



Lowcountry Regional Water System

2013 Annual Report



Sustainable water service for communities, business and the environment



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

Annual Report

**For Fiscal Year Ending
September 30th, 2013**

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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 first annual report prepared by Lowcountry Regional Water System since its creation in 2012 and therefore may provide limited information as to historical summaries. 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 2012-2013 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.

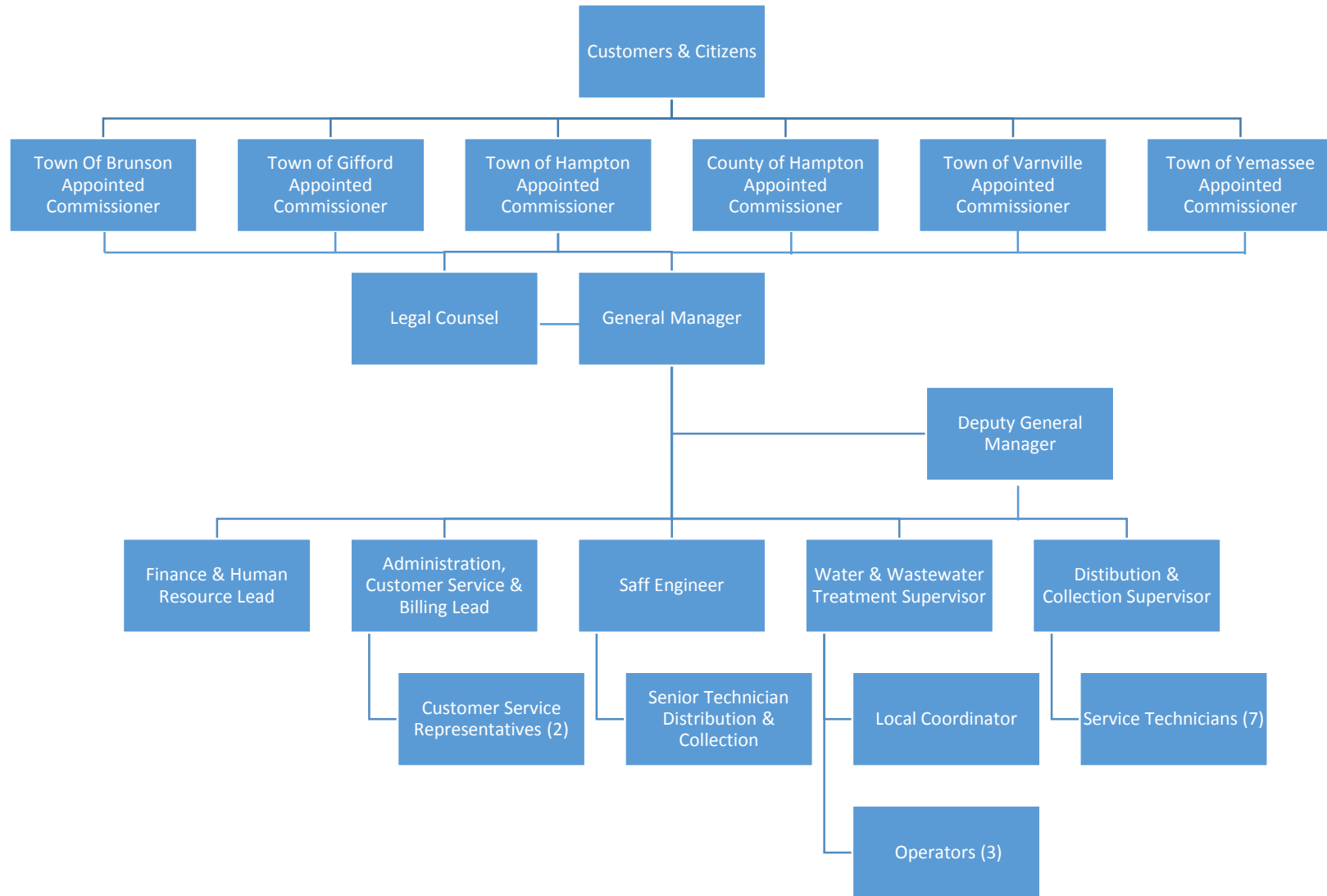
Member Appointments

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. Harry Bennett, (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

Although the Lowcountry Regional Water System was officially organized in 2012, it did not take over physical operations until June 01, 2013. Therefore, financial information does not represent a true twelve month operation.

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 \$868,458
- Operating Expenses were \$1,002,229
- Operating Losses were reported in the amount of \$198,294 prior to capital contributions. This loss includes \$175,940 in depreciation expenses.

Departmental Highlights

- The Commissioners of the Lowcountry Regional Water System hired its first General Manager. Staffing positions were approved for all departments and employees interviewed and hired for all positions.
- Customer Service Policies and Procedures were developed and approved by the Commissioners.
- 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 for startup operations on June 01, 2013.
- As system operations began in June 2013, so did the rains. Significant rain events for the months of June through August occurred causing many difficulties in field and treatment operations. However, staff met these challenges with resolve to improve operations.

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	\$300,000.00	Funded	Design
Town of Yemassee Elevated Tank Demolition and Replacement	\$1,025,000.00	Funded	Design
Town of Varnville Water System Improvements	\$500,000.00	Funded	Complete
Town of Varnville Mill Pond Lift Station Improvements	\$200,000.00	Funded	Complete
Town of Hampton Water & Sewer System Improvements (Sludge Removal, Sewer Main Rehab, Meter System Upgrade)	\$3,457,000.00	Funded	Design
Total Amount of Funded Projects	\$5,482,000.00		



BUDGETARY PROCEDURES

The Lowcountry Regional Water System's budgetary preparations were developed by representatives of URS, an engineering consulting firm in conjunction with the guidance from member towns and representatives of Brittingham, Brown, Prince & Hancock LLC, a certified public accountant and business consulting firm.

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

Future budgets will be developed under the guidance of the General Manager. In June of each calendar year, department heads will be 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 Finance Committee of the Board of the Lowcountry Regional Water System. The Finance Committee 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 the Finance Committee with a proposed rate adjustment. Once the Finance Committee completes their review the draft budget shall be submitted to the full Commission for review, approval and adoption.



BUDGET

The following table represents the budgeted revenues and expenditures for Fiscal Year 2012-2013.

<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>			
Water Revenue	\$544,999	\$335,137	\$209,862
Wastewater Revenue	\$525,000	\$416,810	\$108,890
Operating Revenue	\$210,000	\$116,511	\$93,489
<u>Totals</u>	<u>\$1,279,999</u>	<u>\$868,458</u>	<u>\$411,541</u>
<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Expenditures</u>			
Water Treatment	\$256,000	\$50,804	\$205,196
Water Distribution	\$256,000	\$130,894	\$125,106
Wastewater Treatment	\$256,000	\$173,774	\$82,226
Wastewater Collection	\$256,000	\$106,664	\$149,366
Administrative	\$255,999	\$364,150	(\$108,151)
<u>Totals</u>	<u>\$1,279,999</u>	<u>\$826,286</u>	<u>\$453,713</u>



OUTSTANDING INDEBTEDNESS

The Lowcountry Regional Water System received two loans for startup funds. These loans were from member Towns. The Town of Hampton and the Town of Varnville each provided \$150,000.00 at an interest rate of 2.5%. These obligations are interest only annual payments with the principle to be paid at the end of the term of five (5) years.

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 above mentioned loans were transferred from the member Towns and assumed by the Lowcountry Regional Water System.

Town	Lien Holder	Year/ Series	Original Notes/Bonds	Outstanding Notes/Bonds 9/30/13	Interest Rate	Final Maturity
Brunson	USDA	1978	\$277,000.00	\$63,057.00	5.000%	2018
Brunson	USDA	1992	\$376,700.00	\$248,855.00	5.000%	2030
Brunson	USDA	1992-A	\$23,600.00	\$13,754.00	5.000%	2027
Gifford	USDA	1977	\$53,200.00	\$8,469.00	5.000%	2016
Gifford	USDA	1990	\$67,800.00	\$45,114.00	5.875%	2028
Hampton	USDA	1996	\$2,998,900.00	\$2,306,705.00	5.125%	2035
Hampton	Berkadia	1980	\$475,000	\$133,007.00	5.00%	2019
Varnville	US Bank	2009	\$390,000.00	\$251,015.00	3.76%	2019
LRWS	Town of Hampton	2012	\$150,000.00	\$150,000.00	2.500%	2017
LRWS	Town of Varnville	2012	\$150,000.00	\$150,000.00	2.500%	2017
	Original Notes & Bonds			Outstanding Notes & Bonds as of September 30, 2013		
Total	\$4,962,200.00			\$3,369,976.00		

RATES, FEES & CHARGES

LOWCOUNTRY REGIONAL WATER SYSTEM WATER & WASTEWATER RATE SCHEDULE EFFECTIVE AS OF APRIL 17, 2013

Description	Residential		Commercial ¹	
	Inside	Outside	Inside	Outside
WATER				
Monthly Base Charge:				
Brunson	\$ 13.50	\$ 18.20	\$ 13.50	\$ 18.20
Gifford	\$ 11.00	\$ 11.00	\$ 17.50	\$ 17.50
Hampton	\$ 13.50	\$ 23.50	\$ 13.50	\$ 23.50
Varnville	\$ 11.00	\$ 11.00	\$ 15.25	\$ 15.25
Yemassee	\$ 11.00	\$ 11.00	\$ 11.00	\$ 11.00
Volumetric Rate (\$/1,000):				
Brunson	\$ 2.92	\$ 2.92	\$ 2.92	\$ 2.92
Gifford	\$ 3.50	\$ 3.50	\$ 1.75	\$ 1.75
Hampton	\$ 2.75	\$ 2.99	\$ 2.75	\$ 2.99
Varnville	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Yemassee	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
WASTEWATER				
Monthly Base Charge:				
Brunson	\$ 18.00	\$ 29.10	\$ 18.00	\$ 29.10
Gifford	\$ 16.00	\$ 16.00	\$ 26.00	\$ 26.00
Hampton	\$ 6.00	\$ 18.00	\$ 6.00	\$ 18.00
Varnville	\$ 16.00	\$ 16.00	\$ 37.50	\$ 37.50
Yemassee	\$ 11.00	\$ 11.00	\$ 11.00	\$ 11.00
Volumetric Rate (\$/1,000):				
Brunson	\$ 3.83	\$ 3.83	\$ 3.83	\$ 3.83
Gifford	\$ 4.00	\$ 4.00	\$ 2.00	\$ 2.00
Hampton	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
Varnville	\$ 4.00	\$ 4.00	\$ 6.00	\$ 6.00
Yemassee	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00

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	210	17	227	93%	7%	7%
Gifford	106	12	118	90%	10%	4%
Hampton	1,156	249	1,405	82%	18%	47%
Varnville	719	89	808	89%	11%	27%
Yemassee	383	60	443	86%	14%	15%
Total	2,574	427	3,001	86%	14%	100%

The table represents the number of customers as of January 2014.

TOTAL CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	460	18%	73%	214	50%	72%	674	22%	73%
1,000-1,999	584	23%		56	13%		640	21%	
2,000-2,999	529	21%		28	7%		557	19%	
3,000-3,999	308	12%		11	3%		319	11%	
4,000-4,999	185	7%		15	4%		200	7%	
5,000-5,999	140	5%		10	2%		150	5%	
6,000-6,999	121	5%		7	2%		128	4%	
7,000-7,999	66	3%		6	1%		72	2%	
8,000 +	181	7%		80	19%		261	9%	
Total	2574			427			3001		

The table represents the number of customers by the consumption of water used as of January 2014.

TOWN OF BRUNSON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	38	18%	65%	8	47%	59%	46	21%	63%
1,000-1,999	26	12%		1	6%		27	12%	
2,000-2,999	37	18%		1	6%		28	13%	
3,000-3,999	35	17%		0	0%		35	15%	
4,000-4,999	21	10%		0	0%		21	10%	
5,000-5,999	10	5%		0	0%		10	5%	
6,000-6,999	11	5%		1	6%		12	6%	
7,000-7,999	3	1%		2	12%		5	2%	
8,000 +	29	14%		4	24%		33	15%	
Total	210			17			227		

The table represents the number of customers by the consumption of water used as of January 2014.

TOWN OF GIFFORD CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	27	25%	74%	7	58%	67%	34	29%	73%
1,000-1,999	16	15%		0	0%		16	14%	
2,000-2,999	21	20%		0	0%		21	18%	
3,000-3,999	14	13%		1	8%		15	13%	
4,000-4,999	2	2%		0	0%		2	2%	
5,000-5,999	5	5%		0	0%		5	4%	
6,000-6,999	8	8%		0	0%		8	7%	
7,000-7,999	5	5%		0	0%		5	4%	
8,000 +	8	8%		4	33%		12	10%	
Total	106			12			118		

The table represents the number of customers by the consumption of water used as of January 2014.

TOWN OF HAMPTON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	237	21%	62%	127	51%	71%	364	26%	64%
1,000-1,999	174	15%		31	12%		205	15%	
2,000-2,999	162	14%		15	6%		177	13%	
3,000-3,999	144	12%		5	2%		149	11%	
4,000-4,999	120	10%		7	3%		127	9%	
5,000-5,999	90	8%		9	4%		99	7%	
6,000-6,999	76	7%		4	2%		80	6%	
7,000-7,999	41	4%		3	1%		44	3%	
8,000 +	112	10%		48	19%		160	11%	
Total	1156			249			1405		

The table represents the number of customers by the consumption of water used as of January 2014.

TOWN OF VARNVILLE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	80	11%	95%	38	43%	76%	118	15%	93%
1,000-1,999	305	42%		18	20%		323	40%	
2,000-2,999	244	34%		8	9%		252	31%	
3,000-3,999	54	8%		4	4%		58	7%	
4,000-4,999	14	2%		6	7%		20	2%	
5,000-5,999	7	1%		1	1%		8	1%	
6,000-6,999	3	0%		1	1%		4	0%	
7,000-7,999	5	1%		1	1%		6	1%	
8,000 +	7	1%		12	13%		19	2%	
Total	719			89			808		

The table represents the number of customers by the consumption of water used as of January 2014.

TOWN OF YEMASSEE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	78	20%	70%	34	57%	75%	112	25%	70%
1,000-1,999	63	16%		6	10%		69	16%	
2,000-2,999	65	17%		4	7%		69	16%	
3,000-3,999	61	16%		1	2%		62	14%	
4,000-4,999	28	7%		2	3%		30	7%	
5,000-5,999	28	7%		0	0%		28	6%	
6,000-6,999	23	6%		1	2%		24	5%	
7,000-7,999	12	3%		0	0%		12	3%	
8,000 +	25	7%		12	20%		37	8%	
Total	383			60			443		

The table represents the number of customers by the consumption of water used as of January 2014.

WATER PRODUCTION

System	Gallons Produced	Gallons From Residential Sales	Gallons From Commercial Sales	Total Gallons From Sales	Gallons Unaccounted	% Unaccounted
Brunson	8,869,000	4,392,000	1,820,000	6,212,000	2,657,000	30%
Gifford	6,045,000	2,136,100	85,100	2,221,200	3,823,800	63%
Hampton	38,219,000	21,060,000	5,639,000	26,699,000	11,520,000	30%
Varnville	25,688,000	10,399,000	2,462,000	12,861,000	12,827,000	50%
Yemassee	38,229,000	10,476,000	2,801,000	13,277,000	24,952,000	65%
Total	117,050,000	48,463,100	12,807,100	61,270,200	55,779,800	48%

This data was compiled June 01, 2013 thru September 30, 2013.

WASTEWATER TREATED

System	Gallons Treated	Gallons From Residential Sales	Gallons From Commercial Sales	Total Gallons From Sales	Gallons From Unaccounted Sources	% Unaccounted
Brunson	30,105,000	3,092,000	1,464,000	4,556,000	25,549,000	85%
Gifford	2,214,100	1,848,100	12,000	1,860,100	354,000	16%
Hampton	130,023,000	20,239,000	3,889,000	24,128,000	105,895,000	81%
Varnville	58,948,000	9,087,000	2,349,000	11,436,000	47,512,000	81%
Yemassee	22,325,800	6,225,000	1,260,000	7,485,000	14,840,800	66%
Total	243,615,900	40,491,100	8,974,000	49,465,100	194,150,800	80%

This data was compiled June 01, 2013 thru September 30, 2013.

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	72,896	36,099	14,959	247,438	25,414	12,033
Gifford	49,685	17,557	699	18,198	15,190	99
Hampton	314,129	173,096	46,348	106,682	166,348	31,964
Varnville	211,134	85,471	19,784	484,504	74,688	19,307
Yemassee	314,211	86,104	23,022	183,500	51,164	10,356
Total	962,055	398,327	104,812	1,040,322	332,804	73,759

This data was compiled June 01, 2013 thru September 30, 2013.

INFRASTRUCTURE

Infrastructure Description	Quantity
Elevated Water Storage Tanks	9
Hydropneumatic Water Storage Tanks	2
Potable Water Production Wells	13
Process Water Production Wells	1
Wastewater Treatment Facilities	3
Wastewater Treatment 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, 2013

LOWCOUNTRY REGIONAL WATER SYSTEM
HAPMTON, S.C.
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Brittingham, Brown, Prince & Hancock, LLC
Certified Public Accountants & Business Consultants

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Members: American Institute of Certified Public Accountants · South Carolina Association of Certified Public Accountants
Associate Member: Association of Certified Fraud Examiners

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Lowcountry Regional Water System
513 Elm Street West
Hampton, SC 29924

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Lowcountry Regional Water System (the System), as of and for the period ended September 30, 2013, 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, 2013, and the respective changes in financial position, and cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the 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 other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information schedules are the responsibility of management and were 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 supplemental information schedules are 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 March 21, 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 System's internal control over financial reporting and compliance.

Brittingham, Brown, Prince & Hancock

West Columbia, South Carolina
March 21, 2014

LOWCOUNTRY REGIONAL WATER SYSTEM
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2013

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 23,312
Customer Deposits - Restricted	108,481
Accounts Receivable	268,388
Accrued Interest Receivable	1,544
Due from Other Governments	9,293
Inventory	51,012

Total Current Assets 462,030

Non-current Assets:

Restricted Cash and Cash Equivalents	901,375
Capital Assets	
Non-depreciable	693,599
Depreciable	23,668,581
Less: Accumulated Depreciation	<u>(11,882,102)</u>

Total Non-current Assets 13,381,453

Total Assets 13,843,482

DEFERRED OUTFLOWS OF ASSETS

Unamortized start-up costs, net	<u>206,549</u>
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Total Deferred Outflows of Resources 206,549

LOWCOUNTRY REGIONAL WATER SYSTEM
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2013

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 18,715
Accrued Expenses	32,693
Customer Deposits	108,481
Current Portion of Revenue Bonds	148,357
Accrued Revenue Bond and Note Interest	17,930
Due to Other Governments	108,314

Total Current Liabilities 434,490

Non-current Liabilities:

Revenue Bonds Payable (Net of Current Portion)	2,919,905
Notes Payable	300,000
Compensated Absences	8,972

Total Non-current Liabilities 3,228,877

Total Liabilities 3,663,367

NET POSITION

Net Position:

Net Investment in Capital Assets	9,411,816
Restricted for Debt Service	299,375
Restricted for Construction Projects	602,000
Unrestricted	73,473

Total Net Position 10,386,664

LOWCOUNTRY REGIONAL WATER SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Operating Revenues:		
Water Sales and Services	\$ 335,137	
Sewer Sales and Services	416,810	
Other Operating Revenues	116,511	
Total Operating Revenues	<u>868,458</u>	\$ 868,458
Operating Expenses		
Personnel Services	350,484	
Other General and Administrative Expenses	475,804	
Depreciation	175,940	
Total Operating Expenses	<u>1,002,229</u>	1,002,229
Operating Loss		(133,771)
Non-operating Revenues (Expenses)		
Interest Income	1,826	
Interest Expense	(66,349)	
Total Non-operating Revenues (Expenses)	<u>(64,523)</u>	(64,523)
Loss Before Capital Contributions		(198,294)
Capital Contributions		<u>10,633,093</u>
Change in Net Position		10,434,799
Net Position - Beginning of Year		<u>(48,135)</u>
Net Position - End of Year		<u><u>10,386,664</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, 2013

Cash Flows from Operating Activities:

Cash Received from Customers	\$ 600,070
Cash Paid to Employees	(267,710)
Cash Paid to Suppliers	(259,088)

Net Cash Provided by Operating Activities 73,272

Cash Flows from Capital and Related Financing Activities:

Proceeds from Notes Payable	300,000
Principal Paid on Revenue Bonds	(29,436)
Interest Paid on Revenue Bonds	(54,516)
Cash Paid for Capital Assets	(71,283)
Cash Paid for Start-Up Costs	(211,243)
Capital Contributed as Cash	1,024,590

Net Cash Provided by Capital and Related Financing Activities 958,112

Cash Flows from Investing Activities:

Interest Received	282
-------------------	-----

Net Cash Provided by Investing Activities 282

Net Increase in Cash and Cash Equivalents 1,031,666

Cash and Cash Equivalents - Beginning of Year 1,502

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

LOWCOUNTRY REGIONAL WATER SYSTEM
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

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

Operating Loss	\$ (133,771)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	171,246
Amortization	4,694
(Increase) Decrease in:	
Accounts and Other Receivables	(268,388)
Due from Other Governments	31,106
Increase (Decrease) in:	
Accounts Payable	9,926
Accrued Liabilities	32,693
Customer Deposits	108,481
Due to Other Governments	108,314
Accrued Compensated Absences	8,972
<u>Net Cash Provided by Operating Activities</u>	<u>73,273</u>
Noncash Operating Activities	
Contribution of Inventory	\$ 51,012
Noncash Capital and Related Financing Activities	
Contributions of Capital Assets	12,580,206
Assumed Long-Term Debt	(3,097,698)

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

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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 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*.

New Governmental Accounting Pronouncements

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirements of this statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The implementation of GASB 63 changed the name of "Net Assets" to "Net Position" and created the "deferred inflow" and "deferred outflow" categories on the Statement of Net Position.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

GASB 65, Items Previously Reported as Assets and Liabilities This statement establishes accounting and financial reporting standard that reclassifies and recognizes, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities The System implemented each of the preceding pronouncements as of September 30, 2013.

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.

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.

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.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

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

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 the rate of 10, 15, or 20 days per year. Maximum accumulations at any fiscal year-end cannot exceed 240 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.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

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) Employees 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.

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.

Contributed Capital

Contributed capital consists of additions and/or upgrades to infrastructure made by the System's, customers or developers working within the boundaries of the System's service area. Upon completion of the project, and the receipt of a Permit to Operate order issued by the SC Department of Health and Environmental Control (DHEC), said capital is deeded to the System, who then accepts the responsibility for the on-going maintenance of the infrastructure. It is included in the capital assets of the System, and depreciated accordingly.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

On June 1, 2013, the Towns of Brunson, Gifford, Hampton, Varnville and Yemassee contributed all of their collective real estate, buildings and improvements, water & sewer systems, vehicles and equipment that were associated with their water and sewer operations. This transfer agreement was executed to move all water/sewer infrastructure and related debt to the recently formed System. Whatever assets and liabilities that were not readily available for immediate transfer on that date will be transferred as soon as it is practical to do so.

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, 2013, no funds were exposed to custodial credit risk.

Note 3. Capital Assets

Activity in capital assets for the year ended September 30, 2013 was as follows:

	September 30,		September 30,	
	2012	Increases	Decreases	2013
Land	\$ -	\$ 693,599	\$ -	\$ 693,599
Buildings	-	157,261		157,261
Equipment	-	575,596		575,596
Vehicles	-	125,222		125,222
Water Systems	-	8,632,500		8,632,500
Sewer Systems	-	14,175,002		14,175,002
Total Capital Assets	-	24,359,180	-	24,359,180
Less: Accumulated Depreciation	-	(11,882,102)	-	(11,882,102)
Total Capital Assets	-	12,477,078	-	12,477,078

\$12,580,206 (net) of the additions for land, buildings, equipment, vehicles and water & sewer systems were contributed to the System by the participating towns in fiscal year 2013.

\$4,229 of the vehicles was contributed by SCE&G in fiscal year 2013.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Note 4. Notes and Bonds

Notes and Bonds at September 30, 2013 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, 2013 was \$150,000.

\$150,000 - Note Payable to the Town of Hampton, dated April 10, 2013, for the purpose of working capital, 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, 2013 was \$150,000.

\$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, 2013 was \$63,057.

\$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, 2013 was \$248,855.

\$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, 2013 was \$13,754.

\$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, 2013 was \$8,469.

\$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, 2013 was \$45,114.

\$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, 2013 was \$2,306,705.

\$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, 2013 was \$133,007.

\$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, 2013 was \$251,015.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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
2014	\$ 148,357	\$ 158,518	\$ 306,875
2015	155,527	151,347	306,874
2016	162,694	143,825	306,519
2017	167,696	136,023	303,719
2018	763,568	128,103	891,671
2019-2023	575,666	506,258	1,081,924
2024-2028	664,722	353,523	1,018,245
2029-2033	755,556	169,477	925,033
2034-2035	274,385	12,152	286,537
	<u>3,668,171</u>	<u>1,759,226</u>	<u>5,427,397</u>

Changes in long-term liabilities for the year ended September 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes Payable	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ -
Revenue Bonds Payable	-	3,402,605	34,434	3,368,171	148,357
Compensated Absences	-	8,972	-	8,972	-
	<u>-</u>	<u>3,711,577</u>	<u>34,434</u>	<u>3,677,143</u>	<u>148,357</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.

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.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

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.

The System's total covered payroll for the fiscal year was \$192,252. Since October 1, 2012, employees participating in the SCRS are required to contribute 7% of all compensation, excluding bonuses. 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 is 10.45%. The contributions made for the year ended September 30, 2013 were \$20,090 from the employer and \$13,458 from employees.

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.

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

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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, 2013, the System had yet to return \$108,481.

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, 2013 are as follows:

<u>Years Ended</u> <u>September 30</u>	<u>Amount</u>
2014	\$ 11,025
2015	11,480
2016	<u>6,811</u>
Total	<u>\$ 29,316</u>

Total lease expense for the fiscal year ended September 30, 2013, was \$8,100.

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.

LOWCOUNTRY REGIONAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Note 10. Commitments and Contingencies (cont'd.)

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, 2013, was \$108,314.

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, 2013 through March 21, 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, 2013

Gas, Fuel and Oil	\$ 17,413	
Repairs and Maintenance	83,675	
Utilities	120,644	
Telephone / Communications	7,383	
Insurance	11,174	
Equipment Rental	15,456	
Office Lease	5,400	
Laboratory Fees and Supplies	3,076	
Chemicals	12,030	
Professional Fees	29,450	
Engineering Fees	51,119	
Operating Materials and Supplies	34,283	
Licenses and Permits	18,667	
Travel and Dues	5,985	
Advertising	3,733	
Office Supplies	9,430	
Uniforms	2,443	
Temporary Labor	5,613	
Other Expenses	<u>38,831</u>	
Total General and Administrative Expenses		<u><u>475,804</u></u>



Brittingham, Brown, Prince & Hancock, LLC

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Associate Member: Association of Certified Fraud Examiners

**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 Commissioners of the
Lowcountry Regional Water System
513 Elm Street West
Hampton, SC 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 Water System (the System), as of and for the period ended September 30, 2013, and the related notes to the financial statements, which collectively comprise System's basic financial statements, and have issued our report thereon dated March 21, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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.

Brittingham, Brown, Prince & Hancock

West Columbia, South Carolina
March 21, 2014



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