



Lowcountry Regional Water System



2017 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, 2017

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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 fourth annual report prepared by Lowcountry Regional Water System since its creation in 2012 and represents the third 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 The Brittingham Group, L.L.P., Certified Public Accountants.

FINANCIAL INFORMATION

The Audited Financial Statement for Fiscal Year 2016-2017 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.

Additionally, if the Member's municipal or county administrators or managers (Administrators) or their counterparts, are not appointed by the Member as a Commissioner or Alternate Commissioner representing the Member, the Member's Administrators, or their counterparts, shall serve as ex-officio Members of the Commission with seat and voice but not vote.

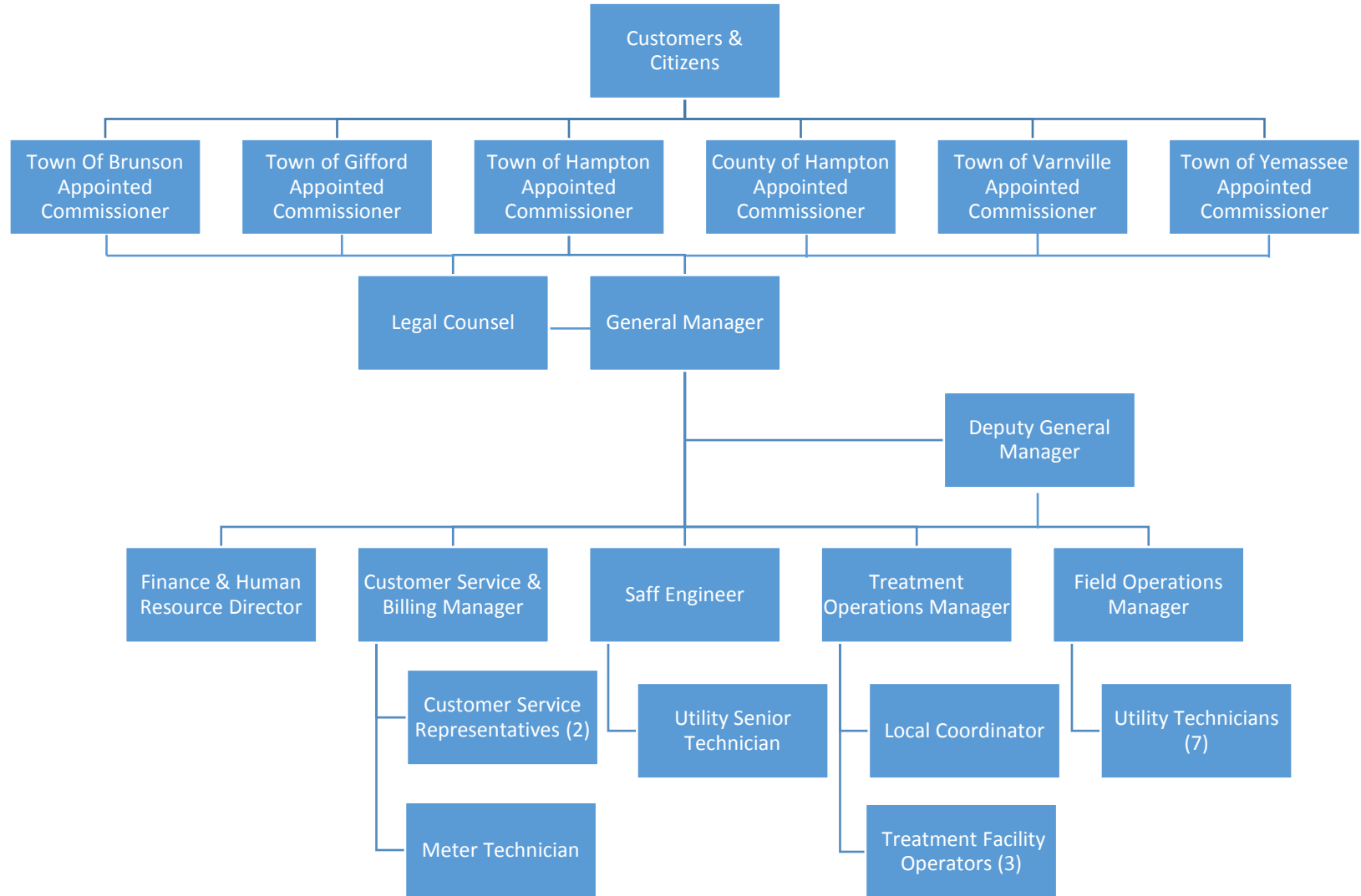
Member Appointments

Participating Members	Appointed Commissioners
Town of Brunson	Mr. Rocky Hudson
Town of Brunson	Mr. Terry Wright, (Alternate)
Town of Gifford	Mr. Horney 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. Horney 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 **fourth** full 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. Utilizing basic principles and concepts of LEAN, we constantly review our operations and services to eliminate waste and effectively deliver value by incorporating changes or modifications to procedures, operations, personnel and equipment.

- Operating Revenues were \$2,839,308
- Operating Expenses were \$2,542,415
- Operating Income was \$296,893
- Net Non-Operating Expenses were \$1,038,478
- Operating income was reported in the amount of \$296,893 prior to capital contributions.
This income includes \$538,505 in depreciation expenses.

Departmental Highlights

- In April 2016, LRWS combined and refunded two bonds held by USDA. The bonds held by USDA were original bonds issued by the Town of Brunson in 1992 at 5.0% interest for a 40 year term and the Town of Hampton in 1996 at 5.125% interest for a 40 year term. The refunding was issued to Carter Bank and Trust of Virginia for \$2,417,000 at 2.70% interest and a 20 year term. This refunding will result in a savings of approximately \$700,000 over the life of the loan.
- Construction was completed on a sewer pumping station in the Southern Carolina Industrial Campus (SCIC). With this project, Hampton County welcomed Nupi Americas as its first business to locate in the 1,500 + acre industrial park
- Construction was completed on water and sewer main extensions within the Southern Carolina Industrial Campus (SCIC). This project, opens up additional acreage within the 1,500 + acre industrial park with water and sewer service immediately available.

- A sewer rehab project began in the Town of Hampton. This project will repair or replace a portion of old broken and damaged sewer pipe within the town. The project utilizes trenchless technologies such as pipe bursting and cured in place pipe lining techniques to minimize disturbance and disruption.
- A water main extension was made along Pine St and Rentz St. in the Town of Varnville to serve the newly constructed Varnville First Baptist Church Family Life Center.

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 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	\$870,000	Funded	Construction
SCIC (Industrial Park) Water & Sewer Improvements	\$700,000	Funded	Complete
Water Main Extension Along Pine St and Rentz St in Varnville	\$76,000	Funded	Complete
<u>Total Amount of All Projects</u>	<u>\$12,363,000</u>		
<u>Total Amount of Funded Projects</u>	<u>\$12,363,000</u>		
<u>Total Amount of Unfunded Projects</u>	<u>\$0</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 operating revenues and expenditures and the actual operating revenues and expenditures for Fiscal Year 2016-2017.

<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>			
Water Revenue	\$1,025,686	\$1,079,606	-\$53,920
Wastewater Revenue	\$1,356,095	\$1,385,408	-\$29,313
Operating Revenue	\$281,971	\$304,536	-\$22,565
<u>Totals</u>	<u>\$2,663,752</u>	<u>\$2,769,550</u>	<u>-\$105,798</u>
<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Expenditures</u>			
Water Treatment	\$183,545	\$172,292	+\$11,253
Water Distribution	\$602,845	\$530,123	+\$72,722
Wastewater Treatment	\$805,048	\$853,596	-\$48,548
Wastewater Collection	\$353,558	\$320,839	+\$32,719
Administrative	\$718,756	\$734,121	-\$15,365
<u>Totals</u>	<u>\$2,663,752</u>	<u>\$2,610,971</u>	<u>+\$52,781</u>

OUTSTANDING INDEBTEDNESS

The following table presents information on the debt obligations of the Lowcountry Regional Water System as of September 30, 2017.

Town/ LRWS	Lien Holder/ Issuer	Year/ Series	Original Notes/Bonds	Outstanding Notes/Bonds 9/30/17	Interest Rate	Final Maturity
LRWS	Carter Bank	2016A	\$2,417,000	\$2,322,000	2.70%	2036
Varnville	US Bank	2009	\$390,000	\$90,077	3.76%	2019
LRWS	Town of Hampton	2013	\$150,000	\$150,000	2.500%	2018
LRWS	Town of Varnville	2012	\$150,000	\$150,000	2.500%	2017
Total	Original Notes & Bonds		Outstanding Notes & Bonds as of September 30, 2017			
	\$3,107,000		\$2,712,077			



RATES, FEES & CHARGES

LOWCOUNTRY REGIONAL WATER SYSTEM WATER & WASTEWATER RATE SCHEDULE EFFECTIVE AS OF OCTOBER 2016

Description	RESIDENTIAL COMMERCIAL ¹
WATER	WATER
SYSTEM	Monthly Base Charge:
Brunson	\$ 13.50
Gifford	\$ 13.50
Hampton	\$ 13.50
Varnville	\$ 13.50
Yemassee	\$ 13.50
SYSTEM	Volumetric Rate (\$/1,000):
Brunson	\$ 3.50
Gifford	\$ 3.50
Hampton	\$ 3.50
Varnville	\$ 3.50
Yemassee	\$ 3.50
WASTEWATER	WASTEWATER
SYSTEM	Monthly Base Charge:
Brunson	\$ 16.50
Gifford	\$ 16.50
Hampton	\$ 16.50
Varnville	\$ 16.50
Yemassee	\$ 16.50
SYSTEM	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	214	17	231	93%	7%	8%
Gifford	105	10	115	91%	9%	4%
Hampton	1,174	224	1,398	84%	16%	46%
Varnville	718	100	818	88%	12%	27%
Yemassee	405	65	470	86%	14%	16%
Total	2,616	416	3,032	86%	14%	100%

TOTAL CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	636	24%	75%	224	54%	77%	860	28%	75%
1,000-1,999	565	22%		49	12%		614	20%	
2,000-2,999	460	18%		23	6%		483	16%	
3,000-3,999	297	11%		26	6%		323	11%	
4,000-4,999	217	8%		4	1%		221	7%	
5,000-5,999	137	5%		4	1%		141	5%	
6,000-6,999	87	3%		6	1%		93	3%	
7,000-7,999	71	3%		9	2%		80	3%	
8,000 +	146	6%		71	17%		217	7%	
Total	2616			416			3032		

TOWN OF BRUNSON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	43	20%	64%	10	59%	76%	53	23%	65%
1,000-1,999	33	15%		1	6%		34	15%	
2,000-2,999	40	19%		2	12%		42	18%	
3,000-3,999	22	10%		0	0%		22	10%	
4,000-4,999	22	10%		0	0%		22	10%	
5,000-5,999	17	8%		0	0%		17	7%	
6,000-6,999	9	4%		0	0%		9	4%	
7,000-7,999	5	2%		0	0%		5	2%	
8,000 +	23	11%		4	24%		27	12%	
Total	214			17			231		

TOWN OF GIFFORD CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	31	30%	74%	7	70%	100%	38	33%	77%
1,000-1,999	18	17%		1	10%		19	17%	
2,000-2,999	20	19%		1	10%		21	18%	
3,000-3,999	9	9%		1	10%		10	9%	
4,000-4,999	6	6%		0	0%		6	5%	
5,000-5,999	6	6%		0	0%		6	5%	
6,000-6,999	2	2%		0	0%		2	2%	
7,000-7,999	3	3%		0	0%		3	3%	
8,000 +	10	10%		0	0%		10	9%	
Total	105			10			115		

TOWN OF HAMPTON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	311	26%	73%	127	57%	77%	438	31%	74%
1,000-1,999	226	19%		25	11%		251	18%	
2,000-2,999	180	15%		8	4%		188	13%	
3,000-3,999	143	12%		13	6%		156	11%	
4,000-4,999	111	9%		2	1%		113	8%	
5,000-5,999	63	5%		4	2%		67	5%	
6,000-6,999	45	4%		4	2%		49	4%	
7,000-7,999	32	3%		4	2%		36	3%	
8,000 +	63	5%		37	17%		100	7%	
Total	1174			224			1398		

TOWN OF VARNVILLE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	175	24%	85%	53	53%	78%	228	28%	84%
1,000-1,999	217	30%		13	13%		230	28%	
2,000-2,999	157	22%		5	5%		162	20%	
3,000-3,999	58	8%		7	7%		65	8%	
4,000-4,999	32	4%		1	1%		33	4%	
5,000-5,999	22	3%		0	0%		22	3%	
6,000-6,999	15	2%		1	1%		16	2%	
7,000-7,999	12	2%		5	5%		17	2%	
8,000 +	30	4%		15	15%		45	6%	
Total	718			100			818		

TOWN OF YEMASSEE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	76	19%	68%	27	42%	74%	103	22%	69%
1,000-1,999	71	18%		9	14%		80	17%	
2,000-2,999	63	16%		7	11%		70	15%	
3,000-3,999	65	16%		5	8%		70	15%	
4,000-4,999	46	11%		1	2%		47	10%	
5,000-5,999	29	7%		0	0%		29	6%	
6,000-6,999	16	4%		1	2%		17	4%	
7,000-7,999	19	5%		0	0%		19	4%	
8,000 +	20	5%		15	23%		35	7%	
Total	405			65			470		

ANNUAL WATER PRODUCTION

System	Gallons Produced	Gallons Residential Sales	Gallons Commercial Sales	Total Gallons From Sales	Gallons Unaccounted	% Unaccounted
Brunson	19,211,259	9,641,000	7,308,000	16,949,000	2,262,259	12%
Gifford	8,183,000	4,172,000	161,000	4,333,000	3,850,000	47%
Hampton	147,008,620	50,984,000	21,051,000	72,035,000	74,973,620	51%
Hampton Cnty	1,066,372	0	223,000	223,000	843,372	79%
Varnville	80,133,240	26,469,014	16,526,596	42,995,610	37,137,630	46%
Yemassee	45,332,319	17,979,000	10,547,000	28,526,000	16,806,319	37%
Total	300,934,810	109,245,014	55,816,596	165,061,610	135,873,200	45%

ANNUAL WASTEWATER TREATED

System	Gallons Treated	Gallons Residential Sales	Gallons Commercial Sales	Total Gallons From Sales	Gallons Unaccounted Sources	% Unaccounted
Brunson	78,486,900	8,569,000	6,329,100	18,723,627	59,763,273	76%
Gifford	4,176,000	4,015,000	161,000	4,176,000	0	0%
Hampton	297,515,600	46,963,000	17,682,000	64,717,907	232,797,693	78%
Hampton Cnty	236,920	0	220,000	236,920	236,920	0%
Varnville	126,835,400	22,443,816	16,442,778	38,886,594	87,948,806	69%
Yemassee	64,126,600	13,358,000	9,994,000	26,838,150	37,288,450	58%
Total	571,377,420	95,348,816	50,828,878	153,579,198	417,798,222	73%

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	52,634	26,414	20,022	215,033	23,477	17,340
Gifford	22,419	11,430	441	11,441	11,000	441
Hampton	402,763	139,682	57,674	815,111	128,666	48,444
Hampton Cnty	2,922	0	1,466	1,558	0	1,447
Varnville	219,543	72,518	45,278	347,494	61,490	45,049
Yemassee	124,198	49,258	28,896	175,689	36,597	27,381
Total	824,479	299,301	153,778	1,566,326	261,230	140,101

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
Hampton County (Lowcountry Regional Industrial Park) (Southern Carolina Industrial Campus)	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 5 Years

Fiscal Year Ending	Billings	Collections	Collection Rate
2017	\$2,768,567.27	\$2,769,550.27	100.03%
2016	\$2,715,843.93	\$2,716,046.84	100.01%
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	\$34.50	\$52.50	\$87.00
Town of Estill	\$24.61	\$33.36	\$57.97
Town of Walterboro	\$17.08	\$25.86	\$42.94
Town of Fairfax	\$22.54	\$28.09	\$50.63
Town of Allendale	\$22.73	\$25.80	\$48.53
Beaufort Jasper W&S Authority	\$28.46	\$47.08	\$75.54
Town of Bamberg	\$34.43	\$49.19	\$83.62
City of Charleston	\$22.49	\$70.08	\$92.57
City of Columbia	\$18.50	\$34.11	\$52.61
Lexington Cty. Joint Municipal W&S	\$48.19	\$48.50	\$96.69
Newberry County W&S Authority	\$55.40	\$58.40	\$113.80
McCormick County Water & Sewer	\$38.80	\$65.00	\$103.80

Source: SC Rural Infrastructure Authority Office of Local Government 2017 Municipal Water and Sewer Rate Survey

DEBT PER CUSTOMER

Combined System Debt per Customer Summary for Past 5 Years

Fiscal Year Ending	Total Debt	Annual Debt Service	# Customers	Per Customer Annual Debt	Per Capita Total Debt
2017	\$2,712,077	\$217,011	3,089	\$70.25	\$878
2016	\$2,849,563	\$217,011	3,089	\$70.25	\$922
2015	\$2,873,636	\$253,551	3,079	\$82.35	\$933
2014	\$3,217,724	\$306,866	3,146	\$97.54	\$1,022
2013	\$3,369,976	\$306,866	3,082	\$99.57	\$1,093

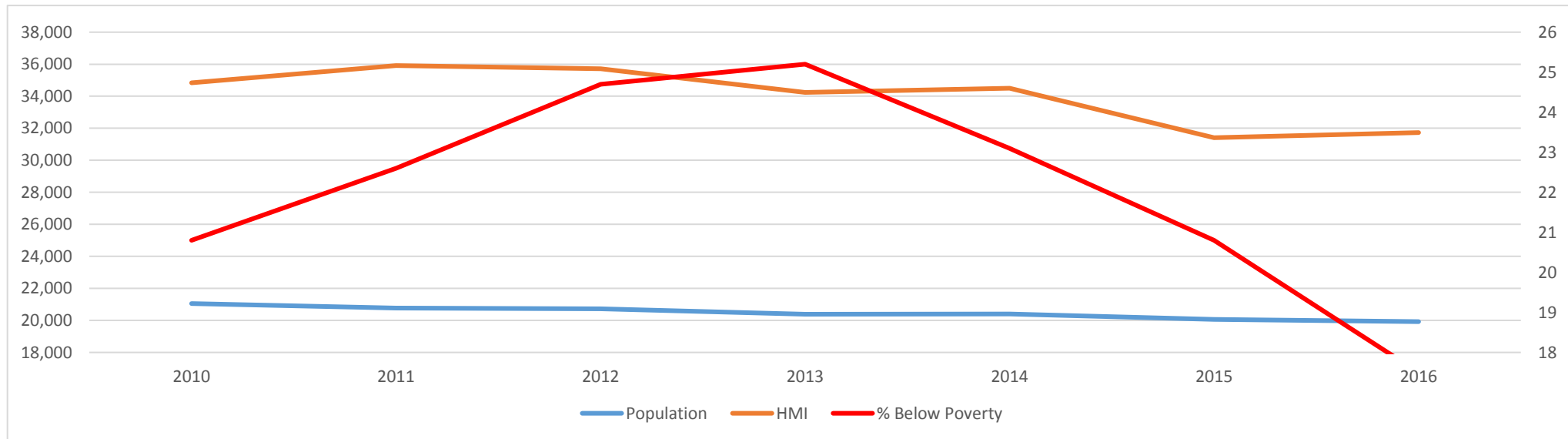
Source: LRWS QS1 Billing Software and LRWS Operations and Financial Reports

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

DEMOGRAPHIC and ECONOMIC STATISTICS

Hampton County Demographic and Economic Statistics Summary for Past 6 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
2016	19,922	\$572,227	\$28,723	\$31,734	5.8%	17.5%
2015	20,056	\$550,763	\$27,461	\$31,410	8.5%	20.8%
2014	20,400	\$537,435	\$26,345	\$34,494	7.7%	23.1%
2013	20,378	\$526,467	\$25,835	\$34,233	9.3%	25.2%
2012	20,725	\$543,893	\$26,243	35,713	11.2%	24.7%
2011	20,775	\$555,443	\$26,736	\$35,914	13.0%	22.6%
2010	21,051	\$537,839	\$25,549	\$34,846	12.8%	20.8%



Source: US Census Bureau; US Bureau of Economic Analysis; US Department of Labor – Bureau of Labor Statistics; SC Department of Employment & Workforce

TOP TEN WATER USERS 2017

Water Consumption for 12 Consecutive Months

Customer	Water Used Annually 2017	Customer	Water Used Annually 2016	Customer	Water Used Annually 2015
Brunson Laundry		Brunson Laundry	6,404,000	Alpha Genesis	6,034,000
Hampton Regional Medical		Hampton Regional Medical	4,954,000	Brunson Laundry	4,419,000
Alpha Genesis Inc.		Alpha Genesis Inc.	4,935,000	Hampton Regional Medical	3,489,000
Varnville Area Housing		Varnville Area Housing	3,110,000	Varnville Area Housing	2,212,000
Hampton County Courthouse Irrigation		Hampton County Courthouse Irrigation	2,599,000	Hampton Garden Apartments	1,934,000
Hampton Garden Apartments		Hampton Garden Apartments	2,215,000	Varnville Area Housing #2	1,578,000
Varnville Area Housing # 2		Varnville Area Housing # 2	1,909,000	Varnville Laundry & Car Wash	943,000
Hampton County Law Enforcement (Jail)		Hampton County Law Enforcement (Jail)	1,281,000	Super 8 Motel	865,000
Varnville Laundry & Car Wash		Varnville Laundry & Car Wash	1,081,000	Dixie Poly Drum	858,000
Rodeway Inn		Rodeway Inn	1,048,000	Yemassee Enterprises	835,000

Source: LRWS QS1 Billing Software

TOP TEN EMPLOYERS

Top Ten Employers Served by LRWS during 2015-2016

Customer	# of Employees	# of Employees	Rank	% of Total County Employment
	2015	2016		2016
Hampton County School District #1	425	347	1	4.44%
Hampton Regional Medical	246	267	2	3.41%
County of Hampton	238	235	3	3.00%
LeCreuset of America	170	144	4	1.84%
Alpha Genesis (1)	103	120	5	1.53%
Brunson Laundry/Lowcountry Medical Linens	37	48	6	0.61%
J.R. Wilson Construction	42	46	7	0.58%
Spencer Industries	23	24	8	0.30%
Southern Metal Works	18	18	9	0.23%
Coastal Technologies	17	17	10	0.21%

Source: Hampton County Economic & Development Office, SCWorks.org (2016) Total Employed in County 7,812

(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, 2017. Our opinion, dated December 28, 2017 on the September 30, 2017 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

The Authority adopted the provisions of *GASB Statement No. 82, Pension Issues - An Amendment of GASB Statements Numbers 67, 68, and 73* during the year ended September 30, 2017.

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
December 28, 2017

LOWCOUNTRY REGIONAL WATER SYSTEM

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

WITH

INDEPENDENT AUDITORS' REPORT

LOWCOUNTRY REGIONAL WATER SYSTEM

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

WITH

INDEPENDENT AUDITORS' REPORT

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THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

501 STATE STREET POST
OFFICE BOX 5949

WEST COLUMBIA, SC 29171

PHONE: (803) 739-3090

FAX: (803) 791-0834

INDEPENDENT AUDITORS' 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, 2017, 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.

Auditors' 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 on page 26, and the Schedule 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 December 28, 2017, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

The Brittingham Group LLP

West Columbia, South Carolina
December 28, 2017

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,		
Assets and Deferred Outflows of Resources:	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Cash and investments	\$ 1,469,890	\$ 1,538,827	\$ (68,937)
Receivables	213,636	256,034	(42,398)
Inventory	53,798	52,386	1,412
Capital assets, net	13,825,526	12,279,780	1,545,746
Deferred outflows of resources	244,237	99,764	144,473
 Total assets and deferred outflows of resources	 <u>\$ 15,807,087</u>	 <u>\$ 14,226,791</u>	 <u>\$ 1,580,296</u>
 Liabilities and Deferred Inflows of Resources:			
Current liabilities	\$ 661,895	\$ 390,234	\$ 271,661
Long-term debt	2,269,947	2,712,032	(442,085)
Pension liability	1,444,567	1,239,015	205,552
Deferred inflows of resources	68,478	100,043	(31,565)
 Total liabilities and deferred inflows of resources	 <u>\$4,444,887</u>	 <u>\$4,441,324</u>	 <u>\$3,563</u>
 Net Position:			
Invested in capital assets	9,637,634	8,506,052	1,131,582
Restricted for debt service	-	627,598	(627,598)
Unrestricted	<u>1,724,566</u>	<u>651,817</u>	<u>1,072,749</u>
TOTAL NET POSITION	<u>\$ 11,362,200</u>	<u>\$ 9,785,467</u>	<u>\$ 1,576,733</u>

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,		
	2017	2016	Variance
<u>Operating revenues</u>	<u>\$ 2,839,308</u>	<u>\$ 2,736,049</u>	<u>\$ 103,259</u>
<u>Operating expenses</u>	<u>(2,542,415)</u>	<u>(2,518,198)</u>	<u>(24,217)</u>
<u>Operating income (loss)</u>	<u>296,893</u>	<u>217,851</u>	<u>79,042</u>
 <u>Non-operating revenues</u>	 <u>1,110,630</u>	 <u>371,675</u>	 <u>738,955</u>
<u>Non-operating expenses</u>	<u>(72,152)</u>	<u>(72,523)</u>	<u>371</u>
<u>Non-operating loss</u>	<u>1,038,478</u>	<u>299,152</u>	<u>739,326</u>
<u>Capital contributions</u>	<u>241,362</u>	<u>270,000</u>	<u>(28,638)</u>
<u>Change in net position</u>	<u>1,576,733</u>	<u>787,003</u>	<u>\$ 789,730</u>
<u>Net position - beginning of year, restated</u>	<u>9,785,467</u>	<u>8,998,464</u>	
 <u>Net position - end of year</u>	 <u>\$ 11,362,200</u>	 <u>\$ 9,785,467</u>	

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,		
	2017	2016	Variance
Cash provided (used) by:			
Operating activities	\$ 872,959	\$ 782,679	\$ 90,280
Capital and related financing activities	(943,575)	14,794	(958,369)
Investing activities	1,679	1,172	507
Net change in cash	(68,937)	798,645	(867,582)
Cash and cash equivalents - beginning of year	1,538,827	740,182	798,645
Cash and cash equivalents - end of year	<u>\$ 1,469,890</u>	<u>\$ 1,538,827</u>	<u>\$ (68,937)</u>

Capital Assets

The System's investment in capital assets as of September 30, 2017, amounts to \$13,825,526 (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 increase in capital assets for the current year was approximately 12.59 percent.

Capital Assets - Net of Accumulated Depreciation

	Year Ended September 30,		
	2017	2016	Variance
Land	\$ 153,239	\$ 153,239	\$ -
Construction in Process	1,622,576	859,683	762,893
Buildings	163,398	157,261	6,137
Equipment	554,859	554,859	=
Vehicles	126,797	126,797	=
Water systems	10,528,608	9,439,991	1,088,617
Sewer systems	14,665,134	14,438,530	226,604
Less: accumulated depreciation	(13,989,085)	(13,450,580)	(538,505)
	<u>\$ 13,825,526</u>	<u>\$ 12,279,780</u>	<u>\$ 1,545,746</u>

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

- The following projects are currently in various stages of development/construction at year- end:
 - Brunson Gifford Waterline
 - Salkehatchie Sewer Upgrade
 - Brunson Waste Water Treatment Plant and Sewer Rehab
 - Operations Facility
 - Sander's Branch Water and Sewer Replacements
- The following projects were completed during the fiscal year
 - SPEC Water and Sewer Project – Phase 2
 - Hampton Sewer Rehab Project.

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 2017, the System had total current and long-term debt outstanding of \$2,712,077. Of this amount, \$2,412,077 is payable as a revenue bond 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.

Current and Long-Term Debt

	Year Ended September 30,		
	2017	2016	Variance
Notes payable	\$ 300,000	\$ 300,000	\$ -
Revenue bonds payable	2,412,077	2,549,562	(137,485)
	<u>\$ 2,712,077</u>	<u>\$ 2,849,562</u>	<u>\$ (137,485)</u>

The System's total long-term debt decreased by \$137,485, or 4.82 percent, during the current fiscal year. This decrease was caused by principal payments being made during the current fiscal year.

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 six individuals who are appointed by the Members of the System. Additionally, if the Member's municipal or county administrators or managers (Administrators) or their counterparts, are not appointed by the Member as a Commissioner or Alternate Commissioner representing the Member, the Member's Administrators, or their counterparts, shall serve as ex-officio Members of the Commission with seat and voice but not vote.

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 1 part-time and 21 full-time employees. Included are 8 administrative staff including the General Manager, Deputy General Manager, Engineer, Finance and Human Resource Director, Customer Service and Billing Manager, Meter Technician and 2 Customer Service Representatives. The water distribution and wastewater collection staff include a Field Operations Manager and 7 Utility Technicians. The water and wastewater treatment staff include a Treatment Operations Manager, Local Coordinator and 3 Treatment Facility Operators.

At the close of the fiscal year, the System had 422 commercial customers, 2,635 residential water customers, 386 commercial sewer customers and 2,383 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 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 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, 2017.

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, 2017

Assets and Deferred Outflows of Resources:

Current assets:

Cash and cash equivalents	\$ 1,469,890
Accounts receivable, net	213,636
Inventory	53,798
Total current assets	<u>1,737,324</u>

Non-current assets:

Capital assets, not being depreciated	1,775,815
Capital assets, net of accumulated depreciation	12,049,711
Total non-current assets	<u>13,825,526</u>

Deferred outflows of resources	244,237
Total assets and deferred outflows of resources	<u>15,807,087</u>

Liabilities and Deferred Inflows of Resources:

Current liabilities:

Accounts payable	48,339
Accrued liabilities	21,771
Accrued compensated absences	45,176
Accrued interest payable	33,380
Due to other governments	71,099
Revenue bonds payable - current portion	142,130
Notes payable	300,000
Total current liabilities	<u>661,895</u>

Other liabilities:

Revenue bonds payable - non-current portion	2,269,947
Pension liability	1,444,567
Total long-term liabilities	<u>3,714,514</u>

Deferred inflows of resources	68,478
Total liabilities and deferred inflows of resources	<u>4,444,887</u>

Net Position:

Net investment in capital assets	9,637,634
Unrestricted - unfunded pension liability	(1,268,808)
Unrestricted - other	2,993,374
Total net position	<u>\$ 11,362,200</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2017

Operating Revenues:

Water service	\$ 1,060,086
Sewer service	1,385,408
Penalties, reconnection fees and miscellaneous	393,814
Total operating revenues	<u>2,839,308</u>

Operating Expenses:

Personnel services	982,890
Contract sewer treatment	14,660
Repairs and maintenance	180,159
Utilities	339,014
Supplies, materials and chemicals	69,831
Professional, engineering, lab and legal fees	179,372
Insurance	31,215
Vehicle and fuel expenses	36,482
Postage, printing and advertising	10,229
Building and equipment rental	30,302
Dues, licenses and permits	51,789
Bad debts	43,410
Bank charges	23,153
Depreciation	538,505
Miscellaneous	11,404
Total operating expenses	<u>2,542,415</u>
Operating income	<u>296,893</u>

Non-Operating Revenue (Expenses):

Grant income	1,108,951
Interest income	1,679
Interest expense	(72,152)
Net non-operating revenue (expense)	<u>1,038,478</u>

Income before capital contributions 1,335,371

Capital Contributions 241,362

Change in net position 1,576,733

Net position, beginning of year 9,785,467

Net position, end of year \$ 11,362,200

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2017

Cash Flows From Operating Activities:

Cash received from customers	\$ 2,881,706
Cash payments for personnel services	(945,996)
Cash payments for operating and contractual services	(14,660)
Cash payments for suppliers	(1,048,091)
Net cash flows provided by operating activities	<u>872,959</u>

Cash Flows Used in Capital and Related Financing Activities:

Grant income	1,108,951
Acquisition and construction of capital assets	(1,842,889)
Principal paid on capital debt	(137,485)
Interest paid on capital debt	(72,152)
Net cash flows used in capital and related financing activities	<u>(943,575)</u>

Cash Flows From Investing Activities:

Interest income	<u>1,679</u>
Net cash flows provided by investing activities	<u>1,679</u>

Net change in cash and cash equivalents	(68,937)
Cash and cash equivalents, beginning of year	<u>1,538,827</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,469,890</u></u>

(CONTINUED)

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF CASH FLOWS

-CONTINUED-

Reconciliation of Operating Income to Net Cash Flows

From Operating Activities:

Operating income	\$ 296,893
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	538,505
Change in assets and liabilities	
Accounts receivable	42,398
Inventory	(1,412)
Deferred outflows	(144,473)
Deferred inflows	(31,565)
Accounts payable	(1,023)
Accrued expenses	3,727
Accrued interest payable	1,189
Due to other governments	(44,212)
Accrued compensated absences	7,380
Pension liability	205,552
Net cash flows from operating activities	<u>\$ 872,959</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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 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.

-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 greater than one year.

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.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

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.

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 South Carolina Municipal Insurance Reserve Fund 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.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (continued)

Risk Management (Continued)

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.

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, 2017, the carrying amount of the System's deposits totaled \$1,469,890 and the bank balance was \$1,535,528, of which \$1,512,413 was either insured by the FDIC or collateralized by a financial institution. The remaining \$23,115 was exposed to custodial credit risk due to not being collateralized by the financial institution.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Capital Assets

Activity in capital assets for the year ended September 30, 2017 was as follows:

	October 1, 2016	Increases	Decreases	September 30, 2017
Capital assets, not being depreciated:				
Land	\$ 153,239	\$ -	\$ -	\$ 153,239
Construction in process	<u>859,683</u>	<u>762,893</u>	<u>-</u>	<u>1,622,576</u>
Total capital assets, not being depreciated	<u>1,012,922</u>	<u>762,893</u>	<u>-</u>	<u>1,775,815</u>
Capital assets, being depreciated:				
Buildings	157,261	6,137	-	163,398
Equipment	554,859	-	-	554,859
Vehicles	126,797	-	-	126,797
Water systems	9,439,991	1,088,617	-	10,528,608
Sewer systems	<u>14,438,530</u>	<u>226,604</u>	<u>-</u>	<u>14,665,134</u>
Total capital assets, being depreciated	<u>24,717,438</u>	<u>1,321,358</u>	<u>-</u>	<u>26,038,796</u>
Less: accumulated depreciation	<u>(13,450,580)</u>	<u>(538,505)</u>		<u>(13,989,085)</u>
Total capital assets	<u>\$ 12,279,780</u>	<u>\$ 1,545,746</u>	<u>\$ -</u>	<u>\$ 13,825,526</u>

4. Due to Other Governments

The system bills and collects various fees on behalf of the Towns in its service area. The following are the amounts owed to those Towns at September 30, 2017:

	Brunson	Gifford	Hampton	Varnville	Yemassee	Total
<u>Services billed for:</u>						
Police	\$ 1,105	\$ 1,309	\$ -	\$ 7,464	\$ -	\$ 9,878
Animal control	<u>222</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>222</u>
Garbage collection	<u>3,879</u>	<u>1,695</u>	<u>29,502</u>	<u>16,609</u>	<u>7,579</u>	<u>59,264</u>
Solid waste	<u>-</u>	<u>-</u>	<u>1,348</u>	<u>387</u>	<u>-</u>	<u>1,735</u>
Total due to towns	<u>\$ 5,206</u>	<u>\$ 3,004</u>	<u>\$ 30,850</u>	<u>\$ 24,460</u>	<u>\$ 7,579</u>	<u>\$ 71,099</u>

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Long-Term Debt

Notes Payable

The Notes Payable at September 30, 2017 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, 2017 was \$150,000 and is due within one year.

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, 2017 was \$150,000 and is due within one year.

Revenue Bonds Payable

Revenue Bonds Payable at September 30, 2017 consists of the following:

2016A Water and Sewer System Revenue Bond payable to the Carter Bank and Trust with an original amount of \$2,417,000 due in varying semi-annual principal and interest payments through 2036 with an interest rate of 2.70%. The balance at September 30, 2017 was \$2,322,000.

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, 2017 was \$90,077.

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

Year Ended September 30,	Principal	Interest	Total
2018	\$ 442,130	\$ 73,575	\$ 515,705
2019	147,947	61,770	209,717
2020	104,000	57,294	161,294
2021	107,000	54,486	161,486
2022	110,000	51,597	161,597
2023 - 2027	595,000	211,923	806,923
2028 - 2032	670,000	127,089	797,089
2033 - 2037	536,000	24,036	560,036
	<u>\$2,712,077</u>	<u>\$661,770</u>	<u>\$3,373,847</u>

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Long-Term Debt (continued)

Changes in long-term liabilities for the year ended September 30, 2017, were as follows:

	October 1, 2016	Additions	September 30, Reductions	2017	Due Within One Year
<u>Notes payable</u>	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>
<u>Revenue bonds payable</u>	<u>2,549,563</u>	<u>-</u>	<u>137,485</u>	<u>2,412,077</u>	<u>142,130</u>
<u>Compensated absences</u>	<u>37,796</u>	<u>45,176</u>	<u>37,796</u>	<u>45,176</u>	<u>45,176</u>
	<u>\$ 2,887,359</u>	<u>\$45,176</u>	<u>\$175,281</u>	<u>\$2,757,253</u>	<u>\$487,306</u>

6. Pension Plan

Substantially all 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 Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. The PEBA has the authority to establish and amend benefits and funding policy. 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 life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members.

The Retirement Division (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. The CAFR is available online at www.retirement.sc.gov, or a copy may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960.

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 the 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.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

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).

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 available 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 can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. Members of SCRS have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

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 July 1, 2016, employees participating in the SCRS were required to contribute 8.16% of all earnable compensation. The employer contribution rate for SCRS was 11.56%. Included in the total SCRS employer contribution rate is a base retirement contribution of 11.41% and .15% for the incidental death program. The System's actual contributions to the SCRS for the years ended September 30, 2017, 2016, and 2015 were approximately \$72,434, \$66,769, and \$68,471, respectively, and equaled the base required retirement contribution rate.

As an alternative to membership in the SCRS, newly hired employees of the Fund may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement plan. The System did not have any employees participating in the ORP during the 2017, 2016 or 2015 fiscal years

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

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, 2017, the System reported \$1,444,567 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, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to June 30, 2016, and financial information of the pension trust funds as of June 30, 2016, 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, 2016, the System's SCRS proportion was 0.0068%.

At September 30, 2017 the System 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	\$ 14,975
Net difference between projected and actual investment earnings	121,534
Deferred amounts from changes in proportionate share and differences between employer contributions & proportionate share of total plan employer contributions	32,191
Current year employer contributions	<u>75,537</u>
Total deferred outflows of resources	<u>\$ 244,237</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ (1,569)
Deferred amounts from changes in proportionate share and differences between employer contributions & proportionate share of total plan employer contributions	<u>(66,909)</u>
Total deferred inflows of resources	<u>\$ (68,478)</u>

Net deferred outflows and inflows of resources	<u>\$ 175,759</u>
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LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

System contributions subsequent to the measurement date totaled \$75,537. These contributions will be reported as deferred outflows of resources related to pensions as of September 30, 2017 but will be recognized as a reduction of the net pension liability for the year ended September 30, 2018. Other 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>Net</u>
2018	\$ 12,911
2019	5,084
2020	53,701
2021	<u>28,526</u>
	<u>\$ 100,222</u>

The total pension liabilities in the July 1, 2015 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%
Projected Salary Increases	3.5% to 12.5%
Inflation Rate	2.75%
Benefit Adjustments	Lesser of 1% or \$500

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

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.

Assumptions used in the July 1, 2015 valuation for SCRS are as follows:

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 2015. 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 using a building block approach, primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

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 percentages 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 calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
Global Equity	43.0%		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	8.0%		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	20.0%		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	17.0%		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100%		5.10%
Inflation for Actuarial Puposes			2.75%
Total Expected Nominal Return			7.85%

The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. 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-

6. Pension Plan (continued)

The following table represents the System's proportionate share of the net SCRS pension liabilities calculated using the discount rate of 7.50 percent, as well as what the System'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.

	1% Decrease	Current Rate	1% Increase
<u>Plan</u>	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
SCRS	\$1,802,058	\$ 1,444,567	\$ 1,146,969

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.

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, 2017 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.

9. Subsequent events

The System has evaluated all events subsequent to the basic financial statements for the year ended September 30, 2017 through December 28, 2017 which is the date the financial statements were available to be issued, and determined that a Bond Anticipation Note issued on November 17, 2017 for \$6,500,000 was the only 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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
System's proportion of the net pension	0.0068%	0.0065%	0.0072%	0.0072%
System's proportionate share of the net pension liability	\$ 1,444,567	\$ 1,239,015	\$ 1,246,692	\$ 1,298,777
System's covered payroll	\$ 634,829	\$ 603,698	\$ 628,174	\$ 620,651
System's proportionate share of the net pension liability as a percentage of its covered payroll	227.55%	202.45%	196.53%	194.26%
Plan fiduciary net position as a percentage of the total pension liability	52.91%	57.00%	59.92%	56.39%

* - The amounts presented for each fiscal year were determined as of July 1 of four 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, information is only available for fiscal years after 2015.

LOWCOUNTRY REGIONAL WATER SYSTEM
SCHEDULE OF SOUTH CAROLINA RETIREMENT SYSTEMS CONTRIBUTIONS
LAST TEN FISCAL YEARS*

	2017	2016	2015	2014	2007 - 2013
Contractually required contributions	\$ 72,434	\$ 66,769	\$ 68,471	\$ 65,789	*
Contributions in relation to the contractually required contribution	(72,434)	(66,769)	(68,471)	(65,789)	*
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	*
System's covered payroll	\$ 634,829	\$ 603,698	\$ 628,174	\$ 620,651	*
Contributions as a percentage of covered payroll	11.41%	11.06%	10.90%	10.60%	*

* - The amounts presented for each fiscal year were determined as of July 1 of four 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, information is only available for fiscal years after 2015.

OTHER FINANCIAL INFORMATION

LOWCOUNTRY REGIONAL WATER SYSTEM

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - WATER SERVICE,

SEWER SERVICE AND UNALLOCATED

YEAR ENDED SEPTEMBER 30, 2017

	Water	Sewer	Unallocated	Total
Operating Revenues:				
Water service	\$ 1,060,086	\$ -	\$ -	\$ 1,060,086
Sewer service	-	1,385,408	-	1,385,408
Penalties, reconnection fees and miscellaneous	192,131	201,683	-	393,814
Total operating revenues	1,252,217	1,587,091	-	2,839,308
Operating Expenses:				
Personnel services	419,008	419,660	144,222	982,890
Sewer treatment	-	14,660	-	14,660
Repairs and maintenance	88,694	76,267	15,198	180,159
Utilities	71,372	264,085	3,557	339,014
Supplies, materials and chemicals	15,550	45,477	8,804	69,831
Professional, engineering, lab and professional fees	37,605	117,116	24,651	179,372
Insurance	11,832	11,832	7,551	31,215
Vehicle and fuel expenses	17,404	14,529	4,549	36,482
Postage, printing and advertising	1,292	-	8,937	10,229
Building and equipment rental	5,819	18,542	5,941	30,302
Dues, licenses and permits	43,065	6,775	1,949	51,789
Bad debts	21,271	22,139	-	43,410
Bank charges	-	-	23,153	23,153
Depreciation	181,555	288,771	68,179	538,505
Miscellaneous	4,879	4,209	2,316	11,404
Total operating expenses	919,346	1,304,062	319,007	2,542,415
Operating income (loss)	332,871	283,029	(319,007)	296,893
Non-Operating Revenue (Expenses):				
Grant income	1,108,951	-	-	1,108,951
Interest income	5	1	1,673	1,679
Interest expense	(28,471)	(41,805)	(1,876)	(72,152)
Net non-operating revenue (expense)	1,080,485	(41,804)	(203)	1,038,478
Income (loss) before capital contributions	1,413,356	241,225	(319,210)	1,335,371
Capital Contributions	<u>203,891</u>	<u>37,471</u>	<u>-</u>	<u>241,362</u>
Change in net position	<u>\$ 1,617,247</u>	<u>\$ 278,696</u>	<u>\$ (319,210)</u>	<u>\$ 1,576,733</u>

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

INTERNAL AUDITORS' 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, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 28, 2017.

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

West Columbia, South Carolina
December 28, 2017

Lowcountry Regional Water System

513 Elm St West

Hampton, SC 29924

Phone 803-943-1006

