



Lowcountry Regional Water System

2018 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, 2018**



Table of Contents

ORGANIZATION INFORMATION

MISSION STATEMENT	4
MEMBERSHIP	5
ORGANIZATIONAL STRUCTURE.....	6

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION and ANALYSIS.....	7
INFRASTRUCTURE HIGHLIGHTS.....	8
BUDGETARY PROCEDURES.....	9
BUDGET	9
OUTSTANDING INDEBTEDNESS	10
RATES, FEES & CHARGES.....	11

STATISTICAL INFORMATION

TOTAL CUSTOMER COUNT BY TOWN.....	12
TOTAL CUSTOMER COUNT BY CONSUMPTION	13
TOWN OF BRUNSON CUSTOMER COUNT BY CONSUMPTION.....	14
TOWN OF GIFFORD CUSTOMER COUNT BY CONSUMPTION.....	15
TOWN OF HAMPTON CUSTOMER COUNT BY CONSUMPTION.....	16
TOWN OF VARNVILLE CUSTOMER COUNT BY CONSUMPTION.....	17
TOWN OF YEMASSEE CUSTOMER COUNT BY CONSUMPTION	18
ANNUAL WATER PRODUCTION.....	19
ANNUAL WASTEWATER TREATED	19
DAILY WATER & WASTEWATER PRODUCTION & SALES AVERAGES	20
INFRASTRUCTURE	21
SYSTEM CAPACITIES	22
BILLINGS and COLLECTIONS.....	23
WATER & SEWER CHARGES	24
COMPARED WITH OTHER SYSTEMS.....	24
DEBT PER CUSTOMER.....	25

STATISTICAL INFORMATION CONT'D

DEMOGRAPHIC and ECONOMIC STATISTICS	26
TOP TEN WATER USERS	27
TOP TEN EMPLOYERS	28
Appendix A	29
AUDITED FINANCIAL STATEMENTS.....	29

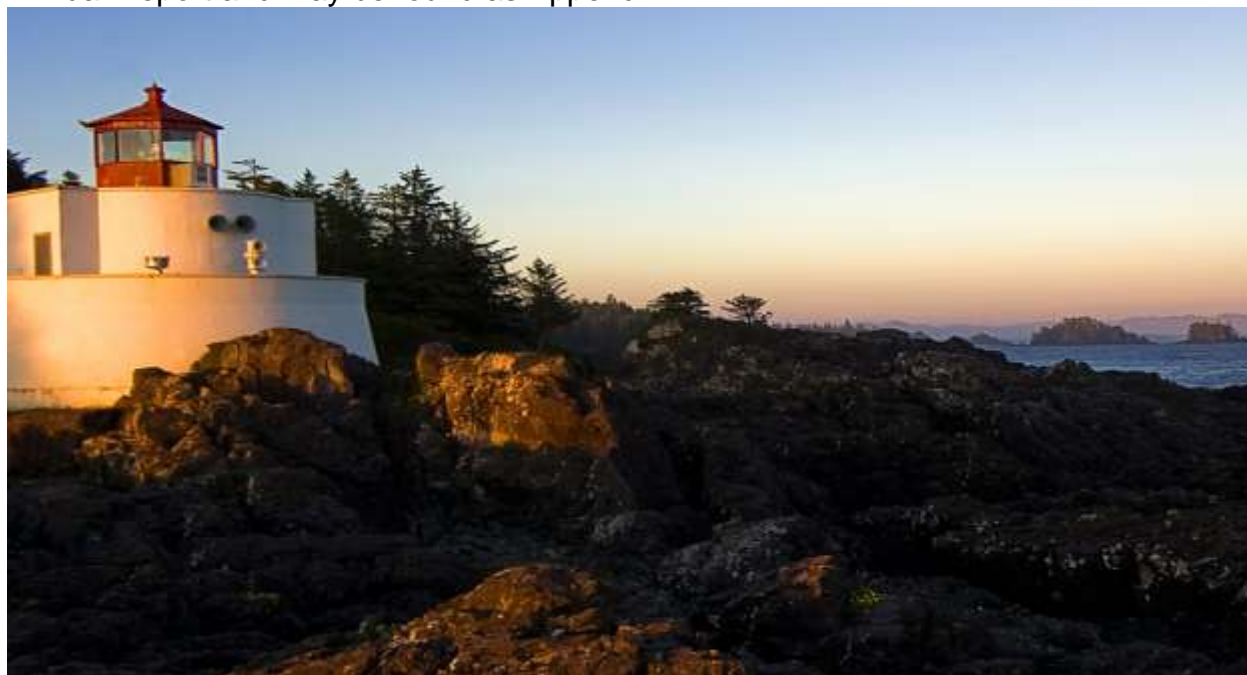
INTRODUCTION

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 fifth annual report prepared by Lowcountry Regional Water System since its creation in 2012 and represents the forth 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 2017-2018 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.

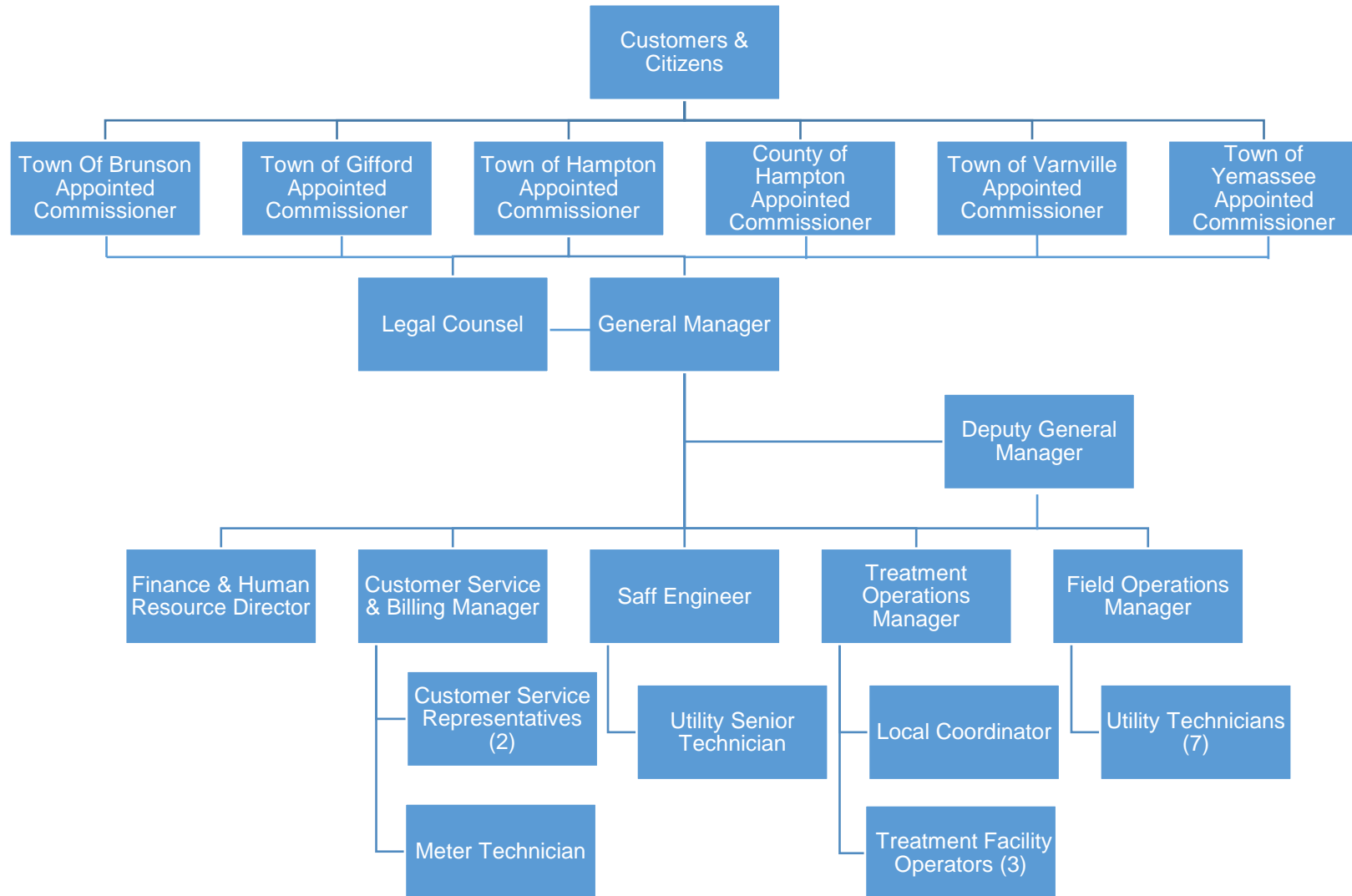
Member Appointments

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. James Bilka
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. Rocky Hudson	Chairman
Mr. James Bilka	Vice-Chairman
Mr. Henry Tuten	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 ***fifth*** 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 \$2,828,805
- Operating Expenses were \$2,736,228
- Operating Income was \$92,577
- Net Non-Operating Expenses were \$1,462,050
- Operating income was reported in the amount of \$1,554,627 prior to capital contributions. This income includes \$563,118 in depreciation expenses.

Departmental Highlights

- Construction was completed on the Brunson Gifford Waterline. With this project, the water systems in the Towns of Brunson and Gifford were connected which increased the reliability and resiliency of the water supply to these towns and provided fire protection in rural Hampton County.
- Construction was completed on the Sander’s Branch and Dogwood Drive Utility Restoration. This project, which was funded by FEMA and SC EMD, restored water and sewer lines damaged during Hurricane Matthew to their pre-disaster condition.
- Construction was completed on the relocation of water and sewer lines necessary for the widening of SC Hwy 68. The utilities that were relocated included an 8” force main and two 10” water lines in steel casing serving the Hampton County Industrial Area in Early Branch.
- Rehabilitation of sewer infrastructure along Jackson Ave in the Town of Hampton was completed. This project, which was funded by CDBG, repaired or replaced a

portion of old broken and damaged sewer pipe within the town. The project utilized trenchless technologies such as pipe bursting and cured in place pipe lining techniques to minimize disturbance and disruption.

- Construction began on the Salkehatchie Sewer Upgrade in the Town of Yemassee. This project is designed to upgrade the condition and capacity of the sewer collection mains that serve many residents throughout the Town and also receives wastewater from Hampton County's I-95 interchange and industrial area.
- Construction began on a multi-division water and wastewater improvements project funded by a USDA loan/grant totaling \$8,344,000. The project includes removal of biosolids from the Hampton and Yemassee WWTPs, sewer infrastructure rehab in the Town of Hampton, a system wide metering upgrade, and rehab of elevated tanks in Yemassee and Gifford.

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
Brunson Gifford Waterline	\$1,498,000	Funded	Complete
Sander's Branch and Dogwood Drive Utility Restoration	\$349,300	Funded	Complete
Hwy 68 Utility Relocation	\$210,000	Funded	Complete
Jackson Ave Sewer Rehab	\$706,500	Funded	Complete
Salkehatchie Sewer Upgrade	\$875,000	Funded	Construction
Water & Sewer System Improvements Including Div. I- Sludge Removal at Hampton & Yemassee WWTP Div. II- Hampton Sewer Main Rehab Div. III- Metering System Upgrade Div. IIII- Yemassee & Gifford Tank Rehab Operations Equipment Purchases	\$8,344,000	Funded	Construction
Town of Brunson Wastewater Treatment & Sewer Rehab	\$7,541,600	Funded	Design/Permitting
Nix St Neighborhood Revitalization	\$375,700	Funded	Design/Permitting
Lightsey/Kinard Sewer Rehab	\$552,000	Funded	Design/Permitting
Gifford Waterline Extension	\$460,900	Funded	Development
Total Amount of All Projects	\$20,913,000		
Total Amount of Funded Projects	\$20,913,000		
Total Amount of Unfunded Projects	\$0		

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 2017-2018.

<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>			
Water Revenue	\$1,063,810	\$1,090,916	\$27,106
Wastewater Revenue	\$1,401,626	\$1,385,867	(\$15,759)
Operating Revenue	\$360,931	\$381,066	\$20,135
<u>Totals</u>	<u>\$2,826,367</u>	<u>\$2,857,849</u>	<u>\$31,482</u>
<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Expenditures</u>			
Water Treatment	\$242,686	\$185,184	(\$57,502)
Water Distribution	\$628,008	\$678,770	\$50,762
Wastewater Treatment	\$815,713	\$814,374	(\$1,339)
Wastewater Collection	\$311,800	\$307,475	(\$4,325)
Administrative	\$828,160	\$864,928	\$36,768
<u>Totals</u>	<u>\$2,826,367</u>	<u>\$2,850,731</u>	<u>\$24,364</u>

OUTSTANDING INDEBTEDNESS

The following table presents information on the debt obligations of the Lowcountry Regional Water System as of September 30, 2018.

Town/ LRWS	Lien Holder/ Issuer	Year/ Series	Original Notes/Bonds	Outstanding Notes/Bonds 9/30/18	Interest Rate	Final Maturity
LRWS	Carter Bank	2016A	\$2,417,000	\$2,224,000	2.70%	2036
Varnville	US Bank	2009	\$390,000	\$45,962	3.76%	2019
LRWS	Palmetto State Bank USDA	2018	6,480,000	\$4,644,138	2.35%	
Total	Original Notes & Bonds			Outstanding Notes & Bonds as of September 30, 2018		
	\$9,287,000.00			\$6,914,100		



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	224	17	241	92%	8%	7%
Gifford	102	8	110	94%	6%	3%
Hampton	1217	250	1467	82%	18%	46%
Varnville	770	102	872	88%	12%	27%
Yemassee	420	62	482	87%	13%	15%
Total	2733	439	3172			

TOTAL CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	604	22%	69%	234	53%	75%	838	26%	70%
1,000-1,999	542	19%		44	10%		586	18%	
2,000-2,999	478	17%		28	6%		506	15%	
3,000-3,999	322	11%		27	6%		349	11%	
4,000-4,999	254	9%		13	2%		267	8%	
5,000-5,999	171	6%		7	1%		178	5%	
6,000-6,999	101	3%		7	1%		108	3%	
7,000-7,999	90	3%		10	2%		100	3%	
8,000 +	174	6%		66	15%		240	7%	
Total	2736			436			3172		

TOWN OF BRUNSON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	51	23%	67%	8	47%	88%	59	25%	68%
1,000-1,999	22	9%		4	24%		26	10%	
2,000-2,999	41	19%		1	6%		42	18%	
3,000-3,999	35	16%		2	11%		37	15%	
4,000-4,999	26	11%		1	6%		27	12%	
5,000-5,999	19	8%		0	0%		19	8%	
6,000-6,999	6	2%		0	0%		6	2%	
7,000-7,999	8	3%		0	0%		8	3%	
8,000 +	16	7%		1	6%		17	7%	
Total	224			17			241		

TOWN OF GIFFORD CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	16	15%	75%	4	50%	87%	20	18%	76%
1,000-1,999	17	16%		1	12%		18	16%	
2,000-2,999	24	24%		2	25%		26	24%	
3,000-3,999	20	20%		0	0%		20	18%	
4,000-4,999	4	4%		0	0%		4	4%	
5,000-5,999	8	8%		0	0%		8	7%	
6,000-6,999	4	4%		0	0%		4	4%	
7,000-7,999	3	3%		1	12%		4	4%	
8,000 +	6	6%		0	0%		6	5%	
Total	102			8			110		

TOWN OF HAMPTON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	313	26%	70%	147	59%	77%	460	31%	70%
1,000-1,999	192	16%		21	8%		213	15%	
2,000-2,999	201	17%		11	4%		212	14%	
3,000-3,999	131	11%		15	6%		146	10%	
4,000-4,999	127	10%		8	3%		135	9%	
5,000-5,999	84	7%		5	2%		89	7%	
6,000-6,999	47	4%		4	2%		51	3%	
7,000-7,999	44	3%		5	2%		49	3%	
8,000 +	78	6%		34	14%		112	8%	
Total	1217			250			1467		

TOWN OF VARNVILLE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	171	22%	80%	48	47%	75%	219	25%	79%
1,000-1,999	231	31%		17	17%		248	28%	
2,000-2,999	141	18%		8	8%		149	17%	
3,000-3,999	73	9%		3	3%		76	9%	
4,000-4,999	40	5%		3	3%		43	5%	
5,000-5,999	36	5%		0	0%		36	4%	
6,000-6,999	21	3%		2	1%		23	3%	
7,000-7,999	17	2%		3	3%		20	2%	
8,000 +	40	5%		18	18%		58	7%	
Total	770			102			872		

TOWN OF YEMASSEE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	53	13%	64%	27	44%	68%	80	17%	64%
1,000-1,999	79	19%		2	3%		81	17%	
2,000-2,999	71	17%		6	10%		77	16%	
3,000-3,999	63	15%		7	11%		70	14%	
4,000-4,999	56	13%		2	3%		58	12%	
5,000-5,999	24	6%		2	3%		26	5%	
6,000-6,999	22	5%		2	3%		24	5%	
7,000-7,999	18	4%		1	2%		19	4%	
8,000 +	34	8%		13	21%		47	10%	
Total	420			62			482		

ANNUAL WATER PRODUCTION

System	Gallons Produced	Gallons Residential Sales	Gallons Commercial Sales	Total Gallons From Sales	Gallons Unaccounted	% Unaccounted
Brunson	11,989,930	9,419,778	7,656,837	17,076,615	(5,086,685)	-42%
Gifford	24,477,000	3,765,143	283,035	4,048,178	20,428,822	83%
Hampton	107,907,750	107,907,750	49,819,000	20,764,000	37,324,750	35%
Hampton Cnty	1,858,003	1,858,003	434,000	434,000	1,424,003	77%
Varnville	80,432,170	28,821,044	18,786,218	47,607,262	32,824,908	41%
Yemassee	55,697,693	18,619,836	9,835,752	28,455,588	27,242,105	49%
Total	282,362,546	170,391,554	86,814,842	118,385,643	119,244,588	42%

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	32,849	25,808	20,978	148,832	22,931	14,509
Gifford	67,060	10,315	775	10,939	10,164	775
Hampton	295,638	136,490	56,888	558,498	125,178	46,241
Hampton Cnty	5,090	0	1189	1189	0	1189
Varnville	220,362	78,962	51,469	255,070	67,892	49,021
Yemassee	152,596	51,013	26,947	184,908	37,873	25,153
Total	773,595	302,588	158,246	1,159,436	264,038	136,888

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
2018	\$2,754,464.74	\$2,753,013.59	99.94%
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%

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

WATER & SEWER CHARGES COMPARED WITH OTHER SYSTEMS

Residential Water & Sewer Charges Based on 5,000 Gallons per Month Usage

Utility System	Water Charges	Sewer Charges	Total
Lowcountry Regional Water System	\$31.00	\$46.50	\$77.50
Town of Estill	\$28.11	\$37.91	\$66.02
City of Walterboro	\$15.60	\$21.55	\$37.15
Town of Fairfax	\$20.93	\$25.90	\$46.83
Town of Allendale	\$24.57	\$28.20	\$52.77
Beaufort Jasper W&S Authority	\$25.55	\$42.90	\$68.45
City of Bamberg	\$32.00	\$49.32	\$81.32
City of Charleston	\$20.84	\$65.36	\$86.20
City of Columbia	\$17.60	\$33.92	\$51.52
Lexington Cty. Joint Municipal W&S	\$43.56	\$44.68	\$88.24
Newberry County W&S Authority	\$49.50	\$56.00	\$105.50
McCormick County Water & Sewer	\$36.00	\$57.50	\$93.50

Source: SC Rural Infrastructure Authority Office of Local Government 2018 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
2018	\$2,754,465	\$217,011	3,172	\$68.41	\$868
2017	\$2,757,253	\$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

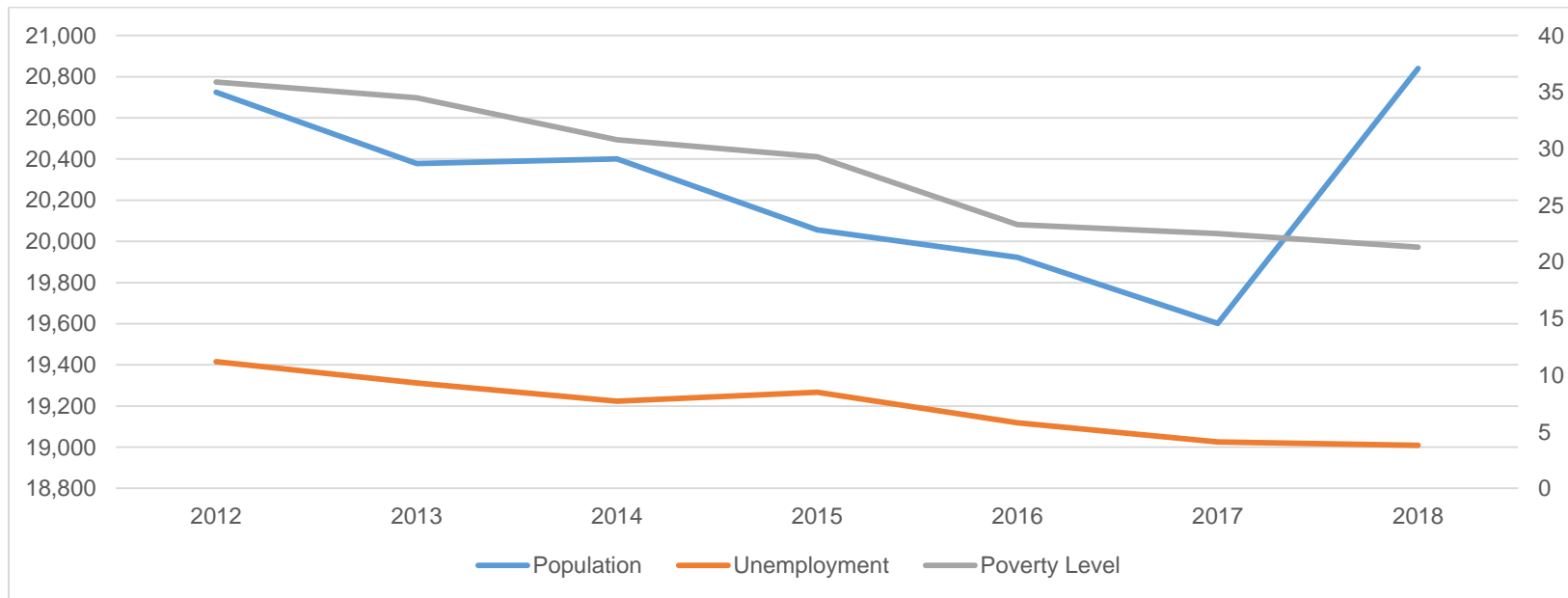
(1) Debt Amounts Do not Include Pension Liabilities or Compensated Absences

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
2018	20,840	Unavailable	Unavailable	Unavailable	3.8%	17.5%
2017	19,602	\$346,485	\$17,676	\$32,147	4.1%	18.4%
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%

Source: US Census Bureau; US Bureau of Economic Analysis; US Department of Labor – Bureau of Labor Statistics; SC Department of Employment & Workforce
 2018: Population information based on surveys. Some information for 2018 unavailable as of March 2019.



TOP TEN WATER USERS

2018

Water Consumption for 12 Consecutive Months

Customer	Water Used Annually 2018	Customer	Water Used Annually 2017	Customer	Water Used Annually 2016
Brunson Laundry	6,766,837	Brunson Laundry	6,723,172	Brunson Laundry	6,404,000
Hampton Regional Medical	6,101,000	Alpha Genesis Inc.	5,261,000	Hampton Regional Medical	4,954,000
Alpha Genesis Inc.	5,498,000	Hampton Regional Medical	5,107,000	Alpha Genesis Inc.	4,935,000
Varnville Area Housing	3,202,000	Varnville Area Housing	3,701,000	Varnville Area Housing	3,110,000
Southeastern Housing	2,155,000	Varnville Area Housing # 2	2,315,000	Hampton County Courthouse Irrigation	2,599,000
HC Courthouse- Irrigation	2,021,000	Southeastern Housing	2,182,000	Hampton Garden Apartments	2,215,000
Varnville Area Housing	1,419,000	Hampton County Courthouse Irrigation	2,100,000	Varnville Area Housing # 2	1,909,000
HC Law Enforcement Center	1,057,000	Hampton County Law Enforcement (Jail)	1,249,000	Hampton County Law Enforcement (Jail)	1,281,000
Varnville Laundry & Car Wash	978,000	Rodeway Inn	1,220,000	Varnville Laundry & Car Wash	1,081,000
Hari Aum. Inc.	916,000	Varnville Laundry & Car Wash	1,055,000	Rodeway Inn	1,048,000

Source: LRWS QS1 Billing Software

TOP TEN EMPLOYERS

Top Ten Employers Served by LRWS during 2017-2018

Customer	# of Employees	# of Employees	Rank	% of Total County Employment
	2017	2018		
Hampton County School District #1	347	418	1	5.23%
Hampton Regional Medical	267	292	2	3.65%
County of Hampton	235	245	3	3.06%
LeCreuset of America	144	190	4	2.37%
Alpha Genesis(1)	120	146	5	1.82%
Love's Travel Stop		70	6	0.87%
R&L Carriers	55	60	7	0.75%
Brunson Laundry/Lowcountry Medical Linens	48	46	8	0.57%
J.R Wilson Construction	42	42	9	0.52%
Spencer Industries	23	23	10	0.28%

Source: Hampton County Economic & Development Office, SCWorks.org (2018) **Total Employed in Hampton County: 7843 (2017) & 7991 (2018)**

(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, 2018. Our opinion dated February 13, 2019 on the September 30, 2018 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 System adopted the provisions of *GASB 89 Accounting for Interest Cost Incurred Before the End of a Construction Period* during the year ended September 30, 2018.

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

February 13, 2019

LOWCOUNTRY REGIONAL WATER SYSTEM

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

WITH

INDEPENDENT AUDITORS' REPORT

LOWCOUNTRY REGIONAL WATER SYSTEM

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

WITH

INDEPENDENT AUDITORS' REPORT

CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenue, Expenses, and Changes in Net Position.....	10
Statement of Cash Flows	11
Notes to Financial Statements.....	13
Required Supplementary Information (Unaudited):	
Schedule of Proportionate Share of the South Carolina Retirement Systems Net Pension Liabilities	25
Schedule of South Carolina Retirement Systems Contributions	26
Single Audit Act Requirements:	
Schedule of Expenditures of Federal Awards.....	27
Notes to the Schedule of Expenditures of Federal Awards	28
Independent 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 <i>Governmental Auditing Standards</i>	29
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	31
Schedule of Findings and Questioned Costs.....	33
Other Financial Information:	
Schedule of Revenues, Expenses and Changes in Net Position – Water Service, Sewer Service and Unallocated.....	35

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. William Hudson, 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, 2018, 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, 2018, 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 25, and the Schedule of the South Carolina Retirement Systems Contributions on page 26 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 Authority's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Additionally, the Schedule of Revenues, Expenses and Changes in Net Position – Water Service, Sewer Service and Unallocated is presented for purposes of additional analysis as required by the United States Department of Agriculture's Rural Development Administration and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards on page 27 and the Schedule of Revenues, Expenses and Changes in Net Position – Water Service, Sewer Service and Unallocated on page 35 are 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 schedule of expenditures of federal awards and the Schedule of Revenues, Expenses and Changes in Net Position – Water Service, Sewer Service and

Unallocated 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 February 13, 2019, 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
February 13, 2019

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,		
	2018	2017	Variance
Assets and Deferred Outflows of Resources:			
Cash and cash equivalents	\$ 1,650,441	\$ 1,469,890	\$ 180,551
Receivables	211,858	213,636	(1,778)
Inventory	55,333	53,798	1,535
Capital assets, net	19,806,470	13,825,526	5,980,944
Deferred outflows of resources	244,603	244,237	366
Total assets and deferred outflows of resources	<u>\$ 21,968,705</u>	<u>\$ 15,807,087</u>	<u>\$ 6,161,618</u>
Liabilities and Deferred Inflows of Resources:			
Current liabilities	\$ 770,456	\$ 661,895	\$ 108,561
Long-term debt	6,766,137	2,269,947	4,496,190
Pension liability	1,374,334	1,444,567	(70,233)
Deferred inflows of resources	133,001	68,478	64,523
Total liabilities and deferred inflows of resources	<u>9,043,928</u>	<u>4,444,887</u>	<u>4,599,041</u>
Net Position:			
Invested in capital assets	6,437,248	9,637,634	(3,200,386)
Restricted for debt service	975,048	-	975,048
Unrestricted	5,512,481	1,724,566	3,787,915
TOTAL NET POSITION	<u>\$ 12,924,777</u>	<u>\$ 11,362,200</u>	<u>\$ 1,562,577</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,		
	2018	2017	Variance
Operating revenues	\$ 2,828,805	\$ 2,839,308	\$ (10,503)
Operating expenses	(2,736,228)	(2,542,415)	(193,813)
Operating income (loss)	92,577	296,893	(204,316)
Non-operating revenues	1,639,485	1,110,630	528,855
Non-operating expenses	(177,435)	(72,152)	(105,283)
Non-operating loss	1,462,050	1,038,478	423,572
Capital contributions	7,950	241,362	(233,412)
Change in net position	1,562,577	1,576,733	\$ (14,156)
Net position - beginning of year, restated	11,362,200	9,785,467	
Net position - end of year	<u>\$ 12,924,777</u>	<u>\$ 11,362,200</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,		
	2018	2017	Variance
Cash provided (used) by:			
Operating activities	\$ 1,052,590	\$ 872,959	\$ 179,631
Capital and related financing activities	(874,362)	(943,575)	69,213
Investing activities	2,323	1,679	644
Net change in cash	180,551	(68,937)	249,488
Cash and cash equivalents - beginning of year	1,469,890	1,538,827	(68,937)
Cash and cash equivalents - end of year	<u>\$ 1,650,441</u>	<u>\$ 1,469,890</u>	<u>\$ 180,551</u>

Capital Assets

The System's investment in capital assets as of September 30, 2018, amounts to \$19,806,470 (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 43.26 percent.

Capital Assets - Net of Accumulated Depreciation

	Year Ended September 30,		
	2018	2017	Variance
Land	\$ 153,239	\$ 153,239	\$ -
Construction in Process	6,301,883	1,622,576	4,679,307
Buildings	163,398	163,398	-
Equipment	554,859	554,859	-
Vehicles	126,797	126,797	-
Water systems	12,393,363	10,528,608	1,864,755
Sewer systems	14,665,134	14,665,134	-
Less: accumulated depreciation	(14,552,203)	(13,989,085)	(563,118)
	<u>\$ 19,806,470</u>	<u>\$ 13,825,526</u>	<u>\$ 5,980,944</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:
 - Salkehatchie Sewer Upgrade
 - Brunson Waste Water Treatment Plant and Sewer Rehab
 - Operations Facility
 - Sander's Branch Water and Sewer Replacements
 - Improvement Projects Divisions 1 – 3
- The following projects were completed during the fiscal year
 - Gifford Elevated Tank Rehabilitation
 - Brunson/Gifford Water Line

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 2018, the System had total current and long-term debt outstanding of \$6,914,100. The entire amount is payable to three revenue bonds, all of which are backed by the net revenues of the water and sewer system.

Current and Long-Term Debt

	Year Ended September 30,		
	2018	2017	Variance
Revenue bonds payable	\$ 6,914,100	\$ 2,412,077	\$ 4,502,023
	<u>\$ 6,914,100</u>	<u>\$ 2,412,077</u>	<u>\$ 4,502,023</u>

The System's total long-term debt increased by \$4,502,023, or 186.65 percent, during the current fiscal year. This increase was caused by entering into an interim financing agreement with a financial institution in connection with a USDA funded project.

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 17 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 5 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, 2,656 residential water customers, 382 commercial sewer customers and 2,390 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, 2018.

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, 2018

Assets and Deferred Outflows of Resources:

Current assets:	
Cash and cash equivalents	\$ 675,393
Restricted cash and cash equivalents	975,048
Accounts receivable, net	211,858
Inventory	55,333
Total current assets	<u>1,917,632</u>
Non-current assets:	
Capital assets, not being depreciated	6,455,122
Capital assets, net of accumulated depreciation	13,351,348
Total non-current assets	<u>19,806,470</u>
Deferred outflows of resources - pension plan	244,603
Total assets and deferred outflows of resources	<u>21,968,705</u>

Liabilities and Deferred Inflows of Resources:

Current liabilities:	
Accounts payable	364,341
Accrued liabilities	23,445
Accrued compensated absences	48,185
Accrued interest payable	113,394
Due to other governments	73,128
Revenue bonds payable - current portion	147,963
Total current liabilities	<u>770,456</u>
Other liabilities:	
Revenue bonds payable - non-current portion	6,766,137
Pension liability	1,374,334
Total long-term liabilities	<u>8,140,471</u>
Deferred inflows of resources - pension plan	133,001
Total liabilities and deferred inflows of resources	<u>9,043,928</u>

Net Position:

Net investment in capital assets	6,437,248
Restricted for debt service	975,048
Unrestricted - unfunded pension liability	(1,262,732)
Unrestricted - other	6,775,213
Total net position	<u>\$ 12,924,777</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2018

Operating Revenues:

Water service	\$ 1,092,930
Sewer service	1,385,867
Penalties, reconnection fees and miscellaneous	350,008
Total operating revenues	<u>2,828,805</u>

Operating Expenses:

Personnel services	1,063,708
Contract sewer treatment	14,760
Repairs and maintenance	168,017
Utilities	341,797
Supplies, materials and chemicals	62,892
Professional, engineering, lab and legal fees	208,193
Insurance	34,842
Vehicle and fuel expenses	38,235
Postage, printing and advertising	15,449
Building and equipment rental	38,070
Dues, licenses and permits	50,753
Bad debts	71,478
Bank charges	25,904
Depreciation	563,118
Miscellaneous	39,012
Total operating expenses	<u>2,736,228</u>
Operating income	<u>92,577</u>

Non-Operating Revenues (Expenses):

Grant income	1,637,162
Interest income	2,323
Interest expense	(177,435)
Net non-operating revenue (expense)	<u>1,462,050</u>

Income before capital contributions 1,554,627

Capital Contributions:

Change in net position	1,562,577
Net position, beginning of year	11,362,200
Net position, end of year	<u>\$ 12,924,777</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2018

Cash Flows From Operating Activities:

Cash received from customers	\$ 2,830,584
Cash payments for personnel services	(1,066,775)
Cash payments for operating and contractual services	(14,760)
Cash payments for suppliers	(696,459)
Net cash flows provided by operating activities	<u>1,052,590</u>

Cash Flows From Capital and Related Financing Activities:

Grant income	1,637,162
Acquisition and construction of capital assets	(6,536,112)
Proceeds from issuance of capital debt	4,644,138
Principal paid on capital debt	(442,115)
Interest paid on capital debt	(177,435)
Net cash flows used in capital and related financing activities	<u>(874,362)</u>

Cash Flows From Investing Activities:

Interest income	<u>2,323</u>
Net cash flows provided by investing activities	<u>2,323</u>

Net change in cash and cash equivalents	180,551
Cash and cash equivalents, beginning of year	1,469,890
Cash and cash equivalents, end of year	<u><u>\$ 1,650,441</u></u>

Reconciliation of Cash and Cash Equivalents:

Cash and cash equivalents	\$ 675,393
Restricted cash and cash equivalents	975,048
Cash and cash equivalents, end of year	<u><u>\$ 1,650,441</u></u>

Reconciliation of Non-Cash Transactions:

Capital contributions	\$ 7,950
Total non-cash transactions, end of year	<u><u>\$ 7,950</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	\$ 92,577
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	563,118
Change in assets and liabilities	
Accounts receivable	1,778
Inventory	(1,535)
Deferred outflows	(366)
Deferred inflows	64,523
Accounts payable	316,002
Accrued expenses	1,674
Accrued interest payable	80,014
Due to other governments	2,029
Accrued compensated absences	3,009
Pension liability	(70,233)
Net cash flows from operating activities	<u>\$ 1,052,590</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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, 2018, the carrying amount of the System's deposits totaled \$1,650,441 and the bank balance was \$1,798,430, all of which was either insured by the FDIC or collateralized by a financial institution.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Capital Assets

Activity in capital assets for the year ended September 30, 2018 was as follows:

	October 1, 2017	Increases	Decreases	September 30, 2018
Capital assets, not being depreciated:				
Land	\$ 153,239	\$ -	\$ -	\$ 153,239
Construction in process	1,622,576	6,528,162	(1,848,855)	6,301,883
Total capital assets, not being depreciated	1,775,815	6,528,162	(1,848,855)	6,455,122
Capital assets, being depreciated:				
Buildings	163,398	-	-	163,398
Equipment	554,859	-	-	554,859
Vehicles	126,797	-	-	126,797
Water systems	10,528,608	1,864,755	-	12,393,363
Sewer systems	14,665,134	-	-	14,665,134
Total capital assets, being depreciated	26,038,796	1,864,755	-	27,903,551
Less: accumulated depreciation	(13,989,085)	(563,118)	-	(14,552,203)
Total capital assets	\$ 13,825,526	\$ 7,829,799	\$ (1,848,855)	\$ 19,806,470

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, 2018:

	Brunson	Gifford	Hampton	Varnville	Yemassee	Total
Services billed for:						
Police	\$ 1,090	\$ 1,287	\$ -	\$ 7,492	\$ -	\$ 9,869
Animal control	488	-	-	-	-	488
Garbage collection	3,701	1,620	31,680	16,881	7,077	60,959
Solid waste	-	-	1,360	387	65	1,812
Total due to towns	\$ 5,279	\$ 2,907	\$ 33,040	\$ 24,760	\$ 7,142	\$ 73,128

5. Long-Term Debt

Revenue Bonds Payable

Revenue Bonds Payable at September 30, 2018 consists of the following:

2016A Water and Sewer System Revenue Bond payable to 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, 2018 was \$2,224,000.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Long-Term Debt (continued)

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, 2018 was \$45,962.

USDA Interim Financing payable to Palmetto State Bank with an original amount of \$6,480,000. Interim financing agreement allows the System to draw down funds as approved. The System has drawn down \$4,644,138 of the total balance as of September 30, 2018. Principal and interest is due November of 2020 Interest is accrued at a rate of 2.35%.

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

Year Ended September 30,	Principal	Interest	Total
2019	\$ 147,963	\$ 61,596	\$ 209,559
2020	4,748,138	57,294	4,805,432
2021	107,000	54,486	161,486
2022	110,000	51,597	161,597
2023	112,000	48,627	160,627
2024 - 2028	611,000	195,858	806,858
2029 - 2033	671,000	108,999	779,999
2034 - 2038	406,999	20,619	427,618
	<u>\$ 6,914,100</u>	<u>\$ 599,076</u>	<u>\$ 7,513,176</u>

Changes in long-term liabilities for the year ended September 30, 2018, were as follows:

	October 1, 2017	Additions	Reductions	September 30, 2018	Due Within One Year
Notes payable	\$ 300,000	\$ -	\$ (300,000)	\$ -	\$ -
Revenue bonds payable	2,412,077	4,644,138	(142,115)	6,914,100	147,963
Compensated absences	45,176	48,185	(45,176)	48,185	48,185
	<u>\$ 2,757,253</u>	<u>\$ 4,692,323</u>	<u>\$ (487,291)</u>	<u>\$ 6,962,285</u>	<u>\$ 196,148</u>

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan

The majority of employees of the System are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members.

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full-service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full-service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job-related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

Effective July 1, 2017, employees participating in the SCRS were required to contribute 9.00% of all earnable compensation. The employer contribution rate for SCRS was 13.56%. Included in the total SCRS employer contribution rate is a base retirement contribution of 13.41%, and .15% for the incidental death program. The System's contributions for the years ended September 30, 2018, 2017 and 2016 are as follows:

Year Ended September 30,	Employer Contribution Rate			Employer Contributions		
	Incidental			Incidental		
	Base	Death	Total	Base	Death	Total
2018	13.41%	0.15%	13.56%	\$ 96,717	\$ 1,082	\$ 97,799
2017	11.41%	0.15%	11.56%	71,494	940	72,434
2016	10.91%	0.15%	11.06%	65,863	906	66,769

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 2018, 2017 or 2016 fiscal years.

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, 2018, the System reported \$1,374,334 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, 2017 actuarial valuations, using membership data as of July 1, 2017, projected forward to June 30, 2018, and financial information of the pension trust funds as of June 30, 2017, 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 September 30, 2018, the System's SCRS proportion was 0.0061%.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

At September 30, 2018 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	\$ 6,127
Assumption changes	80,452
Net difference between projected and actual investment earnings	38,365
Deferred amounts from changes in proportionate share and differences between employer contributions & proportionate share of total plan employer contributions	21,860
Current year employer contributions	97,799
Total deferred outflows of resources	\$ 244,603

Deferred Inflows of Resources

Differences between expected and actual experience	\$ (762)
Deferred amounts from changes in proportionate share and differences between employer contributions & proportionate share of total plan employer contributions	(132,239)
Total deferred inflows of resources	\$(133,001)

Net deferred outflows and inflows of resources	\$ 111,602
---	-------------------

System contributions subsequent to the measurement date totaled \$97,799. These contributions will be reported as deferred outflows of resources related to pensions as of September 30, 2018 but will be recognized as a reduction of the net pension liability for the year ended September 30, 2019. 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	\$ (14,326)
2019	32,076
2020	8,957
2021	(12,904)
	<u>\$ 13,803</u>

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

The total pension liabilities in the July 1, 2016 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	7.25%
Projected Salary Increases	3.0% to 12.5
Inflation Rate	2.25%
Benefit Adjustments	Lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the July 1, 2017 valuation for SCRS are as follows:

Former Job Class	Males	Females
Educators	2016 PRSC Males Multiplied by 92%	2016 PRSC Females Multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males Multiplied by 100%	2016 PRSC Females Multiplied by 111%
Public Safety, Firefighters	2016 PRSC Males Multiplied by 125%	2016 PRSC Females Multiplied by 111%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30-year capital market assumptions. The long-term expected rate of returns represented assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 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	45.0%		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.60%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	92.00%	0.02%
Total Expected Real Return	100%		5.32%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.57%

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the Systems' fiduciary net position was projected to be available to make all the 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 TPL.

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 7.25 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 (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

<u>Plan</u>	<u>1% Decrease 6.25%</u>	<u>Current Rate 7.25%</u>	<u>1% Increase 8.25%</u>
SCRS	\$ 1,771,327	\$ 1,374,334	\$ 1,133,452

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, 2018 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, 2018 through February 13, 2019 which is the date the financial statements were available to be issued and determined that there were no subsequent events 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*

	2018	2017	2016	2015	2014
System's proportion of the net pension liability	0.0068%	0.0065%	0.0072%	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	\$ 1,246,660
System's covered payroll	\$ 626,592	\$ 603,698	\$ 628,174	\$ 620,651	\$ 604,954
System's proportionate share of the net pension liability as a percentage of its covered payroll	230.54%	205.24%	198.46%	209.26%	206.08%
Plan fiduciary net position as a percentage of the total pension liability	52.91%	57.00%	59.92%	56.39%	59.90%

* - 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*

	2018	2017	2016	2015	2014
Contractually required contributions	\$ 97,799	\$ 72,434	\$ 66,769	\$ 68,471	\$ 65,789
Contributions in relation to the contractually required contribution	(97,799)	(72,434)	(66,769)	(68,471)	(65,789)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
System's covered payroll	\$ 721,232	\$ 626,592	\$ 603,698	\$ 628,174	\$ 620,651
Contributions as a percentage of covered payroll	13.56%	11.56%	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.

SINGLE AUDIT ACT REQUIREMENTS

LOWCOUNTRY REGIONAL WATER SYSTEM

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor	Federal Expenditures September 30, 2018
Other Programs			
Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	State of South Carolina	\$ 319,030
Total Disaster Grants - Public Assistance (Presidentially Declared Disasters)			319,030
Total Department of Homeland Security			319,030
Department of Housing and Urban Development			
Community Development Block Grants/Special Purpose Grants/Insular Areas			
Community Development Block Grants/Special Purpose Grants/Insular Areas	14.225	Hampton County	817,882
Community Development Block Grants/Special Purpose Grants/Insular Areas	14.225	Town of Yemassee	468,079
Total Community Development Block Grants/Special Purpose Grants/Insular Areas			1,285,961
Total Department of Housing and Urban Development			1,285,961
United States Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities			4,923,174
Water and Waste Disposal Systems for Rural Communities	10.760		4,923,174
Total Water and Waste Disposal Systems for Rural Communities			4,923,174
Total United States Department of Agriculture			6,528,165
Total Other Programs			\$ 6,528,165
Total Expenditures of Federal Awards			\$ 6,528,165

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2018

1. Description

Lowcountry Regional Water System (the "System") has adopted *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards were adopted to fulfill the financial and compliance audit requirements of federal grantor agencies. For purposes of implementing Uniform Guidance, federal grant and loan awards were made susceptible to audit and are included in the Schedule of Expenditures of Federal Awards.

2. Summary of Significant Accounting Policies

The financial activity shown on the Schedule of Expenditures of Federal Awards reflects amounts recorded by the System during its fiscal year October 1, 2017 through September 30, 2018 and accordingly, does not include a full year's financial activity for grants awarded or terminated on dates not coinciding with the System's fiscal year. The System reports these on the accrual basis of accounting.

3. Indirect Costs

The System has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. Basis for Determining Federal Awards Expended

The Authority expended a total of \$6,528,165 in federal awards from October 1, 2017 through September 30, 2018. Of this balance, \$4,923,174 was expenditures related to the USDA loan program. The outstanding balance for USDA revenue bonds related to the loan program was \$4,923,174 as of September 30, 2018.

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 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. William Hudson, 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 Water System (the "System"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated February 13, 2019.

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 the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

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

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

The Brittingham Group LLP

West Columbia, South Carolina

February 13, 2019

THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

501 STATE STREET
POST OFFICE BOX 5949
WEST COLUMBIA, SOUTH CAROLINA 29171

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Mr. William Hudson, Chairman of the
Board of Commissioners
Lowcountry Regional Water System
513 Elm Street West
Hampton, South Carolina 29924

Report on Compliance for Each Major Federal Program

We have audited Lowcountry Regional Water System (the "System") compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended September 30, 2018. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The Brittingham Group LLP

West Columbia, South Carolina
February 13, 2019

LOWCOUNTRY REGIONAL WATER SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SEPTEMBER 30, 2018

Summary of Auditors' Results:

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Lowcountry Regional Water System (the "System").
2. No material weaknesses or significant deficiencies relating to the financial statements are reported in the Independent 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*.
3. No instances of noncompliance material to the financial statements of System were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of major federal awards are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for System expresses an unmodified opinion.
6. No audit findings were reported relative to the major federal award program for the System as depicted below in this schedule.
7. Major federal programs:

Community Development Block Grants/Special Purpose Grants/Insular Areas	
Community Development Block Grants/Special Purpose Grants/Insular Areas	CFDA #14.225
Water and Waste Disposal Systems for Rural Communities	
Water and Waste Disposal Systems for Rural Communities	CFDA #10.760
8. The threshold for distinguishing between Type A and Type B Programs was \$750,000.
9. The System did not qualify as a low risk auditee.

LOWCOUNTRY REGIONAL WATER SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SEPTEMBER 30, 2018

Financial Statement Findings:

None reported.

Status of Prior Year Findings:

None were reported.

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, 2018

	Water	Sewer	Unallocated	Total
Operating Revenues:				
Water service	\$ 1,092,930	\$ -	\$ -	\$ 1,092,930
Sewer service	-	1,385,867	-	1,385,867
Penalties, reconnection fees and miscellaneous	170,759	179,249	-	350,008
Total operating revenues	1,263,689	1,565,116	-	2,828,805
Operating Expenses:				
Personnel services	453,461	454,167	156,080	1,063,708
Contract sewer treatment	-	14,760	-	14,760
Repairs and maintenance	82,716	71,127	14,174	168,017
Utilities	71,959	266,252	3,586	341,797
Supplies, materials and chemicals	14,005	40,958	7,929	62,892
Professional, engineering, lab and legal fees	43,647	135,933	28,613	208,193
Insurance	13,207	13,207	8,428	34,842
Vehicle and fuel expenses	18,241	15,227	4,767	38,235
Postage, printing and advertising	1,952	-	13,497	15,449
Building and equipment rental	7,310	23,295	7,465	38,070
Dues, licenses and permits	42,203	6,639	1,911	50,753
Bad debts	35,024	36,454	-	71,478
Bank charges	-	-	25,904	25,904
Depreciation	189,853	301,970	71,295	563,118
Miscellaneous	16,690	14,400	7,922	39,012
Total operating expenses	990,268	1,394,389	351,571	2,736,228
Operating income (loss)	273,421	170,727	(351,571)	92,577
Non-Operating Revenue (Expenses):				
Grant income	688,582	948,580	-	1,637,162
Interest income	-	-	2,323	2,323
Interest expense	(70,015)	(102,807)	(4,613)	(177,435)
Net non-operating revenue (expense)	618,567	845,773	(2,290)	1,462,050
Income (loss) before capital contributions	891,988	1,016,500	(353,861)	1,554,627
Capital Contributions	-	7,950	-	7,950
Change in net position	<u>\$ 891,988</u>	<u>\$ 1,024,450</u>	<u>\$ (353,861)</u>	<u>\$ 1,562,577</u>

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

Phone 803-943-1006

