

Lowcountry Regional Water System 2015 Annual Report





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

Annual Report

For Fiscal Year Ending
September 30th, 2015

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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 third annual report prepared by Lowcountry Regional Water System since its creation in 2012 and represents the second 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 2014-2015 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.

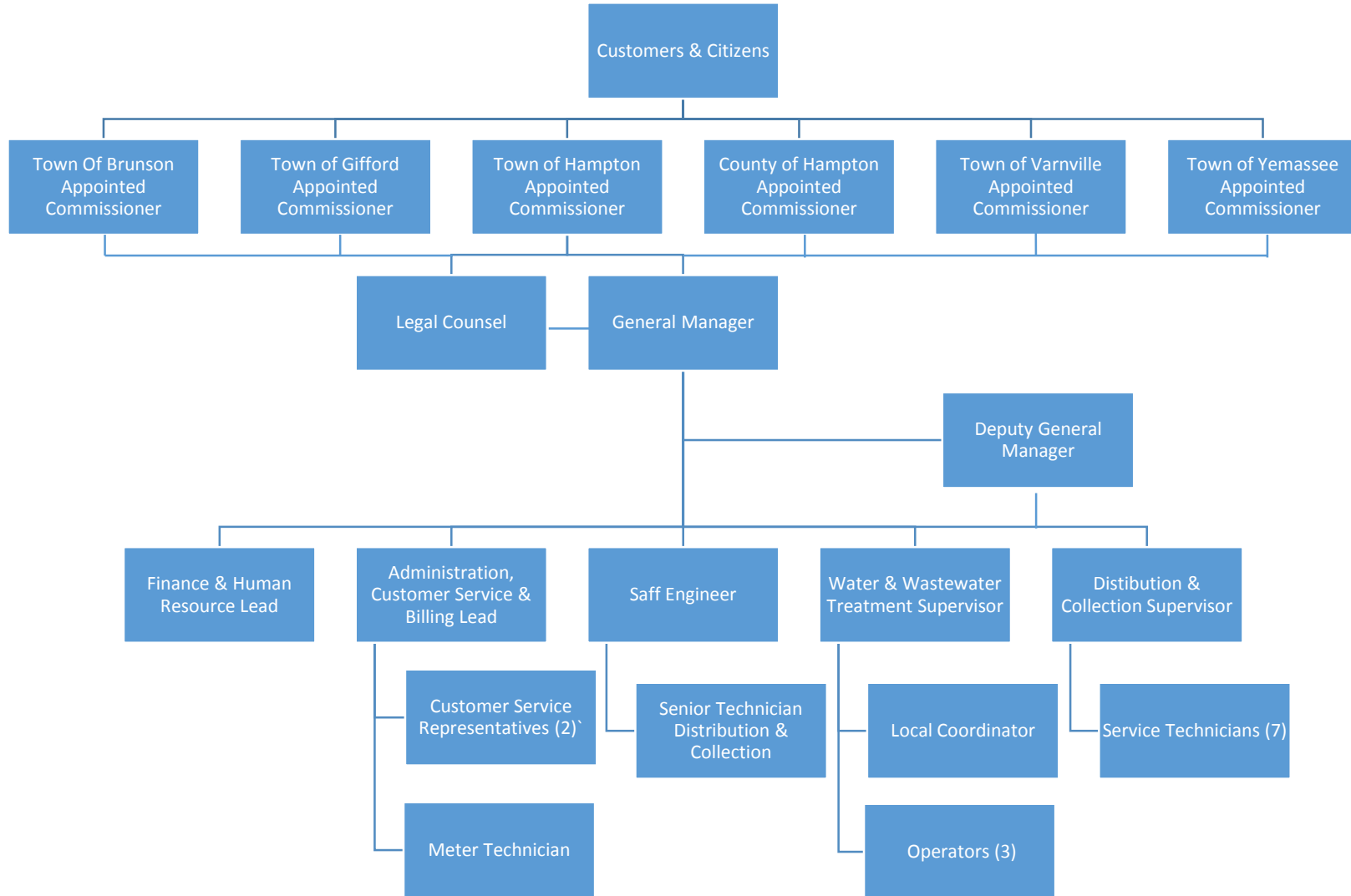
Member Appointments

Participating Members	Appointed Commissioners
Town of Brunson	Mr. Rocky Hudson
Town of Brunson	Mr. Terry Wright, (Alternate)
Town of Gifford	Mr. Horny Mitchell
County of Hampton	Dr. Roy Hollingsworth
County of Hampton	Ms. Rose Dobson-Elliott, (Alternate)
Town of Hampton	Mr. John Rhoden
Town of Varnville	Mr. Henry Tuten
Town of Varnville	Mr. Nathaniel Shaffer, (Alternate)
Town of Yemassee	Ms. Peggy Bing - O'Banner
Town of Yemassee	Mr. Wayne Ezell, (Alternate)

Commissioners and Officers

Mr. John Rhoden	Chairman
Mr. Henry Tuten	Vice-Chairman
Mr. Rocky Hudson	Commissioner
Mr. Horny Mitchell	Commissioner
Ms. Peggy Bing - O'Banner	Commissioner
Dr. Roy Hollingsworth	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 second 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 \$2,665,315
- Operating Expenses were \$2,602,817
- Operating Income was \$62,498
- Non-Operating Expenses were \$94,897
- Operating Losses were reported in the amount of \$32,399 prior to capital contributions.
This loss includes \$541,691 in depreciation expenses.

Departmental Highlights

- A water and sewer rate and fee schedule study was commissioned in 2014 which resulted in the development and adoption of water and sewer rates and fees to improve the systems viability and move all systems to one common rate structure. With the rate changes adopted and approved in May 2015, all of the Lowcountry Regional Water System customers are now on one common rates schedule.
- In July 2014, USDA gave approval for LRWS to use reserve funds to pay off five loans totaling \$195,542.50. Paying these loans off early provided an estimated savings in interest charges of \$108,506.22.
- In September 2014, LRWS secured funding from USDA for a water and wastewater system improvement project. Funding from USDA is estimated to be \$6,480,000 in loan and \$1,864,000 in grant funds. The loan term is for 40 years at 2.875 % interest. This project will include sludge removal from the Town of Hampton and Town of Yemassee Wastewater Treatment Facilities, valve replacement at the Hampton Wastewater

Treatment Facility, sewer main cleaning, line replacement and rehab for the Town of Hampton, repainting and maintenance on the "I-95" elevated water tank in the Town of Yemassee and the elevated tank in the Town of Gifford. Additionally, all water meters will be replaced system wide to some of the newest technology available. This technology will allow for remote reading from the main office. Replacing the water meters should provide our customers with higher confidence in water meter readings and consumption accuracies. Customers should also see improvements in the timeliness of issuing bills and have the ability to see their account information online through a "customer portal".

- Construction was completed on a water and sewer main extension project into the Southern Carolina Industrial Campus (SCIC). This project will serve a 1,500+ acre industrial park and immediately serves Hampton County's speculative building constructed to encourage economic development.
- The Town of Brunson elevated tank and well rehab project was completed. This project addressed and relieved a consent order issued by the South Carolina Department of Health and Environmental Control (SCDHEC).
- The Town of Yemassee elevated tank replacement and tank demolition project was completed. This project addressed and relieved a consent order issued by SCDHEC.
- Two new service vehicles were placed into our vehicle fleet to replace two service vehicles that were more than 12 years old.

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	Estimated Cost	Funding Status	Project Status
Town of Brunson Elevated Tank and Well Rehab	\$330,000	Funded	Complete
Town of Yemassee Elevated Tank Demolition and Replacement	\$1,025,000	Funded	Complete
SCIC (Industrial Park) Phase 1 Water & Sewer Improvements	\$454,580	Funded	Complete
Town of Yemassee Sewer System Upgrade	\$875,000	Funded	Design/Permitting
Interconnection of Water Systems Between the Town of Brunson and the Town of Gifford	\$1,498,000	Funded	Design/Permitting
Water & Sewer System Improvements including Sludge Removal at Hampton & Yemassee WWTP, System Wide Water Meter Replacement, Yemassee & Gifford Tank Painting and Maintenance, Hampton Sewer Main Rehab, Operations Equipment Purchases	\$8,344,000	Funded	Design/Permitting
Town of Hampton Sewer Main Rehab	\$786,000	Funded	Design/Permitting
SCIC (Industrial Park) Phase 2 Water & Sewer Improvements	\$585,000	Funded	Construction
Highway 68 Water Main Extension	\$700,000	Unfunded	Preliminary Design
<u>Total Amount of All Projects</u>	<u>\$14,597,580</u>		
<u>Total Amount of Funded Projects</u>	<u>\$13,897,580</u>		
<u>Total Amount of Unfunded Projects</u>	<u>\$700,000</u>		

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 2014-2015.

<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 as of September 30, 2015.

Town	Lien Holder/ Issuer	Year/ Series	Original Notes/Bonds	Outstanding Notes/Bonds 9/30/15	Interest Rate	Final Maturity
Brunson	USDA	1978	\$277,000.00	\$49,477.00	5.000%	2018
Hampton	USDA	1996	\$2,998,900.00	\$2,235,144.00	5.125%	2035
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, 2015		
Total	\$3,965,900.00			\$3,217,724.00		



RATES, FEES & CHARGES

LOWCOUNTRY REGIONAL WATER SYSTEM WATER & WASTEWATER RATE SCHEDULE EFFECTIVE AS OF MAY 2015

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		\$ 6.00

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	16	238	93%	7%	8%
Gifford	104	9	113	92%	8%	4%
Hampton	1,175	235	1,410	83%	17%	46%
Varnville	727	97	824	88%	12%	27%
Yemassee	418	64	482	87%	13%	16%
Total	2,646	421	3,067	86%	14%	100%

TOTAL CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	649	25%	77%	239	57%	77%	888	29%	77%
1,000-1,999	596	23%		44	10%		640	21%	
2,000-2,999	489	18%		25	6%		514	17%	
3,000-3,999	298	11%		16	4%		314	10%	
4,000-4,999	202	8%		13	3%		215	7%	
5,000-5,999	132	5%		7	2%		139	5%	
6,000-6,999	87	3%		4	1%		91	3%	
7,000-7,999	56	2%		4	1%		60	2%	
8,000 +	137	5%		69	16%		206	7%	
Total	2646			421			3067		

TOWN OF BRUNSON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	51	23%	72%	9	56%	81%	60	25%	72%
1,000-1,999	38	17%		2	13%		40	17%	
2,000-2,999	41	18%		1	6%		42	18%	
3,000-3,999	29	13%		1	6%		30	13%	
4,000-4,999	22	10%		0	0%		22	9%	
5,000-5,999	12	5%		0	0%		12	5%	
6,000-6,999	8	4%		0	0%		8	3%	
7,000-7,999	6	3%		0	0%		6	3%	
8,000 +	15	7%		3	19%		18	8%	
Total	222			16			238		

TOWN OF GIFFORD CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	30	29%	76%	8	89%	89%	38	34%	77%
1,000-1,999	19	18%		0	0%		19	17%	
2,000-2,999	18	17%		0	0%		18	16%	
3,000-3,999	12	12%		0	0%		12	11%	
4,000-4,999	9	9%		1	11%		10	9%	
5,000-5,999	4	4%		0	0%		4	4%	
6,000-6,999	3	3%		0	0%		3	3%	
7,000-7,999	2	2%		0	0%		2	2%	
8,000 +	7	7%		0	0%		7	6%	
Total	104			9			113		

TOWN OF HAMPTON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	303	26%	72%	135	57%	76%	438	31%	73%
1,000-1,999	213	18%		24	10%		237	17%	
2,000-2,999	183	16%		12	5%		195	14%	
3,000-3,999	149	13%		8	3%		157	11%	
4,000-4,999	104	9%		7	3%		111	8%	
5,000-5,999	74	6%		6	3%		80	6%	
6,000-6,999	48	4%		3	1%		51	4%	
7,000-7,999	32	3%		3	1%		35	2%	
8,000 +	69	6%		37	16%		106	8%	
Total	1175			235			1410		

TOWN OF VARNVILLE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	169	23%	89%	51	53%	78%	220	27%	88%
1,000-1,999	250	34%		13	13%		263	32%	
2,000-2,999	176	24%		8	8%		184	22%	
3,000-3,999	50	7%		4	4%		54	7%	
4,000-4,999	29	4%		3	3%		32	4%	
5,000-5,999	16	2%		1	1%		17	2%	
6,000-6,999	10	1%		1	1%		11	1%	
7,000-7,999	6	1%		1	1%		7	1%	
8,000 +	21	3%		15	15%		36	4%	
Total	727			97			824		

TOWN OF YEMASSEE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	96	23%	72%	36	56%	75%	132	27%	72%
1,000-1,999	76	18%		5	8%		81	17%	
2,000-2,999	71	17%		4	6%		75	16%	
3,000-3,999	58	14%		3	5%		61	13%	
4,000-4,999	38	9%		2	3%		40	8%	
5,000-5,999	26	6%		0	0%		26	5%	
6,000-6,999	18	4%		0	0%		18	4%	
7,000-7,999	10	2%		0	0%		10	2%	
8,000 +	25	6%		14	22%		39	8%	
Total	418			64			482		

ANNUAL WATER PRODUCTION

System	Gallons Produced	Gallons Residential Sales	Gallons Commercial Sales	Total Gallons From Sales	Gallons Unaccounted	% Unaccounted
Brunson	18,611,000	9,841,500	5,191,000	15,032,500	3,559,450	19%
Gifford	7,466,000	4,336,000	285,000	4,621,000	2,845,000	38%
Hampton	115,845,972	56,039,187	20,955,000	76,994,187	38,851,785	34%
Varnville	83,081,650	24,846,980	13,468,283	38,315,263	44,766,387	54%
Yemassee	55,006,220	19,122,000	12,017,000	31,139,000	23,867,220	43%
Total	280,010,842	114,185,667	51,916,283	166,101,950	113,889,842	41%

ANNUAL WASTEWATER TREATED

System	Gallons Treated	Gallons Residential Sales	Gallons Commercial Sales	Total Gallons From Sales	Gallons Unaccounted Sources	% Unaccounted
Brunson	47,027,000	8,727,000	4,828,400	13,555,400	33,471,600	71%
Gifford	4,758,000	4,089,000	285,000	4,374,000	384,000	8%
Hampton	222,305,100	48,931,000	21,615,000	70,546,000	151,759,100	68%
Varnville	102,337,300	21,209,742	13,388,283	34,598,025	67,739,275	66%
Yemassee	52,437,700	14,311,000	10,457,000	24,768,000	27,669,700	53%
Total	428,865,100	97,267,742	50,573,683	147,841,425	281,023,675	66%

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	50,989	26,963	14,222	128,841	23,910	13,228
Gifford	20,455	11,879	781	13,036	11,203	781
Hampton	317,386	153,532	57,411	609,055	134,058	59,219
Varnville	227,621	68,074	36,899	280,376	58,109	36,680
Yemassee	150,702	52,389	32,923	143,665	39,208	28,649
Total	767,153	312,837	142,236	1,174,973	266,488	138,557

INFRASTRUCTURE

Infrastructure Description	Quantity
Elevated Water Storage Tanks	9
Hydro-pneumatic Water Storage Tanks	1
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
Ground Storage Tanks	1
Fire Pump	1
Fire Hydrants	430



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

BILLINGS and COLLECTIONS

Water Billings and Collections Summary for Past 3 Years

Fiscal Year Ending	Billings	Collections	Collection Rate
2015	\$2,696,640.52	\$2,673,184.80	99.13%
2014	\$2,300,592.86	\$2,281,230.66	99.16%
2013 (1)	\$720,935.01	\$722,720.15	100.25%

Source: LRWS QS1 Billing Software and LRWS Operations and Financial Reports

(1) Represents Partial Year June through September

WATER & SEWER CHARGES COMPARED WITH OTHER SYSTEMS

Residential Water & Sewer Charges Based on 6,000 Gallons per Month Usage

Utility System	Water Charges	Sewer Charges	Total
Lowcountry Regional Water System	\$37.80	\$49.50	\$87.30
Town of Estill	\$24.80	\$26.20	\$51.00
Town of Walterboro	\$17.08	\$25.86	\$42.94
Town of Fairfax	\$19.60	\$24.20	\$43.80
Town of Allendale	\$22.73	\$25.80	\$48.53
Beaufort Jasper W&S Authority	\$28.06	\$46.68	\$74.74
Town of Bamberg	\$32.95	\$46.16	\$79.11
City of Charleston	\$21.65	\$68.29	\$89.94
City of Columbia	\$18.50	\$34.11	\$52.61
Lexington Cty. Joint Municipal W&S	\$47.58	\$47.15	\$94.73
Newberry County W&S Authority	\$55.40	\$57.50	\$112.90
McCormick County Water & Sewer	\$38.80	\$65.00	\$103.80

Source: SC Rural Infrastructure Authority Office of Local Government 2015 Municipal Water and Sewer Rate Survey

DEBT PER CUSTOMER

Combined System Debt per Customer Summary for Past 3 Years

Fiscal Year Ending	Total Debt	Annual Debt Service	# Customers	Per Customer Annual Debt	Per Capita Total Debt
2013	\$3,369,976	\$306,866	3,082	\$99.57	\$1,093
2014	\$3,217,724	\$306,866	3,146	\$97.54	\$1,022
2015	\$2,873,636	\$253,551	3,079	\$82.35	\$933

Source: LRWS QS1 Billing Software and LRWS Operations and Financial Reports

(1) Debt Amounts Do not Include Pension Liabilities or Compensated Absences

DEMOGRAPHIC and ECONOMIC STATISTICS

Hampton County Demographic and Economic Statistics Summary for Past 5 Years

Fiscal Year Ending	Population	Total Personal Income (\$000's)	Per Capita Personal Income	Household Median Income	Unemployment Rate Annual Average	Percent At or Below Poverty Level
2014	20,405	\$555,342	\$27,216	\$34,494	7.7%	23.1%
2013	20,395	\$545,256	\$26,735	\$34,233	9.3%	25.2%
2012	20,719	\$555,692	\$26,820	\$35,713	11.2%	24.7%
2011	20,774	\$557,329	\$26,828	\$35,914	13.0%	22.6%
2010	21,056	\$534,126	\$25,367	\$34,846	12.8%	20.8%

Source: US Census Bureau; US Bureau of Economic Analysis; US Department of Labor – Bureau of Labor Statistics

TOP TEN WATER USERS

Water Consumption for 12 Consecutive Months (Exception for 2013)

Customer	Water Used Annually 2015	Customer	Water Used Annually 2014	Customer	Water Used Annually 2013 (1)
Alpha Genesis	6,034,000	Brunson Laundry	4,211,000	Brunson Laundry	1,324,000
Brunson Laundry	4,419,000	Nevamar Company, LLC	2,407,000	Varnville Area Housing	851,000
Hampton Regional Medical	3,489,000	Hampton Regional Medical	2,241,000	Wade Hampton High School	706,221
Varnville Area Housing	2,212,000	Varnville Area Housing	2,234,000	Hampton Regional Medical	605,000
Hampton Garden Apartments	1,934,000	Hampton Garden Apartments	2,154,000	Hampton Garden Apartments	553,000
Varnville Area Housing #2	1,578,000	Wade Hampton High School	1,419,392	Varnville Area Housing #2	542,000
Varnville Laundry & Car Wash	943,000	Varnville Area Housing #2	1,254,000	Nevamar Company, LLC	432,000
Super 8 Motel	865,000	Dixie Poly Drum	1,217,000	Super 8 Motel	323,000
Dixie Poly Drum	858,000	Alpha Genesis	1,126,000	Hampton County Courthouse Irrigation	305,000
Yemassee Enterprises	835,000	Varnville Laundry & Car Wash	911,000	Carolina Lodge	296,000

Source: LRWS QS1 Billing Software

(1) Annual Usage for 2013 was for 4 Months Only

TOP TEN EMPLOYERS

Top Ten Employers Served by LRWS during 2014-2015

Customer	# of Employees	Rank	% of Total County Employment
Hampton County School District #1	425	1	9.15%
Hampton Regional Medical	246	2	5.30%
County of Hampton	238	3	5.12%
LeCreuset of America	170	4	3.66%
Alpha Genesis (1)	103	5	2.22%
J.R. Wilson Construction	42	6	0.90%
Brunson Laundry/Lowcountry Medical Linens	37	7	0.80%
Spencer Industries	23	8	0.50%
Southern Metal Works	18	9	0.39%
Coastal Technologies	17	10	0.37%

Source: Hampton County Economic & Development Office and Hampton County 2013-2014 Annual Report US Census Bureau (2014) Total Employed 4,644

(1) Alpha Genesis is in Beaufort County in the Town of Yemassee and Served by LRWS

Appendix A
AUDITED FINANCIAL STATEMENTS



THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

501 STATE STREET

POST OFFICE BOX 5949

WEST COLUMBIA, SOUTH CAROLINA 29171

PHONE: (803) 739-3090

FAX: (803) 791-0834

The Honorable Chairman and Members of the Board of Commissioners
Lowcountry Regional Water System
513 Elm Street West
Hampton, South Carolina 29924

We are pleased to have the opportunity to provide you with this executive summary of the audit of the Lowcountry Regional Water System's (the "System") financial statements dated September 30, 2015. Our opinion, dated January 5, 2016 on the September 30, 2015 financial statements was unmodified. Auditing standards require that certain matters related to the conduct of our audit be communicated to the Board of Commissioners. Those matters requiring communication are as follows:

The Brittingham Group, L.L.P.'s Responsibility under Auditing Standards Generally Accepted in the United States of America

We conducted our audit in accordance with auditing standards generally accepted in the United States of America which are designed to provide reasonable assurance that the financial statements are free of material misstatement. We also obtained a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of the tests to be performed.

Major Issues Discussed with Management Prior to Retention

There were no major issues discussed with management prior to retention.

The Adoption of, or a Change in, an Accounting Principle

There were no major changes, or adoption of new accounting principles other than the implementation of *GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – in Amendment of GASB Statement No. 27*. The details of this change are outlined in Note 5 of the System's financial statements.

Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas

There were no matters that are required to be reported for this item.

Sensitive Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Significant Audit Adjustments

An audit adjustment, whether or not recorded by the entity based on materiality to the financial statements taken as a whole, is a proposed correction of the financial statements that, in the auditor's judgment, may not have been detected except through the auditing procedures performed.

No significant audit adjustments were posted as a result of our procedures. However, several significant adjustments were made known to us by management during the course of the audit. These adjustments were prepared in order to account for certain items that are reported in the annual financial statements, but are not included in interim financial reporting. The more significant of these items include adjustments for pension liability and depreciation expense.

Disagreements with Management

There were no disagreements with management.

Consultations with Other Accountants

We are not aware of any instances in which management consulted with other accountants about significant accounting, auditing and reporting matters.

Difficulties Encountered in Dealing with Management When Performing the Audit

There were no difficulties encountered in dealing with management when performing the audit.

* * * * *

This report is intended solely for the information and use of the Commissioners, management and others within the organization.

The Brittingham Group LLP

West Columbia, South Carolina
January 5, 2016

LOWCOUNTRY REGIONAL WATER SYSTEM

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2015

WITH

INDEPENDENT AUDITOR'S REPORT

LOWCOUNTRY REGIONAL WATER SYSTEM

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2015

WITH

INDEPENDENT AUDITOR'S REPORT

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THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Mr. John B. Rhoden, Jr., Chairman of the
Board of Commissioners
Lowcountry Regional Water System
513 Elm Street West
Hampton, South Carolina 29924

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, 2015, 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, 2015, 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.

Change in Accounting Principle

As discussed in *Note 5* and *Note 8* to the financial statements, in 2015 the System adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – In Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 8, the Schedule of Proportionate Share of the South Carolina Retirement Systems Net Pension Liabilities and Schedule on page 26, and the Schedule of Proportionate Share of the South Carolina Retirement Systems Contributions on page 27 be presented to supplement the basic financial statements be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Schedule of Revenues, Expenses and Changes in Net Position – Water Service, Sewer Service and Unallocated, as required by the United States Department of Agriculture's Rural Development Administration on page 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Revenues, Expenses and Changes in Net Position – Water Service, Sewer Service and Unallocated is the responsibility of management and was derived from and relate 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 other information 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 January 5, 2016, 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
January 5, 2016

Management's Discussion and Analysis

Overview of the Financial Statement and Financial Analysis

This management's discussion and analysis of the Lowcountry Regional Water System's (the "System") financial statements provide an overview of its financial activities for the year. In accordance with Government Accounting Standards, the System produces three primary financial statements: (1) The Statement of Net Position, (2) The Statement of Revenues, Expenses and Changes in Net Position, and (3) The Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities and equity of the System as of the end of the fiscal year. The Statement of Net Position presents end-of-year data concerning assets as well as liabilities (current and non-current). Our current assets are those, which are reasonably expected to be, realized in one year. Current liabilities are obligations whose liquidation is expected to require the use of current assets.

Condensed Statements of Net Position

	September 30,		
	2015	2014	Variance
Assets and Deferred Outflows of Resources:			
Cash and investments	\$ 740,182	\$ 735,891	\$ 4,291
Receivables	261,995	444,337	(182,342)
Inventory	54,766	50,030	4,736
Capital assets, net	12,297,803	12,449,222	(151,419)
Deferred outflows of resources	103,796	**	**
Total assets and deferred outflows of resources	\$ 13,458,542	\$ 13,679,480	\$ (220,938)
Liabilities and Deferred Inflows of Resources:			
Current liabilities	\$ 353,230	\$ 210,343	\$ 142,887
Long-term debt	2,755,053	3,217,724	(462,671)
Pension liability	1,246,692	**	**
Deferred inflows of resources	105,103	**	**
Total liabilities and deferred inflows of resources	4,460,078	3,428,067	1,032,011
Net Position:			
Invested in capital assets	8,961,577	9,531,498	(569,921)
Restricted for debt service	242,048	217,749	24,299
Unrestricted	(205,161)	502,166	(707,327)
TOTAL NET POSITION	\$ 8,998,464	\$ 10,251,413	\$ (1,252,949)

** - The September 30, 2014 figures have not been adjusted for the implementation of GASB 68 as this information is not available.

Statement of Revenues, Expenses and Changes in Net Position

The purpose of the statement is to present the revenues earned by the System, operating and non-operating, and the expenses incurred by the System. Non-operating revenues are those for which goods or services are not provided.

The Statement of Revenues, Expenses and Changes in Net Position is prepared on the accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions of an entity in the period in which those transactions occur, rather than in the period in which cash is received. Revenues are recognized when goods or services are provided. Expenses are recognized when resources are utilized in order to produce goods or services.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Year Ended September 30,		
	2015	2014**	Variance
Operating revenues	\$ 2,665,315	\$ 2,357,742	\$ 307,573
Operating expenses	(2,602,817)	(2,405,714)	(197,103)
Operating income (loss)	62,498	(47,972)	110,470
Non-operating revenues	1,965	2,334	(369)
Non-operating expenses	(96,862)	(138,569)	41,707
Non-operating loss	(94,897)	(136,235)	41,338
Capital contributions	202,011	48,954	153,057
Change in net position	169,612	(135,253)	\$ 304,865
Net position - beginning of year, restated	8,828,852	10,386,664	
Net position - end of year	<u>\$ 8,998,464</u>	<u>\$ 10,251,411</u>	

*** - The September 30, 2014 figures have not been adjusted for the implementation of GASB 68 as this information is not available.*

Statement of Cash Flows

The final statement presented by the System is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity during the year. The statement is divided into four parts. The first part deals with operating cash flows and reports the net cash flows from the operating activities of the Fund. The second section reports the cash activity related to financing for capitalized items. The third section reflects cash flows from investing activities and shows the interest received from investing activities. The fourth section reconciles the net cash provided or used by operating activities to the operating income displayed on the Statement of Revenues, Expenses and Changes in Net Position.

Condensed Statement of Cash Flows

	Year Ended September 30,		
	2015	2014	Variance
Cash provided (used) by:			
Operating activities	\$ 629,934	\$ 243,234	\$ 386,700
Capital and related financing activities	(627,608)	(543,995)	(83,613)
Investing activities	1,965	3,483	(1,518)
Net change in cash	4,291	(297,278)	301,569
Cash and cash equivalents - beginning of year	735,891	1,033,169	(297,278)
Cash and cash equivalents - end of year	<u>\$ 740,182</u>	<u>\$ 735,891</u>	<u>\$ 4,291</u>

Capital Assets

The System's investment in capital assets as of September 30, 2015, amounts to \$12,297,804 (net of accumulated depreciation). The investment in capital assets includes land, construction in process, buildings and equipment as well as water and sewer systems. The total decrease in capital assets for the current year was approximately 1.22 percent.

Capital Assets - Net of Accumulated Depreciation

	Year Ended September 30,		
	2015	2014	Variance
Land	\$ 153,239	\$ 153,239	\$ -
Construction in Process	609,351	255,530	353,821
Buildings	157,261	157,261	-
Equipment	550,327	570,824	(20,497)
Vehicles	126,797	128,222	(1,425)
Water systems	9,165,743	9,165,743	-
Sewer systems	14,438,530	14,438,530	-
Less: accumulated depreciation	(12,903,444)	(12,419,947)	(483,497)
	<u>\$ 12,297,804</u>	<u>\$ 12,449,402</u>	<u>\$ (151,598)</u>

Major Capital asset events during the current fiscal year included the following:

- The System is actively extending water and sewer service to an area that contains a major commercial need.
- A major water looping project in underway.
- Several sewer projects are in various stages of construction.

Additional information on the System's capital assets can be found in Note 3 of this report.

Debt Administration

At the end of fiscal year 2015, the System had total current and long-term debt outstanding of \$4,136,472. Of this amount, \$2,573,636 is payable as revenue bonds and they are backed by the net revenues of the water and sewer system. An additional amount of \$300,000 is made up of two notes payable to the Town of Hampton and Varnville, for \$150,000, respectively. Compensated absences make up \$16,144 of the total amount. And finally, \$1,246,692 is the amount of pension related debt.

Current and Long-Term Debt

	Year Ended September 30,		
	2015	2014	Variance
Note payable	\$ 300,000	\$ 300,000	\$ -
Revenue bonds payable	2,573,636	2,917,724	(344,088)
Compensated absences	16,144	22,754	(6,610)
Net pension liability	1,246,692	-	1,246,692
	<u>\$ 4,136,472</u>	<u>\$ 3,240,478</u>	<u>\$ 895,994</u>

The System's total long-term debt increased by \$895,994, or 27.65 percent, during the current fiscal year. The reason for the increase was principally because of the restatement of the net pension liability due to the implementation of GASB 68.

Additional information on the System's long-term debt can be found in Note 4 of this report.

Business Overview

The Board of Commissioners is composed of five individuals who are appointed by the Member Towns of the System. Additionally, the Hampton County Administrator serves ex-officio.

The General Manager is charged with the day-to-day operations of the System. Monthly reports are provided to the Board of Commissioners providing updates concerning financial information, news, environmental regulatory changes and spotlights on potential economic growth.

The System has a full staff of 20 full-time and 3 part-time employees. Included are 8 members of the administrative staff including the General Manager, 6 water treatment and waste water treatment operation employees, and 9 water distribution and wastewater collection system employees.

At the close of the fiscal year, the System had 421 commercial customers, 2,646 residential water customers, 385 commercial sewer customers and 2,366 residential sewer customers. No single customer or group of customers represents a significant concentration.

Economic Outlook

The principal challenge facing the System is to retain current customers and at the same time, gain new water and sewer customers as to spread the fixed cost of operating the water and sewer system. The other significant challenge the System faces is to manage the environmental infractions that arise from time to time over the normal course of business when providing environmentally sensitive services to the public. The System's ultimate goal is to provide excellent water and sewer service with effective environmental controls, while ensuring that the System is in a sound financial position to pay all of its liabilities.

The System is not aware of any facts, decisions, or conditions that can reasonably be expected to have a material impact on the System's economic outlook during the fiscal year beginning October 1, 2015.

Contacting the System's Management

This financial report is designed to provide our citizens, customers and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Lowcountry Regional Water System, 513 Elm Street West, Hampton, SC 29924. The System's telephone number is (803) 943-1006.

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF NET POSITION

SEPTEMBER 30, 2015

Assets and Deferred Outflows of Resources:

Current assets:	
Cash and cash equivalents	\$ 498,134
Restricted cash and cash equivalents	242,048
Accounts receivable, net	261,995
Inventory	54,766
Total current assets	<u>1,056,943</u>
Non-current assets:	
Capital assets, not being depreciated	762,590
Capital assets, net of accumulated depreciation	11,535,213
Total non-current assets	<u>12,297,803</u>
Deferred outflows of resources	103,796
Total assets and deferred outflows of resources	<u>13,458,542</u>

Liabilities and Deferred Inflows of Resources:

Current liabilities:	
Accounts payable	40,745
Accrued liabilities	14,778
Accrued compensated absences	16,144
Accrued interest payable	16,957
Due to other governments	146,023
Revenue bonds payable	118,583
Total current liabilities	<u>353,230</u>
Other liabilities:	
Notes payable	300,000
Revenue bonds payable	2,455,053
Pension liability	1,246,692
Total long-term liabilities	<u>4,001,745</u>
Deferred inflows of resources	105,103
Total liabilities and deferred inflows of resources	<u>4,460,078</u>

Net Position

Net investment in capital assets	8,961,577
Restricted for debt service	242,048
Unrestricted - unfunded pension liability	(1,247,999)
Unrestricted - other	1,042,838
Total net position	<u>\$ 8,998,464</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2015

Operating Revenues	
Water service	\$ 1,178,950
Sewer service	1,237,570
Penalties, reconnection fees and miscellaneous	248,795
Total operating revenues	<u>2,665,315</u>
Operating Expenses	
Personnel services	951,943
Contract sewer treatment	15,728
Repairs and maintenance	250,201
Utilities	341,342
Supplies, materials and chemicals	61,095
Professional, engineering, lab and legal fees	165,567
Insurance	24,335
Vehicle and fuel expenses	41,061
Postage, printing and advertising	6,466
Building and equipment rental	59,122
Dues, licenses and permits	40,285
Bad debts	51,883
Bank charges	12,068
Depreciation	541,691
Miscellaneous	40,030
Total operating expenses	<u>2,602,817</u>
Operating income	<u>62,498</u>
Non-Operating Revenue (Expenses)	
Interest income	1,965
Loss on disposition of capital assets	(19,203)
Interest expense	(77,659)
Net non-operating revenue (expense)	<u>(94,897)</u>
Loss before capital contributions	(32,399)
Capital Contributions	<u>202,011</u>
Change in net position	169,612
Net position, beginning of year, as restated	8,828,852
Net position, end of year	<u>\$ 8,998,464</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2015

Cash Flows From Operating Activities	
Cash received from customers	\$ 2,654,189
Cash payments for personnel services	(913,523)
Cash payments for operating and contractual services	(15,728)
Cash payments for suppliers	(1,095,004)
Net cash flows from operating activities	<u>629,934</u>
Cash Flows From Capital and Related Financing Activities	
Capital contributions	202,011
Acquisition and construction of capital assets	(411,558)
Proceeds from disposition of capital assets	2,261
Principal paid on capital debt	(344,088)
Interest paid on capital debt	(76,234)
Net cash flows from capital and related financing activities	<u>(627,608)</u>
Cash Flows From Investing Activities	
Interest income	<u>1,965</u>
Net cash flows from investing activities	<u>1,965</u>
Net change in cash and cash equivalents	4,291
Cash and cash equivalents, beginning of year	<u>735,891</u>
Cash and cash equivalents, end of year	<u>\$ 740,182</u>

(CONTINUED)

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF CASH FLOWS

-CONTINUED-

Reconciliation of Operating Income to Net Cash Flows

From Operating Activities

Operating income	\$ 62,498
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	541,691
Loss on disposition of capital assets	19,203
Change in assets and liabilities	
Accounts receivable	(15,758)
Inventory	(5,336)
Prepaid expenses	600
Deferred outflows	(103,796)
Deferred inflows	105,103
Accounts payable	22,276
Accrued expenses	(3,489)
Customer deposits	(940)
Due to other governments	(3,107)
Accrued compensated absences	(6,610)
Pension liability	17,599
Net cash flows from operating activities	<u>\$ 629,934</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

1. Summary of Significant Accounting Policies

Organization

The Lowcountry Regional Water System (the "System") was created in February of 2012, with the purpose of establishing regional water and sewer service to the residents and businesses of Hampton County. On June 1, 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 is a special purpose district operating under the 1970 Acts and Joint Resolutions of the State of South Carolina.

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 and has no component units.

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.

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.

-CONTINUED-

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

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.

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.

Revenue Billings

Water and sewer fees are billed to users of the System 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.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

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 non-operating 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 the Insurance Reserve Fund of the State of South Carolina to cover risks that may occur in normal operations. Once premiums are paid, the fund assumes all risk up to the coverage limits. The fund 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.

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.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

Risk Management (Continued)

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.

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, 2015, no funds were exposed to custodial credit risk as \$250,000 was insured and \$490,182 was collateralized.

3. Capital Assets

Activity in capital assets for the year ended September 30, 2015 was as follows:

	October 1, 2014	Increases	Decreases	September 30, 2015
Capital assets, not being depreciated:				
Land	\$ 153,239	\$ -	\$ -	\$ 153,239
Construction in process	255,530	353,821	-	609,351
Total capital assets, not being depreciated	408,769	353,821	-	762,590
Capital assets, being depreciated:				
Buildings	157,261	-	-	157,261
Equipment	570,824	7,447	(27,944)	550,327
Vehicles	128,222	50,290	(51,715)	126,797
Water systems	9,165,743	-	-	9,165,743
Sewer systems	14,438,530	-	-	14,438,530
Total capital assets, being depreciated	24,460,580	57,737	(79,659)	24,438,658
Less: accumulated depreciation	(12,419,947)	(541,691)	(58,193)	(12,903,445)
Total capital assets	\$ 12,449,402	\$ (130,133)	\$ (137,852)	\$ 12,297,803

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

4. Long-Term Debt

Notes Payable

The Notes Payable at September 30, 2015 are described as follows:

Note payable to the Town of Varnville with an original amount of \$150,000 with an interest rate of 2.5% dated October 12, 2012, for the purpose of working capital. Interest payments of \$3,750 are due annually through 2017, and then a principal and interest payment of \$153,750 is due in 2018. The balance at September 30, 2015 was \$150,000.

Note payable to the Town of Hampton with an original amount of \$150,000 with an interest rate of 2.5% dated April 10, 2013, for the purpose of working capital. Interest payments of \$3,750 are due annually through 2017, and then a principal and interest payment of \$153,750 is due in 2018. The balance at September 30, 2015 was \$150,000.

Total annual debt service requirements for the notes payable are as follows:

Year Ended September 30,	Principal	Interest	Total
2016	\$ -	\$ 7,500	\$ 7,500
2017	-	7,500	7,500
2018	300,000	7,500	307,500
	<u>\$ 300,000</u>	<u>\$ 22,500</u>	<u>\$ 322,500</u>

Revenue Bonds Payable

Revenue Bonds Payable at September 30, 2015 consists of the following:

1992 Water and Sewer System Revenue Bond (Originally Town of Brunson) payable to the USDA/RDA with an original amount of \$376,700 due in monthly principal and interest payments of \$1,820 through 2030 with an interest rate of 5.0%. The balance at September 30, 2015 was \$229,123.

1996 Water and Sewer System Revenue Bond (Originally Town of Hampton) payable to the USDA/RDA with an original amount of \$2,998,900 due in monthly principal and interest payments of \$14,725 through 2035 with an interest rate of 5.125%. The balance at September 30, 2015 was \$2,171,074.

2009 Water and Sewer System Revenue Bond (Originally Town of Varnville) payable to Palmetto State Bank with an original amount of \$390,000 due in annual principal and interest payments of \$47,511 through 2019 with an interest rate of 3.76%. The balance at September 30, 2015 was \$173,439.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

4. Long-Term Debt (continued)

Total annual debt service requirements for revenue bonds are as follows:

Year Ended September 30,	Principal	Interest	Total
2016	\$ 118,583	\$ 127,468	\$ 246,051
2017	124,181	121,869	246,050
2018	130,050	116,001	246,051
2019	136,202	109,848	246,050
2020	95,141	103,399	198,540
2021-2025	555,746	373,954	929,700
2026-2030	714,911	275,633	990,544
2031-2035	698,822	83,914	782,736
	<u>2,573,636</u>	<u>1,312,086</u>	<u>3,885,722</u>

Changes in long-term liabilities for the year ended September 30, 2015, were as follows:

	October 1, 2014	Additions	Reductions	September 30, 2015	Due Within One Year
Notes payable	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -
Revenue bonds payable	2,917,724	-	344,088	2,573,636	118,583
Compensated absences	22,754	-	6,610	16,144	16,144
	<u>\$ 3,240,478</u>	<u>\$ -</u>	<u>\$ 350,698</u>	<u>\$ 2,889,780</u>	<u>\$ 134,727</u>

5. Pension Plan

The majority of 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 the Retirement Division of the South Carolina Public Employee Benefit System (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position 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, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

The Retirement Division 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 the South Carolina Public Employee Benefit System, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included.

Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018.

Effective July 1, 2014, employees participating in the SCRS were required to contribute 8.00% of all earnable compensation. The employer contribution rate for SCRS was 10.90%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.75%, and .15% for the incidental death program. The System's actual contributions to the SCRS for the years ended September 30, 2015, 2014 and 2013 were approximately \$68,471, \$65,789, and \$20,090, respectively, and equaled the base required retirement contribution rate.

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.

At September 30, 2015 the System reported \$1,246,660 as its proportionate share of the net pension liabilities of SCRS. The net pension liability defined of the SCRS defined benefit pension plan were determined based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to June 30, 2014, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. The System's portion of the net pension liability was based on the System's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the System's SCRS proportion was 0.0072%, which was the same as its portion of the net pension liability measured as of June 30, 2013. For the year ended September 30, 2015 the System recognized pension expenses of \$87,377 for SCRS.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

At June 30, 2015 the state reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

Deferred Outflows of Resources

Differences between expected and actual experience	\$ 35,325
Contributions made to SCRS from measurement date to June 30, 2015	<u>68,471</u>
Total deferred outflows of resources	<u>\$ 103,796</u>

Deferred Inflows of Resources

Net differences between projected and actual earnings on Pension Plan Investments	<u>\$ 105,103</u>
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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Net</u>
2016	\$ (76,243)	\$ 23,123	\$ (53,120)
2017	(7,772)	23,123	15,351
2018	(7,772)	23,123	15,351
2019	<u>(12,009)</u>	<u>35,734</u>	<u>23,725</u>
	<u>\$ (103,796)</u>	<u>\$ 105,103</u>	<u>\$ 1,307</u>

The total pension liabilities in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age
Actuarial Assumptions:	
Investment Rate or Return	7.50%
Proejcted Salary Increases	Levels Off at 3.5%
Inflation Rate	2.75%
Benefit Adjustments	Lesser of 1% or \$500

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar Adjustment) Multiplied by 110%	RP-2000 Females (with White Collar Adjustment) Multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and Members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgement.

The RSIC has exclusive System to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provision and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculated of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	0.3%	0.01%
Short Duration	3.0%	0.6%	0.02%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	1.1%	0.08%
High Yield	2.0%	3.5%	0.07%
Bank Loans	4.0%	3.8%	0.11%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	0.8%	0.02%
Emerging Markets Debt	6.0%	4.1%	0.25%
Global Public Equity	31.0%	7.8%	2.42%
Global Tactical Asset Allocation	10.0%	5.1%	0.51%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.0%	0.32%
Private Debt	7.0%	10.2%	0.71%
Private Equity	9.0%	10.2%	0.92%
Real Estate (Broad Market)	5.0%	5.9%	0.29%
Commodities	3.0%	5.1%	0.15%
Total Expected Real Return	100.0%		5.88%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.63%

The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all SCRS participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Pension Plan (continued)

The following table represents the Fund's proportionate share of the net SCRS pension liabilities calculated using the discount rate of 7.50 percent, as well as what the Fund's respective net pension liabilities would be if it were calculated using a discount rate of 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

<u>Plan</u>	<u>1% Decrease 6.50%</u>	<u>Current Rate 7.50%</u>	<u>1% Increase 8.50%</u>
SCRS	\$ 1,613,255	\$1,246,660	\$ 940,815

6. 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.

7. Single Audit

The System did not expend more than \$750,000 in federal financial assistance and therefore was not required to have an audit performed under the single audit requirements.

8. 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.

The System is operating under a Consent Order from the South Carolina Department of Health and Environmental Control (SCDHEC) for permit violations at the Town of Hampton Wastewater Treatment Facility. No additional permit violations have occurred in the fiscal year ended September 30, 2015 due to modified operations in the facility. The System has identified the cause of previous violations and has submitted a plan of corrective action that has been approved SCDHEC. The System has secured funding and is in various stages of design, permitting and construction to implement the corrective action plan and resume normal operations at the facility.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

9. Restatement

The System implemented the provisions of GASB 68 *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27* during the current year. The implementation requires the System to restate its beginning net position. During the year management discovered that some of the customer balances transferred from the contributing Towns were unlikely to be collectible. As a result, management implemented an allowance for uncollectible accounts whereby account balances that were over one year old were deemed uncollectible.

The balances that were affected are as follows:

Audited net position as of September 30, 2014	\$	10,251,413
Allowance for doubtful accounts		(193,468)
Pension liability and deferred items		<u>(1,229,093)</u>
Restated net position as of September 30, 2014	\$	<u>8,828,852</u>

10. Subsequent events

The System has evaluated all events subsequent to the basic financial statements for the year ended September 30, 2015 through January 5, 2016, which is the date the financial statements were available to be issued, and determined that there is an additional subsequent event requiring note disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

LOWCOUNTRY REGIONAL WATER SYSTEM
 SCHEDULE OF PROPORTIONATE SHARE OF
 THE SOUTH CAROLINA RETIREMENT SYSTEMS
 NET PENSION LIABILITIES
 LAST TEN FISCAL YEARS*

	<u>2015</u>	<u>2014</u>
System's proportion of the net pension liability	0.0072%	0.0072%
System's proportionate share of the net pension liability	\$ 1,246,692	\$ 1,298,777
System's covered-employee payroll	\$ 634,368	\$ 668,590
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	196.53%	194.26%
Plan fiduciary net position as a percentage of the total pension liability	59.92%	56.39%

* - The amounts presented for each fiscal year were determined as of July 1 of two years prior, using membership data as of the day, projected forward to June 30 of the previous year. Additionally, the System implemented GASB 68 during fiscal year 2015. As such, only the last two years of information is available

LOWCOUNTRY REGIONAL WATER SYSTEM
SCHEDULE OF SOUTH CAROLINA RETIREMENT SYSTEMS CONTRIBUTIONS

LAST TEN FISCAL YEARS*

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contributions	\$ 68,471	\$ 65,789	*	*	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	(68,471)	(65,789)	*	*	*	*	*	*	*	*
Contribution deficiency/(excess)	\$ -	\$ -	*	*	*	*	*	*	*	*
Fund covered-employee payroll	\$ 634,368	\$ 668,590	*	*	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	10.75%	10.45%	*	*	*	*	*	*	*	*

* - The amounts presented for each fiscal year were determined as of July 1 of two years prior, using membership data as of the day, projected forward to June 30 of the previous year. Additionally, the System implemented GASB 68 during fiscal year 2015. As such, only the last two years of information is available.

OTHER SUPPLEMENTARY INFORMATION

LOWCOUNTRY REGIONAL WATER SYSTEM

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -

WATER SERVICE, SEWER SERVICE AND UNALLOCATED

YEAR ENDED SEPTEMBER 30, 2015

	Water	Sewer	Unallocated	Total
Operating Revenues				
Water service	\$ 1,178,950	\$ -	\$ -	\$ 1,178,950
Sewer service	-	1,237,570	-	1,237,570
Penalties, reconnection fees and miscellaneous	121,380	127,415	-	248,795
Total operating revenues	<u>1,300,330</u>	<u>1,364,985</u>	<u>-</u>	<u>2,665,315</u>
Operating Expenses				
Personnel services	405,815	406,447	139,681	951,943
Sewer treatment	-	15,728	-	15,728
Repairs and maintenance	123,176	105,918	21,107	250,201
Utilities	71,863	265,898	3,581	341,342
Supplies, materials and chemicals	13,605	39,788	7,702	61,095
Professional, engineering, lab and professional fees	34,711	108,102	22,754	165,567
Insurance	9,224	9,224	5,887	24,335
Vehicle and fuel expenses	19,589	16,352	5,120	41,061
Postage, printing and advertising	817	-	5,649	6,466
Building and equipment rental	11,353	36,177	11,592	59,122
Dues, licenses and permits	33,499	5,270	1,516	40,285
Bad debts	25,423	26,460	-	51,883
Bank charges	-	-	12,068	12,068
Depreciation	182,629	290,480	68,582	541,691
Miscellaneous	17,125	14,776	8,129	40,030
Total operating expenses	<u>948,829</u>	<u>1,340,620</u>	<u>313,368</u>	<u>2,602,817</u>
Operating income (loss)	<u>351,501</u>	<u>24,365</u>	<u>(313,368)</u>	<u>62,498</u>
Non-Operating Revenue (Expenses)				
Interest income	6	1	1,958	1,965
Loss on disposal of capital assets	-	-	(19,203)	(19,203)
Interest expense	(30,644)	(44,996)	(2,019)	(77,659)
Net non-operating revenue (expense)	<u>(30,638)</u>	<u>(44,995)</u>	<u>(19,264)</u>	<u>(94,897)</u>
Income (loss) before capital contributions	<u>320,863</u>	<u>(20,630)</u>	<u>(332,632)</u>	<u>(32,399)</u>
Capital Contributions	<u>202,011</u>	<u>-</u>	<u>-</u>	<u>202,011</u>
Change in net position	<u>\$ 522,874</u>	<u>\$ (20,630)</u>	<u>\$ (332,632)</u>	<u>\$ 169,612</u>

THE BRITTINGHAM GROUP, L.L.P.

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INTERNAL 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*

Mr. John B. Rhoden, Jr., Chairman of the
Board of Commissioners
Lowcountry Regional Water System
513 Elm Street West
Hampton, South Carolina 29924

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 System (the "System"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated January 5, 2016.

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 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 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

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January 5, 2016

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