>
<tr>
<td><strong>Long term liabilities</strong></td>
<td>125,726,761</td>
<td>116,006,917</td>
<td>109,009,503</td>
<td>6,717,258</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$136,479,327</td>
<td>$127,220,518</td>
<td>$118,620,513</td>
<td>$17,858,814</td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related liabilities</td>
<td>161,344,729</td>
<td>147,289,303</td>
<td>137,330,237</td>
<td>14,054,492</td>
</tr>
<tr>
<td>Restricted for capital activity and debt service</td>
<td>1,910,358</td>
<td>1,777,595</td>
<td>1,757,826</td>
<td>132,769</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>41,707,254</td>
<td>29,720,354</td>
<td>21,773,364</td>
<td>19,933,890</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$204,962,341</td>
<td>$178,187,552</td>
<td>$160,861,427</td>
<td>$44,780,914</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$341,441,668</td>
<td>$305,408,270</td>
<td>$279,481,940</td>
<td>$62,964,098</td>
</tr>
</tbody>
</table>
Total net assets as of June 30, 2006 were approximately $205 million, representing an increase of 15% from the prior year. Total net assets increased by approximately $26.8 million as a result of continued cash capacity fees and developer contributions of systems, which were $13.1 million and $14.3 million, respectively; the increase in investment income; and the increase in net income related to growth and consumption.

Of the $41.7 million unrestricted net assets, $29.3 million is Board designated for capital funding and $12.4 million is available to provide for current operations. As of June 30, 2006, $8.9 million was available in unrestricted cash and cash equivalents, providing a minimum of three month's operating and debt cash requirements (approximately $8 million), which is an indicator of a healthy cash position for the Authority.

Producing assets increased a net $3.8 million, which reflects additions of $13.3 million from developer contributions, $1.8 million capital purchases, and $3.3 million capitalized construction in progress (CIP) projects, as well as a decrease of $14.6 million from depreciation. Major contributed capital additions include those from Del Webb, including Del Webb Argent III Block (approximately $2.6 million); Palmetto Bluff additions (approximately $1.6 million); residential and commercial sections of Bluffton Park (approximately $1.07 million); Pinckney Retreat (approximately $1.02 million); Baynard Park Phase 1A ($664 thousand); and additional sections of Hampton Hall ($622 thousand). All of these developments included pump stations in addition to lines. Other developer contributions represented less than 5% of the total. The $1.89 million operating capital purchases consisted of approximately $1.3 million capitalized meters and transponders, as well as approximately $500 thousand equipment purchases, primarily vehicles. Additionally, the Authority disposed of fully depreciated assets in the amount of $1.3 million.

Construction in progress increased a net of approximate $21 million as a result of the substantial completion on the Port Royal Water Reclamation Facility and the Beaufort River Outfall Line and Effluent Disposal projects. The Authority expended $24.6 million on capital assets related to construction projects during fiscal year 2006, with approximately $3.4 million completed and moved to producing assets. Of the $48 million in construction in progress at the end of the fiscal year, approximately $40.6 million is related to the Port Royal Island Water Reclamation Facility, Transmission Line, and Effluent Disposal (including related projects). Construction on these projects is expected to be completed early in fiscal year 2007 with an expected startup in August, 2006. Additional information on capital assets may be found in the footnotes to the financial statements.

**Debt and Debt Service Coverage**

Long-term liabilities increased approximately $9.7 million over the prior fiscal year, providing financing for capital acquisitions. Increases in debt included approximately $14.5 million in draws from the State Revolving Loan Fund and $300 thousand from a note payable to Palmetto State Bank for the purchase of vehicles. Principal payments reduced debt by approximately $4.3 million.

Equity to Long-Term Debt increased from 1.54 for 2005 to 1.63 for 2006. Clearly stated, each $1 of long-term debt is represented by $1.63 in equity, indicating that the Authority has increased equity at a rate greater than debt during the current fiscal period. The Authority believes that the ratio is appropriate for the degree of risk and growth in the organization, and it is clear evidence of the strength of its equity. Additional information on long-term debt activity may be found in the footnotes to the financial statements.

In the Bond Resolutions, the Authority covenants and agrees that it will, at all times, prescribe, maintain, and thereafter collect rates and charges for the services and facilities furnished by the Authority, together with other income, that will yield annual Net Earnings in the fiscal year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments for all bonds outstanding. "Net Earnings" is defined by the bond resolution to mean, for the period in question, the net operating income of the System determined in accordance with generally accepted accounting principles, adding back depreciation, and including interest income not restricted to bond construction and cash capital contributions not received by government grants.
The rate covenant in the Bond Resolution obligates the Authority to review rates not less than once a year and to revise such rates and charges as necessary to meet the coverage test. The Authority further covenants in the Bond Resolution that it will maintain rates and charges that are at all times sufficient to provide for the payment of the bonds; to maintain the debt service funds, debt service reserve funds, and any other related funding instruments related to the debt of the system; to provide for the payment of administrative and operational expenses of the system preserving the system in good repair and working order; and to build and maintain a reserve for depreciation of the system.

Although the Bond Resolutions allow the use of capacity fee revenue (i.e., cash capital contributions) in the calculation of debt service coverage, the Authority has adopted a more stringent internal policy of maintaining one hundred and twenty-five percent (125%) debt service coverage without consideration of capacity fee revenue. Revenue bond debt service coverage for 2006 and 2005 was 346% and 251%, respectively, including cash capital contributions, and 204% and 140%, without the contributions. The following table presents the required net earnings as defined by the bond covenants; actual net earnings, including capital contributions, available for debt service; and total annual debt service.

### Net Earnings Available for Debt Service

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required Net Earnings</td>
<td>$31,991,124</td>
<td>$24,355,968</td>
<td>$20,836,236</td>
</tr>
<tr>
<td>Net Earnings</td>
<td>$10,171,320</td>
<td>$9,246,655</td>
<td>$9,503,956</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$20,824,804</td>
<td>$15,109,313</td>
<td>$11,332,280</td>
</tr>
</tbody>
</table>

### Revenues

Revenues from operations fall into three general categories: water service, wastewater service and ancillary charges. Ancillary charges include tap fees, account set up and penalty fees, engineering and inspection services, and charges for other miscellaneous services. The Authority has two classes of water and wastewater customers: wholesale and retail, with retail further subdivided into residential and commercial customers.

The following Condensed Statement of Revenues, Expenses, and Changes in Net Assets, shows the results of operations for the current and the prior two fiscal years:
25

Total operating revenues were **$35.2 million**, an increase of 22.4%, or **$6.4 million**, over the prior year due directly to retail water and wastewater usage and customer growth. Since the Authority did not increase water rates during the current fiscal year, total water operating revenues were 14.6% above projections due to conservative growth estimates and increased customer usage. As discussed in the management transmittal letter, Beaufort County is one of the fastest growing counties in the state of South Carolina. From the fiscal year 2005 to fiscal year 2006, water customers increased 3,364, or 9%, and wastewater customers increased 3,148, or 14.6%. Retail residential and commercial water consumption figures, as measured by billings, increased approximately 544,000 kgals (thousands of gallons), or 15.6%, with an overall water consumption increase of 9.8%. Annualized average monthly retail water usage increased 450 gallons per month for residential. The Authority adopted a wastewater rate increase along with the 2006 budget on June 23, 2005. The new rates were effective July 2005 and reflected an overall average increase of less than 3%, with approximately a 5% increase to wastewater only. This rate increase was the fourth of the four planned rate increases that resulted from the increase in debt service in fiscal year 2002 supporting the Capital Improvement Plan. Wastewater service revenues increased 20.8% due to this rate increase, as well as increased growth and usage patterns. Retail residential and commercial wastewater consumption figures, as measured by billings, increased approximately 331,000 kgals (thousands of gallons), or 16.1%, with an overall wastewater consumption increase of 15.9%. In addition to the 14.6% increase in customer base, annualized average monthly retail wastewater usage increased an average of 400 gallons per month for residential. Although commercial usage shows a decrease in average monthly usage, commercial customers do not make up the majority of wastewater customers and, therefore, this decrease did not have a significant effect on revenues.

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Water service revenues</td>
<td>$20,226,161</td>
<td>$16,712,419</td>
<td>$16,098,498</td>
<td>$3,513,742</td>
<td>21.0%</td>
</tr>
<tr>
<td>Other water revenues</td>
<td>$3,638,223</td>
<td>$2,593,473</td>
<td>$2,318,143</td>
<td>$1,044,750</td>
<td>40.3%</td>
</tr>
<tr>
<td>Wastewater service revenues</td>
<td>$10,887,631</td>
<td>$9,014,473</td>
<td>$7,907,729</td>
<td>$1,979,902</td>
<td>21.0%</td>
</tr>
<tr>
<td>Other wastewater revenues</td>
<td>$399,574</td>
<td>$408,142</td>
<td>$342,592</td>
<td>$55,550</td>
<td>16.4%</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>$35,151,589</td>
<td>$28,728,507</td>
<td>$26,587,072</td>
<td>$6,423,082</td>
<td>22.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating, before depreciation, but including franchise fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water operations</td>
<td>$7,449,028</td>
<td>$6,769,640</td>
<td>$5,438,803</td>
<td>($679,837)</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Wastewater operations</td>
<td>$5,215,795</td>
<td>$4,656,232</td>
<td>$4,222,233</td>
<td>($433,999)</td>
<td>-10.3%</td>
</tr>
<tr>
<td>Depreciation - water</td>
<td>$4,267,653</td>
<td>$3,750,180</td>
<td>$3,413,392</td>
<td>($396,768)</td>
<td>-10.7%</td>
</tr>
<tr>
<td>Depreciation - wastewater</td>
<td>$8,292,789</td>
<td>$7,606,544</td>
<td>$6,349,990</td>
<td>($1,256,554)</td>
<td>-19.8%</td>
</tr>
<tr>
<td>General, administrative, customer service and engineering -water</td>
<td>$3,282,304</td>
<td>$2,872,791</td>
<td>$2,736,892</td>
<td>($135,899)</td>
<td>-5.0%</td>
</tr>
<tr>
<td>General, administrative, customer service and engineering -wastewater</td>
<td>$1,776,363</td>
<td>$1,540,900</td>
<td>$1,448,586</td>
<td>($92,314)</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$32,383,932</td>
<td>$29,196,287</td>
<td>$25,009,896</td>
<td>($3,187,645)</td>
<td>-10.9%</td>
</tr>
</tbody>
</table>

Operating Income: $2,767,657, up 691.7% vs. the prior year, and 129.7% vs. the three year average. Non-operating revenue: $2,044,956. Interest expense & amortization: $(729,684) increase from prior year. Investment Income: $315,361 increase from prior year. Gain on sale of assets: $(82,736) decrease from prior year. Increase (decrease) in net assets, before contributions: $(2,542,015) decrease from prior year. Capital contributions: Grants: $(6,671) decrease from prior year. Capacity fees: $2,946,408 increase from prior year. Developer contributions of systems: $(123,398) decrease from prior year. Total capital contributions: $2,816,339 increase from prior year. Increase (decrease) in net assets: $(2,542,015) decrease from prior year. Net assets at beginning of year: $178,178,752. Total Net Assets: $204,962,341.
The following chart shows the change in rates for an average customer (defined as 7 thousand gallons per month residential water usage) from fiscal year 2003 to fiscal year 2006, utilizing the fiscal year 2003, 2004, 2005, and 2006 rates as adopted.

The average realized rate from retail water sales was $3.83 per thousand gallons in 2005 and $4.00 in 2006, an increase of 4.4%, a direct result of growth and usage. The average realized rate from retail wastewater sales was $4.34 per thousand gallons in 2005 and $4.52 in 2006, an increase of 4.1%, due primarily to the rate increase implemented at the beginning of the fiscal year and growth.

**Expenses**

The Authority operates and maintains a potable water treatment and delivery system and a wastewater collection, treatment, and effluent disposal system. The bulk of the water production occurs at the two surface water treatment plants. Wells are also used for some remote service areas and for peak management in the main system. The wastewater system includes eight wastewater treatment plants and associated transmission and disposal facilities.

Total operating expenses totaled **$32.4** million, an increase of 10.9%, or **$3.2** million, over the prior year. Depreciation expense accounted for $14.6 million of total operating expense and $1.3 million of the increase over prior year. Excluding depreciation, total operating expenses were $17.7 million, an increase of 11.9%, or $1.9 million, over the prior year.

Excluding depreciation, water operating expenses increased 11.3%, or $1.1 million, over the prior year. These increases from the prior year primarily related to significant increases in repairs and maintenance expense, chemical costs, franchise fees due to growth and annexation, and safety training and supplies. Other increases, though not as significant, were personnel costs and power.

Excluding depreciation, wastewater operating expenses increased 12.8%, or $795 thousand, over the prior year. Collection and Transmission, as well as Wastewater Treatment accounted for the majority of the increase in expenditures. Overall increases were primarily related to repairs and maintenance expense, professional expense, franchise fees due to growth and annexation, and safety training and supplies. Other increases included personnel costs and power.

As noted in the following analytical data, water expense per kgal increased slightly (1.3%) primarily as a result of increased per unit costs for water treatment. Wastewater service expense per kgal actual decreased slightly (-2.7%) as a direct result of increased growth and consumption for wastewater. The increase in direct costs, such as chemicals and power, to process water and wastewater was considered in light of customer growth in the establishment of rates and charges for fiscal year 2007.
Operating Margin

Although total operating expenses, excluding depreciation, of the Authority increased $1.9 million over fiscal year 2005, operating revenues increased $6.4 million. Operating income was $2.7 million compared to the operating (loss) of ($468 thousand) for 2005, and increase in operating margin of approximately $3.2 million.

For fiscal year 2006, $1.98 was generated from operating revenues for every $1.00 expensed (excluding depreciation and non-operating expenses), an increase of $0.17 or 9.4% from the prior year. Cash was generated from operating and nonoperating activities (the average unrestricted cash balance exceeded $8 million throughout the fiscal year) to provide sufficient resources to cover operations and debt service for three months. For comparative purposes, the operating ratios (operating revenues divided by operating expenses less depreciation) were 1.98, 1.81, 1.92, and 1.82, for 2006, 2005, 2004, and 2003, respectively.

The following statistical data demonstrates the Authority's continued growth and strong financial position:

<table>
<thead>
<tr>
<th>Selected data for analysis:</th>
<th>2006</th>
<th>2005</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees at year end</td>
<td>139</td>
<td>136</td>
<td>3</td>
<td>2.2%</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>136</td>
<td>134</td>
<td>2</td>
<td>1.5%</td>
</tr>
<tr>
<td>Water and wastewater customer accounts at year end:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water customers</td>
<td>40,546</td>
<td>37,182</td>
<td>3,364</td>
<td>9.0%</td>
</tr>
<tr>
<td>Wastewater customers</td>
<td>24,647</td>
<td>21,499</td>
<td>3,148</td>
<td>14.6%</td>
</tr>
<tr>
<td>Water consumption (millions of gallons):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>2,371</td>
<td>2,268</td>
<td>103</td>
<td>4.5%</td>
</tr>
<tr>
<td>Special commercial</td>
<td>511</td>
<td>540</td>
<td>(29)</td>
<td>-5.4%</td>
</tr>
<tr>
<td>Retail residential and commercial</td>
<td>4,036</td>
<td>3,492</td>
<td>544</td>
<td>15.6%</td>
</tr>
<tr>
<td>Total water consumption</td>
<td>6,918</td>
<td>6,300</td>
<td>618</td>
<td>9.8%</td>
</tr>
<tr>
<td>Wastewater treated (millions of gallons):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>30</td>
<td>31</td>
<td>(1)</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Retail residential and commercial</td>
<td>2,362</td>
<td>2,082</td>
<td>330</td>
<td>15.9%</td>
</tr>
<tr>
<td>Total wastewater treated</td>
<td>2,412</td>
<td>2,082</td>
<td>330</td>
<td>15.9%</td>
</tr>
<tr>
<td>New Taps:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>3,536</td>
<td>2,744</td>
<td>592</td>
<td>21.6%</td>
</tr>
<tr>
<td>Wastewater</td>
<td>2,976</td>
<td>2,486</td>
<td>490</td>
<td>19.7%</td>
</tr>
<tr>
<td>Capacity (millions of gallons):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water treatment</td>
<td>34</td>
<td>34</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Main system well production (incl. ASRs)</td>
<td>12.80</td>
<td>12.80</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Wastewater treatment</td>
<td>8.36</td>
<td>8.36</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Number of wastewater pump stations</td>
<td>296</td>
<td>265</td>
<td>31</td>
<td>11.7%</td>
</tr>
<tr>
<td>Per average employee:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>$254,468</td>
<td>$214,392</td>
<td>$44,076</td>
<td>20.6%</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$238,117</td>
<td>$217,883</td>
<td>$19,234</td>
<td>9.3%</td>
</tr>
<tr>
<td>Revenues per thousand gallons consumed/treated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water service revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>$1.63 $1.38 $0.25</td>
<td>18.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special commercial</td>
<td>$0.48 $0.36 $0.12</td>
<td>33.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail residential and commercial</td>
<td>$0.40</td>
<td>$0.38</td>
<td>$0.02</td>
<td>4.4%</td>
</tr>
<tr>
<td>Wastewater service revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>$4.02 $3.74 $0.28</td>
<td>7.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail residential and commercial</td>
<td>$4.52</td>
<td>$4.34</td>
<td>$0.18</td>
<td>4.1%</td>
</tr>
<tr>
<td>Expenses per thousand gallons consumed/treated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water service expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses excluding depreciation, overhead &amp; franchise</td>
<td>$1.00</td>
<td>$1.01</td>
<td>($0.01)</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Expenses excluding depreciation</td>
<td>$1.55</td>
<td>$1.53</td>
<td>$0.02</td>
<td>1.3%</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$2.47</td>
<td>$2.44</td>
<td>$0.03</td>
<td>1.2%</td>
</tr>
<tr>
<td>Wastewater service expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses excluding depreciation, overhead &amp; franchise</td>
<td>$2.03</td>
<td>$2.11</td>
<td>($0.08)</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Expenses excluding depreciation</td>
<td>$2.90</td>
<td>$2.98</td>
<td>($0.08)</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$6.34</td>
<td>$6.63</td>
<td>($0.29)</td>
<td>-4.4%</td>
</tr>
<tr>
<td>Ratio of operating revenue to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1.09</td>
<td>0.98</td>
<td>0.11</td>
<td>11.2%</td>
</tr>
<tr>
<td>Operating expenses net of depreciation</td>
<td>1.98</td>
<td>1.81</td>
<td>0.17</td>
<td>9.4%</td>
</tr>
<tr>
<td>Total assets</td>
<td>0.10</td>
<td>0.09</td>
<td>0.01</td>
<td>11.1%</td>
</tr>
<tr>
<td>Net assets</td>
<td>0.17</td>
<td>0.16</td>
<td>0.01</td>
<td>6.3%</td>
</tr>
<tr>
<td>Debt related ratios</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity to Long-Term Debt (Net assets over long-term debt)</td>
<td>1.63</td>
<td>1.54</td>
<td>0.09</td>
<td>5.8%</td>
</tr>
<tr>
<td>Current ratio (current nonrestricted assets/ current liabilities to be paid from nonrestricted assets)</td>
<td>2.22</td>
<td>1.95</td>
<td>0.27</td>
<td>13.8%</td>
</tr>
<tr>
<td>Operating ratio (operating income/operating expenses less depreciation)</td>
<td>1.98</td>
<td>1.81</td>
<td>0.17</td>
<td>9.4%</td>
</tr>
<tr>
<td>Debt service coverage (including capacity fees)</td>
<td>3.46</td>
<td>2.51</td>
<td>0.95</td>
<td>37.8%</td>
</tr>
<tr>
<td>Debt service coverage (excluding capacity fees)</td>
<td>2.04</td>
<td>1.40</td>
<td>0.64</td>
<td>45.7%</td>
</tr>
</tbody>
</table>
Cash Flow Activity
The following table shows the Authority’s ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating revenues</td>
<td>$35,152</td>
<td>$28,729</td>
<td>$6,423</td>
</tr>
<tr>
<td>Net cash provided by operations</td>
<td>$16,169</td>
<td>$13,121</td>
<td>$3,048</td>
</tr>
<tr>
<td>Net operating cash as a % of operating revenue</td>
<td>46%</td>
<td>46%</td>
<td></td>
</tr>
</tbody>
</table>

Although customer growth combined with usage enabled the Authority to generate $16.2 million from operations to support capital and financing activities, as compared to $13.1 million during the prior fiscal year, delayed billings increased receivables and, therefore, did not increase the percentage of net cash provided from revenues. These delayed billings extended the receivable due dates, thereby increasing year end receivables and reducing year end cash by an estimated $750 thousand.

Cash payments for construction and acquisition of capital assets increased from $22.7 million in 2005 to $27 million in 2006. The $27 million in capital expenditures were funded by $14.8 million in debt proceeds, capital funding from capacity fees, and depreciation (renewal and replacement) funds. Total cash payments for debt service, which were anticipated in the fiscal year budget, were approximately $9.2 million.

Capital Contributions and Grants
The Authority collects water and wastewater capacity fees to ensure that current customers do not bear the entire burden of growth. These fees are paid by all new customers and represent, on a residential equivalent unit basis, the cost of the water and/or wastewater capacity represented by the new account. Capacity fee revenues increased 21.5% to $13.1 million for 2006, as compared to $10.8 million for 2005. Because the Authority does not use capacity fees to subsidize operations these contributions do not impact operating income. The Authority restricts the use of capacity fee revenue to capital investment in its system and these contributions are reported in the Statement of Cash Flows as a capital financing source.

Commercial and residential real estate developers also construct and then convey to the Authority water and wastewater systems that serve their developments. GASB 33 and 34 define these fees as non-operating revenues and requires reporting the amounts through the Statement of Revenues, Expenses and Changes in Net Assets. Developers contributed $1.05 million in cash and $13.3 million in utility systems during fiscal year 2006. The developments at Del Webb of $2.56 million, Palmetto Bluff of $1.59 million, at Bluffton Park of $1.07 million, at Pinckney Retreat of $1.02 million, at Baynard Park of $664 thousand, and at Hampton Hall of $622 thousand accounted for $7.5 million, or 56.6%, of system contributions. All of these projects included pump stations, water lines, and wastewater conveyance systems. Other large developments (over $400 thousand, but less than $600 million) included the Northern Tract Connector and Pinecrest. Developers convey primarily residential systems to the Authority upon completion in accordance with plans and specifications approved by the Authority. These contributions are not budgeted as they are generally non-cash, of limited relevance to rate setting, and the timing is not subject to Authority control.
The following chart depicts capital contribution activity for the last three fiscal years:

Capital Contributions
In Thousands

Capital Assets
The Authority received approximately $14.3 million in contributed capital, and spent approximately $24.6 million on the capital improvement program and $1.89 million on operating capital (meters, equipment, and vehicles). Disposals of primarily fully depreciated assets were recorded in the amount of $1.3 million, with a gain on disposals of all assets, including timber and recycling, recognized for the year in the amount of $122 thousand. Additional information in changes in capital assets can be found in the notes to the financial statements.

Final Comments
Financial management strives to achieve a clear understanding of the utility’s overall financial condition and determine what actions are required to maintain fiscal stability in light of the future economic outlook. Through a well-defined financial management system including timely reporting, established control systems, and competent personnel, the Authority ensures the utilization of resources in the most effective and efficient manner, as well as the future security of those assets.

Questions concerning this report or requests for additional information should be directed to Mary H. Williams, CPA, Controller, at 843-987-9290 or at 6 Snake Road, Okatie, South Carolina, 29909-3937.
## Beaufort-Jasper Water and Sewer Authority
### Balance Sheets

#### Assets

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$8,921,136</td>
<td>$6,861,322</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>4,898,517</td>
<td>3,307,105</td>
</tr>
<tr>
<td>Inventory and other assets</td>
<td>549,544</td>
<td>710,290</td>
</tr>
<tr>
<td><strong>Total current assets (unrestricted)</strong></td>
<td><strong>14,369,197</strong></td>
<td><strong>10,878,717</strong></td>
</tr>
<tr>
<td><strong>Designated &amp; restricted assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents - Designated</td>
<td>31,109,997</td>
<td>24,084,227</td>
</tr>
<tr>
<td>Cash and cash equivalents - Restricted</td>
<td>3,021,879</td>
<td>2,736,682</td>
</tr>
<tr>
<td>Investments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Designated receivables</td>
<td>1,350,264</td>
<td>1,010,440</td>
</tr>
<tr>
<td><strong>Total restricted assets</strong></td>
<td><strong>35,482,140</strong></td>
<td><strong>27,831,349</strong></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>49,851,337</strong></td>
<td><strong>38,710,066</strong></td>
</tr>
<tr>
<td><strong>Noncurrent Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and land rights</td>
<td>7,737,765</td>
<td>7,737,765</td>
</tr>
<tr>
<td>Structures and improvements</td>
<td>311,595,856</td>
<td>294,960,196</td>
</tr>
<tr>
<td>Equipment</td>
<td>4,850,190</td>
<td>4,355,627</td>
</tr>
<tr>
<td>Utility plant in service before depreciation</td>
<td>324,183,811</td>
<td>307,053,588</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(83,238,496)</td>
<td>(69,922,732)</td>
</tr>
<tr>
<td>Net utility plant in service</td>
<td>240,945,315</td>
<td>237,130,856</td>
</tr>
<tr>
<td>Construction work in progress</td>
<td>48,480,417</td>
<td>27,253,947</td>
</tr>
<tr>
<td><strong>Total capital assets</strong></td>
<td><strong>289,425,732</strong></td>
<td><strong>264,384,803</strong></td>
</tr>
<tr>
<td>Bonds/loans issuance costs and discounts, net</td>
<td>2,164,599</td>
<td>2,313,401</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td><strong>291,590,331</strong></td>
<td><strong>266,698,204</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$341,441,668</td>
<td>$305,408,270</td>
</tr>
</tbody>
</table>

The accompanying notes to financial statements are an integral part of these statements.
# Beaufort-Jasper Water and Sewer Authority

**Balance Sheets**

<table>
<thead>
<tr>
<th>Liabilities and Net Assets</th>
<th>June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2006</strong></td>
<td><strong>2005</strong></td>
</tr>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$993,375</td>
</tr>
<tr>
<td>Accrued wages and benefits</td>
<td>$953,930</td>
</tr>
<tr>
<td>Revenue bonds</td>
<td>$845,850</td>
</tr>
<tr>
<td>State revolving fund</td>
<td>$3,063,257</td>
</tr>
<tr>
<td>Notes payable</td>
<td>$609,734</td>
</tr>
<tr>
<td><strong>Total current liabilities (unrestricted)</strong></td>
<td>$6,466,146</td>
</tr>
<tr>
<td><strong>Current liabilities payable from designated &amp; restricted assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts payable for capital items</td>
<td>$1,403,276</td>
</tr>
<tr>
<td>Revenue bonds</td>
<td>$1,223,146</td>
</tr>
<tr>
<td>State revolving fund</td>
<td>$255,052</td>
</tr>
<tr>
<td>Notes payable</td>
<td>$20,216</td>
</tr>
<tr>
<td>Deposit and escrow accounts</td>
<td>$1,384,730</td>
</tr>
<tr>
<td><strong>Total current liabilities payable from restricted assets</strong></td>
<td>$4,286,420</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$10,752,566</td>
</tr>
<tr>
<td><strong>Long term liabilities:</strong></td>
<td></td>
</tr>
<tr>
<td>Revenue bonds</td>
<td>$58,711,953</td>
</tr>
<tr>
<td>State revolving fund</td>
<td>$61,457,248</td>
</tr>
<tr>
<td>Notes payable</td>
<td>$5,557,560</td>
</tr>
<tr>
<td><strong>Total long term liabilities</strong></td>
<td>$125,726,761</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$136,479,327</td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related liabilities</td>
<td>$161,344,729</td>
</tr>
<tr>
<td>Restricted for capital activity and debt service</td>
<td>$1,910,358</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$41,707,254</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$204,962,341</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$341,441,668</td>
</tr>
</tbody>
</table>

The accompanying notes to financial statements are an integral part of these statements.
Beaufort-Jasper Water and Sewer Authority  
Statements of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30,  

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>$3,853,757</td>
<td>$3,137,503</td>
</tr>
<tr>
<td>Retail</td>
<td>16,372,404</td>
<td>13,574,916</td>
</tr>
<tr>
<td>Other</td>
<td>3,638,223</td>
<td>2,593,473</td>
</tr>
<tr>
<td>Total water revenues</td>
<td>23,864,384</td>
<td>19,305,892</td>
</tr>
<tr>
<td>Wastewater:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>10,887,631</td>
<td>9,014,473</td>
</tr>
<tr>
<td>Other</td>
<td>399,574</td>
<td>408,142</td>
</tr>
<tr>
<td>Total wastewater revenues</td>
<td>11,287,205</td>
<td>9,422,615</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>35,151,589</td>
<td>28,728,507</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of supply</td>
<td>470,263</td>
<td>467,529</td>
</tr>
<tr>
<td>Water treatment</td>
<td>3,251,150</td>
<td>2,957,024</td>
</tr>
<tr>
<td>Transmission and distribution</td>
<td>2,957,852</td>
<td>2,695,529</td>
</tr>
<tr>
<td>Laboratory and testing</td>
<td>250,682</td>
<td>214,720</td>
</tr>
<tr>
<td>Franchise fee</td>
<td>519,081</td>
<td>434,838</td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,367,653</td>
<td>5,750,180</td>
</tr>
<tr>
<td>General, administrative, customer service and other</td>
<td>3,282,304</td>
<td>2,872,791</td>
</tr>
<tr>
<td>Total water operating expenses</td>
<td>17,098,985</td>
<td>15,392,611</td>
</tr>
<tr>
<td>Wastewater:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collection and transmission</td>
<td>2,083,516</td>
<td>1,794,163</td>
</tr>
<tr>
<td>Wastewater treatment</td>
<td>2,152,968</td>
<td>1,986,896</td>
</tr>
<tr>
<td>Wastewater disposal</td>
<td>105,712</td>
<td>85,915</td>
</tr>
<tr>
<td>Sludge management</td>
<td>292,966</td>
<td>298,492</td>
</tr>
<tr>
<td>Laboratory and testing</td>
<td>255,165</td>
<td>230,253</td>
</tr>
<tr>
<td>Franchise fee</td>
<td>325,468</td>
<td>298,492</td>
</tr>
<tr>
<td>Depreciation</td>
<td>8,292,789</td>
<td>7,606,544</td>
</tr>
<tr>
<td>General, administrative, customer service and other</td>
<td>1,776,363</td>
<td>1,540,900</td>
</tr>
<tr>
<td>Total wastewater operating expenses</td>
<td>15,284,947</td>
<td>13,803,676</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>32,383,932</td>
<td>29,196,287</td>
</tr>
<tr>
<td><strong>Operating income (loss)</strong></td>
<td>2,767,657</td>
<td>(467,780)</td>
</tr>
<tr>
<td><strong>Non-operating revenue (expense):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(4,909,761)</td>
<td>(5,247,969)</td>
</tr>
<tr>
<td>Investment income</td>
<td>1,457,482</td>
<td>680,500</td>
</tr>
<tr>
<td>Bond investment income</td>
<td>-</td>
<td>83,016</td>
</tr>
<tr>
<td>Net gain (loss) on disposal of assets</td>
<td>122,481</td>
<td>110,166</td>
</tr>
<tr>
<td>Amortization of bond issuance costs</td>
<td>(106,272)</td>
<td>(104,366)</td>
</tr>
<tr>
<td><strong>Total non-operating revenue (expense)</strong></td>
<td>(3,436,070)</td>
<td>(4,478,653)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in net assets, before capital contributions</strong></td>
<td>(668,413)</td>
<td>(4,946,433)</td>
</tr>
<tr>
<td><strong>Capital contributions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capacity fees</td>
<td>13,105,543</td>
<td>10,786,524</td>
</tr>
<tr>
<td>Developer contributions of systems</td>
<td>14,337,459</td>
<td>11,486,234</td>
</tr>
<tr>
<td><strong>Total capital contributions</strong></td>
<td>27,443,002</td>
<td>22,272,758</td>
</tr>
<tr>
<td><strong>Increase (decrease) in net assets</strong></td>
<td>26,774,589</td>
<td>17,326,325</td>
</tr>
<tr>
<td><strong>Net assets at beginning of year</strong></td>
<td>178,187,752</td>
<td>160,861,427</td>
</tr>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td>$204,962,341</td>
<td>$178,187,752</td>
</tr>
</tbody>
</table>

The accompanying notes to financial statements are an integral part of these statements.
## Beaufort-Jasper Water and Sewer Authority

### Statements of Cash Flows

<table>
<thead>
<tr>
<th>Year Ended June 30,</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from customers</td>
<td>$ 33,266,520</td>
<td>$ 29,386,021</td>
</tr>
<tr>
<td>Cash paid for wages and benefits</td>
<td>(8,439,516)</td>
<td>(7,756,807)</td>
</tr>
<tr>
<td>Cash paid to suppliers</td>
<td>(8,657,507)</td>
<td>(8,510,861)</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by operating activities</strong></td>
<td>$ 16,169,497</td>
<td>$ 13,120,553</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>-</td>
<td>2,511,261</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,751,139</td>
<td>481,485</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by investing activities</strong></td>
<td>1,751,139</td>
<td>2,992,746</td>
</tr>
<tr>
<td><strong>Cash flows from capital and related financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase/construction of property, plant, and equipment</td>
<td>(27,021,334)</td>
<td>(22,739,074)</td>
</tr>
<tr>
<td>Proceeds from sale of assets</td>
<td>122,480</td>
<td>110,168</td>
</tr>
<tr>
<td>Proceeds from issuance of long term debt</td>
<td>14,837,649</td>
<td>11,393,439</td>
</tr>
<tr>
<td>Principal payments on debt</td>
<td>(4,267,156)</td>
<td>(4,548,981)</td>
</tr>
<tr>
<td>Interest paid on borrowings</td>
<td>(4,979,499)</td>
<td>(5,149,660)</td>
</tr>
<tr>
<td>Payment of bond issuance costs</td>
<td>(7,714)</td>
<td>(58,068)</td>
</tr>
<tr>
<td>Grant capital contributions</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash developer contributions of systems</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capacity fees</td>
<td>12,765,719</td>
<td>9,778,499</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by financing activities</strong></td>
<td>(8,549,855)</td>
<td>(11,213,677)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in cash and cash equivalents</strong></td>
<td>9,370,781</td>
<td>4,899,622</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>33,682,231</td>
<td>28,782,609</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$ 43,053,012</td>
<td>$ 33,682,231</td>
</tr>
</tbody>
</table>

| Reconciliation to balance sheet: | | |
| Unrestricted cash and cash equivalents | $ 8,921,136 | $ 6,861,322 |
| Designated cash and cash equivalents | 31,109,997 | 24,084,227 |
| Restricted cash and cash equivalents | 3,021,879 | 2,736,682 |
| **Total cash and cash equivalents** | $ 43,053,012 | $ 33,682,231 |

| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income (loss) | $ 2,767,657 | (467,780) |
| Adjustments: | | |
| Depreciation | 14,660,442 | 13,356,724 |
| Changes in assets and liabilities | | |
| Decrease (increase) in: | | |
| Receivables, excluding interest income | (1,885,069) | 659,514 |
| Inventory and other assets | 160,746 | (324,527) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 212,764 | (87,346) |
| Deposits and escrow accounts | 252,957 | (16,032) |
| **Net cash provided by operating activities** | $ 16,169,497 | $ 13,120,553 |

| Noncash financing activities: | | |
| Developer contributions of systems | $ 13,287,459 | $ 11,486,234 |

The accompanying notes to financial statements are an integral part of these statements.
June 30, 2006 and 2005

1. Description of Entity
The Beaufort-Jasper Water and Sewer Authority (the Authority) was established by an act of the General Assembly of the State of South Carolina on April 23, 1954. The Authority is a special purpose governmental entity engaged in business-type activities. The Authority provides water to various areas of Beaufort and Jasper Counties, South Carolina, and the three military installations, and wastewater (i.e. sewer) services to several areas within the two counties.

2. Summary of Significant Accounting Policies

**Basis of Accounting and Presentation**
All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Accordingly, the Authority’s financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) in the United States of America.

The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, offers the option of following all Financial Accounting Standards Board (FASB) standards issued after November 30, 1989, unless the latter conflict with or contradict GASB pronouncements, or not following FASB standards issued after such date. The Authority has elected the option to not follow FASB standards after November 30, 1989. The Authority has adopted GASB Statements 33 through 47, and related interpretations issued through June 30, 2006.

These GASB statements require the presentation of Management’s Discussion and Analysis which precedes the financial statements, in addition to several changes to the financial statements such as: (1) the classification of the Equity section of the balance sheet into Net Assets with categories of Invested in Capital Assets net of related debt, Restricted, and Unrestricted; (2) the statement of revenues, expenses and changes in net assets formatted to report changes in net assets in lieu of changes in retained earnings; and (3) additional note disclosures to the financial statements.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. Therefore, all assets and all liabilities associated with the operations are included on the balance sheet.

**Operating/Nonoperating Revenues and Expenses**
Operating revenues and expenses are those that result from providing water and wastewater services. Nonoperating revenues and expenses include capital, financing, investing and other activities not related to the provision of water and wastewater services.

**Revenue Recognition and Receivables**
All water and wastewater revenues are recognized on the accrual basis when the related services are provided and the earning process is complete. Services are provided to customers under a rate structure designed to produce revenue sufficient for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Customer receivables represent various volume, availability, impact and special service fees earned, but not yet collected. Unbilled receivables have been estimated and accrued as revenue from the date of the last reading of the
meters based on the billing cycle. Unbilled accounts receivable was approximately $1.4 million and $701 thousand as of June 30, 2006 and 2005, respectively. The allowance for doubtful accounts is determined by the following assumptions regarding the aging report: (1) accounts over ninety (90) days are deemed 100% uncollectible and (2) accounts over sixty (60) days are deemed 50% uncollectible. Payment plan amounts included in the delinquent accounts, which are considered collectible based upon the date of last payment, are added back to the allowance. The allowance for doubtful accounts was $378 thousand and $300 thousand as of June 30, 2006, and 2005, respectively.

Budgetary Accounting
The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The current operating budget details the Authority’s plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The Authority budgets depreciation expense based upon prior year actual and estimates of acquisitions and contributed capital. The capital budget details the plan to receive and expend cash capital contribution fees, special assessments, grants, borrowings and certain revenues for capital projects.

All unexpended and unencumbered appropriations in the operating budget lapse at the end of the fiscal year. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.

Management submits a proposed budget to the Authority’s Board of Directors prior to the May Board meeting. A budget is adopted by resolution prior to July 1. During the year, management is authorized to transfer budgeted amounts between line items within the Authority’s divisions.

Cash Equivalents, Deposits and Investments
Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer’s Pool, certificates of deposit, repurchase agreements and investments with a maturity of three months or less.

Investments are reported at their fair value. The Authority is permitted to invest through various investment advisors in a pool managed by the South Carolina State Treasurer, certificates of deposit, repurchase agreements, and United States or State of South Carolina general obligations.

Designated and Restricted Assets
Whereas restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the Authority or by agreement for funding certain debt service payments, designated assets represent cash, investments, and receivables that have been designated formally and consistently by Board action for depreciation and contingency activities, and improvements and extensions to the utility systems. These funds are utilized to support the Board’s approved capital improvement program budget, which is generally approved every three (3) years; includes estimates of anticipated capacity fees and set aside revenues; and projects capital funding required.

Capacity fees, or impact fees, which are held in water and wastewater capital funds, are considered designated assets. These fees are cash contributed capital received in exchange for the purchase of capacity in the system. The capacity certificate represents ownership of system capacity, and, as such, the Authority must ensure that the funds are utilized for growth infrastructure. Any receivables generated from extension of credit for capacity payments or construction reimbursements from front foot assessments are also considered designated.

During fiscal year 2000, the Authority began accepting Letters of Credit from certain developers and commercial customers for the payment of capital contributions. During the 2005 fiscal year these extensions of debt became
material and the Authority discontinued accepting letters of credit with contingencies which could impede the receipt of funds should the payee become delinquent. Receivables for capital contributions under Letters of Credit were recorded in the amounts of $1,350,264 and $1,008,025, for fiscal years ending June 30, 2006 and 2005, respectively, where the capacity certificate had been issued and the earnings process had been completed.

**Inventories**

Materials and supplies inventories are stated at the lower of average cost or market.

**Capital Assets**

Property acquired with an initial individual cost of $5,000 or more and an estimated useful life (i.e., generates an economic benefit) in excess of one year are recorded at cost. Major outlays for construction of capital assets and improvements are capitalized at cost. Maintenance and repairs that do not significantly extend the value or life of property, plant and equipment are expensed as incurred. During fiscal year 1999, the Authority began capitalizing meters as a result of using significantly more radio-read meters versus the less expensive standard meters. During fiscal year 2005, the Authority began capitalizing meter transponder replacements for entire areas where the retrofit significantly adds to the estimated useful life of all meters for that development.

Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers’ estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value. Internal engineering costs are capitalized to the extent of direct support and contribution to construction and expansion projects. Costs of studies that directly result in specific construction projects are capitalized.

Interest cost is capitalized on the construction of qualified assets, whether or not borrowings exist for such projects, to the extent of amounts funded by debt or operating results. Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds. Interest costs are not capitalized for small projects that will be constructed in less than six months or for those with estimated costs under $250,000 because these amounts are considered immaterial for purposes of interest capitalization.

Annualized depreciation expense, expressed as a percent of depreciable capital assets, was 6.3% and 5.8% for the fiscal years ended June 30, 2006 and 2005, respectively. The Authority utilizes the straight-line depreciation method and estimated useful lives of assets in service are as follows:

<table>
<thead>
<tr>
<th>Source of supply equipment</th>
<th>15-50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water treatment plant</td>
<td>10-50</td>
</tr>
<tr>
<td>Wastewater treatment plant</td>
<td>10-50</td>
</tr>
<tr>
<td>Transmission and distribution systems</td>
<td>10-50</td>
</tr>
<tr>
<td>Equipment</td>
<td>3-20</td>
</tr>
<tr>
<td>Structures and improvements, including buildings</td>
<td>10-50</td>
</tr>
<tr>
<td>Office furniture, equipment and vehicles</td>
<td>3-20</td>
</tr>
<tr>
<td>Meters</td>
<td>8</td>
</tr>
</tbody>
</table>
Capital Contributions
Contributions are recognized in the Statement of Revenues, Expenses and Changes in Net Assets when earned. Contributions include capacity fees, developer contributed utility systems, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

Long-term Obligations and Costs
Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts, issuance costs, and gains or losses on advance refundings and defeasances after June 30, 1994, are deferred and amortized over the life of the bonds.

Compensated Absences
The Authority accounts for compensated absences by accruing a liability for employees’ compensation for future absences according to the guidelines of GASB Statement No. 16, Accounting for Compensated Absences. Compensated absences are classified as a current liability, because 1) each employee is eligible to “cash in” compensated absences up to $1,000 per year, 2) it is payable upon voluntary or involuntary termination, and 3) the use of accrued leave is unpredictable.

Claims and Judgments
These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

Net Assets
Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets that are constrained by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

General and Administrative Expense Allocations
For the purposes of the Statement of Revenues, Expenses and Changes in Net Assets, general and administrative expenses were allocated 65% and 35% to the water and wastewater divisions for fiscal years 2006 and 2005. This allocation is based on the number of proportionate water to wastewater customers and is reviewed each year during the budgeting process. The allocation budgeted for fiscal year 2007 remained as 65% and 35% to the water and wastewater divisions, respectively.

Reclassifications
Certain amounts in the fiscal year 2004 financial statements have been reclassified to conform to the fiscal year 2005 presentation.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.
3. Cash, Cash Equivalents, and Investments

Deposits include demand deposits and certificates of deposit in financial institutions. The carrying (balance sheet) amounts were $43,052,112 and $19,281,431 for June 30, 2006 and 2005, respectively. The bank balances were $43,481,729 and $20,344,961 for June 30, 2006 and 2005, respectively. At June 30, 2006 and 2005, demand deposits and investments were as follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2006</th>
<th></th>
<th>June 30, 2005</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest Yield</td>
<td>Book Balance</td>
<td>Bank Balance</td>
<td>Interest Yield</td>
</tr>
<tr>
<td>Demand Deposits</td>
<td>4.06%</td>
<td>$977,343</td>
<td>$1,338,042</td>
<td>2.43%</td>
</tr>
<tr>
<td>Demand Deposits</td>
<td>5.25%</td>
<td>$40,241,203</td>
<td>$40,310,121</td>
<td>3.25%</td>
</tr>
<tr>
<td>Demand Deposits - Savings</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Demand Deposits</td>
<td>$41,218,546</td>
<td>$41,648,163</td>
<td>$19,281,431</td>
<td>$20,344,961</td>
</tr>
<tr>
<td>Collateral Held by Agent in Authority’s Name</td>
<td></td>
<td>$41,980,277</td>
<td>$21,382,201</td>
<td></td>
</tr>
<tr>
<td>Repurchase Agreements backed by U. S. Gov’t Obligations</td>
<td>2.65%</td>
<td>$ -</td>
<td>$ -</td>
<td>2.65%</td>
</tr>
<tr>
<td>Trust Accounts - U. S. Gov’t Agencies (Rule 2a-7)</td>
<td>4.10%</td>
<td>$1,833,566</td>
<td>$1,833,566</td>
<td>2.70%</td>
</tr>
<tr>
<td>Total Investments</td>
<td>$1,833,566</td>
<td>$1,833,566</td>
<td>$14,399,900</td>
<td>$14,486,301</td>
</tr>
</tbody>
</table>

Credit Risk

Investments of the Authority must comply with South Carolina Code Section 6-5-10, which states that the Authority may invest money subject to its control and jurisdiction in, obligations of the United States and agencies thereof, general obligations of the State of South Carolina or any of its political units, savings and loan associations to the extent that the same are insured by an agency of the federal government, certificates of deposit where the certificates are collaterally secured by the U. S. Treasury or its agencies, and repurchase agreements when collateralized by securities as set forth in this section. The provisions of South Carolina Code Section 6-5-10 do not impair the power of the Authority to hold funds in deposit accounts with banking institutions as otherwise authorized by law. All investments of the Authority were redeemable on demand without penalty as of June 30, 2006 and 2005, respectively, and are, therefore, classified as cash and cash equivalents.

All deposits that are not U. S. Treasury investment securities held in the Authority’s name are collateralized with securities held by the pledging financial institution’s agent in the Authority’s name.
The following reconciles deposits and investments to cash and cash equivalents, and investments, as presented in the balance sheet:

<table>
<thead>
<tr>
<th>Disclosures regarding deposits and investments:</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>$900</td>
<td>$900</td>
</tr>
<tr>
<td>Deposits</td>
<td>41,218,546</td>
<td>19,281,431</td>
</tr>
<tr>
<td>Investments</td>
<td>1,833,566</td>
<td>14,399,900</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$43,053,012</strong></td>
<td><strong>$33,682,231</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Balance sheet and cash flow statement amounts:</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$8,921,286</td>
<td>$6,861,322</td>
</tr>
<tr>
<td>Designated</td>
<td>31,109,997</td>
<td>24,084,227</td>
</tr>
<tr>
<td>Restricted</td>
<td>3,021,879</td>
<td>2,736,682</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td><strong>43,053,162</strong></td>
<td><strong>33,682,231</strong></td>
</tr>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$43,053,162</strong></td>
<td><strong>$33,682,231</strong></td>
</tr>
</tbody>
</table>

4. Accounts Receivable

Accounts receivable were composed of the following:

<table>
<thead>
<tr>
<th>Wholesale and retail water and wastewater customers:</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billed services</td>
<td>$3,795,924</td>
<td>$2,858,248</td>
</tr>
<tr>
<td>Unbilled services</td>
<td>1,416,207</td>
<td>701,134</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(378,000)</td>
<td>(315,000)</td>
</tr>
<tr>
<td>Other Receivables</td>
<td>64,386</td>
<td>62,723</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,898,517</strong></td>
<td><strong>$3,307,105</strong></td>
</tr>
</tbody>
</table>

5. Designated and Restricted Assets

Certain proceeds of revenue bonds and notes, as well as resources set aside for their repayment or to satisfy certain restrictive covenants of the bond agreements, are classified as restricted assets on the balance sheet because their use is limited by those covenants. The “debt service fund” accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The “debt service reserve fund” accounts are used to report resources set aside to make up potential future deficiencies in revenue bond debt service funds or to effect whole or partial redemption of the bonds. Bond construction funds restricted for the purposes of funding capital projects.

Designated assets are established by consistent Board action and are included in the funding sources available for board approval of the capital improvement program budget. The “contingency and depreciation fund” accounts are used to accumulate resources to be used for contingencies and for improvements, betterments, and extensions of the system; the Authority establishes these amounts annually. The “capital projects fund” accounts are funds designated by board approval of the capital projects budget.
The components of designated receivables as of June 30 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30 2006</th>
<th></th>
<th>June 30 2005</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity Fees Receivable</td>
<td>$1,350,264</td>
<td></td>
<td>$1,008,025</td>
<td></td>
</tr>
<tr>
<td>Loan Proceeds Receivable</td>
<td>-</td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Front Foot Assessments Receivable</td>
<td>-</td>
<td></td>
<td>2,415</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,350,264</td>
<td></td>
<td>$1,010,440</td>
<td></td>
</tr>
</tbody>
</table>

The components of the designated and restricted assets, and liabilities payable from designated and restricted assets as of June 30, 2006 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total Designated &amp; Restricted Assets</th>
<th>Liabilities Payable from Designated &amp; Restricted Assets</th>
<th>Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board designated:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingency and depreciation</td>
<td>$7,552,383</td>
<td>$(137,708)</td>
<td>$7,414,675</td>
</tr>
<tr>
<td>Capital projects (incl. Receivables)</td>
<td>24,907,878</td>
<td>(1,403,276)</td>
<td>23,504,602</td>
</tr>
<tr>
<td><strong>Restricted:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer deposits</td>
<td>1,117,985</td>
<td>(1,117,985)</td>
<td>-</td>
</tr>
<tr>
<td>Maintenance bonds payable</td>
<td>70,327</td>
<td>(70,327)</td>
<td>-</td>
</tr>
<tr>
<td>Debt service and reserves</td>
<td>1,833,567</td>
<td>(1,557,124)</td>
<td>276,443</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$35,482,140</td>
<td>$(4,286,420)</td>
<td>$31,195,720</td>
</tr>
</tbody>
</table>

6. Capital Assets

No interest expense was capitalized for fiscal years 2006 or 2005. During fiscal year 2006, the Authority made draws against the State Revolving Fund after expenditures were made, but had not reached the repayment date by the end of the fiscal year. Capitalized interest for these construction reimbursement projects is determined at the repayment date and calculated based on the construction draws for the project, and added to the cost of the project at that time.

Construction in progress increased a net of approximate $21 million as a result of the substantial completion on the Port Royal Water Reclamation Facility and the Beaufort River Outfall Line and Effluent Disposal projects. The Authority expended $24.6 million on capital assets related to construction projects during fiscal year 2006, with approximately $3.4 million completed and moved to producing assets. Of the $48 million in construction in progress at the end of the fiscal year, approximately $40.6 million is related to the Port Royal Island Water Reclamation Facility, Transmission Line, and Effluent Disposal (including related projects). Construction on these projects is expected to be completed early fiscal year 2007.
Capital asset activity during the prior two fiscal years was as follows:

### Detailed Schedule of Changes in Fixed Assets for the year ended June 30, 2005

<table>
<thead>
<tr>
<th></th>
<th>30-Jun-04</th>
<th>System Contributions</th>
<th>Purchases</th>
<th>Disposals</th>
<th>30-Jun-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Land Rights</td>
<td>$5,851,509</td>
<td>$ -</td>
<td>$ -</td>
<td>$1,886,256</td>
<td>$ -</td>
</tr>
<tr>
<td>Administrative Fac. &amp; Improv.</td>
<td>$2,813,458</td>
<td>$ -</td>
<td>$ -</td>
<td>-</td>
<td>$2,813,458</td>
</tr>
<tr>
<td>Structures &amp; Improvements</td>
<td>$93,776,767</td>
<td>7,116,468</td>
<td>12,915</td>
<td>6,888,282</td>
<td>(80,456)</td>
</tr>
<tr>
<td>Source of Supply</td>
<td>$8,326,844</td>
<td>$ -</td>
<td>$798,090</td>
<td>(135,472)</td>
<td>$8,969,462</td>
</tr>
<tr>
<td>Water Treatment Plant</td>
<td>$18,317,221</td>
<td>$35,047,050</td>
<td>$ -</td>
<td>-</td>
<td>$53,364,271</td>
</tr>
<tr>
<td>Wastewater Treatment Plant</td>
<td>$38,183,292</td>
<td>$107,313,976</td>
<td>$ -</td>
<td>-</td>
<td>$38,025,661</td>
</tr>
<tr>
<td>Transmission &amp; Distribution Eq</td>
<td>$68,200,505</td>
<td>4,369,766</td>
<td>$1,291,040</td>
<td>10,742,612</td>
<td>(79,935,218)</td>
</tr>
<tr>
<td>Other General Equipment</td>
<td>$4,145,256</td>
<td>$ -</td>
<td>$473,410</td>
<td>(799,418)</td>
<td>$4,355,627</td>
</tr>
</tbody>
</table>

**Property, plant and equipment in service:**

- $239,214,852
- $11,486,234
- $1,777,365
- $55,374,669
- $(79,935,218)
- $307,053,588

**Accumulated Depreciation:**

- $(57,365,540)
- $(13,356,724)
- $799,532
- $(69,922,732)

**Property, plant and equipment in service, net:**

- $181,849,312
- $11,486,234
- $(11,579,359)
- $55,374,669
- $(237,130,856)

**Construction in Progress:**

- $59,784,443
- $22,844,173
- $(55,374,669)
- $(27,253,947)

**Net property, plant and equipment:**

- $241,633,755
- $11,486,234
- $11,264,814
- $-(83,238,496)
- $264,384,803

### Detailed Schedule of Changes in Fixed Assets for the year ended June 30, 2006

<table>
<thead>
<tr>
<th></th>
<th>30-Jun-05</th>
<th>System Contributions</th>
<th>Purchases</th>
<th>Disposals</th>
<th>30-Jun-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Land Rights</td>
<td>$7,737,765</td>
<td>$ -</td>
<td>$ -</td>
<td>-</td>
<td>$7,737,765</td>
</tr>
<tr>
<td>Administrative Fac. &amp; Improv.</td>
<td>$2,813,458</td>
<td>$ -</td>
<td>$ -</td>
<td>-</td>
<td>$2,813,458</td>
</tr>
<tr>
<td>Structures &amp; Improvements</td>
<td>$107,313,976</td>
<td>7,782,027</td>
<td>(54,248)</td>
<td>1,234,478</td>
<td>115,479,525</td>
</tr>
<tr>
<td>Source of Supply</td>
<td>$8,989,462</td>
<td>$49,663</td>
<td>243,683</td>
<td>(14,110)</td>
<td>$9,268,696</td>
</tr>
<tr>
<td>Water Treatment Plant</td>
<td>$53,364,271</td>
<td>$431,711</td>
<td>$192,892</td>
<td>$53,463,427</td>
<td></td>
</tr>
<tr>
<td>Wastewater Treatment Plant</td>
<td>$8,989,462</td>
<td>$3,389,776</td>
<td>(3,389,776)</td>
<td>-</td>
<td>$9,268,698</td>
</tr>
<tr>
<td>Transmission &amp; Distribution Eq</td>
<td>$84,453,368</td>
<td>5,050,432</td>
<td>1,165,112</td>
<td>(215,535)</td>
<td>$92,294,663</td>
</tr>
<tr>
<td>Other General Equipment</td>
<td>$4,355,627</td>
<td>$400,932</td>
<td>175,768</td>
<td>(82,137)</td>
<td>$4,850,190</td>
</tr>
</tbody>
</table>

**Property, plant and equipment in service:**

- $307,053,588
- $13,287,459
- $(12,862,776)
- $3,389,776
- $(240,945,315)

**Accumulated Depreciation:**

- $(69,922,732)
- $(14,660,442)
- $(1,344,678)
- $(83,238,496)

**Property, plant and equipment in service, net:**

- $237,130,856
- $13,287,459
- $(83,238,496)
- $(233,207,550)

**Construction in Progress:**

- $27,253,947
- $(24,616,246)
- $(3,389,776)
- $48,480,417

**Net property, plant and equipment:**

- $264,384,803
- $13,287,459
- $(11,753,470)
- $(83,238,496)
- $289,425,732

Accumulated depreciation for each of the major classes of capital assets follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Land Rights</td>
<td>$7,737,765</td>
<td>$-</td>
<td>$7,737,765</td>
<td>$7,737,765</td>
<td>$-</td>
<td>$7,737,765</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>$27,253,947</td>
<td>$-</td>
<td>$27,253,947</td>
<td>$48,480,417</td>
<td>$-</td>
<td>$48,480,417</td>
</tr>
<tr>
<td>Total PPE</td>
<td>$34,991,712</td>
<td>$-</td>
<td>$34,991,712</td>
<td>$56,218,182</td>
<td>$-</td>
<td>$56,218,182</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Fac. &amp; Improv.</td>
<td>$2,813,458</td>
<td>$662,320</td>
<td>$2,151,138</td>
<td>$2,878,154</td>
<td>$(785,465)</td>
<td>$2,092,689</td>
</tr>
<tr>
<td>Structures &amp; Improvements</td>
<td>$107,313,976</td>
<td>$22,992,587</td>
<td>$84,321,389</td>
<td>$115,479,525</td>
<td>$(27,999,842)</td>
<td>$87,479,683</td>
</tr>
<tr>
<td>Source of Supply</td>
<td>$8,989,462</td>
<td>$2,686,393</td>
<td>$6,303,069</td>
<td>$9,268,696</td>
<td>$(3,083,502)</td>
<td>$6,185,196</td>
</tr>
<tr>
<td>Water Treatment Plant</td>
<td>$53,364,271</td>
<td>$9,514,813</td>
<td>$43,849,458</td>
<td>$53,463,427</td>
<td>$(8,524,744)</td>
<td>$44,938,683</td>
</tr>
<tr>
<td>Wastewater Treatment Plant</td>
<td>$38,025,661</td>
<td>$(12,514,132)</td>
<td>$25,511,529</td>
<td>$38,211,389</td>
<td>$(14,331,232)</td>
<td>$23,880,157</td>
</tr>
<tr>
<td>Transmission &amp; Distribution Eq</td>
<td>$84,453,368</td>
<td>$20,584,830</td>
<td>$63,868,538</td>
<td>$92,294,663</td>
<td>$(24,583,805)</td>
<td>$67,710,858</td>
</tr>
<tr>
<td>Other General Equipment</td>
<td>$4,355,627</td>
<td>$(3,566,657)</td>
<td>$786,970</td>
<td>$4,850,190</td>
<td>$(3,929,906)</td>
<td>$920,284</td>
</tr>
<tr>
<td>Total PPE</td>
<td>$299,315,823</td>
<td>$(69,922,732)</td>
<td>$229,393,091</td>
<td>$316,446,246</td>
<td>$(83,238,496)</td>
<td>$289,425,732</td>
</tr>
</tbody>
</table>

| Total PPE                   | $334,307,535        | $(89,922,732)       | $244,384,803| $372,664,228        | $(83,238,496)       | $289,425,732 |
7. Long Term Debt

Long-term debt includes various bonds, loans and notes payable that have been issued or approved by the Authority for the improvement or acquisition of water and wastewater infrastructure, and defeasance of outstanding debt. General covenants, along with debt service requirements, are disclosed below. See Note 5, Restricted Assets, for a discussion of the accounts used in accounting for proceeds and reserves pledged as a result of the issuance of the various forms of debt.

Revenue bonds and State Revolving Loan payables are collateralized by an irrevocable pledge of income and revenues derived from the operation of the systems. The revenues derived from the operation of the respective systems are to be used for expenses in connection with the administration and operation of the systems.

The Authority’s debt instruments contain various covenants and restrictions, which among other things, requires the Authority to provide certain financial information and meet certain financial tests. The Authority’s Bond Resolutions require that “Net Earnings” (as defined in the Bond Resolution) are equal to at least 110% of the annual principal and interest requirements of all series of bonds outstanding in that year. For the years ended June 30, 2006 and 2005, the Authority’s “Net Earnings” were 338% and 251%, respectively, of its annual principal and interest requirements of all series of bonds. Management believes that the Authority was in compliance with all covenants and restrictions of all debt instruments at June 30, 2006 and 2005.

Revenue Bonds:

**Series 1999**, Waterworks and Sewer System Improvement Revenue Bonds, dated November 1, 1999, were issued in the original principal amount of $9,400,000, to provide funds to acquire the City of Beaufort system and funds for capital improvement projects. Payments are due in semi-annual principal installments ranging from $143,000 to $375,000 through 2020, with interest at 5.16%, due March 1 and September 1.

**Series 2000**, Waterworks and Sewer System Refunding and Improvement Revenue Bonds (Second Lien), dated January 13, 2000, were issued in the original principal amount of $9,444,000, taking advantage of the favorable interest rate to advance refund the Series 1992A and 1995 Bonds and provide funds for capital improvement projects. The refunding transaction resulted in an accounting loss of $712,143 when the net carrying value of the two bond issues were compared to the reacquisition price paid to defease those issues. This loss on refunding is recorded as a reduction in the carrying balance of the bonds payable and is amortized using the effective interest method through fiscal year 2013. Amortization of this amount for fiscal years 2005 and 2004 is $58,345 and $60,353, respectively. The escrow agent reported that the 1992A bonds were called and redeemed March 1, 2002, and that the 1995 bonds were called and redeemed March 1, 2005. Payments are due in quarterly principal installments ranging from $60,000 to $385,000 through 2016, with interest at 5.24%, due March 1, June 1, September 1, and December 1.

**Series 2001**, Waterworks and Sewer System Improvement and Refunding Bonds (Second Lien), dated December 1, 2001, were issued in the original principal amount of $47,140,000, taking advantage of the favorable interest rate to advance refund the Series 1992B Bonds, to pay the amount outstanding under an Equipment Lease/Purchase Agreement with First Union National Bank, and to provide funds for capital improvement projects, including the Purrysburg Water Treatment Plant. Proceeds in the amount of $4,884,267 were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the outstanding Series 1992B Bonds. The refunding transaction resulted in an accounting loss of $275,103 when the net carrying value of the two bond issues were compared to the reacquisition price paid to defease those issues. This loss on refunding is recorded as a reduction in the carrying balance of the bonds payable and is amortized using the effective interest method through fiscal year 2013. Amortization of this amount for fiscal year 2006 and 2005 is $28,532 and $31,101, respectively. The 1992B Bonds were called on March 1, 2002. Payments are due in annual principal installments ranging from $35,000 to $5,940,000 through 2026, with interest at 3.0% to 5.0%, due March 1, and September 1.
State Revolving Loans Payable to the South Carolina State Budget and Control Board:

**Series 1994.** Waterworks and Sewer System Revenue Bonds, dated November 21, 1994, were issued in the original principal amount of $10,875,908 (SC Water Pollution Control Revolving Loan Fund Number 025-94-520-11) to provide funds for construction of the Cherry Point Wastewater Treatment Plant. Interest is accrued at 4%, with principal and interest due in quarterly payments of $198,147 through January 1, 2016.

**Series 1996.** Waterworks and Sewer System Junior Lien Revenue Bonds, dated March 21, 1996, were issued in the original principal amount of $1,678,871 (SC Water Pollution Control Revolving Loan Fund Number 032-95-520-05) to provide funds for construction of the St. Helena Wastewater Treatment Plant. Interest is accrued at 4.25%, with principal and interest due in quarterly payments of $31,258 through December 1, 2016.

**Series 1998.** Waterworks and Sewer System Revenue Bonds, dated February 23, 1998, were issued in the original principal amount of $517,387 (SC Infrastructure Revolving Loan Fund Number 2-004-97) to provide funds for construction of the aquifer storage and recovery project. Interest is accrued at 4.75%, with principal and interest due in quarterly payments of $10,054 through June 1, 2018.

**Series 1998B.** Waterworks and Sewer System Revenue Bonds, dated June 12, 1998, were issued in the original principal amount of $5,967,213 (SC Drinking Water Revolving Loan Fund Number 3-001-98-0720003-01) to provide funds for expansion of the Chelsea Water Treatment Plant. Interest is accrued at 4%, with principal and interest due in quarterly payments of $108,716 through September 1, 2019.

**Series 1993 (COB).** Waterworks and Sewer System Improvement Revenue Parity Bonds, originally dated 1993 of the City of Beaufort (COB), were assumed by the Authority as part of the City of Beaufort acquisition on November 1, 1999, original principal amount of $5,197,143 (SC Water Pollution Control Revolving Loan Fund Number 021-92-389-20). Interest is accrued at 4.25%, with principal and interest due in quarterly payments of $96,764 through October 1, 2014.

**Series 2000B.** Waterworks and Sewer System Revenue Bonds, dated January 28, 2000, were issued in the original principal amount of $2,640,771 (SC Drinking Water Revolving Loan Fund Number 3-006-99-0720003-03) to provide funds for construction of the Broad River Ground Storage Tank. Interest is accrued at 3.5%, with principal and interest due in quarterly payments of $46,054 through May 1, 2020.

**Series 2000C.** Waterworks and Sewer System Revenue Bonds, dated April 28, 2000, were issued in the original principal amount of $2,446,356 (SC Drinking Water Revolving Loan Fund Number 3-007-99-0720003-02) to provide funds for construction of a raw water reservoir. Interest, in the amount of $6,731, was capitalized in 2002 when the project was substantially completed. Interest is accrued at 3.5%, with principal and interest due in quarterly payments of $42,649 through May 1, 2021.

**Series 2000D.** Waterworks and Sewer System Improvement Revenue Bonds, dated December 6, 2000, were issued in the original principal amount of $2,666,060 (SC Water Pollution Control Revolving Loan Fund Number 1-065-00-520-13) to provide funds for construction of the Rose Hill Wastewater Treatment Plant diversion. Interest, in the amount of $24,689, was capitalized in 2002 when the project was substantially completed. Interest is accrued at 3.5%, with principal and interest due in quarterly payments of $47,321 through July 1, 2021.

**Series 1990 (COH).** Waterworks and Sewer System Improvement Revenue Parity Bonds, originally dated 1990 of the City of Hardeeville (COH), were assumed by the Authority as part of the City of Hardeeville acquisition on January 25, 2002, original principal amount of $2,414,566 (SC Water Pollution Control Revolving Fund Number 014-90-427-04). Funds were utilized to upgrade the Hardeeville Wastewater Treatment Plant. Interest is accrued at 4.5%, with principal and interest due in quarterly payments of $46,043 through January 1, 2012.
**Series 2000 (COH)**, Waterworks and Sewer System Improvement Revenue Parity Bonds, originally dated 1990 of the City of Hardeeville (COH), were assumed by the Authority as part of the City of Hardeeville acquisition on January 25, 2002, original principal amount of $875,085 (SC Water Pollution Control Revolving Fund Number 1-067-00-427-04). Funds were utilized to upgrade the Hardeeville pump stations. Interest is accrued at 3.75%, with principal and interest due in quarterly payments of $15,586 through October 1, 2021.

**Series 2001B**. Waterworks and Sewer System Improvement Revenue Bonds, dated December 1, 2001, were issued in the original principal amount of $875,458, final draw amount of $814,410 (SC Drinking Water Revolving Loan Fund Number 3-011-02-0720003-06) to provide funds for improvements to the aquifer storage recovery system. Interest, in the amount of $6,005, was capitalized in 2003 when the project was substantially complete and payments became due on the loan. Interest is accrued at 3.75%, with principal and interest due in quarterly payments of $14,623 through March 1, 2023.

**Series 2002A**. Waterworks and Sewer System Improvement Revenue Bonds, dated March 4, 2002, were issued with an original principal amount of $4,590,900 (SC Water Pollution Control Revolving Loan Fund Number 1-077-02-520-16) to provide funds for improvement and upgrade of the Cherry Point Wastewater Treatment Plant to a water reclamation facility. Interest, in the amount of $46,045, was capitalized in 2003 when the project was substantially complete and payments became due on the loan. Interest is accrued at 4%, with principal and interest due in quarterly payments of $82,648 through March 1, 2023.

**Series 2002B**. Waterworks and Sewer System Improvement Revenue Bonds, dated March 26, 2002, were issued with a principal amount of $4,144,240 (SC Drinking Water Revolving Loan Fund Number 3-012-01-0720003-05) to provide funds for waterlines at the Broad River crossing. Interest, in the amount of $42,003, was capitalized in 2004 when the project was substantially complete and payments became due on the loan. Interest is accrued at 3.75%, with principal and interest due in quarterly payments of $76,269 through November 1, 2023.

**Series 2003A**. Waterworks and Sewer System Improvement Revenue Bonds, dated February 11, 2003, were issued with an original principal amount of $4,256,018, final draw amount of $4,067,317 (SC Drinking Water Revolving Loan Fund Number 3-015-02-0720003-13) to provide funds for the Purrysburg water transmission main. Interest, in the amount of $34,189, was capitalized in 2004 when the project was substantially complete and payments became due on the loan. Interest is accrued at 3.75%, with principal and interest due in quarterly payments of $73,105 through October 1, 2023.

**Series 2003B**. Waterworks and Sewer System Improvement Revenue Bonds, dated February 28, 2003, were issued with an original principal amount of $1,176,665 (SC Drinking Water Revolving Loan Fund Number 3-016-03-0720003-08) to provide funds for waterlines at the Chechessee River crossing. Interest, in the amount of $474, was capitalized in 2004 when the project was substantially complete and payments became due on the loan. Interest is accrued at 3.75%, with principal and interest due in quarterly payments of $20,981 through January 1, 2024.

**Series 2003C**. Waterworks and Sewer System Improvement Revenue Bonds, dated October 27, 2003, were issued with an original principal amount of $4,768,534, final draw amount of $4,558,972 (SC Water Pollution Control Revolving Loan Fund Number 1-090-03-520-14) to provide funds to divert wastewater from the Bluffton Wastewater Treatment Plant to the Cherry Point Wastewater Treatment Plant. Interest, in the amount of $78,966, was capitalized in 2003 when the project was substantially complete and payments became due on the loan. Interest is accrued at 3.75%, with principal and interest due in quarterly payments of $82,666 through July 1, 2024.

**Series 2004**. Waterworks and Sewer System Improvement Revenue Bonds, dated June 25, 2004, were issued with an original principal amount $24,781,500 (SC Water Pollution Control Revolving Loan Fund Number X1-093-04-520-15) to provide funds for the Port Royal Island Water Reclamation Facility. Interest that accrues during the construction period will be paid or capitalized as of the payment initiation date, which is August 1, 2006. As of June 30, 2006, draws had been made in the amount of $22,024,293 and the project was not complete. Interest will be
accrued during the repayment period at 3%, with principal and interest due in quarterly payments of approximately $413,063 starting November 1, 2006 through August 1, 2026.

**Series 2005**, Waterworks and Sewer System Improvement Revenue Bonds, dated June 14, 2005, were issued with an original principal amount $2,802,500 (SC Water Pollution Control Revolving Loan Fund Number X1-100-05-520-18) to provide funds for the Battery Creek Crossing and Beaufort River Outfall effluent line and force main related to the Port Royal Island Water Reclamation Facility. No draws had been made as of the payment initiation date, October 1, 2005, and, therefore, no interest was capitalized. As of June 30, 2006, draws had been made in the amount of $2,375,279 and a final request had not yet been made. Interest is accrued at 3.25%, with principal and interest due in quarterly payments of approximately $47,778 starting January 1, 2006 through October 1, 2025.

**Other Notes Payable:**

**1969 GMAC (COH)**, commercial mortgage note payable originally by the City of Hardeeville (COH), was assumed by the Authority as part of the City of Hardeeville acquisition on January 25, 2002, in the amount of $52,610 (GMAC Account No. 01-0528901). Interest is accrued at 4.75%, with principal and interest due annually on January 1 through January, 2007.

**1979 GMAC (COH)**, commercial mortgage note payable originally by the City of Hardeeville (COH), was assumed by the Authority as part of the City of Hardeeville acquisition on January 25, 2002, in the amount of $115,118 (GMAC Account No. 01-0528902). Interest is accrued at 5%, with principal and interest due annually on September 13 through September, 2017.

**1983 GMAC (COH)**, commercial mortgage note payable originally by the City of Hardeeville (COH), was assumed by the Authority as part of the City of Hardeeville acquisition on January 25, 2002, in the amount of $135,940 (GMAC Account No. 01-0528904). Interest is accrued at 5%, with principal and interest due annually on April 7 through April, 2023.

**2002 City of Hardeeville** is a note payable issued from the Authority in the amount of $2,378,000, to the City of Hardeeville financing the purchase price for the Hardeeville water and wastewater system. Interest was accrued at 5%, with payments of principal and interest, ranging from $70,000 to $47,500, due quarterly through April 1, 2017. During 2005, the Authority negotiated to pay the City of Hardeeville the full amount and refinanced $1,776,660 on December 29, 2004, with Branch Banking & Trust Company (BB&T). Interest is accrued at 3.85% on this note and principal and interest payments of $183,176 are due annually on July 1 through July 1, 2016.

**2002 Palmetto State Bank**, commercial mortgage note payable to Palmetto State Bank (Loan No. 779853), dated July 17, 2002, secured by certain vehicles and related equipment of the Authority, was issued in the original principal amount of $431,556, with interest at 5.73%, due in quarterly principal and interest payments of $39,406 through July 17, 2005.

**2003 Palmetto State Bank**, commercial mortgage note payable to Palmetto State Bank (Loan No. 7710243), dated March 24, 2003, secured by certain vehicles and related equipment of the Authority, was issued in the original principal amount of $150,000, with interest at 4.53%, due in quarterly principal and interest payments of $14,582 through March 24, 2006.

**2004 Palmetto State Bank**, commercial mortgage note payable to Palmetto State Bank (Loan No. 7210351), dated November 5, 2003, secured by certain vehicles and related equipment of the Authority, was issued in the original principal amount of $82,269, with interest at 4.78%, due in quarterly principal and interest payments of $7,760 through November 5, 2006.
2005 Palmetto State Bank, commercial mortgage note payable to Palmetto State Bank (Loan No. 7710686), dated August 9, 2004, secured by certain vehicles and related equipment of the Authority, was issued in the original principal amount of $250,000, with interest at 4%, due in monthly principal and interest payments of $7,381 through August 9, 2007.

2006 Palmetto State Bank, commercial mortgage note payable to Palmetto State Bank (Loan No. 7210950), dated July 20, 2005, secured by certain vehicles and related equipment of the Authority, was issued in the original principal amount of $300,000, with interest at 6.11%, due in monthly principal and interest payments of $9,143 through July 20, 2008.

2003 Town of Port Royal is a note payable issued from the Authority in the amount of $3,935,700, to the Town of Port Royal financing the purchase price for the Town of Port Royal water and wastewater system. Interest is accrued at 5%, with payments of principal and interest in the amount of $109,530, due quarterly through June 30, 2015.

2004 Beaufort County School District is a note payable issued from the Authority in the amount of $984,566, to the Beaufort County School District financing the James J. Davis Elementary School potable water system. The principal balance bears no interest until June 1, 2008, at which time the unpaid principal balance will bear interest at the rate of 3.85% to be paid in annual payments beginning June 1, 2009, and ending June 1, 2023.
### Changes In Long-term Liabilities

A summary of the long-term debt activity for 2005 and 2006 is presented in the following tables:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>6/30/04</th>
<th>Additions</th>
<th>Reductions</th>
<th>6/30/05</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue Bonds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 1999</td>
<td>5.16% $</td>
<td>8,321,000</td>
<td>-</td>
<td>(345,000)</td>
<td>7,976,000</td>
<td>363,000</td>
</tr>
<tr>
<td>Series 2000</td>
<td>5.24% $</td>
<td>8,005,000</td>
<td>-</td>
<td>(371,000)</td>
<td>7,634,000</td>
<td>391,000</td>
</tr>
<tr>
<td>Series 2001</td>
<td>3.0% to 5.0%</td>
<td>46,330,000</td>
<td>-</td>
<td>(400,000)</td>
<td>45,930,000</td>
<td>415,000</td>
</tr>
<tr>
<td><strong>Less: Deferred Amount on Refunding</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>518,801</td>
<td>1,169,000</td>
</tr>
<tr>
<td><strong>Total Revenue Bonds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>62,047,753</td>
<td>- (1,026,554)</td>
</tr>
<tr>
<td><strong>State Revolving Loans Payable to South Carolina Budget and Control Board:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 1994</td>
<td>4.00% $</td>
<td>7,277,375</td>
<td>-</td>
<td>(509,064)</td>
<td>6,768,311</td>
<td>529,734</td>
</tr>
<tr>
<td>Series 1996</td>
<td>4.25% $</td>
<td>1,207,617</td>
<td>-</td>
<td>(371,000)</td>
<td>836,617</td>
<td>78,127</td>
</tr>
<tr>
<td>Series 1998</td>
<td>4.75% $</td>
<td>409,538</td>
<td>-</td>
<td>(21,136)</td>
<td>388,402</td>
<td>98,974</td>
</tr>
<tr>
<td>Series 2001B</td>
<td>4.00% $</td>
<td>4,946,571</td>
<td>-</td>
<td>(240,579)</td>
<td>4,705,992</td>
<td>250,347</td>
</tr>
<tr>
<td>Series 1993 (COB)</td>
<td>4.25%</td>
<td>2,249,515</td>
<td>-</td>
<td>(106,874)</td>
<td>2,142,641</td>
<td>110,664</td>
</tr>
<tr>
<td>Series 2000B</td>
<td>3.50%</td>
<td>2,176,595</td>
<td>-</td>
<td>(93,378)</td>
<td>2,083,217</td>
<td>98,974</td>
</tr>
<tr>
<td>Series 2001C</td>
<td>3.50%</td>
<td>2,417,457</td>
<td>-</td>
<td>(106,054)</td>
<td>2,311,403</td>
<td>109,815</td>
</tr>
<tr>
<td>Series 1990 (COH)</td>
<td>4.50%</td>
<td>1,166,835</td>
<td>-</td>
<td>(133,902)</td>
<td>1,032,933</td>
<td>140,030</td>
</tr>
<tr>
<td>Series 2000 (COH)</td>
<td>3.75%</td>
<td>789,268</td>
<td>-</td>
<td>(33,211)</td>
<td>756,057</td>
<td>34,474</td>
</tr>
<tr>
<td>Series 2001B</td>
<td>3.75%</td>
<td>758,107</td>
<td>24,625</td>
<td>(27,092)</td>
<td>755,640</td>
<td>30,582</td>
</tr>
<tr>
<td>Series 2002A</td>
<td>4.00%</td>
<td>4,437,353</td>
<td>-</td>
<td>(166,516)</td>
<td>4,270,837</td>
<td>172,849</td>
</tr>
<tr>
<td>Series 2002B</td>
<td>4.00%</td>
<td>3,449,443</td>
<td>-</td>
<td>(153,400)</td>
<td>3,296,043</td>
<td>159,629</td>
</tr>
<tr>
<td>Series 2003A</td>
<td>3.75%</td>
<td>3,895,487</td>
<td>96,254</td>
<td>(139,737)</td>
<td>3,852,004</td>
<td>150,062</td>
</tr>
<tr>
<td>Series 2003B</td>
<td>3.75%</td>
<td>944,673</td>
<td>-</td>
<td>(41,105)</td>
<td>903,568</td>
<td>42,668</td>
</tr>
<tr>
<td>Series 2003C</td>
<td>3.75%</td>
<td>4,420,967</td>
<td>181,619</td>
<td>(166,142)</td>
<td>4,436,444</td>
<td>172,460</td>
</tr>
<tr>
<td>Series 2004</td>
<td>3.00%</td>
<td>-</td>
<td>10,772,116</td>
<td>-</td>
<td>10,772,116</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total State Revolving Loans</strong></td>
<td></td>
<td>43,749,355</td>
<td>11,074,614</td>
<td>(2,268,057)</td>
<td>52,555,912</td>
<td>2,368,558</td>
</tr>
<tr>
<td><strong>Notes Payable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1969 GMAC (COH)</td>
<td>4.75% $</td>
<td>28,142</td>
<td>-</td>
<td>(13,112)</td>
<td>15,030</td>
<td>13,735</td>
</tr>
<tr>
<td>1979 GMAC (COH)</td>
<td>5.00%</td>
<td>104,261</td>
<td>-</td>
<td>(5,834)</td>
<td>98,427</td>
<td>6,125</td>
</tr>
<tr>
<td>1983 GMAC (COH)</td>
<td>5.00%</td>
<td>124,952</td>
<td>-</td>
<td>(4,053)</td>
<td>120,899</td>
<td>4,242</td>
</tr>
<tr>
<td>1998 SCB&amp;T (COH)</td>
<td>3.57%</td>
<td>205,758</td>
<td>-</td>
<td>(205,758)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002 City of Hardeeville (BB&amp;T)</td>
<td>3.85%</td>
<td>1,996,174</td>
<td>-</td>
<td>(378,402)</td>
<td>1,617,772</td>
<td>120,892</td>
</tr>
<tr>
<td>2002 Palmetto State Bank</td>
<td>5.73%</td>
<td>188,647</td>
<td>-</td>
<td>(149,978)</td>
<td>38,669</td>
<td>38,669</td>
</tr>
<tr>
<td>2003 Palmetto State Bank</td>
<td>4.53%</td>
<td>97,601</td>
<td>-</td>
<td>(54,828)</td>
<td>42,773</td>
<td>42,773</td>
</tr>
<tr>
<td>2004 Palmetto State Bank</td>
<td>4.78%</td>
<td>72,726</td>
<td>-</td>
<td>(28,058)</td>
<td>44,668</td>
<td>29,423</td>
</tr>
<tr>
<td>2005 Palmetto State Bank</td>
<td>5.73%</td>
<td>250,000</td>
<td>-</td>
<td>(66,470)</td>
<td>183,530</td>
<td>82,736</td>
</tr>
<tr>
<td>2003 Town of Port Royal</td>
<td>5.00%</td>
<td>3,689,663</td>
<td>-</td>
<td>(258,431)</td>
<td>3,431,232</td>
<td>271,957</td>
</tr>
<tr>
<td>2004 Beaufort County School District</td>
<td>3.85%</td>
<td>984,566</td>
<td>-</td>
<td>-</td>
<td>984,566</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Notes Payable</strong></td>
<td></td>
<td>7,492,490</td>
<td>250,000</td>
<td>(1,164,924)</td>
<td>6,577,566</td>
<td>610,202</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>net of deferred amounts</td>
<td></td>
<td>113,289,588</td>
<td>11,324,614</td>
<td>(4,459,535)</td>
<td>120,154,677</td>
<td>4,147,760</td>
</tr>
<tr>
<td>Less current portion</td>
<td></td>
<td>(4,280,095)</td>
<td>(4,147,760)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Long-Term Debt</strong></td>
<td></td>
<td>109,009,503</td>
<td>-</td>
<td>116,006,917</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Remaining debt service payments at June 30, 2006, including annual sinking fund payments, are as follows:

<table>
<thead>
<tr>
<th>Revenue Bonds</th>
<th>SRF Loans</th>
<th>Notes Payable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>Interest</td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>2007</td>
<td>$1,225,000</td>
<td>$2,999,717</td>
<td>3,234,264</td>
</tr>
<tr>
<td>2008</td>
<td>1,276,000</td>
<td>2,942,424</td>
<td>3,588,661</td>
</tr>
<tr>
<td>2009</td>
<td>1,334,000</td>
<td>2,881,516</td>
<td>3,722,433</td>
</tr>
<tr>
<td>2010</td>
<td>1,402,000</td>
<td>2,817,522</td>
<td>3,861,279</td>
</tr>
<tr>
<td>2011</td>
<td>1,470,000</td>
<td>2,749,509</td>
<td>4,005,393</td>
</tr>
<tr>
<td>2012-2016</td>
<td>9,192,000</td>
<td>12,488,897</td>
<td>20,377,194</td>
</tr>
<tr>
<td>2017-2021</td>
<td>17,472,000</td>
<td>9,512,476</td>
<td>17,177,396</td>
</tr>
<tr>
<td>2022-2026</td>
<td>27,000,000</td>
<td>4,181,750</td>
<td>8,724,893</td>
</tr>
<tr>
<td>2027 &amp; after</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>$60,371,000</td>
<td>$40,573,611</td>
<td>$64,691,513</td>
<td>$21,978,067</td>
</tr>
</tbody>
</table>
The components of the balance sheet entitled revenue bonds, state revolving fund, and notes payable from current liabilities, current liabilities payable from restricted assets, and long-term liabilities are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Principal</th>
<th>Accrued Interest</th>
<th>Deferred Amts.</th>
<th>6/30/05</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>993,801</td>
<td></td>
<td></td>
<td>993,801</td>
</tr>
<tr>
<td>State Revolving Fund</td>
<td>2,257,096</td>
<td></td>
<td></td>
<td>2,257,096</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>597,937</td>
<td></td>
<td></td>
<td>597,937</td>
</tr>
<tr>
<td><strong>Current liabilities payable from restricted assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>175,199</td>
<td>1,041,832</td>
<td></td>
<td>1,217,031</td>
</tr>
<tr>
<td>State Revolving Fund</td>
<td>111,462</td>
<td>90,116</td>
<td></td>
<td>201,578</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>12,266</td>
<td>6,879</td>
<td></td>
<td>19,145</td>
</tr>
<tr>
<td><strong>Long-term liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>60,371,000</td>
<td></td>
<td>(518,801)</td>
<td>59,852,199</td>
</tr>
<tr>
<td>State Revolving Fund</td>
<td>50,187,354</td>
<td></td>
<td></td>
<td>50,187,354</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>5,967,364</td>
<td></td>
<td></td>
<td>5,967,364</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>$120,673,479</td>
<td>$1,138,827</td>
<td>(518,801)</td>
<td>$121,293,505</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Principal</th>
<th>Accrued Interest</th>
<th>Deferred Amts.</th>
<th>6/30/06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>$845,850</td>
<td></td>
<td></td>
<td>845,850</td>
</tr>
<tr>
<td>State Revolving Fund</td>
<td>3,063,257</td>
<td></td>
<td></td>
<td>3,063,257</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>609,734</td>
<td></td>
<td></td>
<td>609,734</td>
</tr>
<tr>
<td><strong>Current liabilities payable from restricted assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>379,150</td>
<td>843,996</td>
<td></td>
<td>1,223,146</td>
</tr>
<tr>
<td>State Revolving Fund</td>
<td>171,007</td>
<td>84,045</td>
<td></td>
<td>255,052</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>14,165</td>
<td>6,051</td>
<td></td>
<td>20,216</td>
</tr>
<tr>
<td><strong>Long-term liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>59,146,000</td>
<td></td>
<td>(434,047)</td>
<td>58,711,953</td>
</tr>
<tr>
<td>State Revolving Fund</td>
<td>61,457,248</td>
<td></td>
<td></td>
<td>61,457,248</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>5,557,560</td>
<td></td>
<td></td>
<td>5,557,560</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>$131,243,971</td>
<td>$934,092</td>
<td>(434,047)</td>
<td>$131,744,016</td>
</tr>
</tbody>
</table>

8. **Lease Obligations**

As of June 30, 2005, and 2006, respectively, there were no capital leases and no operating lease obligations extending for more than a year and for which there was a substantial liability that should be disclosed.

9. **Pension Plan**

The Authority is a member of the South Carolina Retirement System (SCRS), a division of the State Budget and Control Board. The Plan is a cost sharing, multi-employer defined benefit pension plan, offering retirement and disability benefits, group life insurance benefits and survivor benefits. The SCRS grants cost of living adjustments on an ad hoc basis, subject to approval by the State Budget and Control Board. The provisions of the SCRS are established under Title 9 of the South Carolina Code of Laws. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the SCRS is publicly available on their website at www.retirement.sc.gov, or a copy may be obtained by submitting a request.

All part-time and full-time, permanent employees must participate in the SCRS unless specifically exempted by statute or are eligible and elect to participate in the State Optional Retirement Plan (ORP). Mandatory employee contributions of 6.25% and 6% of earnable compensation were made through payroll deductions for fiscal years June 30, 2006 and 2005, respectively. All employers contribute at the actuarially required contribution rates. The
Authority, as a Class II employer, was required to contribute at a rate of 7.55% and 6.7% of employee earnable compensation for fiscal years June 30, 2006 and 2005, respectively. (Effective July 1, 2006, the mandatory employee contributions were increased to 6.50% and the Authority’s contribution rate was increased to 8.05 %.) For years ended June 30, 2006 and 2005, wages of $7,076,490 and $6,322,863 were subject to retirement, representing 97.84% and 97.73% of total salaries for each fiscal year of $7,232,556 and $6,469,706, respectively. The Authority is also required to contribute 0.15% of earnable compensation to the system for group life insurance. The Authority’s contribution for retirement and life insurance for the fiscal years ended June 30, 2006 and 2005 were $544,891 and $433,116, respectively, which is 7.7% and 6.85%, respectively, of covered salaries. The Authority contributed 100% of its annual required contributions for fiscal years 2006 and 2005, respectively.

An employee is vested after five years of service. Employees who retire at or after age 65 or have twenty-eight years of credited service are entitled to an annual retirement benefit for life equal to 1.82% of average final compensation times years of credited service. Vested employees may retire at age 55 with 25 years of service, reduced 4% for each year of service under 28; or at age 60 with a 5% reduction for each year under age 65. The System also provides for disability retirement, which is based on the projection of service to age 65 with an actuarial reduction.

10. Other Postemployment Benefits

Other postemployment benefits (OPEB) are part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. In prior fiscal years, the Authority has not offered OPEB. However, effective January 2005, the Authority authorized paying the total cost of individual health care insurance of “funded” retirees. Additional expenses for spouse, family, dental, etc., is not covered by the Authority.

Funded retirees are defined in the South Carolina Budget and Control Board Employee Insurance Program guide as those retirees whose employer chooses to contribute to their retiree insurance premiums and who meet one of these guidelines:

- Employees who are eligible to retire and have 10 or more years of earned South Carolina Retirement Systems (SCRS) service credit with a participating state insurance program employer.

- Employees who leave employment before they are eligible to retire but who have 20 or more years of earned SCRS service credit with an employer that participates in the state insurance program. However, they are not eligible for insurance coverage until they are eligible to receive a retirement check at age 60.

- Employees who left employment before 1990 and who were not of retirement age, but who had 18 years of earned SCRS service credit with an employer that participates in the state insurance program, returned to work with a state-covered group, enrolled in a state health and dental plan, and worked for at least two consecutive years in a full-time, permanent position.

The cost per month of providing this OPEB per retiree was $98.60 and $93.46 for fiscal years 2005 and 2006, respectively. This program is financed on a pay-as-you-go basis with inclusion in the annual expense budget. As of June 30, 2005, and June 30, 2006, there were seven eligible and active employees in the plan. Assuming approximately the same rate and number of eligible retirees, it is expected that the cost to the Authority will be approximately $8,300 annually.
11. Net Assets and Contributed Capital

Net assets represent the difference between assets and liabilities. The restricted net asset amounts were as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net property, plant and equipment in service</td>
<td>$289,425,732</td>
<td>$264,384,803</td>
</tr>
<tr>
<td>Less: Debt as disclosed in note 7</td>
<td>(131,243,971)</td>
<td>(120,673,479)</td>
</tr>
<tr>
<td>Deferred amount on refunding</td>
<td>434,047</td>
<td>518,801</td>
</tr>
<tr>
<td>Bonds/loans issuance costs and discounts, net</td>
<td>2,164,599</td>
<td>2,313,401</td>
</tr>
<tr>
<td>Accounts payable for capital items</td>
<td>(1,403,276)</td>
<td>(3,060,699)</td>
</tr>
<tr>
<td>Add: Funded debt from restricted assets</td>
<td>1,967,598</td>
<td>3,359,626</td>
</tr>
<tr>
<td>Unspent debt proceeds</td>
<td>-</td>
<td>447,350</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>161,344,729</strong></td>
<td><strong>147,289,803</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Restricted for Capital Activity and Debt Service:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted cash and equivalents</td>
<td>34,131,876</td>
<td>26,820,909</td>
</tr>
<tr>
<td>Restricted receivables</td>
<td>1,350,264</td>
<td>1,010,440</td>
</tr>
<tr>
<td>Deductions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities payable from restricted assets</td>
<td>(4,286,420)</td>
<td>(5,630,226)</td>
</tr>
<tr>
<td>Board restricted for capital activity</td>
<td>(29,285,362)</td>
<td>(20,576,178)</td>
</tr>
<tr>
<td>Unspent debt proceeds</td>
<td>-</td>
<td>(447,350)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,910,358</strong></td>
<td><strong>1,177,595</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$204,962,341</strong></td>
<td><strong>$178,187,752</strong></td>
</tr>
</tbody>
</table>

Unrestricted net assets include $29,285,362 and $20,576,178 for 2006 and 2005, respectively, which were internally restricted by consistent Board action. The Board believes these amounts are fairly presented as designated and restricted assets as a result of consistent formal Board action to restrict these funds to expenditure for capital activity. Adherence to this long-standing practice has established precedence and obligations. Had these amounts been excluded from unrestricted net assets, the unrestricted net assets would have been presented as $12,421,892 and $9,144,176 for 2006 and 2005, respectively. Funds restricted for capital activity include the Contingency and Depreciation Fund, which is established by contributions from operations during the year, and capital funds, which are funded by capacity fees levied during the year. Contingency and Depreciation Funds were $7,552,383 and $5,787,439 for June 30, 2006 and 2005, respectively. Capital funds, net of the related payables, were $21,732,979 and $14,788,739 for June 30, 2006 and 2005, respectively.

During fiscal year 2000, the Authority began accepting Letters of Credit from certain developers and commercial customers for the payment of capital contributions. During the 2005 fiscal year these extensions of debt became material and the Authority discontinued accepting letters of credit with contingencies which could impede the receipt of funds should the payee become delinquent. Receivables for capital contributions under Letters of Credit were recorded in the amounts of $1,350,264 and $1,008,025, for fiscal years ending June 30, 2006 and 2005, respectively, where the capacity certificate had been issued and the earnings process had been completed.
12. Commitments and Contingencies

**Construction Commitments**
In the normal course of its business, the Authority has numerous contracts for construction and other activities that it is committed to complete and pay. As of June 30, 2006, the Authority had open contracts approximating $20,069,858 for which $8,438,240 remained to be paid upon further progress by the contractors. As of June 30, 2005, the Authority had open contracts approximating $32,146,415 for which $17,993,734 remained to be paid upon further progress by the contractors.

**Service Contracts**
The Authority has entered into various long-term contracts to provide water and wastewater treatment services to retail and wholesale customers, including other local governments and utilities. Contracts vary as to the system's capacity allocations and periodic revision in service rates.

**Grants**
Amounts received or receivable from government agencies are subject to audit and adjustment by those agencies. The Authority has never experienced noncompliance and has never been subject to adjustments or refunds as a result of such audits.

13. Risk Management
The Authority is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related injuries or illnesses to employees; natural disasters and employee health and accident. To insure against casualty risks the Authority is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments in South Carolina.

The Authority acquires insurance from the State Accident Fund for job related injury and illness (workers' compensation) to its employees. Through June 30, 2006, medical insurance coverage, encompassing health, dental, life and other medical benefits to employees and their dependents, was obtained via the State's group insurance program with an independent insurance company.

During 2006 and 2005, the Authority did not experience any significant uninsured claims. Accordingly, there was no liability or expense recorded for actual claims, and management does not believe any provision for unasserted claims is necessary.

14. Major Customers
Revenues from the largest three customers represented 10.34% and 9.35% of total operating revenues for fiscal years 2006 and 2005, respectively. No sales to a single major customer exceeded 10% of total operating revenues.

15. Subsequent Events
The Board did not increase either retail or wholesale rates effective July 1, 2006, for fiscal year 2007.
Report of Independent Auditors on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
In Accordance with Government Auditing Standards

Beaufort-Jasper Water and Sewer Authority Governing Board
Beaufort, South Carolina

We have audited the financial statements of Beaufort-Jasper Water and Sewer Authority as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated August 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting
In planning and performing our audit, we considered Beaufort-Jasper Water and Sewer Authority’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Beaufort-Jasper Water and Sewer Authority’s 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 or other matters that are required to be reported under Government Auditing Standards. We noted certain other matters that we reported to management of Beaufort-Jasper Water and Sewer Authority in a separate letter dated August 5, 2006.

This report is intended solely for the information and use of the audit committee, management, others within Beaufort-Jasper Water and Sewer Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Augusta, Georgia
August 5, 2006
The following system schedules and analysis are furnished solely as supplementary information and are not required by GAAP.

### Beaufort-Jasper Water and Sewer Authority

#### Budgetary Comparison Schedule

Year ended June 30, 2006

(With comparative amounts for the fiscal year ended June 30, 2005)

<table>
<thead>
<tr>
<th>Variances of FY 2006 Actual Data To</th>
<th>2006</th>
<th>2005</th>
<th>Variance of FY 2006 Actual Data To</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Budget</td>
<td>Actual</td>
<td>Actual</td>
<td>Favorable (Unfavorable)</td>
</tr>
<tr>
<td>Operating revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civilian wholesale</td>
<td>$2,704,230</td>
<td>$2,530,242</td>
<td>$2,239,688</td>
<td>$173,988</td>
<td>6.9%</td>
</tr>
<tr>
<td>Military wholesale</td>
<td>1,149,527</td>
<td>1,130,208</td>
<td>897,815</td>
<td>19,319</td>
<td>1.7%</td>
</tr>
<tr>
<td>Retail</td>
<td>16,372,404</td>
<td>14,804,948</td>
<td>13,574,916</td>
<td>1,567,456</td>
<td>10.6%</td>
</tr>
<tr>
<td>Other</td>
<td>3,638,223</td>
<td>2,364,000</td>
<td>2,593,473</td>
<td>2,744,750</td>
<td>53.9%</td>
</tr>
<tr>
<td>Total water operating revenues</td>
<td>23,864,384</td>
<td>20,829,398</td>
<td>19,305,892</td>
<td>3,034,986</td>
<td>14.6%</td>
</tr>
<tr>
<td>Wastewater service</td>
<td>10,887,631</td>
<td>10,831,808</td>
<td>9,014,473</td>
<td>55,823</td>
<td>0.5%</td>
</tr>
<tr>
<td>Other</td>
<td>399,574</td>
<td>259,000</td>
<td>408,142</td>
<td>140,574</td>
<td>54.3%</td>
</tr>
<tr>
<td>Total wastewater operating revenues</td>
<td>11,287,205</td>
<td>11,090,808</td>
<td>9,422,615</td>
<td>196,397</td>
<td>1.8%</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>35,151,589</td>
<td>31,920,206</td>
<td>28,728,507</td>
<td>3,231,383</td>
<td>10.1%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of supply</td>
<td>470,263</td>
<td>492,190</td>
<td>467,529</td>
<td>21,927</td>
<td>4.5%</td>
</tr>
<tr>
<td>Water treatment</td>
<td>3,251,150</td>
<td>2,933,313</td>
<td>2,957,024</td>
<td>21,700</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Transmission and distribution</td>
<td>2,957,852</td>
<td>2,979,216</td>
<td>2,695,529</td>
<td>21,364</td>
<td>0.7%</td>
</tr>
<tr>
<td>Laboratory and testing</td>
<td>250,682</td>
<td>231,542</td>
<td>214,720</td>
<td>19,140</td>
<td>-8.3%</td>
</tr>
<tr>
<td>Engineering &amp; construction services, incl. mapping</td>
<td>314,478</td>
<td>293,443</td>
<td>257,189</td>
<td>(21,035)</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Franchise fee</td>
<td>519,081</td>
<td>460,000</td>
<td>434,838</td>
<td>54,162</td>
<td>-12.8%</td>
</tr>
<tr>
<td>Customer service, including meter reading</td>
<td>938,639</td>
<td>913,415</td>
<td>835,396</td>
<td>25,224</td>
<td>-2.8%</td>
</tr>
<tr>
<td>General and administrative</td>
<td>2,029,187</td>
<td>2,295,739</td>
<td>1,780,206</td>
<td>266,552</td>
<td>11.6%</td>
</tr>
<tr>
<td>Total water operating expenses (excl. depr.)</td>
<td>10,731,332</td>
<td>10,598,858</td>
<td>9,642,431</td>
<td>(132,474)</td>
<td>1.2%</td>
</tr>
<tr>
<td>Wastewater operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collection &amp; transmission</td>
<td>2,083,516</td>
<td>1,920,863</td>
<td>1,794,163</td>
<td>(162,653)</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Wastewater treatment</td>
<td>2,152,968</td>
<td>2,024,518</td>
<td>1,986,896</td>
<td>(19,622)</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Wastewater disposal</td>
<td>105,712</td>
<td>99,000</td>
<td>85,915</td>
<td>19,085</td>
<td>-6.8%</td>
</tr>
<tr>
<td>Sludge management</td>
<td>292,966</td>
<td>278,460</td>
<td>298,492</td>
<td>(24,032)</td>
<td>-8.3%</td>
</tr>
<tr>
<td>Engineering &amp; construction services, incl. mapping</td>
<td>314,478</td>
<td>293,443</td>
<td>257,189</td>
<td>(21,035)</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Franchise fee</td>
<td>519,081</td>
<td>460,000</td>
<td>434,838</td>
<td>(59,083)</td>
<td>-12.8%</td>
</tr>
<tr>
<td>Customer service, including meter reading</td>
<td>938,639</td>
<td>913,415</td>
<td>835,396</td>
<td>(25,224)</td>
<td>-2.8%</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,072,416</td>
<td>1,206,299</td>
<td>946,654</td>
<td>159,645</td>
<td>11.1%</td>
</tr>
<tr>
<td>Total wastewater operating expenses (excl. depr.)</td>
<td>6,992,158</td>
<td>6,686,593</td>
<td>6,197,132</td>
<td>(305,565)</td>
<td>4.6%</td>
</tr>
<tr>
<td>Operating expenses before depreciation</td>
<td>17,723,490</td>
<td>17,252,451</td>
<td>15,839,563</td>
<td>(432,938)</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Depreciation - Water</td>
<td>6,367,653</td>
<td>6,114,000</td>
<td>5,750,180</td>
<td>(263,853)</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Depreciation - Wastewater</td>
<td>8,292,789</td>
<td>8,004,000</td>
<td>7,606,544</td>
<td>(266,635)</td>
<td>-3.6%</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>32,383,932</td>
<td>31,403,451</td>
<td>29,196,287</td>
<td>(980,481)</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>2,767,657</td>
<td>516,755</td>
<td>467,780</td>
<td>2,250,902</td>
<td>435.6%</td>
</tr>
<tr>
<td>Non-operating revenues (expenses), net</td>
<td>(3,436,070)</td>
<td>(5,490,000)</td>
<td>(4,478,553)</td>
<td>2,053,930</td>
<td>37.4%</td>
</tr>
<tr>
<td>Increase (decrease) in net assets, before capital contributions</td>
<td>(5,765,867)</td>
<td>(3,984,035)</td>
<td>(2,972,775)</td>
<td>5,828,830</td>
<td>86.6%</td>
</tr>
<tr>
<td>Capacity fees</td>
<td>13,105,543</td>
<td>7,259,062</td>
<td>10,766,524</td>
<td>5,864,481</td>
<td>82.5%</td>
</tr>
<tr>
<td>Increase (decrease) in net assets (see note)</td>
<td>$12,437,100</td>
<td>$2,285,817</td>
<td>$5,840,091</td>
<td>$10,151,313</td>
<td>444.1%</td>
</tr>
</tbody>
</table>

**NOTE:** For purposes of comparison to budget, the actual data excludes developer capital contributions and grants which were not budgeted.
### Operating Revenues

<table>
<thead>
<tr>
<th></th>
<th>2006 Actual</th>
<th>2006 Budget</th>
<th>2005 Actual</th>
<th>2005 Budget</th>
<th>Dollars %</th>
<th>2005 Actual Dollars %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civilian wholesale</td>
<td>$2,704,230</td>
<td>$2,530,242</td>
<td>$2,239,688</td>
<td>$1,739,988</td>
<td>20.7%</td>
<td>$464,542</td>
</tr>
<tr>
<td>Military wholesale</td>
<td>1,149,527</td>
<td>1,130,208</td>
<td>897,815</td>
<td>19,319</td>
<td>1.7%</td>
<td>251,712</td>
</tr>
<tr>
<td>Retail</td>
<td>16,772,404</td>
<td>14,804,948</td>
<td>13,574,916</td>
<td>1,567,456</td>
<td>10.6%</td>
<td>2,797,488</td>
</tr>
<tr>
<td>Other</td>
<td>3,638,223</td>
<td>2,364,000</td>
<td>2,593,473</td>
<td>1,274,223</td>
<td>53.9%</td>
<td>1,044,750</td>
</tr>
<tr>
<td>Total water operating revenues</td>
<td>23,864,384</td>
<td>20,829,398</td>
<td>19,305,892</td>
<td>3,034,986</td>
<td>14.6%</td>
<td>4,558,492</td>
</tr>
<tr>
<td>Wastewater service</td>
<td>10,887,631</td>
<td>10,831,808</td>
<td>9,014,473</td>
<td>55,823</td>
<td>0.5%</td>
<td>1,873,158</td>
</tr>
<tr>
<td>Other</td>
<td>399,574</td>
<td>259,000</td>
<td>408,142</td>
<td>140,574</td>
<td>54.3%</td>
<td>(58,668)</td>
</tr>
<tr>
<td>Total wastewater operating revenues</td>
<td>11,287,205</td>
<td>11,090,808</td>
<td>9,422,615</td>
<td>196,397</td>
<td>1.8%</td>
<td>1,864,590</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>35,151,589</td>
<td>31,920,206</td>
<td>28,728,507</td>
<td>3,231,383</td>
<td>10.1%</td>
<td>6,423,082</td>
</tr>
</tbody>
</table>

### Operating Expenses by Function

<table>
<thead>
<tr>
<th>Function</th>
<th>2006 Actual</th>
<th>2006 Budget</th>
<th>2005 Actual</th>
<th>2005 Budget</th>
<th>Dollars %</th>
<th>2005 Actual Dollars %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source of supply</td>
<td>470,263</td>
<td>492,190</td>
<td>467,529</td>
<td>21,927</td>
<td>4.5%</td>
<td>(2,734)</td>
</tr>
<tr>
<td>Water treatment</td>
<td>3,251,150</td>
<td>2,933,313</td>
<td>2,957,024</td>
<td>(317,837)</td>
<td>-10.8%</td>
<td>(294,126)</td>
</tr>
<tr>
<td>Transmission and distribution</td>
<td>2,957,852</td>
<td>2,979,216</td>
<td>2,695,529</td>
<td>21,364</td>
<td>0.7%</td>
<td>(262,323)</td>
</tr>
<tr>
<td>Collection &amp; transmission</td>
<td>2,083,516</td>
<td>1,920,863</td>
<td>1,794,163</td>
<td>(162,653)</td>
<td>-8.5%</td>
<td>(193,977)</td>
</tr>
<tr>
<td>Wastewater treatment</td>
<td>2,152,968</td>
<td>2,024,518</td>
<td>1,986,896</td>
<td>(128,450)</td>
<td>-6.3%</td>
<td>(166,072)</td>
</tr>
<tr>
<td>Wastewater disposal</td>
<td>105,712</td>
<td>99,000</td>
<td>85,915</td>
<td>(6,712)</td>
<td>-6.8%</td>
<td>(11,997)</td>
</tr>
<tr>
<td>Sludge management</td>
<td>292,966</td>
<td>278,460</td>
<td>298,492</td>
<td>(20,032)</td>
<td>-6.8%</td>
<td>(32,027)</td>
</tr>
<tr>
<td>Laboratory and testing</td>
<td>505,847</td>
<td>462,224</td>
<td>444,973</td>
<td>(40,651)</td>
<td>-9.4%</td>
<td>(30,800)</td>
</tr>
<tr>
<td>Franchise fee</td>
<td>844,549</td>
<td>736,200</td>
<td>695,361</td>
<td>(108,839)</td>
<td>-14.7%</td>
<td>(149,198)</td>
</tr>
<tr>
<td>Engineering &amp; construction services, incl. mapping</td>
<td>510,750</td>
<td>451,717</td>
<td>400,179</td>
<td>(50,538)</td>
<td>-12.4%</td>
<td>(80,640)</td>
</tr>
<tr>
<td>Customer service, including meter reading</td>
<td>1,446,314</td>
<td>1,405,712</td>
<td>1,286,652</td>
<td>(16,662)</td>
<td>-12.4%</td>
<td>(30,660)</td>
</tr>
<tr>
<td>General and administrative</td>
<td>3,101,603</td>
<td>3,502,038</td>
<td>2,726,860</td>
<td>400,435</td>
<td>11.4%</td>
<td>(374,743)</td>
</tr>
</tbody>
</table>

### Operating income (loss)

<table>
<thead>
<tr>
<th></th>
<th>2006 Actual</th>
<th>2006 Budget</th>
<th>2005 Actual</th>
<th>2005 Budget</th>
<th>Dollars %</th>
<th>2005 Actual Dollars %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income (loss)</td>
<td>2,767,657</td>
<td>516,755</td>
<td>(467,760)</td>
<td>2,250,902</td>
<td>435.6%</td>
<td>3,325,437</td>
</tr>
<tr>
<td>Non-operating revenues (expenses), net</td>
<td>(3,436,070)</td>
<td>(5,490,000)</td>
<td>(4,478,653)</td>
<td>2,053,930</td>
<td>37.4%</td>
<td>1,042,583</td>
</tr>
</tbody>
</table>

### Increase (decrease) in net assets, before capital contributions

<table>
<thead>
<tr>
<th></th>
<th>2006 Actual</th>
<th>2006 Budget</th>
<th>2005 Actual</th>
<th>2005 Budget</th>
<th>Dollars %</th>
<th>2005 Actual Dollars %</th>
</tr>
</thead>
<tbody>
<tr>
<td>(668,413)</td>
<td>(4,973,245)</td>
<td>(4,946,433)</td>
<td>4,304,832</td>
<td>4,278,020</td>
<td>86.6%</td>
<td>4,278,020</td>
</tr>
<tr>
<td>Capacity fees</td>
<td>13,105,543</td>
<td>7,259,062</td>
<td>10,786,524</td>
<td>5,846,481</td>
<td>80.5%</td>
<td>2,319,019</td>
</tr>
</tbody>
</table>

### Increase (decrease) in net assets (see note)

<table>
<thead>
<tr>
<th></th>
<th>2006 Actual</th>
<th>2006 Budget</th>
<th>2005 Actual</th>
<th>2005 Budget</th>
<th>Dollars %</th>
<th>2005 Actual Dollars %</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,437,130</td>
<td>2,285,817</td>
<td>5,840,091</td>
<td>10,151,313</td>
<td>6,597,039</td>
<td>113.0%</td>
<td>6,597,039</td>
</tr>
</tbody>
</table>

**NOTE:** For purposes of comparison to budget, the actual data excludes developer capital contributions and grants which were not budgeted.
Budget Summary

Operating revenues were $35.15 million, an increase of 22.4%, or $6.4 million, over the prior year actual, and 10.1%, or $3.2 million, over budget. Although the Authority did not increase water rates during the current fiscal year, total water operating revenues were 14.6% above budget due to conservative growth estimates in the 2006 adopted budget and increased customer usage. The Authority adopted a 5% increase to the wastewater rate increase along with the 2006 budget on June 23, 2005. Although wastewater service revenues increased 20.8% from the prior year due to this rate increase as well as increased growth, an overestimate of customers reaching the cap as well as refunds that occurred within the first part of the year kept wastewater service revenues within budgeted projections.

Direct operational costs for water (excluding depreciation) were over budget 1.2% or approximately $132 thousand. Over budget expenditures for water treatment, which were approximately $318 thousand, were primarily related to significant increases in chemical costs, as well as repair and maintenance expense. Direct operational costs for wastewater (excluding depreciation) were over budget 4.6% or approximately $306 thousand. Over budget expenditures for wastewater treatment and collection and transmission, which were approximately $166 thousand and $289 thousand, respectively, were primarily related to significant increases in repair and maintenance expense, supplies, and professional fees. Costs for both water and wastewater increased significantly for safety training and supplies, as well as franchise fess (which was related primarily to growth and annexation). See functional budget comparison below.

Although total operating expenses, excluding depreciation, of the Authority increased $1.9 million over fiscal year 2005, operating revenues increased $6.4 million, allowing the Authority to generate $1.98 for every $1.00 expensed. Operating income was $2.7 million compared to the operating (loss) of ($468 thousand) for 2005, an increase in operating margin of approximately $3.2 million.
### Beaufort-Jasper Water and Sewer Authority

#### Schedule of Expenses by Natural Classification

**Budget and Actual**

**Year Ended June 30, 2006**

(With comparative actual amounts for the year ended June 30, 2005)

#### 2006

<table>
<thead>
<tr>
<th>Original &amp; Final Budget</th>
<th>Variance - Favorable</th>
<th></th>
<th></th>
<th>Increase (Decrease) from 2005 to 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$ 6,368,996</td>
<td>$ 6,375,035</td>
<td>$(6,039)</td>
<td>$ 5,928,125</td>
</tr>
<tr>
<td>Payroll taxes and benefits</td>
<td>2,087,788</td>
<td>2,096,050</td>
<td>(8,262)</td>
<td>1,881,383</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>1,501,100</td>
<td>1,774,199</td>
<td>(273,099)</td>
<td>1,545,437</td>
</tr>
<tr>
<td>Supplies</td>
<td>1,705,257</td>
<td>1,865,478</td>
<td>(160,221)</td>
<td>1,663,466</td>
</tr>
<tr>
<td>Professional services</td>
<td>887,400</td>
<td>838,437</td>
<td>48,963</td>
<td>660,889</td>
</tr>
<tr>
<td>Utilities</td>
<td>1,964,527</td>
<td>1,970,076</td>
<td>(5,549)</td>
<td>1,822,241</td>
</tr>
<tr>
<td>Fixed charges</td>
<td>851,009</td>
<td>886,219</td>
<td>(35,210)</td>
<td>787,240</td>
</tr>
<tr>
<td>Franchise fees, licenses and permits</td>
<td>807,445</td>
<td>921,560</td>
<td>(114,115)</td>
<td>767,109</td>
</tr>
<tr>
<td>Safety training, supplies &amp; services</td>
<td>141,900</td>
<td>174,364</td>
<td>(32,464)</td>
<td>78,399</td>
</tr>
<tr>
<td>Travel and training</td>
<td>270,454</td>
<td>184,370</td>
<td>86,084</td>
<td>142,008</td>
</tr>
<tr>
<td>Insurance</td>
<td>165,224</td>
<td>168,354</td>
<td>(3,130)</td>
<td>143,506</td>
</tr>
<tr>
<td>Other expense</td>
<td>534,351</td>
<td>469,348</td>
<td>65,003</td>
<td>419,760</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>14,118,000</td>
<td>14,660,442</td>
<td>(542,442)</td>
<td>13,356,724</td>
</tr>
<tr>
<td>Before interest expense &amp; amortization</td>
<td>31,403,451</td>
<td>32,383,932</td>
<td>(980,481)</td>
<td>29,196,287</td>
</tr>
<tr>
<td>Interest expense and amortization</td>
<td>5,830,000</td>
<td>5,016,033</td>
<td>813,967</td>
<td>5,352,335</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$ 37,233,451</td>
<td>$ 37,399,965</td>
<td>$(166,514)</td>
<td>$ 34,548,622</td>
</tr>
</tbody>
</table>

#### Schedule of Net Earnings for Debt Service and Debt Coverage

**Years ended June 30, 2006, and 2005**

<table>
<thead>
<tr>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating income (loss)</strong></td>
<td>$ 2,767,657</td>
</tr>
</tbody>
</table>

**Adjustments to derive net earnings:**

- **Depreciation expense** | 14,660,442 | 13,356,724 |
- **Contributed capital - cash** | 13,105,543 | 10,786,524 |
- **Interest income, excluding bond interest income** | 1,457,482 | 680,500 |

**Net earnings per bond resolution**

| **$ 31,991,124** | **$ 24,355,968** |

| **Total debt service paid** | **$ 9,246,655** | **$ 9,698,641** |

**Debt coverage**

| **3.46** | **2.51** |

**Debt Coverage without capacity fees**

| **2.04** | **1.40** |
APPENDIX D

SUMMARY OF 3-YEAR AND 10-YEAR CAPITAL IMPROVEMENT PLAN
## APPENDIX D

### 3-Year Cash Flow Plan

**Water & Sewer System Capital Projects**

<table>
<thead>
<tr>
<th>Fund</th>
<th>FY 2007 Projected</th>
<th>FY 2008 Projected</th>
<th>FY 2009 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>C&amp;D Fund</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Balance</td>
<td>7,552,383</td>
<td>3,732,820</td>
<td>4,372,870</td>
</tr>
<tr>
<td>Interest Earnings</td>
<td>150,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Transfers from Gross Rev Fund</td>
<td>2,670,525</td>
<td>2,790,000</td>
<td>3,145,500</td>
</tr>
<tr>
<td>Transfers to O&amp;M (capital outlay)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transfers to Water Capital Fund</td>
<td>-3,830,009</td>
<td>-1,614,750</td>
<td>-205,000</td>
</tr>
<tr>
<td>Transfers to Sewer Capital Fund</td>
<td>-2,810,279</td>
<td>-635,000</td>
<td>-230,000</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>3,732,620</td>
<td>4,372,870</td>
<td>7,183,470</td>
</tr>
<tr>
<td>Minimum Balance Criteria</td>
<td>3,750,000</td>
<td>3,750,000</td>
<td>3,750,000</td>
</tr>
<tr>
<td>Surplus (deficit)</td>
<td>-17,380</td>
<td>622,870</td>
<td>3,433,470</td>
</tr>
<tr>
<td><strong>Water Capital Fund</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Balance</td>
<td>11,147,233</td>
<td>4,036,037</td>
<td>4,344,175</td>
</tr>
<tr>
<td>Interest Earnings</td>
<td>200,000</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Water CCF</td>
<td>4,238,456</td>
<td>3,725,522</td>
<td>3,600,000</td>
</tr>
<tr>
<td>Transfers in from C&amp;D Fund</td>
<td>3,830,609</td>
<td>1,614,750</td>
<td>205,000</td>
</tr>
<tr>
<td>Bond Proceeds/payoff</td>
<td>0</td>
<td>169,129</td>
<td>0</td>
</tr>
<tr>
<td>SRF / SRIF Loans</td>
<td>0</td>
<td>2,000,000</td>
<td>0</td>
</tr>
<tr>
<td>Other Loan Proceeds/(Payoffs)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Grants/Aid to Construction</td>
<td>834,452</td>
<td>350,000</td>
<td>0</td>
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<tr>
<td>Water CIP</td>
<td>-13,153,380</td>
<td>-5,035,140</td>
<td>-2,055,000</td>
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<td>Admin CIP Water Share</td>
<td>-3,077,733</td>
<td>-2,636,124</td>
<td>-2,465,176</td>
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<td>Operating Funds</td>
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<td>0</td>
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<tr>
<td>Ending Balance</td>
<td>4,036,037</td>
<td>4,344,175</td>
<td>3,807,999</td>
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<td>Minimum Balance Criteria</td>
<td>1,500,000</td>
<td>1,500,000</td>
<td>1,500,000</td>
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<tr>
<td>Surplus (deficit)</td>
<td>2,536,037</td>
<td>2,844,175</td>
<td>2,307,999</td>
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<tr>
<td><strong>Sewer Capital Fund</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Beginning Balance</td>
<td>11,989,022</td>
<td>13,467,087</td>
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</tr>
<tr>
<td>Interest Earnings</td>
<td>300,000</td>
<td>200,000</td>
<td>200,000</td>
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<tr>
<td>Sewer CCF</td>
<td>13,132,064</td>
<td>12,577,637</td>
<td>12,150,000</td>
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<td>Transfers in from C&amp;D Fund</td>
<td>2,810,279</td>
<td>625,000</td>
<td>250,000</td>
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<td>Bond Proceeds</td>
<td>6,499,835</td>
<td>19,500,000</td>
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<td>SRF / SRIF Loans</td>
<td>1,171,386</td>
<td>7,800,000</td>
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<td>Other Loan Proceeds/(Payoffs)</td>
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<td>0</td>
<td>0</td>
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<td>1,436,181</td>
<td>33,000</td>
<td>33,000</td>
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<td>Sewer CIP</td>
<td>-20,772,997</td>
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<td>Admin CIP Sewer Share</td>
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<td>-2,636,124</td>
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<tr>
<td>Operating Funds</td>
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<td>0</td>
<td>0</td>
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<tr>
<td>Ending Balance</td>
<td>13,467,087</td>
<td>6,279,201</td>
<td>14,105,425</td>
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<td>Surplus (deficit)</td>
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<td><strong>All Capital Funds</strong></td>
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<td>Ending Balances</td>
<td>21,235,744</td>
<td>14,996,245</td>
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<td>Minimum Balance Criteria</td>
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<td>6,750,000</td>
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<tr>
<td>Surplus (deficit)</td>
<td>14,485,744</td>
<td>8,246,245</td>
<td>18,346,834</td>
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</table>
Water Funding By Purpose FY 2007-2009

- **Expansion**: 17.7 million
- **Improvement**: 3.0 million
- **Replacement**: 7.2 million

Wastewater Funding By Purpose FY 2007-2009

- **Expansion**: 40.3 million
- **Improvement**: 4.0 million
- **Replacement**: 24.6 million
10 Year Water CIP By Asset Category
$60.178 Million by Asset Category

- Distribution: 20%
- General Plant: 39%
- Storage: 3%
- Supply/Canal: 0%
- Transmission: 16%
- Treatment: 22%

10 Year Wastewater CIP By Asset Category
$127.152 Million by Asset Category

- Collection: 14%
- WWTP: 40%
- General Plant: 19%
- Disposal: 5%
- Transmission: 22%
BJWSA'S CAPITAL IMPROVEMENT PLAN (CIP)

3 YEAR CIP FY07-FY09

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Project Costs</th>
<th># of Projects</th>
<th>FUNDING SOURCE</th>
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<tbody>
<tr>
<td>Admin/General Plant</td>
<td>$16,280,064</td>
<td>16</td>
<td>Cash</td>
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<tr>
<td>Wastewater Collection/Transmission</td>
<td>$30,411,309</td>
<td>35</td>
<td>Bonds</td>
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<td>Wastewater Treatment Plant</td>
<td>$38,381,688</td>
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<td>Grants/ATC</td>
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<td>Water Distribution/Transmission</td>
<td>$17,942,582</td>
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<td>Water Treatment Plant</td>
<td>$2,300,938</td>
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<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$105,316,581</strong></td>
<td>131</td>
<td><strong>$65,146,562</strong></td>
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</table>

10 YEAR CIP FY07-FY2015

*NOTE: Includes 3 Year CIP Projects*

<table>
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<tr>
<th>Project Type</th>
<th>Project Costs</th>
<th># of Projects</th>
<th>FUNDING SOURCE</th>
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<tbody>
<tr>
<td>Admin/General Plant</td>
<td>$31,395,183</td>
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<td>Cash</td>
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<td>Wastewater Collection/Transmission</td>
<td>$77,569,564</td>
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<td>Bonds</td>
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<td>Wastewater Treatment Plant</td>
<td>$90,175,239</td>
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<td>Grants/ATC</td>
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<tr>
<td>Water Distribution/Transmission</td>
<td>$43,296,120</td>
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<td>Water Treatment Plant</td>
<td>$15,750,000</td>
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<td></td>
</tr>
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<td><strong>TOTAL</strong></td>
<td><strong>$258,186,106</strong></td>
<td>224</td>
<td><strong>$172,410,025</strong></td>
</tr>
</tbody>
</table>
APPENDIX E

FORM OF OPINION OF BOND COUNSEL
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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

Beaufort-Jasper Water and Sewer Authority
Okatie, South Carolina

A.G. Edwards & Sons, Inc.
Atlanta, Georgia

Re: $58,750,000 Beaufort-Jasper Water and Sewer Authority, South Carolina Waterworks and Sewer System Improvement and Refunding Revenue Bonds, Series 2006

Dear Sirs:

We have examined a certified copy of the Transcript of Proceedings and other proofs submitted to us, including the Constitution and Statutes of the State of South Carolina, in relation to the issuance of the $58,750,000 Beaufort-Jasper Water and Sewer Authority, South Carolina, Waterworks and Sewer System Improvement and Refunding Revenue Bonds, Series 2006. Among other things, we have reviewed a resolution adopted by the Board of the Beaufort-Jasper Water and Sewer Authority, South Carolina, its governing body, on August 26th, 1999, entitled “A Resolution Providing For The Issuance And Sale Of Waterworks And Sewer System Revenue Bonds Of The Beaufort-Jasper Water And Sewer Authority, South Carolina, And Other Matters Relating Thereto,” as amended on September 23rd, 1999, by a resolution entitled “A Resolution Amending A Resolution Entitled ‘A Resolution Providing For The Issuance And Sale Of Waterworks And Sewer System Revenue Bonds Of The Beaufort-Jasper Water And Sewer Authority, South Carolina, And Other Matters Relating Thereto’” (as amended, the “Bond Resolution”), and a resolution adopted by the Authority on October 26th, 2006, entitled “A Resolution Providing for the Issuance and Sale of Waterworks and Sewer System Improvement and Refunding Revenue Bonds, Series 2006, of the Beaufort-Jasper Water and Sewer Authority, South Carolina, and Other Matters Relating Thereto” (the “Series Resolution,” and together with the Bond Resolution, the “Resolution”). Capitalized terms used and not otherwise defined herein have the meanings given to such terms in the Resolution.

The Series 2006 Bonds are issued by the Beaufort-Jasper Water and Sewer Authority, South Carolina (the “Authority”) pursuant to the Resolution, and under and in full compliance with the Constitution and Statutes of the State of South Carolina, including particularly Chapter 17 of Title 6 and Chapter 21 of Title 11 of the Code of Laws of South Carolina, 1976, as amended, in order to obtain funds which will be used (1) to defray the cost of the construction of improvements to the Authority’s Waterworks and Sewer System (the “System”); (2) to provide the necessary moneys to defease certain indebtedness of the Authority; (3) to purchase the Municipal Bond Insurance Policy; (4) to fund the Series 2006 Debt Service Reserve Fund required by the Resolution with respect to the Series 2006 Bonds; and (5) to pay the costs of issuance of the Series 2006 Bonds.

The Series 2006 Bonds will mature on March 1 in the respective principal amounts and bear interest payable on March 1, 2007 and semiannually thereafter on the first days of March and September at the respective interest rates per annum, all as set forth in the following table:
Interest on the Series 2006 Bonds will be payable on each March 1 and September 1 commencing on March 1, 2007 (calculated on the basis of a 360-day year of twelve months). The Series 2006 Bonds maturing on or after March 1, 2018, shall be subject to redemption prior to maturity, at the option of the Authority, on or after March 1, 2017, in the manner and upon the terms set forth in the Resolution. The Series 2006 Bonds maturing on March 1, 2031 are also subject to mandatory sinking fund redemption in the manner and upon the terms set forth in the Resolution. The Series 2006 Bonds are issued in fully registered form, in the denomination of $5,000 or any whole multiple thereof, not exceeding the principal amount of the Series 2006 Bonds maturing in each year. The Series 2006 Bonds are numbered from 1 upwards in such fashion as to maintain a proper record thereof.

Further Bonds, as defined in the Resolution, on a parity with the Series 2006 Bonds may be issued under the conditions prescribed in the Resolution. All capitalized terms used herein and not otherwise defined have the meanings provided in the Resolution.

In our opinion:

1. The Authority is a duly created and validly existing political subdivision of the State of South Carolina.

2. The Series 2006 Bonds have been duly authorized and delivered and are enforceable in accordance with their terms and the terms of the Resolution, and constitute valid and binding special obligations of the Authority, except to the extent that the enforceability of the Series 2006 Bonds may be limited by applicable bankruptcy, insolvency, or other laws affecting the enforcement of creditors’ rights. The Series 2006 Bonds are secured in the manner and to the extent prescribed by the Resolution and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements set forth therein.

3. Both the principal of and interest on the Series 2006 Bonds are payable solely from the Gross Revenues of the System, as such are defined in the Resolution, which remain after paying the cost of the operation and maintenance of the System, and are secured by a pledge of and lien upon such portion of the Gross Revenues of the System.

4. The pledge of and lien upon such portion of the Gross Revenues made to secure the Series 2006 Bonds has priority over all pledges and liens heretofore or hereafter made, except pledges and liens (on a parity with the pledge and lien securing the Series 2006 Bonds) given to secure additional Bonds issued heretofore or hereafter provided such additional Bonds are issued in the manner and under the conditions prescribed by the Resolution.
Neither the principal of nor interest on the Series 2006 Bonds constitutes an indebtedness of the Authority within the meaning of any provision, limitation or restriction of the Constitution or Laws of the State of South Carolina, nor a charge, lien or encumbrance, legal or equitable, upon any property of the Authority or upon any income, receipts or revenues of the Authority save and except those revenues derived from the operation of the System and pledged to the payment of the principal and interest on the Series 2006 Bonds.

5. The Series 2006 Bonds and the interest thereon are exempt from all State, county, school district, municipal and other taxes or assessments of the State of South Carolina, direct or indirect, general or special, whether imposed for the purpose of general revenue or otherwise, except inheritance, estate, transfer or franchise taxes (specifically including, without limitation, the tax imposed on banks by Section 12-11-20, South Carolina Code of Laws, 1976, as amended, enforced by the South Carolina Department of Revenue as a franchise tax).

6. Under presently existing statutes, regulations and judicial decisions, the interest on the Series 2006 Bonds is excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the “Code”). The Code establishes certain continuing requirements which must be met subsequent to the issuance and delivery of the Series 2006 Bonds in order that interest on the Series 2006 Bonds be and remain excludable from gross income for federal income tax purposes, including without limitation certain requirements with respect to the use of proceeds of the Series 2006 Bonds and the obligation to rebate certain earnings on the gross proceeds of the Series 2006 Bonds to the United States Government. Noncompliance with such requirements may cause interest on the Series 2006 Bonds to become subject to federal income taxation retroactive to the date of issuance of the Series 2006 Bonds, regardless of the date on which such noncompliance occurs or is ascertained. The Authority, pursuant to the Resolution and related certifications, has covenanted to comply with the requirements of the Code, and in rendering our opinion with respect to the exclusion of the interest on the Series 2006 Bonds from gross income for federal income tax purposes, we have assumed compliance with such covenants.

Notwithstanding the above, interest income received on the Series 2006 Bonds may affect the measure of other income, taxes levied on other income, or taxes on other activities for federal income tax purposes. In this respect, it is our opinion that interest on the Series 2006 Bonds will not, under present law, be treated as an item of tax preference for purposes of computing the alternative minimum tax for individuals or corporations; however, such interest will be includable in the adjusted current earnings of a corporation for purposes of computing the alternative minimum tax for corporations. We express no opinion regarding other federal tax consequences arising with respect to the Series 2006 Bonds.

We have been advised on this date that there is no litigation threatened or pending which, in any manner, affects the validity of the Series 2006 Bonds.

We have examined an executed Series 2006 Bond and, in our opinion, its form and execution are in due form of law.

Very truly yours,
APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY
FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the Trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:30 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the
United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telexed notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner or any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]  
FINANCIAL SECURITY ASSURANCE INC.

By ___________________________  By ___________________________  Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022  
(212) 826-0100  
Form 500NY (5/90)
APPENDIX G

SPECIMEN RESERVE POLICY
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APPENDIX G

MUNICIPAL BOND DEBT SERVICE
RESERVE INSURANCE POLICY

Policy No.: 4R

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay, to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment of the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the Bond Document or Insurance Agreement. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond and all insurance policies in respect of the Bond, to the extent of any payment by Financial Security hereunder.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment made hereunder. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. 

The amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due
upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is not Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person, entity or the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed $_______. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document. "Termination Date" means the earlier of and the date that are no longer outstanding under the Bond Document.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud) whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereof, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

By ____________________________ By ____________________________

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 501B NY (8/96)
APPENDIX I

EXECUTIVE SUMMARY OF MASTER PLAN OF THE AUTHORITY
WATER AND WASTEWATER MASTER PLAN

Executive Summary

Beaufort-Jasper Water and Sewer Authority

November 2005
INTRODUCTION

OVERVIEW

The Beaufort-Jasper Water and Sewer Authority (BJWSA) has commissioned this Water and Wastewater Master Plan (Master Plan) to develop a rational, defendable plan for meeting customer needs. Key objectives of the Master Plan are:

- Optimize infrastructure investments in BJWSA’s capital improvements program (CIP);
- Enhance the efficiency of overall operations; and
- Establish additional criteria to guide developers that propose to add local infrastructure for conveying proposed demands and loads through BJWSA’s distribution and collection systems.

The primary emphasis of the Master Plan is to evaluate the adequacy of BJWSA’s principal potable water and wastewater transmission systems through 2025. Through previous investigations, ongoing implementation programs, and forthcoming planning for interbasin transfer needs, BJWSA is addressing needs for source water facilities, as well as water and wastewater treatment plant capacity. Integrated Resource Planning (IRP) will also be employed, separately from this Master Plan, to identify combinations of supply-side and demand-side management concepts that will achieve specified planning objectives for meeting long-term needs.

The portions of Beaufort and Jasper Counties served by BJWSA were divided into growth corridors or “corridor allocation areas” (CAAs) to facilitate planning. The resulting CAAs are presented on Figure ES-1. The variety of factors that are anticipated to contribute to growth within the two counties, as well as the location of BJWSA’s existing and planned infrastructure were considered in developing probable growth scenarios and corresponding population projections for these CAAs.

These population projections form the basis on which future water demands and wastewater loads were estimated. In turn, these demands and loads were used to assess the adequacy of BJWSA’s principal transmission systems, and to identify future system needs. Each of the projections developed for the Master Plan have been incorporated into a geodatabase - a computer-based tool for compiling, storing and managing data in geographic subsets. This tool will allow BJWSA to track actual growth against the projections identified in the Master Plan, and adjust its implementation schedule accordingly.

The following sections summarize the overall findings and conclusions of the tasks completed during development of the Master Plan. Additional details and supporting data for the discussion included in this Executive Summary have been compiled in a series of appendices contained in a separate volume.
KEY FINDINGS

Potential growth, if realized, will have a significant impact on BJWSA’s CIP. Key findings from the water and wastewater investigations of the Master Plan are:

Water System

- Water demands are estimated to more than double over the next 20 years, from an average annual demand of 20 million gallons per day (MGD) to as much as 56 MGD, and from a maximum daily demand of 38 MGD to as much as 96 MGD. These demands are based on assumptions that daily supply to the existing wholesale customers on Hilton Head Island and Fripp Island would be limited to 9.5 MGD and 1.5 MGD respectively, to help manage expenditures for additional treatment and transmission capacity through 2025.
- Safe yield of water sources should be adequate through 2025. However, BJWSA’s current permitted interbasin transfer capacity of 60 MGD from the Savannah River could be exceeded by 2011 or 2013.
- Source treatment and delivery capacity must be increased to keep pace with projected demands. Additional transmission facilities and storage capacity will also be needed to maintain acceptable pressure in most of the system, and to improve marginal pressures at the extremities of the system north of the Broad River.
- Improvements with estimated costs of as much as approximately $116 million will be needed over the next 20 years. Projects with costs totaling approximately 70 percent of this amount will be required by 2015, with approximately $2.8 million in high-priority projects, along with others costing $42.7 million within the next five years, based on current projections.

Wastewater System

- Wastewater loads are projected to more than triple over the next 20 years, from a combined average annual total of 5 MGD in 2005 to as much as 19 MGD in 2025. Maximum daily loads are projected to increase from approximately 10 MGD to as much as 37 MGD in this time period.
- Current treatment facility expansion plans are anticipated to be adequate to accommodate projected loads through the 2025 planning horizon.
- Effluent disposal is provided by land application, wetland discharge and/or surface water (i.e. river) discharge for BJWSA’s wastewater systems. For the systems that rely primarily on land application (St. Helena, Palmetto Bluff, Point South and Palm Key) and wetland discharge (Cherry Point), current plans to acquire additional disposal capacity are anticipated to be adequate through the 2025 planning horizon. For the systems that rely on surface water discharge (Port Royal Island and Hardeeville), potential Total Maximum Daily Load (TMDL) restrictions may dictate the need to address capacity expansions through the use of more advanced treatment technologies.
Transmission system improvements will be required to provide adequate pumping and conveyance capacity to accommodate projected loads, as well as to alleviate increased pressure gradients resulting from introduction of new loads into maniforedd forcemain networks.

Wastewater system improvements with estimated costs of approximately $90 million will be needed over the next 20 years. Approximately 65 percent of this amount will be required by 2015, with $7.3 million in high-priority projects needed along with others costing $33.9 million over the next five years based on current projections.

EXISTING SYSTEMS

Water System

BJWSA’s water system is divided into two geographic subsystems, which are separated by the Broad River and commonly referred to as the North-of-Broad (NOB) and South-of-Broad (SOB) systems.

The NOB system includes the following service areas and wholesale customers, all of which are located within Beaufort County:

<table>
<thead>
<tr>
<th>Current Service Areas</th>
<th>Wholesale Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port Royal Island</td>
<td>US Navy (Laurel Bay, MCAS, Parris Isl., Naval Hosp.)</td>
</tr>
<tr>
<td>St. Helena Island</td>
<td>Harbor Island Utilities</td>
</tr>
<tr>
<td>Lady’s Island</td>
<td>Fripp Island PSD</td>
</tr>
<tr>
<td>Dale</td>
<td>Warsaw Eustice Oaks Water Company</td>
</tr>
</tbody>
</table>

The SOB system, which encompasses portions of both Beaufort and Jasper Counties, includes the following service areas and wholesale customers:

<table>
<thead>
<tr>
<th>Current Service Areas</th>
<th>Wholesale Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Okatie/Sun City</td>
<td>Callawassie/Spring Island (CUC)</td>
</tr>
<tr>
<td>Bluffton</td>
<td>Moss Creek (Water Oak Utility)</td>
</tr>
<tr>
<td>Hardeeville</td>
<td>Hilton Head Island PSD No. 1</td>
</tr>
<tr>
<td>Pritchardville</td>
<td>Hilton Head Island Broad Creek PSD</td>
</tr>
<tr>
<td>Point South</td>
<td></td>
</tr>
<tr>
<td>Palm Key</td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of the Master Plan, water demands are presented by CAA (see Figure ES-2). While the CAAs shown on this figure are not coterminous with the current water service areas listed above, they are substantially similar. Presenting water demands by CAA facilitates comparison of these demands with corresponding populations, particularly when examining future projections.

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1 Point South and Palm Key are served by standalone water supply and distribution systems, are not tied to BJWSA’s centralized surface water system.
Total existing water demands for the BJWSA system are summarized in the following table.

**Table 1. Existing Water Demands (MGD)**

<table>
<thead>
<tr>
<th>Water Demand</th>
<th>NOB</th>
<th>SOB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Day</td>
<td>11.1</td>
<td>9.6</td>
<td>20.7</td>
</tr>
<tr>
<td>Maximum Day</td>
<td>19.4</td>
<td>18.9</td>
<td>38.3</td>
</tr>
<tr>
<td>Peak Hour</td>
<td>30.0</td>
<td>29.1</td>
<td>59.1</td>
</tr>
</tbody>
</table>

**Wastewater System**

BJWSA’s wastewater system is not as centralized as its water system. Individual wastewater service areas are generally comprised of gravity collection sewers and transmission lift stations and forcemains conveying wastewater to a regional treatment facility. The following service areas comprise the BJWSA wastewater system:

**NOB Service Areas**
- Shell Point
- Southside
- St. Helena

**SOB Service Areas**
- Cherry Point
- Bluffton Regional
- Rose Hill
- Hardeeville
- Palmetto Bluff
- Palm Key
- Point South

Existing wastewater loads for these service areas are shown on Figure ES-3. Although these loads were initially allocated by CAA, they are presented by service area to facilitate analysis of their impact on existing and future facilities. This approach is practical since the wastewater service areas are well defined and isolated from one another. Total existing wastewater loads for the entire BJWSA system are summarized in the following table.

**Table 2. Existing Wastewater Loads (MGD)**

<table>
<thead>
<tr>
<th>Wastewater Load</th>
<th>NOB</th>
<th>SOB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Day</td>
<td>2.0</td>
<td>3.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Maximum Day</td>
<td>4.1</td>
<td>5.8</td>
<td>9.9</td>
</tr>
<tr>
<td>Peak Hour</td>
<td>7.9</td>
<td>10.0</td>
<td>17.9</td>
</tr>
</tbody>
</table>

---

2 The Shell Point and Southside service areas are being consolidated into a regionalized Port Royal Island service area.

3 The Bluffton Regional and Rose Hill service areas do not include treatment facilities, and utilize diversion lift stations to convey wastewater to the regional Cherry Point Wastewater Treatment Plant.

4 The Palmetto Bluff service area is currently served by a standalone wastewater treatment facility, with future plans for diverting wastewater to the regional Cherry Point Wastewater Treatment Plant.
NEEDS

EVALUATION OF EXISTING SYSTEM PERFORMANCE

Analyses of the water and wastewater systems’ abilities to meet existing (2005) demands and loads were performed using BJWSA’s computer-based hydraulic models where available.

For the water system, satisfactory pressures are experienced throughout the system during periods of normal demand. Marginally acceptable pressures are experienced at the extremities of the NOB system in northern and central Port Royal Island, and near Fripp Island. The delivered water quality meets all regulations.

Wastewater system improvements are needed in some areas to increase capacity and overcome high pressure gradients, especially in manifolded forcemain systems. In addition, continuation of ongoing rehabilitation and replacement programs will be necessary to reduce infiltration and inflow.

ANTICIPATED GROWTH IN THE BJWSA SERVICE AREA

Figures ES-4 and ES-5 present a summary of projected 2025 populations by CAA. These projections were developed using a combination of site specific data analysis and statistical methodologies. In general, population projections for Beaufort County were influenced by the relatively high degree of development existing within this jurisdiction. For Jasper County, however, a range of projected populations was developed, reflecting the relative uncertainty associated with the potential growth in this county.

Figure ES-6 illustrates the potential difference in total population between the moderate and high growth scenarios. The percentage of residents by geographic location (Beaufort County NOB, Beaufort County SOB, and Jasper County SOB) is presented in Figure ES-7 for each five-year interval.
As shown in Figure ES-7, if the high growth scenario is realized, Jasper County residents will comprise a larger percentage of the overall population by the end of the current planning horizon. Conversely, the percentage of residents located north of the Broad River will decrease by 2025.

Figure ES-8 illustrates the projected increase in total population, as well as the projected increase in water and wastewater customers (population served) over the 20-year planning horizon. Figures ES-9 and ES-10 below project the percentage of customers by geographic location in 2025.
Table 3 summarizes the estimated number of residential accounts associated with the projected 2025 water and wastewater populations served for the high growth scenario.

**Table 3. Residential Water and Wastewater Accounts in 2025**

<table>
<thead>
<tr>
<th>Location</th>
<th>Water System</th>
<th>Wastewater System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Population Served</td>
<td>No. of Accounts</td>
</tr>
<tr>
<td>NOB</td>
<td>92,000</td>
<td>36,600</td>
</tr>
<tr>
<td>SOB</td>
<td>199,000</td>
<td>79,800</td>
</tr>
<tr>
<td>Total</td>
<td>291,000</td>
<td>116,400</td>
</tr>
</tbody>
</table>

**WATER DEMANDS AND WASTEWATER LOADS**

The population data described in the previous section was used to develop projected water demands and wastewater loads as shown on Figures ES-11 and ES-12. As before, water demands have been presented by CAA, whereas wastewater demands have been presented by wastewater service area. Tables 4 and 5 present cumulative water and wastewater projections for the entire BJWSA system under the high growth scenario.

**Table 4. Projected 2025 Water Demands (High Growth Scenario)**

<table>
<thead>
<tr>
<th>Water Demand</th>
<th>NOB</th>
<th>SOB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Day (MGD)</td>
<td>16.8</td>
<td>39.7</td>
<td>56.5</td>
</tr>
<tr>
<td>Maximum Day (MGD)</td>
<td>29.3</td>
<td>67.3</td>
<td>96.6</td>
</tr>
<tr>
<td>Peak Hour (MGD)</td>
<td>45.2</td>
<td>98.6</td>
<td>143.8</td>
</tr>
</tbody>
</table>

**Table 5. Projected 2025 Wastewater Loads (High Growth Scenario)**

<table>
<thead>
<tr>
<th>Wastewater Load</th>
<th>NOB</th>
<th>SOB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Day (MGD)</td>
<td>5.7</td>
<td>12.8</td>
<td>18.5</td>
</tr>
<tr>
<td>Maximum Day (MGD)</td>
<td>11.6</td>
<td>25.0</td>
<td>36.6</td>
</tr>
<tr>
<td>Peak Hour (MGD)</td>
<td>17.3</td>
<td>34.6</td>
<td>51.9</td>
</tr>
</tbody>
</table>

**SUMMARY OF SYSTEM NEEDS THROUGH 2025**

For potable water, development of system needs primarily included defining criteria for assessing the adequacy of existing sources, treatment and supplemental treated water facilities, storage, and major transmission mains. Evaluating the need for a northern transmission loop to Point South and a second feed to St. Helena, evaluating future water needs and a conceptual supply approach for the Tillman, Ridgeland, Coosawhatchie, and Gillisonville areas, and evaluating overall transmission system needs in the vicinity of the...
Levy-Limehouse Bellinger Hill (LLBH) system were also included in the needs development process.

For wastewater, development of system needs included evaluation of the existing systems to identify deficiencies under projected future peak hour load conditions. This evaluation was focused on transmission facilities in major corridors, and was designed to identify necessary improvements and/or additions to the existing lift station and forcemain network. An additional objective of the Master Plan was to review the proposed capacity of wastewater treatment and effluent disposal facilities, and to determine appropriate system boundaries for developing service areas surrounding the Cherry Point and Hardeeville WWTPs. Finally, the analysis included development of more general recommendations for reduction of inflow and infiltration (especially in the older collection systems serving the City of Beaufort and the Towns of Hardeeville and Port Royal), and recommendations for continuing or modifying the approach for providing sewer facilities under the community sewering program.

**Water System**

The evaluation of system adequacy is summarized below for major elements of the BJWSA water system. A comparison of projected future water demands to existing source capacity limits is presented on Figure ES-13.

![Figure ES-13. BJWSA Demand Projections vs. Source Capacity](image-url)
Table 6. Water System Needs through 2025

<table>
<thead>
<tr>
<th>System Element</th>
<th>Needs</th>
</tr>
</thead>
</table>
| Safe Yield                             | • Safe yield of the Savannah River supply (average annual withdrawal that can be achieved in 99 years out of 100) should be adequate to meet average demand without restriction during a critical drought period  
  o Average daily demand is expected to increase from 20 MGD to between 46.2 MGD (moderate) and 56.5 MGD (high)  
  o Safe yield appears adequate through 2025  
• Withdrawal capacity from the Savannah River is 100 MGD, controlled by legislative authority and capacity of river intake, canal, and pumps  
  o Legislated withdrawal capacity is adequate through 2025  
• Daily interbasin transfer limit on Savannah River is 60 MGD. Permit expires in 2016.  
  o An Integrated Resource Plan will be required to address need for permitted capacity by 2011 or 2013 to meet maximum daily demands.  
• Source delivery capacity (from Savannah River to WTPs) should be adequate to supply average rate of demand on maximum day (ARMD)  
  o Maximum day demand is expected to increase from 38 MGD in 2005 to between 78.5 and 96.6 MGD in 2025  
  o Treated surface water, groundwater supplies and aquifer storage will provide the required flow  
  o BJWSA assumes ARMD supply to existing HHI service area at 9.5 MGD and to Fripp Island at 1.5 MGD |
| Withdrawal Capacity                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Source Delivery Capacity               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Treatment and Supplemental Treated     | • Capacity at Purrysburg WTP will be expanded in 15-MGD increments  
  • Capacity at Chelsea WTP may be expanded as technology allows  
  • Combined with existing groundwater capacity and ASR capacity (possibly expanded), capacity will meet ARMD demand through 2025                                                                                                                                                                                                                                    |
| Water Capacity                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Storage                                | • Additional distribution storage will be needed to meet equalization, fire reserve, and overall emergency reserve requirements                                                                                                                                                                                                                                                                                                                                                           |
| Transmission System                    | • The transmission system must provide 20 psi at street level above the main under all conditions of flow. BJWSA desires to provide 30 to 35 psi or more during normal peak demand periods. Economical operation is considered achieved when head loss due to internal friction in major transmission mains is generally less than 3 feet per 1,000 feet  
  • Satisfactory service is provided during periods of normal demand in the NOB system; marginally acceptable pressures are experienced at the extremities of the system, particularly in northern PRI and near the connection to Fripp Island  
  • Additional transmission capacity is needed to maintain satisfactory pressures throughout much of the SOB system                                                                                                                                                                                                                           |
Wastewater System

The wastewater system evaluation is presented on the basis of existing service area boundaries. In general, the focus of this evaluation (and subsequent identification of needs) is on the adequacy of the lift station and forcemain networks that comprise the transmission systems for each service area. Also included is an assessment of the necessary timing of treatment and effluent disposal capacity expansions. Detailed evaluation of facilities at the collection system level was not performed as part of the Master Plan.

System needs through the planning horizon are summarized below for each service area.

**Table 7. Wastewater System Needs through 2025**

<table>
<thead>
<tr>
<th>System/Element</th>
<th>Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Port Royal Island</strong></td>
<td></td>
</tr>
<tr>
<td>Treatment &amp; Effluent Disposal Capacity</td>
<td>• Treatment – Implementation of all planned expansions of the Port Royal Island WRF:</td>
</tr>
<tr>
<td></td>
<td>• Effluent Disposal</td>
</tr>
<tr>
<td></td>
<td>- Advanced treatment needed to meet BOD and ammonia Total Maximum Daily Loads (TMDLs) when flow reaches 15 MGD</td>
</tr>
<tr>
<td>Transmission System</td>
<td>• Extensions of service, ongoing regionalization, and renewal/replacement programs within existing system must be examined relative to projected future loads (includes McLeod Tract in northern PRI).</td>
</tr>
<tr>
<td>Collection System</td>
<td>• Planned improvements to accommodate future growth should be reevaluated if BJWSA is selected by the military to serve installations at Laurel Bay, the Marine Corps Air Station (MCAS), and Parris Island, to determine whether consolidation of military and non-military transmission capacity is preferable.</td>
</tr>
<tr>
<td></td>
<td>• System improvements are needed to increase capacity and overcome high pressure gradients to accommodate projected 2025 wastewater loads.</td>
</tr>
<tr>
<td></td>
<td>• Reduction of infiltration and inflow, particularly in aging collection systems serving the City of Beaufort and Town of Port Royal.</td>
</tr>
<tr>
<td><strong>St. Helena</strong></td>
<td></td>
</tr>
<tr>
<td>Treatment &amp; Effluent Disposal Capacity</td>
<td>• Treatment – Implementation of planned expansions of the St. Helena WWTP:</td>
</tr>
<tr>
<td></td>
<td>• Effluent Disposal - Acquisition of additional effluent disposal capacity in excess of current 1.1-MGD limit (in conjunction with Phase 3 WWTP expansion).</td>
</tr>
<tr>
<td>Transmission System</td>
<td>• Service extensions, particularly in Lady’s Island</td>
</tr>
<tr>
<td></td>
<td>• Address high pressures in northern Lady’s Island at peak hour conditions</td>
</tr>
<tr>
<td></td>
<td>• Several lift stations are under designed relative to projected load allocations for 2025 peak hour conditions</td>
</tr>
</tbody>
</table>

5 Comprised of facilities from the existing Shell Point and Southside service areas.
<table>
<thead>
<tr>
<th>System/Element</th>
<th>Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bluffton Regional</strong>&lt;br&gt;Treatment &amp; Effluent Disposal Capacity&lt;br&gt;Transmission System</td>
<td>● Treatment provided at Cherry Point Regional WWTP (see Cherry Point System discussion)&lt;br&gt;● 8-inch forcemain in Hwy 278 prone to sedimentation and clogging due to low velocities&lt;br&gt;● High pressures, low velocities and inefficient pumping along Hwy 278 anticipated during 2025 peak hour conditions</td>
</tr>
<tr>
<td><strong>Rose Hill</strong>&lt;br&gt;Treatment &amp; Effluent Disposal Capacity&lt;br&gt;Transmission System</td>
<td>● Treatment provided at Cherry Point Regional WWTP (see Cherry Point System discussion)&lt;br&gt;● No improvements necessary for 2025 conditions.</td>
</tr>
<tr>
<td><strong>Cherry Point</strong>&lt;br&gt;Treatment &amp; Effluent Disposal Capacity&lt;br&gt;Transmission System</td>
<td>● Treatment – Implementation of all planned expansions of the Cherry Point WWTP&lt;br&gt; o Phase 3a - 4.0 MGD&lt;br&gt; o Phase 3b - 7.5 MGD&lt;br&gt; o Phase 4 - 11.25 MGD&lt;br&gt; o Phase 5 - 15.0 MGD&lt;br&gt;● Effluent Disposal&lt;br&gt; o Additional transmission capacity is needed to convey effluent from WWTP to wetland disposal site&lt;br&gt; o Re-rating of existing 500-acre disposal site and permitting of adjacent 600-acre site expected to provide 13 MGD capacity; may need to investigate additional effluent disposal in conjunction with Phase 5 WWTP expansion&lt;br&gt; o Alternatively, land application sites may be utilized for beneficial reuse&lt;br&gt;● Lift stations must be expanded, new forcemains are needed to serve additional developments, and existing lift station to be converted for re-pumping&lt;br&gt;● New forcemain and lift station network for diversion of flows from on-site Palmetto Bluff WWTP to regional Cherry Point WWTP.&lt;br&gt;● New Master Lift Stations and forcemain required to deliver projected loads from Argent CAA to Cherry Point WWTP. Part of forcemain to be converted from existing water main in Highway 278&lt;br&gt;● Existing forcemain to be converted to effluent transmission line&lt;br&gt;● High pressures throughout the system and high line velocities in two forcemains anticipated during 2025 peak hour requirements&lt;br&gt;● Several lift stations are under designed for 2025 peak hour conditions</td>
</tr>
<tr>
<td><strong>Hardeeville</strong>&lt;br&gt;Treatment &amp; Effluent Disposal Capacity</td>
<td>● Treatment – Implementation of planned expansion of Hardeeville WWTP, including necessary land acquisition;&lt;br&gt;● Effluent Disposal&lt;br&gt; o TMDL requirements are under study and subject to significant tightening which could affect disposal capability in the Savannah River</td>
</tr>
<tr>
<td>System/Element</td>
<td>Needs</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Transmission System</td>
<td>• Significant additional infrastructure is required for future growth in outlying areas to the south</td>
</tr>
<tr>
<td>Collection System</td>
<td>• Reduction of infiltration and inflow in aging collection system</td>
</tr>
<tr>
<td>Palm Key</td>
<td>• Treatment – existing Palm Key WWTP capacity of 66,000 GPD is adequate for 2025</td>
</tr>
<tr>
<td>Treatment &amp; Effluent Disposal Capacity</td>
<td>• Effluent Disposal</td>
</tr>
<tr>
<td></td>
<td>o An additional land application site is planned</td>
</tr>
<tr>
<td>Transmission System</td>
<td>• No additional infrastructure needs at this time.</td>
</tr>
<tr>
<td>Point South</td>
<td>• Treatment – Implementation of planned expansion of the Point South WWTP</td>
</tr>
<tr>
<td>Treatment &amp; Effluent Disposal Capacity</td>
<td>• Effluent Disposal</td>
</tr>
<tr>
<td></td>
<td>o Adjacent land application site will be expanded with treatment capacity expansion to 500,000 gpd</td>
</tr>
<tr>
<td>Transmission System</td>
<td>• Additional infrastructure is required for future growth and should be associated with new development</td>
</tr>
<tr>
<td>Sheldon</td>
<td>• Not served by a centralized system; possible future system</td>
</tr>
<tr>
<td>General</td>
<td>• Evaluate potential for implementation of service extensions via BJWSA’s community sewering program</td>
</tr>
</tbody>
</table>

### PROJECTS

#### OVERVIEW OF ALTERNATIVES CONSIDERED

**Water System**

There are three basic approaches for providing required additional potable water capacity – expansions of the Chelsea and Purrysburg treatment plants, and additional ASR capacity. While Integrated Resource Planning should include examination of potential additional groundwater supplies, it has been assumed in this Master Plan that significant additional groundwater capacity will not be feasible.

Several projects are tentatively scheduled or are under consideration for inclusion in the BJWSA CIP. These projects involve or are related to extensions of service, loops or parallel transmission capacity, additional storage facilities, and pumping modifications. These projects were also considered within the context of planning for meeting the anticipated demands on the water system through the 2025 planning horizon. This involved analysis of the long-term needs of the NOB and SOB systems, development of conceptual alternatives for transmission system improvements, and modifications to pressure zone operations, along with related pumping and storage improvements.
Wastewater System

Analyses of system performance within the individual wastewater service areas with future loads imposed resulted in the development of alternatives for meeting future needs. In general, these alternatives included construction of master lift stations, expansion and/or upgrade of existing lift stations, and construction of new transmission forcemains.

OVERVIEW OF IMPLEMENTATION PLAN FOR AND ELEMENTS OF CIP

Water System

The Implementation Plan developed for the BJWSA water system recognizes the need for additional potable water treatment capacity. The conceptual alternatives developed are based on the assumption that BJWSA’s existing treatment facilities will be expanded to their anticipated maximum capacities, or possibly further, to the extent that site-specific considerations and approved treatment technology will allow.

BJWSA should examine source of supply and demand management issues in a subsequent study, preferably to be completed by about 2010. The scope of this study should address reliability of supply through planning for interbasin transfer needs, in conjunction with demand-side management. Integrated Resource Planning is a process being employed by an increasing number of water utilities, often in cooperation with wastewater systems, which BJWSA can adapt for identifying combinations of supply and demand-side management concepts that achieve a set of specified planning objectives. In addition to increasing public awareness of the implications of potential growth on existing facilities and future costs of service through the Master Plan, BJWSA can build on existing customer outreach programs and other activities, including:

- Conserving water through use of more efficient fixtures and irrigation practices
- Exploring further the feasibility of rate structures that encourage wise use of potable water
- Continuing use of or expanding existing sources of supply, such as the Bluffton and Hardeeville wells (if viable for the long term), aquifer storage and recovery (ASR) at Chelsea, Broad River, and elsewhere
- Examining other potential sources such as desalination, and residential reuse of treated wastewater effluent (such as the Core Communities program for reuse of as much as 1 MGD for irrigation purposes)
The technical, financial, and institutional feasibility of potential sources should be evaluated and, if found feasible, incorporated in a long-range (at least through 2050) plan for developing and maintaining a reliable water supply. The plan should provide for sufficient lead time to undertake the necessary investigations, complete the applicable regulatory review, permitting and public involvement process for the selected elements, secure sites and buffer areas, and (subject to the outcome of periodic review of growth trends) plan, design and construct the necessary facilities.

Trigger events and ensuing activities or improvements to the BJWSA water supply system are presented for the following major elements of the system:

- **High-Service Pumping**
- **Transmission System**
- **Storage**

Within the planning horizon for the Master Plan, priorities for recommended projects and activities for each of these major system elements are reflected in the designated action years. The rationale for these priorities is briefly discussed in the introduction to each system element. Figures ES-14 and ES-15 illustrate the location and timing of the recommended improvements.

**High-Service Pumping**

Required firm capacity (capacity with the largest pump out of service) and total dynamic head are based on the results of hydraulic analyses. The existing Purrysburg high-service pumps are adequate for meeting the maximum day demand through 2010. However, additional capacity should be installed when the plant is expanded. The Chelsea SOB high-service pumps will be adequate throughout the planning horizon as long as the Purrysburg water treatment plant is expanded to meet additional demand in the SOB system, and the recommended related transmission system improvements remain appropriate and are completed. The Chelsea NOB high-service pump capacity will be upgraded as required for system growth.

**Transmission System**

Needs for additional capacity to deliver potable water from the water treatment plants are summarized in the following table.

### Table 8. Summary of Water Transmission System Needs

<table>
<thead>
<tr>
<th>Priority</th>
<th>Need/Project Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest</td>
<td>- Inadequate capacity (pipe diameter and/or internal condition), or inadequate pump/driver capacity, or excessive required pumping heads would result in pressures below criteria for satisfactory service during peak demand conditions in certain areas</td>
</tr>
<tr>
<td></td>
<td>- Undertake improvements in conjunction with related storage projects</td>
</tr>
<tr>
<td>Priority</td>
<td>Need/Project Purpose</td>
</tr>
<tr>
<td>------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>High (By 2010 or so)</td>
<td>• Growth triggers for additional transmission and booster pumping capacity are solely dependent on the actual rate of development that occurs, as approved by the municipalities within the BJWSA system and undertaken by developers. If the trends represented by projected growth materialize, significant additional transmission capacity will be needed by 2010 to 2015.</td>
</tr>
</tbody>
</table>
| Medium           | • Re-alignment of some facilities to maintain cost-effective operations is recommended as the system grows. These projects can be incorporated in staging of more extensive growth-related improvements such as additional storage facilities.  
• Avoid over sizing mains in the near term that can lead to excessive travel time and diminished water quality.  
• Close coordination with municipal planners and developers, along with periodic re-visiting of growth trends and related demands, will provide flexibility in selecting the timing, size, and route of the necessary mains. |
| Medium to Low    | • Transmission projects intended to strengthen the reliability of supply by providing dual feed capability to areas that are solely dependent on a single main. The timing of these projects will depend on the criticality and number of customers affected, and opportunities to complete them in coordination with other activities such as road re-paving or utility relocation work.  
• Additional local distribution-level improvements may also be required. |
| Ongoing          | • Developers should install mains appropriately sized for domestic and fire protection needs, in accordance with applicable State and BJWSA design standards, consistent with delivered water quality objectives. |

**Storage**

Capacity needs were calculated for hydraulically similar portions of the system and the timing for construction of additional storage tanks and decommissioning of existing tanks is dependent on the need to minimize or eliminate shortfalls in capacity associated with growth, enhance reliability of service, provide fire protection in accordance with BJWSA policy, and re-align transmission system operations. High priority is assigned to land acquisition for the recommended tanks and selected sites should generally allow for a second tank to be constructed at a later date. For the SOB system west of Bluffton, the specific location of additional storage tanks will be determined once development plans for the large tracts in this vicinity are better known. Additional storage volume of 5.6 MG is recommended for the NOB system and 18 MG for the SOB system. Additional 0.2-MG storage tanks at Palm Key and Point South, similar to the existing tanks, are already planned and included in BJWSA’s CIP. The additional storage volumes recommended are substantial. However, they are within the range of volumes calculated from SCDHEC criteria (lower than 50 percent of the maximum day requirement; greater than 2 hours of domestic peak hour demand plus a fire flow). BJWSA should consider discussing the comparison further with SCDHEC to confirm the appropriateness of providing additional storage above and beyond that calculated for the NOB and SOB.
systems. The storage tank volumes and locations can also be refined once future demands are more accurately established.

**Wastewater System**

The following improvements are recommended for implementation through the planning horizon. The location and timing of recommended projects in the Implementation Plan are illustrated on Figures ES-16 and ES-17.

**Table 9. Wastewater Implementation Plan**

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Port Royal Island</strong>&lt;sup&gt;6&lt;/sup&gt;</td>
<td>Treatment &amp; Effluent Disposal</td>
</tr>
</tbody>
</table>
| **Treatment & Effluent Disposal** | • Treatment – Implement the following planned expansions of the Port Royal Island WRF:  
  o Phase 1 - 4.8 MGD (in progress)  
  o Phase 2 - re-rate to 7.5 MGD  
  o Phase 3 - expand and upgrade technology for 15 MGD  
• Effluent Disposal  
  o Advanced treatment needed to meet BOD and ammonia Total Maximum Daily Loads (TMDLs) at 15 MGD  
| Transmission System | • Add a master lift station at Goethe Hill Road  
• Increase capacity of four existing lift stations or provide additional lift stations in the general vicinity  
• Redesign four existing lift stations to accommodate increased flow and pressure gradient  
• Address system needs associated with potential acquisition of military wastewater service contract |
| **St. Helena**      | Treatment & Effluent Disposal                                            |
| **Treatment & Effluent Disposal** | • Treatment – Implement planned Phase 3 expansion of the St. Helena WWTP to 1.2 MGD |
| **Transmission System** | • Effluent Disposal - Acquire additional capacity in excess of current of 1.1 MGD limit in conjunction with WWTP expansion. |
|                      | • Convert SH-19 (Hwy 21/LI) to a master lift station  
• Install 3,000 LF of 12-inch forcemain and 20,000 LF of 8-inch forcemain  
• Increase capacity of three existing lift stations or provide additional lift stations in the general vicinity  
• Redesign four existing lift stations to accommodate increased flow and pressure gradient |

<sup>6</sup> Comprised of facilities from the existing Shell Point and Southside service areas
<table>
<thead>
<tr>
<th>Service Area</th>
<th>Projects</th>
</tr>
</thead>
</table>
| **Bluffton Regional Treatment & Effluent Disposal** Transmi**ssion System** | • Treatment provided at Cherry Point Regional WWTP (see Cherry Point System discussion)  
• Convert BR-07 (Shady Glen) to a master lift station  
• Install 4,000 LF of 8-inch forcemain  
• Increase capacity of one existing lift station or provide additional lift stations in the general vicinity  
• Redesign four existing lift stations to accommodate increased flow and pressure gradient |
| **Cherry Point Treatment & Effluent Disposal** Transmission System | • Treatment – Implementation of all planned expansions of the Cherry Point WWTP  
  o Phase 3a - 4.0 MGD  
  o Phase 3b - 7.5 MGD  
  o Phase 4 - 11.25 MGD  
  o Phase 5 - 15.0 MGD  
• Effluent Disposal  
  o Additional transmission capacity is needed to access additional available wetland disposal capacity  
  o Re-rating of existing 500-acre disposal site and permitting of adjacent 600-acre site expected to provide 13 MGD capacity; may need to investigate additional effluent disposal in conjunction with Phase 5 WWTP expansion  
  o Alternatively, land application sites may be utilized for beneficial reuse  
• Construct regional lift station at Okatie Crossing  
• Install 3,000 LF of 12-inch forcemain to interconnect the Bluffton Regional and Rose Hill Diversion forcemains  
• Install 28,000 LF of 16-inch forcemain from Palmetto Bluff to the Okatie Crossing Regional Lift Station  
• Construct two regional lift stations to serve development in Argent, Morgan and Anderson Tracts  
• Convert existing 24-inch Highway 278 water main to a forcemain between Red Dam Road and Highway 141  
• Install 16,500 LF of 20-inch forcemain to extend converted 24-inch water main from Highway 141 to the Cherry Point WWTP  
• Increase capacity of two existing lift stations or provide additional lift stations in the general vicinity  
• Redesign four existing lift stations to accommodate increased flow and pressure gradient |
| **Hardeeville Treatment & Effluent Disposal** | • Treatment – Implementation of planned Phase 3 expansion of Hardeeville WWTP to 2.0 MGD, including necessary land acquisition  
• Effluent Disposal  
  o TMDL requirements are under study and subject to significant tightening which could affect disposal capability to Savannah River  
  o Implementation of advanced treatment technology to satisfy more stringent discharge limits at higher flows |
<table>
<thead>
<tr>
<th>Service Area</th>
<th>Projects</th>
</tr>
</thead>
</table>
| Transmission System | • Construct 1 regional lift station  
• Install 30,000 LF of 16-inch forcemain from the regional lift station to the WWTP |
| Palm Key Treatment & Effluent Disposal | • Effluent disposal  
  o Acquire additional land application site |
| Point South Treatment & Effluent Disposal | • Treatment – Implementation of planned Phase 3 expansion of the Point South WWTP to 500,000 gpd  
• Effluent Disposal  
  o Adjacent land application site will be expanded with Phase 3 treatment capacity expansion |
| Transmission System | • Include master lift stations with new development for pumping to Point South WWTP |

**COSTS**

**SUMMARY OF CAPITAL IMPROVEMENTS**

Estimated costs are tabulated below for the NOB and SOB water system improvements by 5-year milestone, and project type (treatment & high-service pumping, booster pumping, transmission mains and storage). Estimated costs for wastewater system improvements are similarly tabulated for NOB and SOB portions of the BJWSA system.

Figures ES-18 and ES-19 present a breakdown of the overall Implementation Plan costs for the water systems (by CAA) and wastewater systems (by service area) respectively. These estimated costs could change significantly, pending the outcome of the recommended Integrated Resource Planning process.

*Table 10. Summary of Water System Implementation Plan Capital Costs ($1,000)*

<table>
<thead>
<tr>
<th>System</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOB Treatment/High-Service Pumping</td>
<td>$ --</td>
<td>$ --</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$ --</td>
</tr>
<tr>
<td>ASR Facilities</td>
<td>--</td>
<td>1,500</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Booster Pumping</td>
<td>--</td>
<td>1,030</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Mains</td>
<td>--</td>
<td>13,090</td>
<td>1,140</td>
<td>--</td>
<td>2,000</td>
</tr>
<tr>
<td>Storage</td>
<td>--</td>
<td>6,000</td>
<td>3,010</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>NOB Subtotal</td>
<td>$ --</td>
<td>$21,620</td>
<td>$5,150</td>
<td>$1,000</td>
<td>$2,000</td>
</tr>
</tbody>
</table>
### Table 11. Summary of Wastewater System Implementation Plan Capital Costs ($1,000)

<table>
<thead>
<tr>
<th>System</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NOB</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treatment/Effluent Disposal Capacity</td>
<td>$2,000</td>
<td>$3,000</td>
<td>$ --</td>
<td>$ --</td>
<td>$15,000</td>
</tr>
<tr>
<td>Master Lift Stations</td>
<td>--</td>
<td>1,010</td>
<td>--</td>
<td>240</td>
<td>--</td>
</tr>
<tr>
<td>Lift Station Upgrades</td>
<td>--</td>
<td>820</td>
<td>80</td>
<td>150</td>
<td>310</td>
</tr>
<tr>
<td>New Forcemain</td>
<td>--</td>
<td>350</td>
<td>240</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>NOB Subtotal</td>
<td>$2,000</td>
<td>$5,180</td>
<td>$320</td>
<td>$390</td>
<td>$15,310</td>
</tr>
<tr>
<td><strong>SOB</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treatment/Effluent Disposal Capacity</td>
<td>$5,000</td>
<td>$22,000</td>
<td>$15,000</td>
<td>$ --</td>
<td>$15,000</td>
</tr>
<tr>
<td>Master Lift Stations</td>
<td>--</td>
<td>2,510</td>
<td>640</td>
<td>500</td>
<td>--</td>
</tr>
<tr>
<td>Lift Station Upgrades</td>
<td>230</td>
<td>330</td>
<td>1,160</td>
<td>250</td>
<td>50</td>
</tr>
<tr>
<td>New Forcemain</td>
<td>110</td>
<td>3,870</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>SOB Subtotal</td>
<td>$5,340</td>
<td>$28,710</td>
<td>$16,800</td>
<td>$750</td>
<td>$15,050</td>
</tr>
</tbody>
</table>
### Combined Treatment/Effluent Disposal Capacity

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Second</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIP Capital Cost ($1,000)</td>
<td>$2,820</td>
<td>$42,720</td>
<td>$33,240</td>
<td>$31,010</td>
</tr>
<tr>
<td>CIP Annual Cost ($1,000)</td>
<td>$230</td>
<td>$3,430</td>
<td>$2,670</td>
<td>$2,490</td>
</tr>
<tr>
<td>Persons Served</td>
<td>100,500</td>
<td>147,600</td>
<td>186,500</td>
<td>248,000</td>
</tr>
<tr>
<td>MG/yr</td>
<td>7,542</td>
<td>11,073</td>
<td>13,769</td>
<td>18,016</td>
</tr>
<tr>
<td>$/Yr/Person</td>
<td>$2.29</td>
<td>$23.24</td>
<td>$14.32</td>
<td>$10.04</td>
</tr>
<tr>
<td>$/Yr/Person (Cumulative)</td>
<td>$2.29</td>
<td>$25.53</td>
<td>$39.84</td>
<td>$49.88</td>
</tr>
<tr>
<td>$/Yr/MG</td>
<td>$30</td>
<td>$310</td>
<td>$194</td>
<td>$138</td>
</tr>
<tr>
<td>$/Yr/MG (Cumulative)</td>
<td>$30</td>
<td>$340</td>
<td>$534</td>
<td>$672</td>
</tr>
</tbody>
</table>

### WATER TOTALS

(see Table 10)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan Total</td>
<td>$10,160</td>
<td>$76,610</td>
<td>$50,360</td>
<td>$32,150</td>
</tr>
</tbody>
</table>

## FINANCIAL IMPACTS

The cost of the recommended capital improvements for the water and wastewater systems per person served is summarized below.

Based on the sequences of improvements identified for the high growth scenario, the corresponding amortization expense for the capital costs (financing at 5 percent interest for 20 years), number of persons served, and average annual water delivered or wastewater processed, rough estimates of the annual unit costs per person and per million gallons are summarized in the following tables.

### Table 12. Annual Unit Costs for Water System Projects

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan Total</td>
<td>$10,160</td>
<td>$76,610</td>
<td>$50,360</td>
<td>$32,150</td>
</tr>
</tbody>
</table>
Table 13. Annual Unit Costs for Wastewater System Projects

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High Priority</td>
<td>Second Priority</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIP Capital Cost ($1,000)</td>
<td>$7,340</td>
<td>$33,890</td>
<td>$17,120</td>
<td>$1,140</td>
</tr>
<tr>
<td>CIP Annual Cost ($1,000)</td>
<td>$590</td>
<td>$2,720</td>
<td>$1,370</td>
<td>$90</td>
</tr>
<tr>
<td>Persons Served</td>
<td>40,700</td>
<td>89,000</td>
<td>128,400</td>
<td>165,700</td>
</tr>
<tr>
<td>MG/yr</td>
<td>1,820</td>
<td>3,472</td>
<td>4,673</td>
<td>5,670</td>
</tr>
<tr>
<td>$/Yr/Person</td>
<td>$14.50</td>
<td>$30.56</td>
<td>$10.67</td>
<td>$0.54</td>
</tr>
<tr>
<td>$/Yr/Person (Cumulative)</td>
<td>$14.50</td>
<td>$45.06</td>
<td>$55.73</td>
<td>$56.27</td>
</tr>
<tr>
<td>$/Yr/MG</td>
<td>$324</td>
<td>$783</td>
<td>$293</td>
<td>$16</td>
</tr>
<tr>
<td>$/Yr/MG (Cumulative)</td>
<td>$324</td>
<td>$1,108</td>
<td>$1,401</td>
<td>$1,417</td>
</tr>
</tbody>
</table>