

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

Annual Report

**For Fiscal Year Ending
September 30th, 2019**



Sustainable Water Service for Communities, Business and the Environment

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INTRODUCTION

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

This report is the 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 2018-2019 is included as part of this Annual Report and may be found as Appendix A.



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.

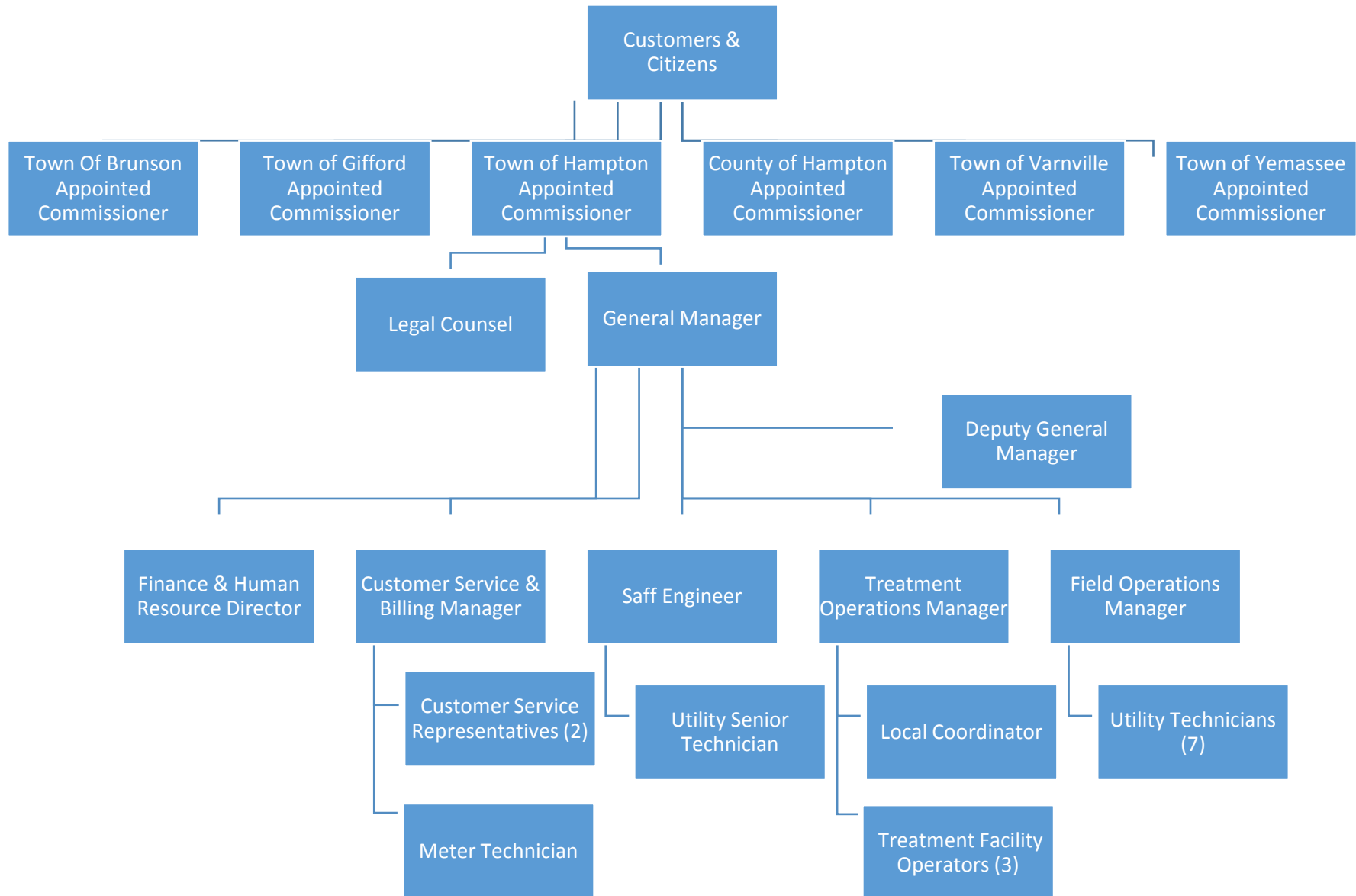
Member Appointments

Town of Brunson	Rocky Hudson
Town of Brunson	Terry Wright- Alternate
Town of Gifford	Horny Mitchell
Town of Hampton	James Bilka
Town of Varnville	
Town of Varnville	Nathaniel Shaffer- Alternate
Town of Yemassee	Peggy O'Banner
Town of Yemassee	Wayne Ezell- Alternate
County of Hampton	Clay Bishop
County of Hampton	Rose Dobson Elliott- Alternate

Commissioners

Town of Brunson	Rocky Hudson- Chairman
Town of Hampton	James Bilka- Vice Chairman
Town of Gifford	Horny Mitchell- Commissioner
Town of Varnville	
Town of Yemassee	Peggy O'Banner- Commissioner
County of Hampton	Clay Bishop- 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 **SIXTH** 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 \$2,501,030
- Operating Expenses were (\$3,049,330)
- Operating Income was: (\$548,300)
- Non-Operating Revenues were: \$1,067,280
- Non-Operating Expenses were: (\$126,231)
- Net Position, Beginning of the Year: \$12,924,777
- Net Position, End of Year: \$13,317,526
- Operating income was reported in the amount of (\$548,300) prior to capital contributions. This income includes \$685,638 in depreciation expenses.

Departmental Highlights★

- Construction was completed on the Salkehatchie Sewer Upgrade in the Town of Yemassee. This project upgraded 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 project to rehabilitate sewer infrastructure along Lightsey St, Lightsey St Extension and Kinard Lane in the Town of This project, which was funded by CDBG, repaired or replaced a portion of old broken and damaged sewer pipes in 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 water system improvements that were included as part of the Town of Hampton's Nix Street Neighborhood Revitalization. The project included approximately 4,800 LF of 6" water mains and 10 fire hydrants designed to improve available fire flow and system pressure. The project was funded by CDBG.
- Construction continued on a mutli-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
Salkehatchie Sewer Upgrade	\$875,000	Funded	Completed
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	Construction
Lightsey/Kinard Sewer Rehab	\$552,000	Funded	Construction
Gifford Waterline Extension	\$460,900	Funded	Design/Permitting
Elevated Tank Renovations & Electrical Upgrades (Holly St, Palmetto and LRIP)	\$768,000	Funded	Development
Sewer Service Extension	\$700,000	Unfunded	Development
<u>Total Amount of All Projects</u>	<u>\$19,617,200</u>		
<u>Total Amount of Funded Projects</u>	<u>\$700,000</u>		
<u>Total Amount of Unfunded Projects</u>	<u>\$18,917,200</u>		

BUDGETARY PROCEDURES

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

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

BUDGET

The following table represents the Commission adopted budgeted operating revenues and expenditures and the actual operating revenues and expenditures for Fiscal Year 2018-2019.

<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>			
Water Revenue	\$1,094,726	\$1,095,489	\$76,300
Wastewater Revenue	\$1,398,282	\$1,386,866	-\$11,416
Operating Revenue	\$366,057	\$7,461	-\$358,596
<u>Totals</u>	<u>\$2,859,065</u>	<u>\$2,489,816</u>	<u>(\$293,712)</u>
<u>Item</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<u>Expenditures</u>			
Water Treatment	\$163,114	\$326,805	\$163,691
Water Distribution	\$709,753	\$568,636	-\$141,117
Wastewater Treatment	\$784,901	\$806,529	\$21,628
Wastewater Collection	\$346,575	\$474,896	\$128,321
Administrative	\$854,722	\$922,698	\$67,976
<u>Totals</u>	<u>\$2,859,065</u>	<u>\$3,099,564</u>	<u>\$240,499</u>

OUTSTANDING INDEBTEDNESS

The following table presents information on the debt obligations of the Lowcountry Regional Water System as of September 30, 2019.

Town/ LRWS	Lien Holder/ Issuer	Year/ Series	Original Notes/Bonds	Outstanding Notes/Bonds 9/30/19	Interest Rate	Final Maturity
LRWS	Carter Bank	2016A	\$2,417,000	\$2,122,000	2.70%	2036
LRWS	Palmetto State Bank USDA	2018	6,480,000	\$6,480,000	2.875%	2059
Total	Original Notes & Bonds			Outstanding Notes & Bonds as of September 30, 2019		
	\$8,897,000.00			\$8,602,000		

RATES, FEES & CHARGES
LOWCOUNTRY REGIONAL WATER SYSTEM
WATER & WASTEWATER RATE SCHEDULE
EFFECTIVE AS OF OCTOBER 2019

Description	RESIDENTIAL COMMERCIAL ¹
WATER SYSTEM	WATER
	Monthly Base Charge:
Brunson	\$ 13.50
Gifford	\$ 13.50
Hampton	\$ 13.50
Varnville	\$ 13.50
Yemassee	\$ 13.50
SYSTEM	Volumetric Rate (\$/1,000):
Brunson	\$ 3.57
Gifford	\$ 3.57
Hampton	\$ 3.57
Varnville	\$ 3.57
Yemassee	\$ 3.57
WASTEWATER SYSTEM	WASTEWATER
	Monthly Base Charge:
Brunson	\$ 17.50
Gifford	\$ 17.50
Hampton	\$ 17.50
Varnville	\$ 17.50
Yemassee	\$ 17.50
SYSTEM	Volumetric Rate (\$/1,000):
Brunson	\$ 6.12
Gifford	\$ 6.12
Hampton	\$ 6.12
Varnville	\$ 6.12
Yemassee	\$ 6.12

The residential sewer volumetric charge is capped at 8,000 gallons. The maximum residential sewer charge based on 8,000 gallons is \$66.46. 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	221	19	240	92%	8%	7%
Gifford	109	8	117	93%	7%	3%
Hampton	1195	229	1424	83%	17%	45%
H County	0	5	5	0	100%	
Varnville	742	103	845	87%	13%	27%
Yemassee	438	60	498	87%	13%	15%
Total	2705	424	3129	87%	13%	

Source: QS1 Billing Reports & Operational Report as of September 30, 2019. Includes accounts that were final billed. Also includes bills for garbage only accounts.

TOTAL CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	353	13%	64%	165	40%	68%	518	17%	64%
1,000-1,999	456	18%		56	14%		512	17%	
2,000-2,999	448	17%		31	8%		479	16%	
3,000-3,999	405	16%		27	6%		432	14%	
4,000-4,999	316	11%		15	3%		331	10%	
5,000-5,999	212	7%		13	3%		225	7%	
6,000-6,999	162	6%		6	1%		168	5%	
7,000-7,999	85	3%		7	1%		92	2%	
8,000 +	255	9%		101	24%		356	12%	
Total	2692			421			3113		

Source: QS1-History reports of active accounts September 1, 2019 through September 31, 2019

TOWN OF BRUNSON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	32	14%	65%	7	41%	67%	39	17%	67%
1,000-1,999	29	13%		3	16%		32	14%	
2,000-2,999	25	11%		1	5%		26	11%	
3,000-3,999	55	27%		1	5%		56	25%	
4,000-4,999	26	12%		0	0%		26	11%	
5,000-5,999	16	7%		1	5%		17	7%	
6,000-6,999	12	5%		1	5%		13	5%	
7,000-7,999	7	3%		0	0%		7	2%	
8,000 +	18	8%		4	23%		22	8%	
Total	220			18			238		

Source: QS1-History reports of active accounts September 1, 2019 through September 31, 2019.

TOWN OF GIFFORD CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	18	17%	65%	5	63%	100%	23	20%	67%
1,000-1,999	16	15%		0	0%		16	13%	
2,000-2,999	18	17%		2	25%		20	18%	
3,000-3,999	17	16%		1	12%		18	16%	
4,000-4,999	13	12%		0	0%		13	11%	
5,000-5,999	12	11%		0	0%		12	10%	
6,000-6,999	7	6%		0	0%		7	6%	
7,000-7,999	0	0%		0	0%		0	0%	
8,000 +	7	6%		0	0%		7	6%	
Total	108			8			116		

Source: QS1-History reports of active accounts September 1, 2019 through September 31, 2019.

TOWN OF HAMPTON CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	163	14%	63%	90	40%	68%	253	18%	64%
1,000-1,999	205	18%		33	16%		238	17%	
2,000-2,999	200	17%		16	6%		216	16%	
3,000-3,999	155	14%		16	6%		171	13%	
4,000-4,999	144	12%		6	2%		150	10%	
5,000-5,999	97	8%		7	3%		104	7%	
6,000-6,999	83	7%		5	2%		88	6%	
7,000-7,999	32	2%		4	1%		36	2%	
8,000 +	103	8%		55	24%		158	11%	
Total	1182			232			1414		

Source: QS1-History reports of active accounts September 1, 2019 through September 31, 2019.

TOWN OF VARNVILLE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	75	9%	58%	36	36%	60%	111	13%	57%
1,000-1,999	118	16%		14	14%		132	15%	
2,000-2,999	125	17%		6	6%		131	15%	
3,000-3,999	117	16%		4	4%		121	14%	
4,000-4,999	82	11%		7	7%		89	10%	
5,000-5,999	61	8%		2	2%		63	7%	
6,000-6,999	48	6%		0	0%		48	5%	
7,000-7,999	31	4%		3	3%		34	3%	
8,000 +	94	13%		28	28%		122	14%	
Total	751			100			851		

Source: QS1-History reports of active accounts September 1, 2019 through September 31, 2019.

TOWN OF YEMASSEE CUSTOMER COUNT BY CONSUMPTION

Gallons	Residential	%	%	Commercial	%	%	Total	%	%
0-999	65	16%	71%	27	43%	70%	92	19%	71%
1,000-1,999	88	21%		6	10%		94	20%	
2,000-2,999	80	19%		6	10%		86	18%	
3,000-3,999	61	15%		5	7%		66	14%	
4,000-4,999	51	11%		2	3%		53	10%	
5,000-5,999	26	6%		3	4%		29	5%	
6,000-6,999	12	2%		0	0%		12	2%	
7,000-7,999	15	3%		0	0%		15	3%	
8,000 +	33	7%		14	23%		47	9%	
Total	431			63			494		

Source: QS1-History reports of active accounts September 1, 2019 through September 31, 2019.

ANNUAL WATER PRODUCTION

System	Gallons Produced	Gallons Residential Sales	Gallons Commercial Sales	Total Gallons From Sales	Gallons Unaccounted	% Unaccounted
Brunson	4,558,730	9,815,146	6,535,911	16,351,057	(11,792,327)	-259%
Gifford	23,194,950	4,457,949	320,064	4,778,013	18,416,937	79%
Hampton	90,670,410	52,830,647	24,087,251	76,917,898	13,752,512	15%
Hampton Cnty	1,453,173	0	552,004	552,004	901,169	62%
Varnville	74,089,110	37,643,676	19,702,978	57,346,654	16,742,456	23%
Yemassee	55,264,302	18,890,487	14,127,351	33,017,838	17,412,537	32%
Total	249,230,675	123,637,905	65,325,559	188,963,464	67,225,611	

ANNUAL WASTEWATER TREATED

System	Gallons Treated	Gallons Residential Sales	Gallons Commercial Sales	Gallons MISC	Total Gallons Res/Com/Misc	Gallons Unaccounted Sources	% Unaccounted
Brunson	47,842,100	8,748,393	5,790,547	4,884,252	19,423,192	28,418,908	59%
Gifford	4,611,193	4,291,129	320,064	0	4,611,193	0	
Hampton	183,090,200	48,582,857	19,880,422	106,629	68,569,908	114,520,292	63%
Hampton Cnty	552,004	0	552,004	0	552,044	0	
Varnville	95,964,800	31,092,673	18,512,002	0	49,604,675	46,360,125	48%
Yemassee	67,690,900	13,607,043	12,195,571	4,833,927	30,636,541	37,054,359	55%
Total	399,751,197	106,322,095	57,250,610	9,824,808	173,397,553	226,353,684	

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	12,490	26,891	17,907	131,074	23,968	15,865
Gifford	63,548	12,214	877	12,633	11,757	877
Hampton	248,412	144,741	65,992	501,617	133,104	54,467
Hampton Cnty	3,981	0	1,512	1,512	0	1,512
Varnville	202,984	103,133	53,981	262,917	85,185	50,718
Yemassee	151,409	51,755	38,705	185,455	37,280	33,413
Total	682,824	338,734	178,974	1,095,208	291,294	156,852

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)	100
Wastewater Collection Mains (Miles)	96
Ground Storage Tanks	1
Fire Pump	1
Fire Hydrants	447



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
2019	\$3,027,021.85	\$3,013,303.38	99%
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%

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	\$28.67	\$38.66	\$67.33
City of Walterboro	\$15.60	\$21.55	\$37.15
Town of Fairfax	\$20.93	\$25.90	\$46.83
Town of Allendale	\$24.46	\$30.70	\$55.16
Beaufort Jasper W&S Authority	\$26.50	\$44.85	\$71.35
City of Bamberg	\$34.55	\$49.32	\$83.87
City of Charleston	\$21.42	\$67.15	\$88.57
City of Columbia	\$18.84	\$36.33	\$55.17
Lexington Cty. Joint Municipal W&S	\$44.09	\$45.97	\$90.06
Newberry County W&S Authority	\$49.50	\$57.00	\$106.50
McCormick County Water & Sewer	\$37.50	\$57.50	\$95.00

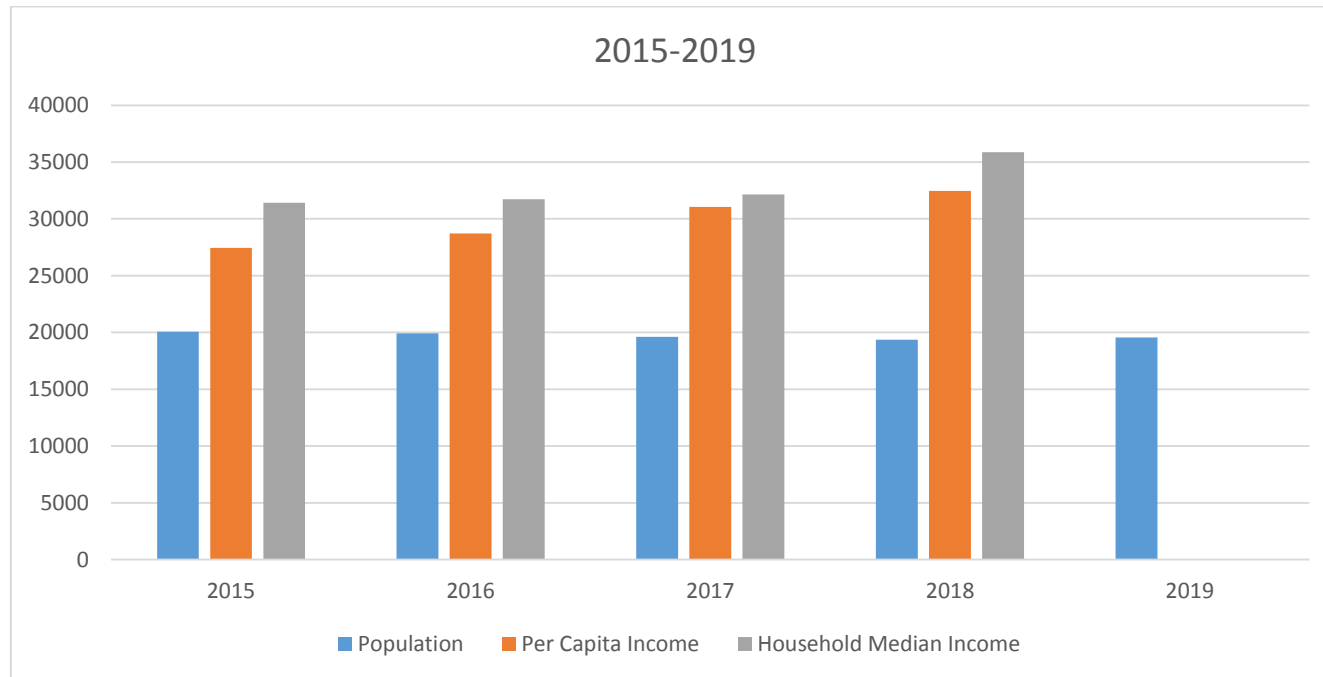
Source: SC Rural Infrastructure Authority Office of Local Government 2018 Municipal Water and Sewer Rate Survey

DEMOGRAPHIC and ECONOMIC STATISTICS

Hampton County Demographic and Economic Statistics Summary for Past 5 Years

Fiscal Year Ending	Population	Total Personal Income (\$000's)	Per Capita Personal Income	Household Median Income	Unemployment Rate Annual Average	Percent At or Below Poverty Level
2019	19,559	Unavailable	Unavailable	Unavailable	2.1%	Unavailable
2018	19,351	\$628,382	\$32,473	\$35,871	3.8%	17.5%
2017	19,602	\$608,720	\$31,054	\$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%

Source: US Census Bureau; US Bureau of Economic Analysis; US Department of Labor – Bureau of Labor Statistics; SC Department of Employment & Workforce
 2019: Population information based on surveys. Some information for 2019 unavailable as of March 2020.



TOP TEN WATER USERS 2018 Compared to 2019

Water Consumption for 12 Consecutive Months

Customer	Water Used Annually 2019	Customer	Water Used Annually 2018
Alpha Genesis, Inc.	6,703,321	Brunson Laundry	6,766,837
Brunson Laundry	6,021,086	Hampton Regional Medical	6,101,000
Hampton Regional Medical	5,555,920	Alpha Genesis Inc.	5,498,000
Varnville Area housing	2,954,727	Varnville Area Housing	3,202,000
Southeastern Housing	2,740,770	Southeastern Housing	2,155,000
Love's Travel Stop	1,873,756	HC Courthouse- Irrigation	2,021,000
Open Arms Fellowship	1,855,829	Varnville Area Housing	1,419,000
HC Law Enforcement Center	1,446,610	HC Law Enforcement Center	1,057,000
Varnville Area Housing #2	1,416,930	Varnville Laundry & Car Wash	978,000
Anderson Oil Co.	946,274	Hari Aum. Inc.	916,000

Source: LRWS QS1 Billing Software

TOP TEN EMPLOYERS

Top Ten Employers Served by LRWS during 2018-2019

Customer	# of Employees 2019	% of Total County Employment 2019	Customer	# of Employees 2018	% of Total County Employment 2018
Hampton County School District #1	418	5.17%	Hampton County School District #1	418	5.23%
Hampton Regional Medical	291	3.60%	Hampton Regional Medical	292	3.65%
County of Hampton	254	3.14%	County of Hampton	245	3.06%
LeCreuset of America	202	2.50%	LeCreuset of America	190	2.37%
Alpha Genesis (1)			Alpha Genesis(1)	146	1.82%
Loves Travel Stop	60	0.74%	Love's Travel Stop	70	0.87%
R&L Carriers	55	0.68%	R&L Carriers	60	0.75%
Nupi Americas	37	0.45%	Brunson Laundry/Lowcountry Medical Linens	46	0.57%
Spencer Industries	23	0.28%	J.R Wilson Construction	42	0.52%
Precision Machined Components	16	0.19%	Spencer Industries	23	0.28%

Source: Hampton County Economic & Development Office, SCWorks.org (2019) **Total Employed in Hampton County: 7991 (2018) & 8070 (2019)**

(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, 2019. Our opinion dated January 23, 2020 on the September 30, 2019 financial statements was unmodified. Auditing standards require that certain matters related to the conduct of our audit be communicated to the Board of Commissioners. Those matters requiring communication are as follows:

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

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

Major Issues Discussed with Management Prior to Retention

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

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

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

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

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

Sensitive Accounting Estimates

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

Significant Audit Adjustments

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

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

Disagreements with Management

There were no disagreements with management.

Consultations with Other Accountants

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

Difficulties Encountered in Dealing with Management When Performing the Audit

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

* * * * *

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

The Brittingham Group LLP

West Columbia, South Carolina

January 23, 2020

LOWCOUNTRY REGIONAL WATER SYSTEM

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

WITH

INDEPENDENT AUDITORS' REPORT

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THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

501 STATE STREET
POST OFFICE BOX 5949
WEST COLUMBIA, SC 29171

PHONE: (803) 739-3090
FAX: (803) 791-0834

INDEPENDENT AUDITORS' REPORT

Mr. 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, 2019, 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, 2019, 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 34 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 January 23, 2020 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.

A handwritten signature in black ink that reads "The Buttingham Group LLP". The signature is written in a cursive, flowing style. It is contained within a rectangular box that has a thin black border on the top and left sides, and a thin black line on the bottom side.

West Columbia, South Carolina
January 23, 2020

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,		
	2019	2018	Variance
Assets and Deferred Outflows of Resources:			
Cash and cash equivalents	\$ 1,949,509	\$ 1,650,441	\$ 299,068
Receivables	260,088	211,858	48,230
Inventory	52,602	55,333	(2,731)
Capital assets, net	21,450,886	19,806,470	1,644,416
Deferred outflows of resources	318,563	244,603	73,960
Total assets and deferred outflows of resources	<u>\$ 24,031,648</u>	<u>\$ 21,968,705</u>	<u>\$ 2,062,943</u>
Liabilities and Deferred Inflows of Resources:			
Current liabilities	\$ 713,109	\$ 770,456	\$ (57,347)
Long-term debt	8,409,934	6,766,137	1,643,797
Pension liability	1,463,261	1,374,334	88,927
Deferred inflows of resources	127,818	133,001	(5,183)
Total liabilities and deferred inflows of resources	<u>10,714,122</u>	<u>9,043,928</u>	<u>1,670,194</u>
Net Position:			
Invested in capital assets	12,848,886	12,892,370	(43,484)
Restricted for debt service	1,379,324	975,048	404,276
Unrestricted	(910,684)	(942,641)	31,957
TOTAL NET POSITION	<u>\$ 13,317,526</u>	<u>\$ 12,924,777</u>	<u>\$ 392,749</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,		
	2019	2018	Variance
Operating revenues	\$ 2,501,030	\$ 2,828,805	\$ (327,775)
Operating expenses	(3,049,330)	(2,736,228)	(313,102)
Operating income (loss)	(548,300)	92,577	(640,877)
Non-operating revenues	1,067,280	1,639,485	(572,205)
Non-operating expenses	(126,231)	(177,435)	51,204
Non-operating loss	941,049	1,462,050	(521,001)
Capital contributions	-	7,950	(7,950)
Change in net position	392,749	1,562,577	<u>\$ (1,169,828)</u>
Net position - beginning of year	12,924,777	11,362,200	
Net position - end of year	<u>\$ 13,317,526</u>	<u>\$12,924,777</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,		
	2019	2018	Variance
Cash provided (used) by:			
Operating activities	\$ 172	\$ 1,052,590	\$ (1,052,418)
Capital and related financing activities	295,914	(874,362)	1,170,276
Investing activities	2,982	2,323	659
Net change in cash	299,068	180,551	118,517
Cash and cash equivalents - beginning of year	1,650,441	1,469,890	180,551
Cash and cash equivalents - end of year	<u>\$ 1,949,509</u>	<u>\$ 1,650,441</u>	<u>\$ 299,068</u>

Capital Assets

The System's investment in capital assets as of September 30, 2019, amounts to \$21,453,886 (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 8.30 percent.

	Year Ended September 30,		
	2019	2018	Variance
Land	\$ 246,180	153,239	\$ 92,941
Construction in Process	6,767,688	6,301,883	465,805
Buildings	163,398	163,398	-
Equipment	627,525	554,859	72,666
Vehicles	557,626	126,797	430,829
Water systems	12,569,454	12,393,363	176,091
Sewer systems	15,756,857	14,665,135	1,091,722
Less: accumulated depreciation	(15,237,842)	(14,552,204)	(685,638)
	<u>\$ 21,450,886</u>	<u>\$ 19,806,470</u>	<u>\$ 1,644,416</u>

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

- The following projects are currently in various stages of development/construction at year-end:
 - Brunson Wastewater Treatment Plant and Sewer Rehab
 - Lightsey Kinard Sewer Upgrade
 - Town of Gifford Water System
 - Improvement Projects Divisions 1 - 3
- The following projects were completed during the fiscal year
 - Salkehatchie Sewer Upgrade
 - Sander's Branch Water and Sewer Replacements

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 2019, the System had total current and long-term debt outstanding of \$8,602,000. 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,		
	2019	2018	Variance
Revenue bonds payable	\$ 8,602,000	\$ 6,914,100	\$ 1,687,900
	<u>\$ 8,602,000</u>	<u>\$ 6,914,100</u>	<u>\$ 1,687,900</u>

The System's total long-term debt increased by \$1,687,900, or 24.41 percent, during the current fiscal year. This increase was caused by incurring more debt from 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, 2019.

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, 2019

Assets and Deferred Outflows of Resources:

Current assets:

Cash and cash equivalents	\$ 570,185
Restricted cash and cash equivalents	1,379,324
Accounts receivable, net	260,088
Inventory	52,602
Total current assets	<u>2,262,199</u>

Non-current assets:

Capital assets, not being depreciated	7,013,868
Capital assets, net of accumulated depreciation	14,437,018
Total non-current assets	<u>21,450,886</u>

Deferred outflows of resources - pension plan	318,563
Total assets and deferred outflows of resources	<u>24,031,648</u>

Liabilities and Deferred Inflows of Resources:

Current liabilities:

Accounts payable	261,323
Accrued liabilities	24,883
Accrued compensated absences	68,799
Accrued interest payable	39,398
Due to other governments	126,640
Revenue bonds payable - current portion	192,066
Total current liabilities	<u>713,109</u>

Other liabilities:

Revenue bonds payable - non-current portion	8,409,934
Pension liability	1,463,261
Total long-term liabilities	<u>9,873,195</u>

Deferred inflows of resources - pension plan	127,818
Total liabilities and deferred inflows of resources	<u>10,714,122</u>

Net Position:

Net investment in capital assets	12,848,886
Restricted for debt service	1,379,324
Unrestricted - unfunded pension liability	(1,272,516)
Unrestricted - other	361,832
Total net position	<u>\$ 13,317,526</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2019

Operating Revenues:

Water service	\$ 1,095,488
Sewer service	1,386,866
Penalties, reconnection fees and miscellaneous	18,676
Total operating revenues	<u>2,501,030</u>

Operating Expenses:

Personnel services	1,135,555
Contract sewer treatment	14,400
Repairs and maintenance	167,588
Utilities	353,804
Supplies, materials and chemicals	76,619
Professional, engineering, lab and legal fees	307,244
Insurance	41,865
Vehicle and fuel expenses	35,548
Postage, printing and advertising	20,702
Building and equipment rental	41,256
Dues, licenses and permits	47,754
Bad debts	56,106
Bank charges	32,864
Depreciation	685,638
Miscellaneous	32,387
Total operating expenses	<u>3,049,330</u>
Operating income	<u>(548,300)</u>

Non-Operating Revenues (Expenses):

Grant income	1,064,298
Interest income	2,982
Interest expense	(126,231)
Net non-operating revenue (expense)	<u>941,049</u>
Change in net position	392,749
Net position, beginning of year	12,924,777
Net position, end of year	<u>\$ 13,317,526</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2019

Cash Flows From Operating Activities:

Cash received from customers	\$ 2,452,801
Cash payments for personnel services	(1,105,157)
Cash payments for operating and contractual services	(14,400)
Cash payments for suppliers	(1,333,072)
Net cash flows provided by operating activities	<u>172</u>

Cash Flows From Capital and Related Financing Activities:

Grant income	1,064,298
Acquisition and construction of capital assets	(2,330,053)
Proceeds from issuance of capital debt	8,148,541
Principal paid on capital debt	(6,460,641)
Interest paid on capital debt	(126,231)
Net cash flows used in capital and related financing activities	<u>295,914</u>

Cash Flows From Investing Activities:

Interest income	<u>2,982</u>
Net cash flows provided by investing activities	<u>2,982</u>

Net change in cash and cash equivalents	299,068
Cash and cash equivalents, beginning of year	<u>1,650,441</u>
Cash and cash equivalents, end of year	<u>\$ 1,949,509</u>

Reconciliation of Cash and Cash Equivalents:

Cash and cash equivalents	\$ 570,185
Restricted cash and cash equivalents	<u>1,379,324</u>
Cash and cash equivalents, end of year	<u>\$ 1,949,509</u>

(CONTINUED)

LOWCOUNTRY REGIONAL WATER SYSTEM

STATEMENT OF CASH FLOWS

-CONTINUED-

Reconciliation of Operating Income to Net Cash Flows

From Operating Activities:

Operating income	\$ (548,300)
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	685,638
Change in assets and liabilities	
Accounts receivable	(48,230)
Inventory	2,731
Deferred outflows	(73,960)
Deferred inflows	(5,183)
Accounts payable	(103,018)
Accrued expenses	1,438
Accrued interest payable	(73,997)
Due to other governments	53,512
Accrued compensated absences	20,614
Pension liability	88,927
Net cash flows from operating activities	<u>\$ 172</u>

See accompanying notes.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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, 2019, the carrying amount of the System's deposits totaled \$1,949,509 and the bank balance was \$2,049,962, 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, 2019 was as follows:

	October 1, 2018	Increases	Decreases	September 30, 2019
Capital assets, not being depreciated:				
Land	\$ 153,239	\$ 92,941	\$ -	\$ 246,180
Construction in process	6,301,883	2,237,113	(1,771,308)	6,767,688
Total capital assets, not being depreciated	6,455,122	2,330,054	(1,771,308)	7,013,868
Capital assets, being depreciated:				
Buildings	163,398	-	-	163,398
Equipment	554,859	72,666	-	627,525
Vehicles	126,797	430,829	-	557,626
Water systems	12,393,363	176,091	-	12,569,454
Sewer systems	14,665,135	1,091,722	-	15,756,857
Total capital assets, being depreciated	27,903,551	1,771,308	-	29,674,860
Less: accumulated depreciation	(14,552,204)	(685,638)	-	(15,237,842)
Total capital assets	<u>\$ 19,806,469</u>	<u>\$ 3,415,724</u>	<u>\$ (1,771,308)</u>	<u>\$ 21,450,886</u>

4. Due to Other Governments

The system bills and collects various fees on behalf of the Towns in its service area. The following are the amounts owed to those Towns at September 30, 2019:

	Brunson	Gifford	Hampton	Varnville	Yemassee	Total
Services billed for:						
Police	\$ 2,092	\$ 2,829	\$ -	\$ 17,787	\$ -	\$ 22,708
Garbage collection	7,008	4,006	27,725	34,645	12,734	86,118
Fire	-	-	-	3,760	-	3,760
Animal Control	532	-	-	-	-	532
Solid waste	-	-	2,521	923	-	3,444
Total due to towns	<u>\$ 9,632</u>	<u>\$ 6,835</u>	<u>\$ 30,246</u>	<u>\$ 57,115</u>	<u>\$ 12,734</u>	<u>\$ 116,562</u>

Additionally, franchise fees in the amount of \$10,078 were due to Towns in its service area.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

5. Long-Term Debt

Revenue Bonds Payable

Revenue Bonds Payable at September 30, 2019 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, 2019 was \$2,122,000.

USDA Bond Financing with an original amount of \$6,480,000 due in monthly payments through 2059 with an interest rate of 2.875%. The balance as September 30, 2019 was \$6,480,000.

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

Year Ended September 30,	Principal	Interest	Total
2020	\$ 192,066	\$ 242,025	\$ 434,090
2021	197,631	236,651	434,282
2022	203,271	231,122	434,393
2023	207,989	225,435	433,423
2024	214,785	219,614	434,399
2025 - 2029	1,166,805	1,004,537	2,171,342
2030 - 2034	1,291,995	832,868	2,124,863
2035 - 2039	993,029	657,130	1,650,159
2040 - 2044	828,891	535,091	1,363,981
2045 - 2049	956,869	407,112	1,363,981
2050 - 2054	1,104,606	259,375	1,363,981
2055 - 2059	1,244,063	88,885	1,332,948
	<u>\$ 8,602,000</u>	<u>\$4,939,845</u>	<u>\$ 13,541,845</u>

Changes in long-term liabilities for the year ended September 30, 2019, were as follows:

	October 1, 2018	Additions	Reductions	September 30, 2019	Due Within One Year
Revenue bonds payable	\$ 6,914,100	\$ 8,148,541	\$ (6,460,641)	\$ 8,602,000	\$ 192,066
Compensated absences	48,185	68,799	(48,185)	68,799	68,799
	<u>\$ 6,962,285</u>	<u>\$ 8,217,340</u>	<u>\$ (6,508,826)</u>	<u>\$ 8,670,799</u>	<u>\$ 260,865</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.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member.

For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective July 1, 2017, employees participating in the SCRS were required to contribute 9.00% of all earnable compensation. The employer contribution rate for SCRS was 14.56%. Included in the total SCRS employer contribution rate is a base retirement contribution of 14.41%, and .15% for the incidental death program. The System's actual contributions to the SCRS for the years ended September 30, 2019, 2018 and 2017 were as follows:

Year Ended September 30,	Employer Contribution Rate			Employer Contributions		
	Incidental			Incidental		
	Base	Death	Total	Base	Death	Total
2019	14.41%	0.15%	14.56%	\$ 107,021	\$ 1,114	\$ 108,135
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

The amounts paid by the System for pension, incidental death benefit program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined.

At September 30, 2019 the System reported \$1,463,261 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, 2018, using generally accepted actuarial procedures. The System's portion of the net pension liability was based on the System's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the System's SCRS proportion was 0.006530%. For the year ended September 30, 2019 the System recognized pension expenses of \$104,878 for SCRS.

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

At September 30, 2019 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	\$ 2,641
Assumption changes	58,054
Net difference between projected and actual investment earnings	72,452
Deferred amounts from changes in proportionate share and differences between employer contributions & proportionate share of total plan employer contributions	77,281
Current year employer contributions	108,135
Total deferred outflows of resources	<u>\$ 318,563</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ (8,611)
Net difference between projected and actual investment earnings	(49,208)
Deferred amounts from changes in proportionate share and differences between employer contributions & proportionate share of total plan employer contributions	(69,999)
Total deferred inflows of resources	<u>(127,818)</u>

Net deferred outflows and inflows of resources \$ 190,745

System contributions subsequent to the measurement date totaled \$108,135. These contributions will be reported as deferred outflows of resources related to pensions as of September 30, 2019 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	\$ (52,515)
2019	(28,067)
2020	(2,743)
2021	715
	<u>\$ (82,610)</u>

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Pension Plan (continued)

The total pension liabilities in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	<u>SCRS</u>
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

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2016.

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:

<u>Former Job Class</u>	<u>Males</u>	<u>Females</u>
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:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	47.0%		
Global Public Equity	33.0%	6.99%	2.31%
Private Equity	9.0%	8.73%	0.79%
Equity Options Strategies	5.0%	5.52%	0.28%
Real Assets	10.0%		
Real Estate (Private)	6.0%	3.54%	0.21%
Real Estate (REITs)	2.0%	5.46%	0.11%
Infrastructure	2.0%	5.09%	0.10%
Opportunistic	13.0%		
GTAA/Risk Parity	8.0%	3.75%	0.30%
Hedge Funds (non-PA)	2.0%	3.45%	0.07%
Other Opportunistic Strategies	3.0%	3.75%	0.11%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.05%	0.18%
Emerging Markets Debt	5.0%	3.94%	0.20%
Private Debt	7.0%	3.89%	0.27%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	0.94%	0.09%
Cash and Short Duration (Net)	2.0%	0.34%	0.01%
Total Expected Real Return	100%		5.03%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.28%

The discount rate used to measure the total pension liability (“TPL”) was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS 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 liability 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.

Plan	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
SCRS	\$ 1,869,775	\$ 1,463,261	\$ 1,172,642

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, 2019 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, 2019 through January 23, 2020 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*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
System's proportion of the net pension liability	0.0065%	0.0068%	0.0065%	0.0072%	0.0072%	0.0072%
System's proportionate share of the net pension liability	\$ 1,463,261	\$ 1,444,567	\$ 1,239,015	\$ 1,246,692	\$ 1,298,777	\$ 1,246,660
System's covered payroll	\$ 721,232	\$ 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	202.88%	230.54%	205.24%	198.46%	209.26%	206.08%
Plan fiduciary net position as a percentage of the total pension liability	54.10%	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 THE
SOUTH CAROLINA RETIREMENT SYSTEMS
CONTRIBUTIONS

LAST TEN FISCAL YEARS*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 108,135	\$ 97,799	\$ 72,434	\$ 66,769	\$ 68,471	\$ 65,789
Contributions in relation to the contractually required contribution	(108,135)	(97,799)	(72,434)	(66,769)	(68,471)	(65,789)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
System's covered payroll	\$ 742,685	\$ 721,232	\$ 626,592	\$ 603,698	\$ 628,174	\$ 620,651
Contributions as a percentage of covered payroll	14.56%	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, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- through Grantor	Federal Expenditures September 30, 2019
<i>Other Programs</i>			
Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	State of South Carolina	\$ 6,978
Total Disaster Grants - Public Assistance (Presidentially Declared Disasters)			6,978
Total Department of Homeland Security			6,978
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	Town of Hampton	360,823
Community Development Block Grants/Special Purpose Grants/Insular Areas	14.225	Town of Yemassee	117,993
Total Community Development Block Grants/Special Purpose Grants/Insular Areas			478,816
Total Department of Housing and Urban Development			478,816
United States Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities			
Water and Waste Disposal Systems for Rural Communities	10.760		1,829,193
Total Water and Waste Disposal Systems for Rural Communities			1,829,193
Total United States Department of Agriculture			1,829,193
Total Other Programs			2,314,987
			\$ 2,314,987
Total Expenditures of Federal Awards			

LOWCOUNTRY REGIONAL WATER SYSTEM

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2019

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, 2018 through September 30, 2019 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 \$2,314,987 in federal awards from October 1, 2018 through September 30, 2019. Of this balance, \$1,556,826 was expenditures related to the USDA loan program. The outstanding balance for USDA revenue bonds related to the loan program was \$6,480,000 as of September 30, 2019.

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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, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated January 23, 2020.

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

January 23, 2020

THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2019. 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, 2019.

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
January 23, 2020

LOWCOUNTRY REGIONAL WATER SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2019

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.

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, 2019

	Water	Sewer	Unallocated	Total
Operating Revenues:				
Water service	\$ 1,095,488	\$ -	\$ -	\$ 1,095,488
Sewer service	-	1,386,866	-	1,386,866
Penalties, reconnection fees and miscellaneous	10,575	8,101	-	18,676
Total operating revenues	1,106,063	1,394,967	-	2,501,030
Operating Expenses:				
Personnel services	484,089	484,843	166,623	1,135,555
Contract sewer treatment	-	14,400	-	14,400
Repairs and maintenance	82,505	70,945	14,138	167,588
Utilities	74,487	275,606	3,711	353,804
Supplies, materials and chemicals	17,062	49,898	9,659	76,619
Professional, engineering, lab and legal fees	64,413	200,606	42,225	307,244
Insurance	15,869	15,869	10,127	41,865
Vehicle and fuel expenses	16,959	14,157	4,432	35,548
Postage, printing and advertising	2,616	-	18,086	20,702
Building and equipment rental	7,922	25,245	8,089	41,256
Dues, licenses and permits	39,710	6,247	1,797	47,754
Bad debts	27,492	28,614	-	56,106
Bank charges	-	-	32,864	32,864
Depreciation	231,160	367,671	86,807	685,638
Miscellaneous	13,855	11,955	6,577	32,387
Total operating expenses	1,078,139	1,566,056	405,135	3,049,330
Operating income (loss)	27,924	(171,089)	(405,135)	(548,300)
Non-Operating Revenue (Expenses):				
Grant income	532,149	532,149	-	1,064,298

Interest income	-	-	2,982	2,982
Interest expense	(49,810)	(73,139)	(3,282)	(126,231)
Net non-operating revenue (expense)	482,339	459,010	(300)	941,049
Change in net position	\$ 510,263	\$ 287,921	\$ (405,435)	\$ 392,749

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