



Lowcountry Regional Water System

2014 Annual Report





**Lowcountry Regional Water System
513 Elm St West
Hampton, SC 29924**

Annual Report

**For Fiscal Year Ending
September 30th, 2014**

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INTRODUCTION

This annual report of the Lowcountry Regional Water System is submitted to the governing bodies of its members as provided by Section 6-25-140 of the Code of Laws of South Carolina, 1976, as amended and by Article X Section 4 of the Bylaws of the Lowcountry Regional Water System.

This report is the second annual report prepared by Lowcountry Regional Water System since its creation in 2012 and represents the first full year of operations. All information and data contained herein is the best known information at the time of compilation. The financial statements were audited by Brittingham, Brown, Prince & Hancock, LLC, Certified Public Accountants.

FINANCIAL INFORMATION

The Audited Financial Statement for Fiscal Year 2013-2014 is included as part of this Annual Report and may be found as Appendix A.



Sustainable Water Service for Communities, Business and the Environment

MISSION STATEMENT

The mission of the Lowcountry Regional Water System is to provide the Lowcountry Region's water needs to improve quality of life, economic development, and improve the viability of providing safe, clean and reliable water services to the citizens of the region.

Vision

Create and sustain a viable and competitive regional water system for Hampton County created by enabling legislation known as the Joint Authority Water and Sewer Act.

Operating Philosophy and Values

- Excellence in Customer Service
- Professional Management
- Well Trained Staff
- Operational Excellence in System Operations
- Regulatory compliance with Local, State and Federal Regulations
- Implementation of Industry Best Practices
- Technical Expertise with a Commitment to Technical Training and Certification for Employees
- Forward Looking as Evidenced by Long Term Master Planning for Operations, Capital and Growth
- Financially Strong in Managing Revenue, Expenses, assets and Liabilities
- Independent Rate Setting By the Board of Commissioners that Each Charter Town Appoints
- Cost Based Rates for Water and Wastewater Utilities
- Alignment of Infrastructure Master Plans with Growth Plans of Hampton
- County Future Interconnections between Towns Where Beneficial
- Commitment to Capital Improvement Plans for System Operations with Externally Generated Funding to Ensure Long Term Viability
- Committed to the Community as a Corporate Citizen and a Key Player in Economic Development of the Region
- LRWS has a Leadership Role in the Economic Development of the County and Region. The Availability of Water and Sewer Service is a key Factor in the Site Selection Process for New and Expanding economic Development Projects.
- Committed to Safety in LRWS Operations and in Enhancing Public Safety for the Communities Through Improved Water quality and Fire Protection

MEMBERSHIP

The Lowcountry Regional Water System was officially chartered February 17, 2012 with the issuance of its Corporate Certificate by the State of South Carolina through the Office of Secretary of State. The governing bodies of the Town of Brunson, Town of Hampton, Town of Varnville, Town of Yemassee and the County of Hampton resolved to form a Joint System under the Joint Authority Water and Sewer Systems Act for the purpose of creating a regional water and sewer system for Hampton County and surrounding areas by consolidating the operations of certain water and sewer providers in the area, and by acquiring water and sewer systems and extending service to new customers, and otherwise exercising all other powers available to the Joint System under law. On October 31, 2012 the Corporate Certificate was amended to include the Town of Gifford as a member of the Lowcountry Regional Water System.

The Lowcountry Regional Water System Board of Commissioners shall consist of a representative of each participating member. The governing bodies of each participating member shall by resolution appoint one Commissioner to serve as its representative. Additionally, each governing body may designate an alternate to serve in the absence of the member's Commissioner.

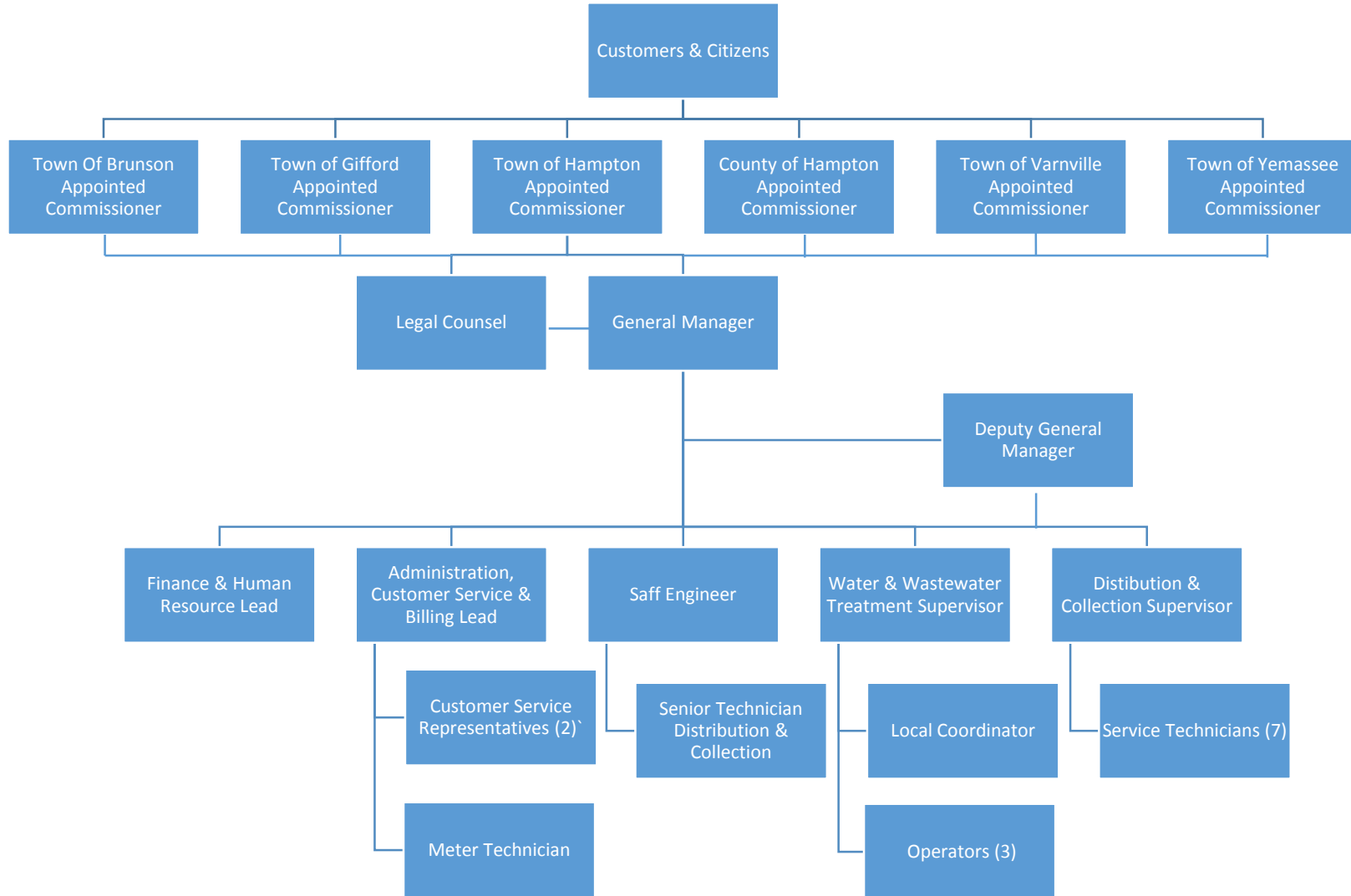
Member Appointments

Participating Members	Appointed Commissioners
Town of Brunson	Mr. Rocky Hudson
Town of Brunson	Mr. Terry Wright, (Alternate)
Town of Gifford	Mr. James Risher
County of Hampton	Mr. Hugh Gray
County of Hampton	Ms. Sabrena Graham, (Alternate)
Town of Hampton	Mr. John Rhoden
Town of Varnville	Mr. Henry Tuten
Town of Varnville	Mr. Nathaniel Shaffer, (Alternate)
Town of Yemassee	Mr. Colin Moore
Town of Yemassee	Mr. Wayne Ezell, (Alternate)

Commissioners and Officers

Mr. John Rhoden	Chairman
Mr. Henry Tuten	Vice-Chairman
Mr. Rocky Hudson	Commissioner
Mr. James Risher	Commissioner
Mr. Colin Moore	Commissioner
Mr. Hugh Gray	Commissioner

ORGANIZATIONAL STRUCTURE



MANAGEMENT'S DISCUSSION and ANALYSIS

This section presents management's analysis of the Lowcountry Regional Water System's financial condition and activities for the year.

Financial Highlights

The financial information in this report represents the first complete year of operation since the Lowcountry Regional Water System officially took over physical operations on June 01, 2013.

Management and Staff are committed to finding ways to create efficiencies and promote savings through economies of scale and identifying areas that savings may be realized through changes or modifications of personnel, equipment and operations.

- Operating Revenues were \$2,357,742
- Operating Expenses were \$2,405,714
- Operating Losses were reported in the amount of \$184,207 prior to capital contributions. This loss includes \$527,614 in depreciation expenses.

Departmental Highlights

- A water and sewer rate and fee schedule study was commissioned which resulted in the development and adoption of water and sewer rates and fees to improve the system viability and move all systems to one common rate structure. The rate change was approved in April 2014 and rate changes were gradually changed over a six month period to minimize the impact for customers. All customers are on the same rate schedule with the exception of the wastewater customers for the Town of Yemassee. It is anticipated that the Yemassee wastewater customer's rate will change in 2015 to the same rate as all LRWS customers.

Infrastructure Highlights

Many projects are being implemented for the improvement of water and wastewater infrastructure. The following table provides information on these improvements.

Project Description	Cost	Funding Status	Project Status
Town of Brunson Elevated Tank and Well Rehab	\$330,000.00	Funded	In Construction
Town of Yemassee Elevated Tank Demolition and Replacement	\$1,025,000.00	Funded	In Construction
Town of Hampton Water & Sewer System Improvements (Sludge Removal, Sewer Main Rehab, Meter System Upgrade)	\$3,457,000.00	Funded	Design
Town of Yemassee Sewer System Upgrade	\$875,000	Funded	Design
Interconnection of Water Systems Between the Town of Brunson and the Town of Gifford	\$1,498,000	Funded	Design
Total Amount of Funded Projects	\$7,185,000		



BUDGETARY PROCEDURES

The Lowcountry Regional Water System Fiscal Year begins October 1st of each year and ends on September 30th of the subsequent calendar year.

The annual operations budget is developed under the guidance of the General Manager. In June of each calendar year, department heads are provided preliminary information for review and development of their departments projected operational and capital needs for the ensuing fiscal year. These requests will be reviewed, compiled and developed into a preliminary budget document. This preliminary budget document will then be reviewed by the General Manager. Internal discussions with the Department Heads will be held to insure and clarify the needs of the departments and a final draft will be developed. Once a final draft is developed the General Manager will submit this draft with supporting information to the Commission of the Lowcountry Regional Water System. The Commission will review the draft budget and make a determination if a rate adjustment beyond any pre-approved adjustments may be required. If a rate adjustment may be required the General Manager shall provide a proposed rate adjustment to the full Commission for review, approval and adoption.



BUDGET

The following table represents the Commission adopted budgeted revenues and expenditures and the actual revenues and expenditures for Fiscal Year 2013-2014.

<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>			
Water Revenue	\$913,705	\$924,364	+\$10,659.00
Wastewater Revenue	\$1,173,835	\$1,085,599	-\$88,236.00
Operating Revenue	\$200,850	\$271,268	+\$70,418.00
<u>Totals</u>	<u>\$2,288,390.00</u>	<u>\$2,281,231.00</u>	<u>-\$7,159.00</u>
<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Expenditures</u>			
Water Treatment	\$229,169	\$214,214	-\$14,955.00
Water Distribution	\$456,278	\$410,212	-\$46,066.00
Wastewater Treatment	\$720,842	\$768,647	+\$47,805.00
Wastewater Collection	\$274,077	\$211,755	-\$62,322.00
Administrative	\$608,024	\$647,815	+\$39,791.00
<u>Totals</u>	<u>\$2,288,390.00</u>	<u>\$2,252,643.00</u>	<u>-\$35,747.00</u>



OUTSTANDING INDEBTEDNESS

The following table presents information on the debt obligations of the Lowcountry Regional Water System. All of the debt obligations with the exception of the loans issued by the Towns of Hampton and Varnville are to be transferred from the member Towns and assumed by the Lowcountry Regional Water System. As of September 30, 2014, USDA/RUS and Berkadia have not completed the assumption process of transferring the loans to the member Towns to the Lowcountry Regional Water System. However, until the assumption is completed, LRWS is making the monthly or annual payments on these debts by transferring these funds to the member Towns for payment to USDA or direct payment to Berkadia and US Bank.

Town	Lien Holder/ Issuer	Year/ Series	Original Notes/Bonds	Outstanding Notes/Bonds 9/30/14	Interest Rate	Final Maturity
Brunson	USDA	1978	\$277,000.00	\$49,477.00	5.000%	2018
Brunson	USDA	1992	\$376,700.00	\$239,240.00	5.000%	2030
Brunson	USDA	1992-A	\$23,600.00	\$13,058.00	5.000%	2027
Gifford	USDA	1977	\$53,200.00	\$5,673.00	5.000%	2016
Gifford	USDA	1990	\$67,800.00	\$41,445.00	5.875%	2028
Hampton	USDA	1996	\$2,998,900.00	\$2,235,144.00	5.125%	2035
Hampton	Berkadia	1980	\$475,000	\$120,744.00	5.00%	2019
Varnville	US Bank	2009	\$390,000.00	\$212,943.00	3.76%	2019
LRWS	Town of Hampton	2013	\$150,000.00	\$150,000.00	2.500%	2018
LRWS	Town of Varnville	2012	\$150,000.00	\$150,000.00	2.500%	2017
	Original Notes & Bonds			Outstanding Notes & Bonds as of September 30, 2014		
Total	\$4,962,200.00			\$3,217,724.00		

RATES, FEES & CHARGES

LOWCOUNTRY REGIONAL WATER SYSTEM WATER & WASTEWATER RATE SCHEDULE EFFECTIVE AS OF APRIL 2014

Description	RESIDENTIAL COMMERCIAL ¹
WATER	
Monthly Base Charge:	
Brunson	\$ 16.20
Gifford	\$ 16.20
Hampton	\$ 16.20
Varnville	\$ 16.20
Yemassee	\$ 16.20
Volumetric Rate (\$/1,000):	
Brunson	\$ 3.60
Gifford	\$ 3.60
Hampton	\$ 3.60
Varnville	\$ 3.60
Yemassee	\$ 3.60
WASTEWATER	
Monthly Base Charge:	
Brunson	\$ 13.50
Gifford	\$ 13.50
Hampton	\$ 13.50
Varnville	\$ 13.50
Yemassee	\$ 13.50
Volumetric Rate (\$/1,000):	
Brunson	\$ 6.00
Gifford	\$ 6.00
Hampton	\$ 6.00
Varnville	\$ 6.00
Yemassee	\$ 4.00

¹ At the discretion of the Commission, the rates and charges for commercial customers whose anticipated use exceeds 100,000 gallons per month may be established by individual contracts negotiated with those customers.

TOTAL CUSTOMER COUNT BY TOWN

Town	Residential Water Customers	Commercial Water Customers	Total	% of Residential Water Customers	% of Commercial Water Customers	% of Water Customers By System Total
Brunson	222	18	240	93%	7%	8%
Gifford	108	16	124	87%	13%	4%
Hampton	1,199	242	1,441	83%	17%	46%
Varnville	740	93	833	89%	11%	26%
Yemassee	422	67	489	86%	14%	16%
Total	2,691	436	3,127	86%	14%	100%

TOTAL CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	531	20%	69%	214	49%	72%	745	24%	69%
1,000-1,999	552	21%		54	12%		606	19%	
2,000-2,999	481	18%		34	8%		515	16%	
3,000-3,999	292	11%		13	3%		305	10%	
4,000-4,999	240	9%		13	3%		253	8%	
5,000-5,999	165	6%		11	3%		176	6%	
6,000-6,999	130	5%		6	1%		136	4%	
7,000-7,999	78	3%		4	1%		82	3%	
8,000 +	222	8%		87	20%		309	10%	
Total	2691			436			3127		

TOWN OF BRUNSON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	42	19%	56%	8	44%	72%	50	21%	57%
1,000-1,999	32	14%		3	17%		35	15%	
2,000-2,999	25	11%		1	6%		26	11%	
3,000-3,999	25	11%		1	6%		26	11%	
4,000-4,999	27	12%		1	6%		28	12%	
5,000-5,999	17	8%		0	0%		17	7%	
6,000-6,999	19	9%		0	0%		19	8%	
7,000-7,999	8	4%		0	0%		8	3%	
8,000 +	27	12%		4	22%		31	13%	
Total	222			18			240		

TOWN OF GIFFORD CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	18	27%	60%	8	50%	69%	26	21%	61%
1,000-1,999	17	16%		1	6%		18	15%	
2,000-2,999	10	9%		1	6%		11	9%	
3,000-3,999	20	19%		1	6%		21	17%	
4,000-4,999	8	7%		0	0%		8	6%	
5,000-5,999	6	6%		1	6%		7	6%	
6,000-6,999	5	5%		0	0%		5	4%	
7,000-7,999	6	6%		0	0%		6	5%	
8,000 +	18	17%		4	25%		22	18%	
Total	108			16			124		

TOWN OF HAMPTON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	258	22%	62%	120	50%	72%	378	26%	63%
1,000-1,999	182	15%		28	12%		210	15%	
2,000-2,999	171	14%		21	9%		192	13%	
3,000-3,999	127	11%		5	2%		132	9%	
4,000-4,999	140	12%		7	3%		147	10%	
5,000-5,999	93	8%		9	4%		102	7%	
6,000-6,999	70	6%		3	1%		73	5%	
7,000-7,999	43	4%		4	2%		47	3%	
8,000 +	115	10%		45	19%		160	11%	
Total	1199			242			1441		

TOWN OF VARNVILLE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	133	18%	91%	43	46%	77%	176	21%	90%
1,000-1,999	263	36%		17	18%		280	34%	
2,000-2,999	216	29%		7	8%		223	27%	
3,000-3,999	65	9%		5	5%		70	8%	
4,000-4,999	20	3%		4	4%		24	3%	
5,000-5,999	9	1%		1	1%		10	1%	
6,000-6,999	11	1%		1	1%		12	1%	
7,000-7,999	7	1%		0	0%		7	1%	
8,000 +	16	2%		15	16%		31	4%	
Total	740			93			833		

TOWN OF YEMASSEE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	80	19%	60%	35	52%	67%	115	24%	61%
1,000-1,999	58	14%		5	7%		63	13%	
2,000-2,999	59	14%		4	6%		63	13%	
3,000-3,999	55	13%		1	1%		56	11%	
4,000-4,999	45	11%		1	1%		46	9%	
5,000-5,999	40	9%		0	0%		40	8%	
6,000-6,999	25	6%		2	3%		27	6%	
7,000-7,999	14	3%		0	0%		14	3%	
8,000 +	46	11%		19	28%		65	13%	
Total	422			67			489		

ANNUAL WATER PRODUCTION

System	Gallons Produced	Gallons Residential Sales	Gallons Commercial Sales	Total Gallons From Sales	Gallons Unaccounted	% Unaccounted
Brunson	21,131,000	11,349,000	4,703,000	16,052,000	5,074,800	24%
Gifford	12,449,000	5,182,000	1,287,000	6,469,000	5,980,000	48%
Hampton	114,397,000	54,842,000	25,876,000	80,718,000	33,679,000	29%
Varnville	75,271,000	23,280,704	12,668,236	35,948,940	39,322,060	52%
Yemassee	55,600,000	20,420,000	7,869,000	28,289,000	27,011,000	49%
Total	278,848,000	115,073,704	52,403,236	167,476,940	111,066,860	40%

ANNUAL WASTEWATER TREATED

System	Gallons Treated	Gallons Residential Sales	Gallons Commercial Sales	Total Gallons From Sales	Gallons Unaccounted Sources	% Unaccounted
Brunson	36,557,000	10,081,000	4,389,000	14,470,000	22,087,000	60%
Gifford	7,792,000	4,935,000	312,000	5,247,000	2,545,000	33%
Hampton	236,900,000	49,922,000	24,222,000	74,144,000	162,756,000	69%
Varnville	97,291,000	19,871,704	12,487,236	32,358,940	64,932,060	67%
Yemassee	45,827,000	15,407,000	5,983,000	21,390,000	24,437,000	53%
Total	424,367,000	100,216,704	47,393,236	147,609,940	276,757,060	65%

DAILY WATER & WASTEWATER PRODUCTION & SALES AVERAGES

System	Gallons Water Produced	Gallons Water Sold Residential	Gallons Water Sold Commercial	Gallons Wastewater Treated	Gallons Wastewater Received Residential	Gallons Wastewater Received Commercial
Brunson	57,893	31,093	12,855	100,156	27,619	12,025
Gifford	34,107	14,197	3,526	21,348	13,521	855
Hampton	313,416	150,252	70,893	649,041	136,773	66,362
Varnville	206,222	63,783	34,707	266,551	54,443	34,212
Yemassee	152,329	55,945	21,559	125,553	42,211	16,392
Total	763,967	315,270	143,540	1,162,649	274,567	129,846

INFRASTRUCTURE

Infrastructure Description	Quantity
Elevated Water Storage Tanks	9
Hydro-pneumatic Water Storage Tanks	2
Potable Water Production Wells	13
Process Water Production Wells	1
Wastewater Treatment Facilities	3
Wastewater Lift Stations	22
Water Distribution Mains (Miles)	88
Wastewater Collection Mains (Miles)	70



SYSTEM CAPACITIES

WATER PRODUCTION CAPACITY

System	Production Capacity (Gallons Per Day)
Town of Brunson	122,000
Town of Gifford	432,000
Town of Hampton	919,000
Lowcountry Industrial Park	288,000
Town of Varnville	458,000
Town of Yemassee	203,000
Total Production Capacity of All Systems	2,422,000

WASTEWATER TREATMENT CAPACITY

System	Production Capacity (Gallons Per Day)
Town of Brunson	110,000
Town of Hampton	2,000,000
Town of Yemassee	500,000
Total Production Capacity of All Systems	2,610,000

Appendix A

Audited Basic Financial Statements



LOWCOUNTRY REGIONAL
WATER SYSTEM

BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

LOWCOUNTRY REGIONAL WATER SYSTEM
HAMPTON, S.C.
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SEPTEMBER 30, 2014

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EXHIBIT C STATEMENT OF CASH FLOWS

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THE BRITTINGHAM GROUP, L.L.P.

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INDEPENDENT AUDITOR'S REPORT

To the Board of the
Lowcountry Regional Water System
Hampton, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Lowcountry Regional Water System (the "System") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the System, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

The Brittingham Group, LLP

West Columbia, South Carolina
December 10, 2014

LOWCOUNTRY REGIONAL WATER SYSTEM
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2014

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	87,107
Customer Deposits - Restricted		940
Accounts Receivable		444,542
Accrued Interest Receivable		395
Inventory		49,430
		<hr/>
Total Current Assets		582,414

Non-current Assets:

Restricted Cash and Cash Equivalents		647,843
Capital Assets		
Non-depreciable		408,589
Depreciable		24,249,337
Less: Accumulated Depreciation		(12,401,170)
		<hr/>
Total Non-current Assets		12,904,600
		<hr/>
Total Assets		13,487,014

DEFERRED OUTFLOWS OF ASSETS

Unamortized start-up costs, net		192,466
		<hr/>
Total Deferred Outflows of Resources		192,466

LOWCOUNTRY REGIONAL WATER SYSTEM
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2014

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 18,474
Accrued Expenses	18,265
Customer Deposits	940
Current Portion of Revenue Bonds	155,146
Accrued Revenue Bond and Note Interest	18,382
Due to Other Governments	131,531

Total Current Liabilities 342,737

Non-current Liabilities:

Revenue Bonds Payable (Net of Current Portion)	2,762,577
Notes Payable	300,000
Compensated Absences	22,754

Total Non-current Liabilities 3,085,331

Total Liabilities 3,428,069

NET POSITION

Net Position:

Net Investment in Capital Assets	9,339,033
Restricted for Debt Service	299,375
Restricted for Construction Projects	348,468
Unrestricted	264,534

Total Net Position 10,251,411

LOWCOUNTRY REGIONAL WATER SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Operating Revenues:		
Water Sales and Services	\$ 964,730	
Sewer Sales and Services	1,137,237	
Other Operating Revenues	<u>255,776</u>	
Total Operating Revenues		\$ 2,357,742
Operating Expenses		
Personnel Services	1,004,251	
System Operation Expenses	754,814	
General and Administrative Expenses	104,953	
Depreciation and Amortization	<u>541,697</u>	
Total Operating Expenses		<u>2,405,714</u>
Operating Loss		(47,972)
Non-operating Revenues (Expenses)		
Interest Income	2,334	
Interest Expense	<u>(138,569)</u>	
Total Non-operating Revenues (Expenses)		<u>(136,235)</u>
Loss Before Capital Contributions		(184,207)
Capital Contributions		<u>48,954</u>
Change in Net Position		(135,253)
Net Position - Beginning of Year		<u>10,386,664</u>
Net Position - End of Year		<u><u>10,251,411</u></u>

The accompanying notes to financial statements are an integral part of this statement.

LOWCOUNTRY REGIONAL WATER SYSTEM
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Cash Flows from Operating Activities:

Cash Received from Customers	\$ 2,181,588
Cash Paid to Employees	(1,013,527)
Cash Paid to Suppliers	(924,827)

Net Cash Provided by Operating Activities 243,234

Cash Flows from Capital and Related Financing Activities:

Principal Paid on Revenue Bonds	(150,539)
Interest Paid on Revenue Bonds	(138,117)
Cash Paid for Capital Assets	(259,304)
Capital Contributed as Cash	3,965

Net Cash Used by Capital and Related Financing Activities (543,995)

Cash Flows from Investing Activities:

Interest Received	3,483
-------------------	-------

Net Cash Provided by Investing Activities 3,483

Net Decrease in Cash and Cash Equivalents (297,277)

Cash and Cash Equivalents - Beginning of Year 1,033,168

Cash and Cash Equivalents - End of Year 735,891

LOWCOUNTRY REGIONAL WATER SYSTEM
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:

Operating Loss	\$ (184,207)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	527,614
Amortization	14,083
(Increase) Decrease in:	
Accounts and Other Receivables	(39,920)
Inventories	1,582
Due from Other Governments	9,293
Increase (Decrease) in:	
Accounts Payable	(241)
Accrued Liabilities	(14,428)
Customer Deposits	(107,541)
Due to Other Governments	23,217
Accrued Compensated Absences	13,782
<u>Net Cash Provided by Operating Activities</u>	<u>243,234</u>
 Noncash Capital and Related Financing Activities	
Contributions of Capital Assets	44,989

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Note 1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies

Organization

The Lowcountry Regional Water System (the "System") was created with the purpose of establishing regional water and sewer service to the residents and businesses of Hampton County. In June of 2013, the Towns of Brunson, Gifford, Hampton, Varnville and Yemassee, as well as Hampton County deeded the assets of their water and sewer systems to the System.

The System operates as a proprietary fund under the control of the Lowcountry Regional Water System Board of Commissioners (the "Board"). The Board regulates the rates that the System can charge its customers for water and sewer usage. The rates charged to customers are based on the cash required for the System's operations, debt service, rate funded capital assets and reserve contributions.

The financial reporting entity is defined as the primary government and its component units, as required by generally accepted accounting principles (GAAP). The primary government, which is the nucleus of the reporting entity, has a separately appointed governing body. A component unit is a legally separate entity for which the oversight body of the component unit is fiscally accountable to the primary government. An organization other than a primary government may serve as the nucleus for a reporting entity when it issues separate financial statements. As such an organization, the System is defined herein as a primary entity.

Basis of Presentation

To comply with the external financial reporting requirements of the Board, the accompanying financial statements present the financial position and results of operations and cash flows of the System, in conformity with GAAP as applied to regulated utilities (i.e., the full accrual basis of accounting and the economic resources measurement focus). Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. To accommodate the rate-making process, the System follows the accounting standards set forth in GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Cash and Cash Equivalents

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

Investments and Restricted Assets

Certain proceeds of enterprise fund operations, as well as certain resources set aside for the repayment of the outstanding debt service, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. A portion of these restricted items are on deposit with investing agencies such as the local government investment pool. (See Note 2) Cash received for customer deposits is also restricted.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Note 1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (cont'd.)

Inventories and Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets or inventory. Inventory is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Capital Assets

Capital assets used in proprietary type funds are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at cost or estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the relative capital assets.

Major outlays for capital assets and improvements are capitalized in the proprietary fund as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed.

It is the policy of the System to capitalize items costing \$1,000 or greater with a useful life of 1 year or greater.

Depreciation of buildings, equipment and vehicles is computed using the straight-line method. A summary of the estimated useful lives is as follows:

Class of Asset	Life
Vehicles	4 to 7 years
Machinery and Equipment	3 to 20 years
Water and Sewer Systems	5 to 50 years
Buildings and Improvements	10 to 40 years
Water and Sewer Lines	50 years

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The System has one item that meets the criteria for this category. This item is:

- 1) Unamortized start-up costs for the System's legal, accounting, engineering and consulting necessary for the System's organization

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

**Note 1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (cont'd.)
Deferred Outflows and Inflows of Resources (cont'd.)**

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The System has no items that qualify for reporting in this category.

Revenue Billings

Water and sewerage fees are billed to users of the systems on a monthly cycle basis. Revenues are accrued for periods between the termination of billings for the various cycles and the end of the year. Some adjustments are made at fiscal year-end that may change the actual amount of billings.

Receivables and Payables

Trade accounts receivable is shown net of an allowance for doubtful accounts. Accounts payable are recognized when a good or service is received.

Compensated Absences

System employees earn annual leave, based upon years of service at a rate of up to 20 days per year. Maximum accumulations at any fiscal year-end cannot exceed 320 hours. Further, under no circumstances will employees be paid in excess of their maximum authorized accumulation in the case of separation/termination. Vested or accumulated annual leave of System employees is recorded as an expense and a liability as those benefits accrue. No liability is recorded for non-vesting accumulation rights to receive sick pay benefits.

Business-Type Activity Accounting

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

Risk Management

The System pays insurance premiums to an independent insurance agency to cover risks that may occur in normal operations. Once premiums are paid, the insurance company assumes all risk up to the coverage limits. The insurance company does not assume responsibility for the two risks listed below:

- 1) Unemployment compensation benefits are paid to eligible employees by the South Carolina Department of Employment and Workforce, and are reimbursed by the System.
- 2) Employee health, dental, group life insurance programs, and other health and dependent care programs.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

**Note 1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (cont'd.)
Risk Management (cont'd.)**

In addition, the System pays premiums to insurance companies to cover the following:

- 1) Real property buildings and structures with extended peril limits.
- 2) Real property contents with extended peril limits.
- 3) Motor vehicles collision/comprehensive and liability coverage.
- 4) Inland Marine on certain listed equipment and items.
- 5) General tort liability.

The System also pays premiums to independent insurance agencies for those constitutional officers requiring certain surety bonds and carries a bond on all other employees.

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Governmental Accounting Pronouncements

GASB 67 Financial Reporting for Pensions Plans-an amendment of GASB Statement No.25 and *GASB 68 Accounting and Financial Reporting for Pensions* In June 2012, the Governmental Accounting Standards Board (GASB) issued two new accounting and financial reporting standards that will have a substantial impact on the reporting requirements for pension plans, such as the South Carolina Retirement Systems, and for employers participating in the pension plans, which are administered by the South Carolina Public Employee Benefit Authority (PEBA).

The purpose of the new standards, according to GASB, is to improve the way state and local governments report their pension liabilities and expenses, resulting in a more realistic representation of the complete impact of pension obligations. GASB's view is that pension benefits are part of an overall compensation package offered by an employer and certain pension-related costs should be included in the employer's financial statements. GASB believes the changes will improve the decision-usefulness of the reported information and increase the transparency, consistency, and comparability of pension information across state and local governments.

GASB Statement No. 67 affects the reporting requirements for pension plans that administer benefits and is effective for fiscal periods beginning after June 15, 2013. The SC Public Employee Benefits Authority (PEBA) will implement the changes required by this statement in the South Carolina Retirement Systems' financial statements issued for the fiscal year ended June 30, 2014.

GASB Statement No. 68 affects the reporting requirements for employers participating in the pension plans described above and is effective for fiscal periods beginning after June 15, 2014. This rule will change the way participating employers report the cost of and liability for employee pension benefits in their financial statements.

The System participates in the pension plan administered by PEBA, and will implement the new reporting requirement in the fiscal period after June 15, 2014 as shown above.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Note 2. Deposits

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. It is the policy of the System to obtain adequate collateralization on all deposits that exceed FDIC insurance coverage. As of September 30, 2014, no funds were exposed to custodial credit risk.

Note 3. Capital Assets

Activity in capital assets for the year ended September 30, 2014 was as follows:

	September 30, 2013	Increases	Decreases	September 30, 2014
Land	\$ 153,239	\$ -	\$ -	\$ 153,239
Construction in Process	-	255,530	-	255,530
Buildings	157,261	-	-	157,261
Equipment	589,804	3,774	22,754	570,824
Vehicles	128,222	-	-	128,222
Water Systems	8,632,500	322,000	-	8,954,500
Sewer Systems	14,174,822	263,528	-	14,438,350
Total Capital Assets	23,835,848	844,832	22,754	24,657,927
Less: Accumulated Depreciation	(11,896,310)	(527,614)	(22,754)	(12,401,170)
Total Capital Assets	11,939,538	317,218	-	12,256,756

Note 4. Notes and Bonds

Notes and Bonds at September 30, 2014 consist of the following:

\$150,000 - Note Payable to the Town of Varnville, dated October 16, 2012, for the purpose of working capital. Interest due in annual interest payments of \$3,750 through 2017, then principal and interest payment of \$153,750 due in 2018, Interest Rate of 2.5%. The balance at September 30, 2014 was \$150,000.

\$150,000 - Note Payable to the Town of Hampton, dated April 10, 2013, for the purpose of working capital. Interest due in annual interest payments of \$3,750 through 2018, then principal and interest payment of \$153,750 due in 2019, Interest Rate of 2.5%: The balance at September 30, 2014 was \$150,000.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Note 4. Notes and Bonds (Cont'd)

\$277,000 – 1992 Water and Sewer Systems Revenue Bond (Originally Town of Brunson) due in monthly principal and interest payments of \$1,369 through 2018, Interest rate of 5.0%. The balance at September 30, 2014 was \$49,477.

\$376,700 – 1992 Water and Sewer Systems Revenue Bond (Originally Town of Brunson) due in monthly principal and interest payments of \$1,820 through 2030, Interest rate of 5.0%. The balance at September 30, 2014 was \$239,240.

\$23,600 – 1992 Water and Sewer Systems Revenue Bond (Originally Town of Brunson) due in monthly principal and interest payments of \$114 through 2027, Interest rate of 5.0%. The balance at September 30, 2014 was \$13,058.

\$53,200 – 1992 Water and Sewer Systems Revenue Bond (Originally Town of Gifford) due in monthly principal and interest payments of \$263 through 2016, Interest rate of 5.0%. The balance at September 30, 2014 was \$5,673.

\$67,800 – 1992 Water and Sewer Systems Revenue Bond (Originally Town of Gifford) due in monthly principal and interest payments of \$371 through 2028, Interest rate of 5.875%. The balance at September 30, 2014 was \$41,445.

\$2,998,900 – 1996 Water and Sewer Systems Revenue Bond (Originally Town of Hampton) due in monthly principal and interest payments of \$14,725 through 2035, Interest rate of 5.125%. The balance at September 30, 2014 was \$2,235,144.

\$475,000 – 1980 Water and Sewer Systems Revenue Bond (Originally Town of Hampton) due in monthly principal and interest payments of \$2,327 through 2019, Interest rate of 5.0%. The balance at September 30, 2014 was \$120,744.

\$390,000 - 2009 Water and Sewer Systems Revenue Bond (Originally Town of Varnville) due in annual principal and interest payments of \$47,511 through 2019, Interest rate of 3.76%. The balance at September 30, 2014 was \$212,943.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Note 4. Notes and Bonds (cont'd.)

Total annual debt service requirements from notes and bonds are as follows:

Year Ended September 30,	Principal	Interest	Total
2015	\$ 155,146	\$ 151,729	\$ 306,875
2016	162,269	144,251	306,520
2017	167,222	136,496	303,718
2018	463,133	128,627	591,760
2019	166,124	113,476	279,600
2020-2024	548,999	472,801	1,021,800
2025-2029	699,323	250,102	949,425
2030-2034	780,135	123,058	903,193
2035	75,372	1,003	76,375
	<u>3,217,723</u>	<u>1,521,543</u>	<u>4,739,266</u>

Changes in long-term liabilities for the year ended September 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes Payable	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -
Revenue Bonds Payable	3,068,262	-	150,539	2,917,723	155,146
Compensated Absences	8,972	13,782	-	22,754	-
	<u>3,377,234</u>	<u>13,782</u>	<u>150,539</u>	<u>3,240,477</u>	<u>155,146</u>

Note 5. Employee Retirement Systems

The majority of the employees of the System are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all System employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws of 1976, as amended. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death and group-life insurance benefits to eligible employees and retirees.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Note 5. Employee Retirement Systems (cont'd.)

The SCRS maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR), which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to South Carolina Public Employee Benefit Authority Retirement Benefits, PO Box 11960, Columbia, South Carolina 29211.

Generally, under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 % of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of 15 years of credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years of credited service. A group-life insurance benefit equal to an employees' annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

For the fiscal years ending September 30, 2014 and 2013, the System's total covered payroll was \$668,590 and \$192,252. All employees participating in the SCRS are required to contribute 8% and 7.5% of all compensation, excluding bonuses for fiscal years ending September 30, 2014 and 2013, respectively. Under Title 9 of the South Carolina Code of Laws, the System's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. The employer contribution rate was 10.75% and 10.45% for the fiscal years ending September 30, 2014 and 2013, respectively. The employer contributions made for the years ended September 30, 2014 and 2013 were \$65,789 and \$20,090, respectively.

The amounts paid by the System for pension, group-life benefits and accidental death benefits are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all state-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. Annual benefits, payable monthly for life, are based on length of service, employee classification and on average final compensation.

The Systems did not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the System's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the System's liability under the pension plans is limited to the amounts appropriated in the South Carolina Appropriation Act and amounts from other applicable revenue sources.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Note 5. Employee Retirement Systems (cont'd.)

Accordingly, the System recognized no contingent liability for unfunded costs associated with participation in the plans.

Note 6. Customer Deposits

Customer deposits are amounts that System customers paid the Towns to hold in escrow as an amount that would apply toward their last payment as a customer. Upon separating from service, the customer's amount was applied to their final bill and refunded the excess amount, if any. As part of the executed transfer agreement, all customer deposits were moved to the System. Since the System is not employing a "deposit/refund" method, all customer deposits are being returned to customers as soon as administratively possible. At September 30, 2014, the System had yet to return \$940.

Note 7. Deferred Compensation Plans

Several optional deferred compensation plans are available to System employees. Certain employees of the System have elected to participate. Employees may withdraw the current value of their contributions when they terminate employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The System has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employees.

Note 8. Single Audit

The System did not expend more than \$500,000 in federal financial assistance and therefore was not required to have an audit performed under the single audit requirements.

Note 9. Operating Lease Agreements

The System has a three year operating lease agreement on its office at 513 Elm Street West, Hampton, South Carolina, which concludes December 31, 2015.

Future annual minimum lease payments as of September 30, 2014 are as follows:

<u>Years Ended</u> <u>September 30</u>	<u>Amount</u>
2015	\$ 11,480
2016	<u>6,811</u>
Total	<u>\$ 18,291</u>

Total lease expense for the fiscal year ended September 30, 2014, was \$10,305.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Note 10. Commitments and Contingencies

Funds received from federal and state grants programs are subject to audit by various federal and state agencies. The System can be required to replace any funds not used in compliance with grant requirements.

As part of an operating agreement with each participating Town, the System routinely bills and collects various service charges imposed by the Towns on the residents. Fees such as fire service, police service, solid-waste and garbage fees are added to the monthly water and sewer bills. The System collects these amounts as customers pay for water and sewer service and then remits the amounts to the respective Towns on a monthly basis. The amount of fees collected but unremitted to the participating Towns at September 30, 2014, was \$131,531.

The System is operating under three Consent Orders from the South Carolina Department of Health and Environmental Control for upgrades of several components of the water and sewer infrastructure. Projects are ongoing at various stages of design or construction to implement the required improvements, and the System has secured funding for completion of the projects. The System is also operating under one expired NPDES permit but is currently in the process of negotiating with the South Carolina Department of Health and Environmental Control for its renewal.

Note 11. Subsequent Events

The System has evaluated all events subsequent to the basic financial statements for the year ended September 30, 2014 through December 10, 2014, which is the date the financial statements were available to be issued, and determined that there is an additional subsequent event requiring note disclosure.

LOWCOUNTRY REGIONAL WATER SYSTEM
SCHEDULE OF OTHER GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Professional Fees	\$ 40,072	
Engineering Fees	3,599	
Dues, Licenses and Permits	12,584	
Utilities	1,888	
Repairs and Maintenance	1,327	
Office Supplies	6,669	
Advertising	4,440	
Telephone and Mobile Communications	7,069	
Bank Service Charges	1,426	
Travel and Registration	1,310	
Office Lease	10,305	
Janitorial Services	5,250	
Miscellaneous	9,015	
	<hr/>	
Total General and Administrative Expenses		<u>104,953</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of the
Lowcountry Regional Water System
Hampton, South Carolina

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Lowcountry Regional Water System (the "System"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 10, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The Brittingham Group, LLP

West Columbia, South Carolina
December 10, 2014



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