ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

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Greene Finney &Horton
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Anderson Regional Joint Water System
Anderson, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Anderson Regional Joint Water System, South Carolina (the "Joint Water System"), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Joint Water System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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, i*ssued 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Anderson Regional Joint Water System, South Carolina, as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Joint Water System adopted and changed its method of accounting for bond issuance costs in 2014 and retroactively applied it to all years presented as required by Governmental Accounting Standards Board Statement No. 65, "*Items Previously Reported as Assets and Liabilities"*. Our opinion is not modified with respect to this matter.

Pending Implementation of Governmental Accounting Standards Board Statement on Pensions

As discussed in Note 9, the Governmental Accounting Standards Board issued Statement No. 68, "*Accounting and Financial Reporting for Pensions*" ("*Statement*") in 2012. This Statement, which will be adopted by the Joint Water System for the fiscal year ended June 30, 2015, will require the Joint Water System to report a net pension liability on its financial statements for its participation in the South Carolina Retirement System ("SCRS"). Based on recent information provided by the South Carolina Public Employee Benefit Authority, it is anticipated that the Joint Water System's share of the net pension liability associated with the SCRS will decrease the Joint Water System's beginning net position by approximately $2,107,000. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Joint Water System's basic financial statements. The supplementary information and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards 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 October 17, 2014 on our consideration of the Joint Water 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 Joint Water System's internal control over financial reporting and compliance.

Greene, Finney & Horton, LLP
Mauldin, South Carolina
October 17, 2014

To the Board of Commissioners of the Anderson Regional Joint Water System and to the community we serve:

We are pleased to transmit the Annual Financial Report of the Anderson Regional Joint Water System ("Joint Water System") for the fiscal years ended June 30, 2014 and 2013. Statement No. 34 of the Governmental Accounting Standards Board requires that management provide a discussion and analysis to accompany the financial statements. This discussion and analysis of the Joint Water System's financial performance provides an overview of financial activities for the year ended June 30, 2014, and should be read in conjunction with the Joint Water System's financial statements.

The Joint Water System operates as a utility enterprise and maintains accounting records in accordance with the U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). The basic financial statements include: **Statements of Net Position**; **Statements of Revenues, Expenses, and Changes in Net Position**; S**tatements of Cash Flows**; and **Notes to the Financial Statements**.

The **Statements of Net Position** present the financial position of the Joint Water System as of a specific date. This statement provides information about the nature and amount of resources (assets and deferred outflows of resources) and obligations (liabilities and deferred inflows of resources), with the difference reported as net position, some of which may be restricted in accordance with bond covenants and Board of Commissioners' policy. Over time, increases and decreases in net position may serve as indicators of whether the financial position of the Joint Water System is improving or deteriorating.

The **Statements of Revenues, Expenses, and Changes in Net Position** present the results of the business activities over the course of the fiscal year and information about how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information on the Joint Water System's cost recovery. The Joint Water System recovered 95% of its revenue under a direct cost recovery formula. The remaining 5% of system costs are recovered under a revenue neutral wholesale rate under contracted sales to Clemson University.

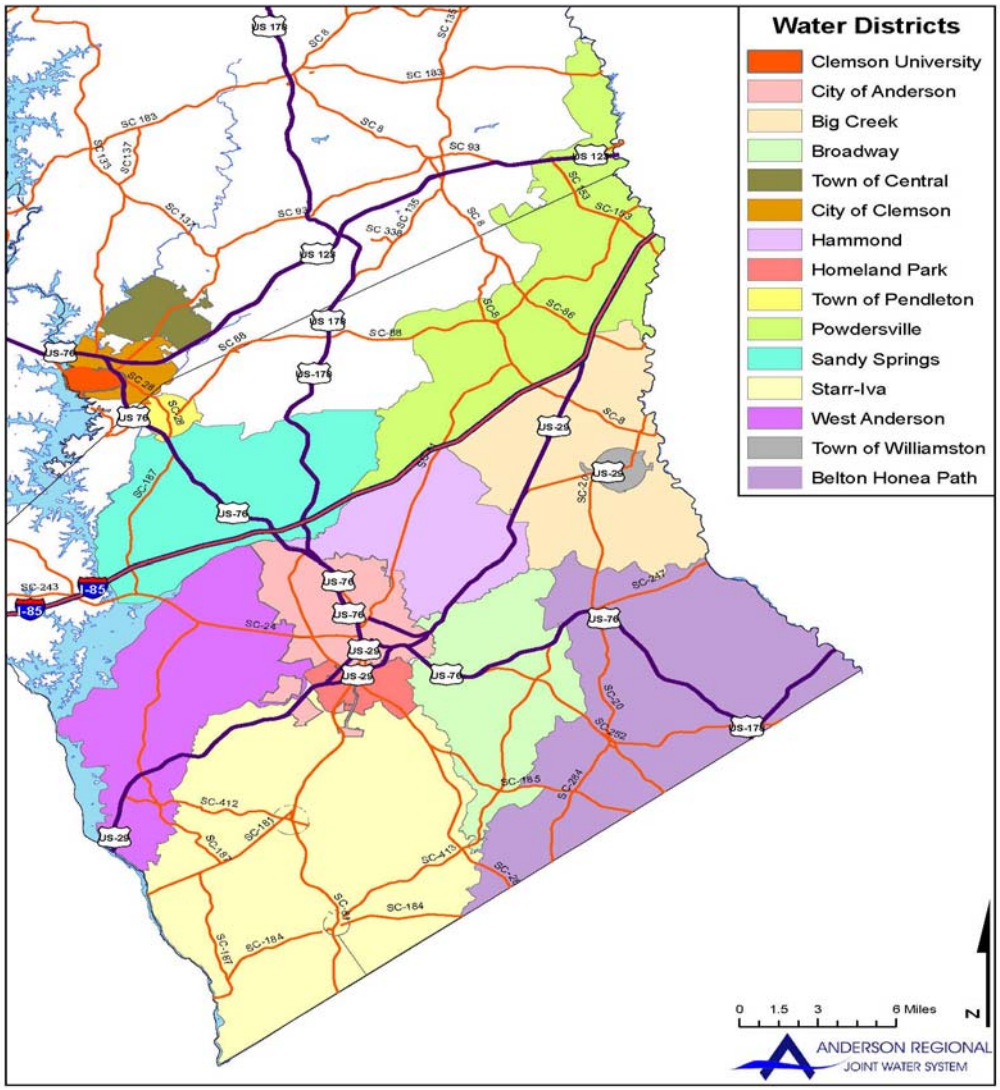
The **Statements of Cash Flows** present changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **Notes to the Financial Statements** provide required disclosures and other information essential to fully understand the data provided in the statements. Supplementary information contains additional financial data, such as budgetary comparisons, expenses by classification, and debt service coverage. Although not a required part of the financial statements, this data enhances information provided to users.

Responsibility for the accuracy of the data as well as the thoroughness of the presentation rests with the management of the Joint Water System. To the best of our knowledge, the enclosed data are accurate in all material respects and adequately present the financial position of the Joint Water System.

The Joint Water System

Pursuant to Section 6-25-50 of the S.C. Code of Laws, the Anderson County Joint Municipal Water System, subsequently renamed the Anderson Regional Joint Water System pursuant to Resolution No. 10-12-04, effective October 12, 2004, established an entity for including, but not limited to, the planning, financing acquisition and location of water supply and water distribution systems to insure for an adequate, reliable and economical supply of water to the persons and property served by the members of the Joint Water System, and such other purposes as are or may be permitted by law.



A fourteen member Board of Commissioners ("Board" or "Commission") representing the participating member agencies governs the Joint Water System. Clemson University is serviced as a non-governing wholesale customer. The Commissioners serve at the pleasure of their appointing Boards or Councils. The Board, under authority of state law, has and may exercise all powers which are granted to special purpose districts by the Constitution and Laws of South Carolina, except the power to levy and collect taxes.

Board of Commissioners

FY 2014

Commissioner		Agency
Dyke Spencer*	Chairman	Powdersville Water District
Jeff Caldwell*	Vice-Chairman	City of Anderson
Dwight Edwards*	Secretary	West Anderson Water District
Phillip Mishoe*	Past-Chairman	Town of Central
Al Eaves*	At-Large	Sandy Springs Water District
Derrick Singleton*	At-Large	Hammond Water District
Rip Tafta		Belton-Honea Path Water Authority
Larry Burgess		Big Creek Water District
Doug Locke		Broadway Water District
Benjie McGill		City of Clemson
Jerry Richey		Homeland Park
Steve Miller		Town of Pendleton
David Rogers		Town of Williamston
Billy Peale		Starr-Iva Water District

* Executive Committee

Actions by the Commission are approved via two voting procedures: agency votes and flow-based votes. Debt issuances are approved based on agency votes, with each agency receiving 1 vote. Debt issuances resulting in increases to total capacity require unanimous consent of the agencies participating in the issue. Debt issuances necessary to maintain system reliability require approval of a two thirds super-majority. Officers are selected based on simple majority of agency votes.

All other board actions, including budget adoption, contract award and policy changes require approval of a simple majority of flow-based votes. One thousand flow-based votes are allocated proportionately based an agency's pro rata water purchases during the preceding calendar year. In addition, each commissioner is entitled to 1 vote. The vote allocation is re-computed annually.

Commission Flow-Based Vote Allocation

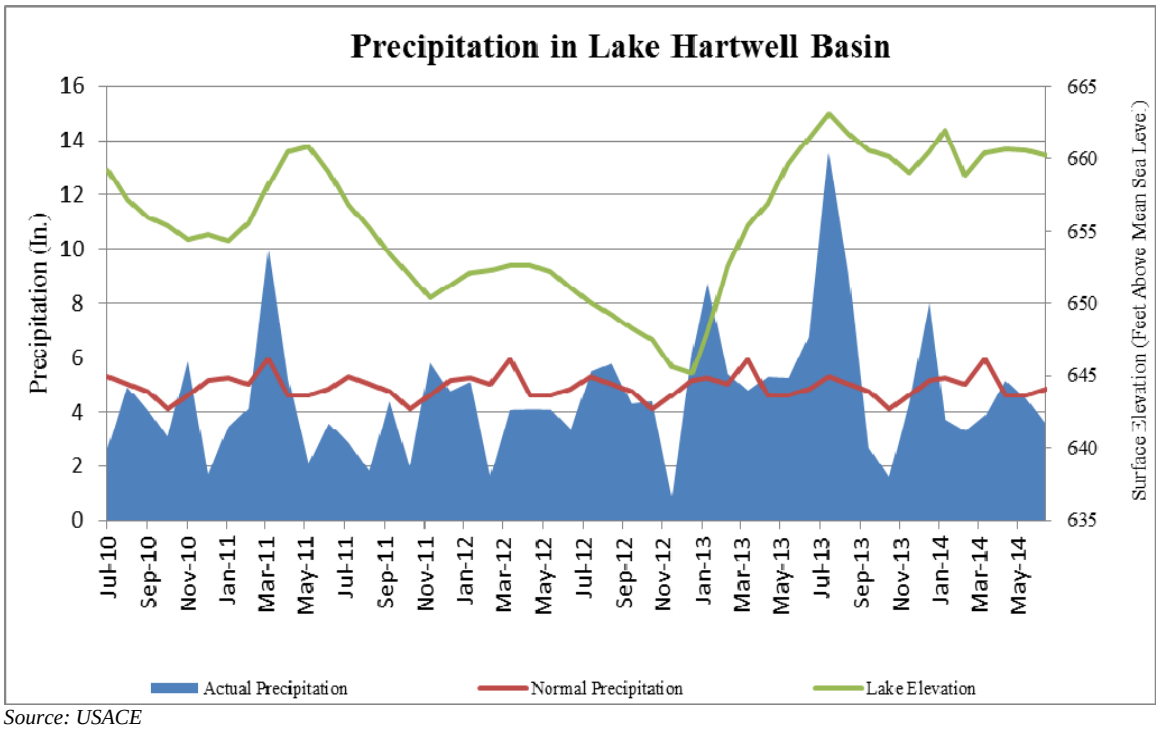
	2013 Votes		2014 Votes	
	Flow	*Total*	*Flow*	*Total*
City of Anderson	262	263	289	290
Big Creek	64	65	61	62
Broadway	45	46	43	44
Belton/Honea Path	0	1	0	1
Town of Central	0	1	0	1
City of Clemson	120	121	111	112
Hammond	115	116	112	113
Homeland Park	38	39	45	46
Pendleton	19	20	20	21
Powdersville	30	31	18	19
Sandy Springs	124	125	109	110
Starr Iva	62	63	67	68
West Anderson	83	84	84	85
Williamston	38	39	41	42
System Total	**1000**	**1014**	**1000**	**1014**

FISCAL YEAR 2014 IN REVIEW

Taste and Odor Issues Take Center Stage

As the year began, the Upstate was just exiting a moderate drought with very heavy spring and summer precipitation. The two normally largest sales months of July and August produced precipitation 255% and 181% of normal, thus significantly reducing total annual sales. The abnormally high levels of precipitation provided for a rapid refill of the supply reservoir and also created lingering water quality issues.

The surface flows generated by the high precipitation resulted in a high nutrient loading in the reservoir system that lead to algae blooms with taste and odor causing compounds. These water quality changes have increased chemical treatment costs. In addition, to combat the taste and odor issues, the Joint Water System initiated the installation of a powder activated carbon (PAC) pretreatment system and installed a chlorine dioxide pre-disinfection system. These systems were cash funded from system reserves.



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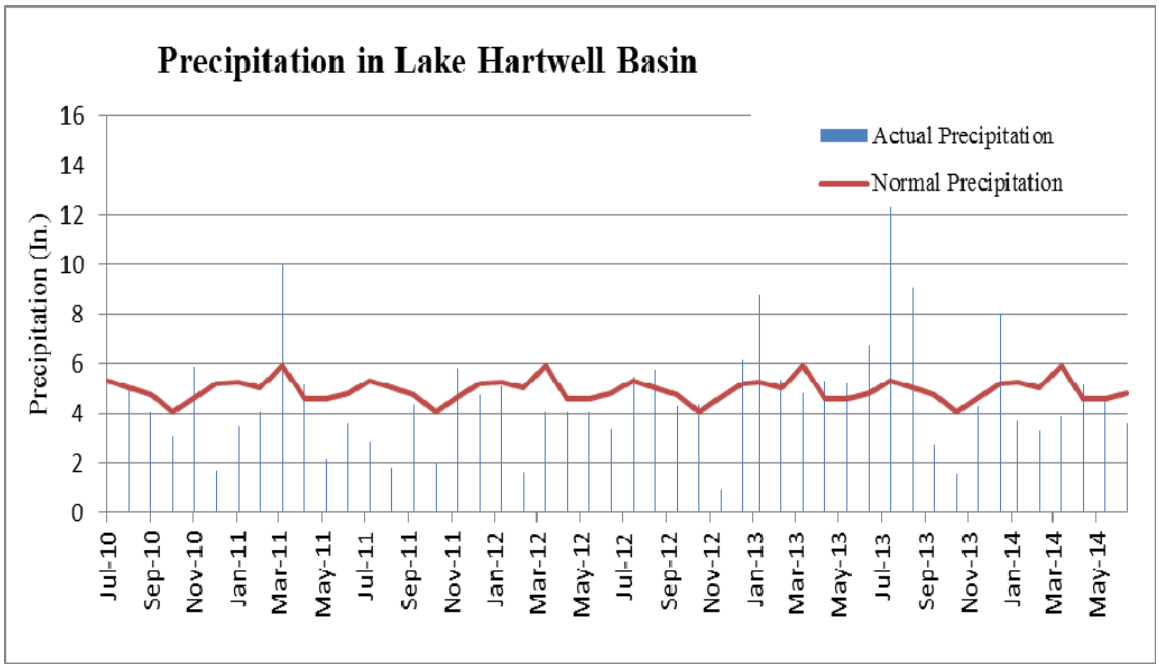

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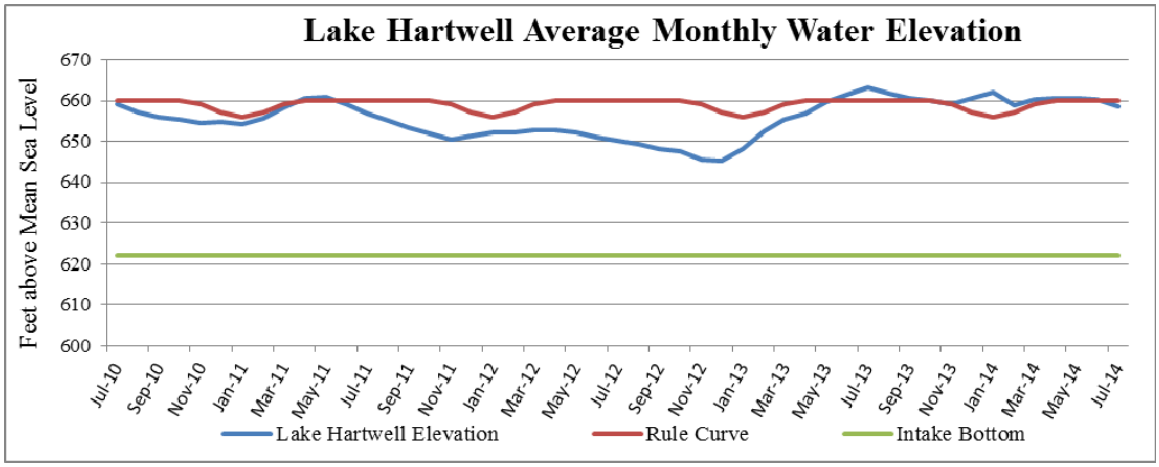
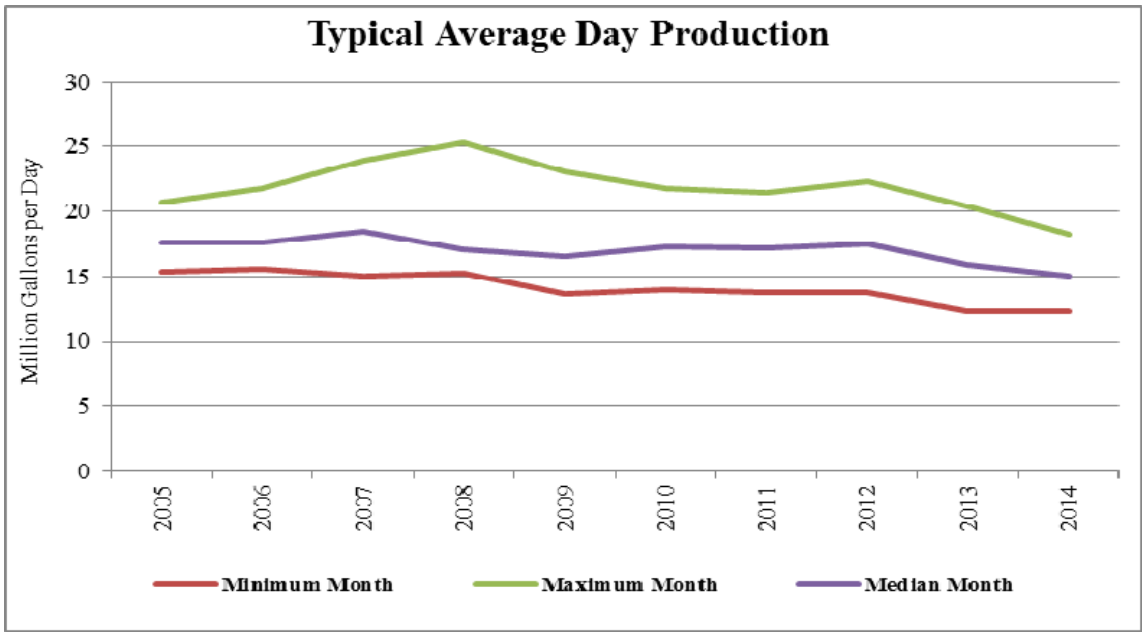


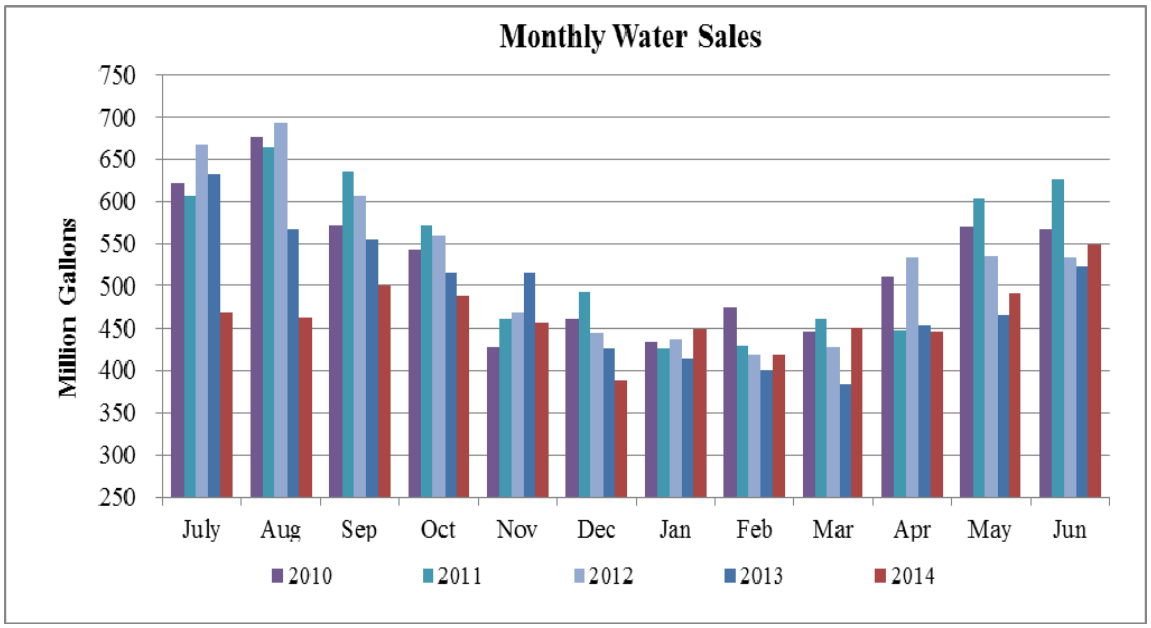
Source: USACE

Demand and Consumption

Water purchases during FY 2014 declined by 4.8% from the previous year. Examination of typical average day water production data shows a leveling in the average demand during the minimum month. This trend would be consistent with demand hardening at the reduced use levels associated with continued conservation behavior brought about by the national economic recession and limited recovery. Water demand during the median and maximum months has declined more sharply due to frequent precipitation in greater than normal amounts during noraml peak delivery periods.



As the chart below shows, the first half of the year shows monthly water sales consistently below typical deliveries. During the last half of the fiscal year, precipitation levels return to near normal and sales rebound to typical monthly delivery levels. Sales during the second half of the year also reflect a reduction in sales to 2 member agencies that sought to mitigate lingering taste and odor issues by relying on alternate supplies and reducing deliveries from the Joint Water System.



Water Purchases

	2013		2014	
Anderson	1,494,611,114	25.50%	1,515,362,989	27.21%
Big Creek	356,000,000	6.10%	320,500,000	5.75%
Broadway	239,967,800	4.10%	219,143,702	3.93%
Clemson	624,500,000	10.70%	619,933,190	11.13%
Clemson University	324,200,000	5.50%	290,319,434	5.21%
Hammond	622,300,000	10.60%	611,716,150	10.98%
Homeland Park	224,319,000	3.80%	246,768,000	4.43%
Pendleton	106,560,000	1.80%	103,760,000	1.86%
Powdersville	153,900,000	2.60%	58,800,000	1.06%
Sandy Springs	685,271,000	11.70%	574,342,000	10.31%
Starr-Iva	357,600,000	6.10%	349,500,000	6.27%
West Anderson	456,863,000	7.80%	437,154,070	7.85%
Williamston	206,400,000	3.50%	222,527,864	4.00%
TOTAL	5,852,491,914		5,569,827,399	

System Initiatives

- **Transmission System Improvements**

During FY 2014, construction continued on the Phase IB Water Transmission Improvement project. The completed project will support economic development opportunities in the region by constructing large water transmission mains and pump station expansions. During FY 2014, work commenced on upgrades and expansions to the Clemson Booster Pump Station which serves as the primary pump station for water delivered by the new transmission main.

This project is a continuation of a phased approach to provide infrastructure for economic development in the region and to correct operational deficiencies. The Phase IB water transmission improvements increase ARJWS' ability to convey water from the water treatment plant within the two-county service area. The Phase 1B Water Transmission Improvements will be funded via a $7.85 million in State Revolving Loan Fund proceeds, with the balance of funding from a $500,000 Appalachian Regional Commission grant and PAY-GO funding.

- **Chlorine Dioxide Pre-Disinfection System**

Disinfection byproducts such as trihalomethane (THM) and haloacetic acid (HAA) are often produced when water containing organic materials is disinfected with chlorine, an industry standard. Recent EPA regulations have sought to limit the amount of THM and HAA found in drinking water supplies. In order to reduce the formation of disinfectant byproducts, the Joint Water System has optimized its processes to reduce trace organic material in the water, optimized its chemical treatment delivery points and installed a choline dioxide pre-disinfection system. Despite the chemical name, chlorine dioxide disinfects via oxidation rather than chlorination. Using oxidation has resulted in over a 50% reduction in THM and HAA production.

Choline dioxide is produced onsite from two stock chemicals. The system consists of two bulk storage tanks with containment basins, a product generator and delivery pumps. The chlorine dioxide disinfection system was entirely cash funded at a total cost of $244,500.

- **Powder Activated Carbon System**

Taste and odor mitigation was a primary focus of the fiscal year. Multiple treatment alternatives were evaluated and introduction of powder activated carbon (PAC) into the raw water feed was determined to provide the lowest cost combined with the greatest flexibility in responding to widely fluctuating source water conditions. PAC works by providing immense surface area per pound of material for dissolved materials to adsorb. Once adsorbed onto the PAC surface, it can then be removed from the water column via existing settling and filtration processes. The PAC feed system incorporates a bulk slurry tank, dosage pumps and assorted process controls. The PAC feed system was entirely cash funded at a total cost of $47,000.

FY 2014 Budget Execution

The Board's approved budget at the beginning of FY 2014 called for revenues of $9,528,585 to be collected from members, use of $898,644 in previous years' excess revenues, $100,500 in interest earnings and expenses to total $9,006,241. The increased cost of chemicals for treatment and the two cash funded taste and odor mitigation projects resulted in the transfer of $467,841 from reserves to the current year. Actual revenues received from members totaled $9,281,668 with an additional $143,790 in interest and a combined transfer of $1,366,485 from reserves.

Budget Execution FY 2014

	Budget	Actual	Variance ($)	Variance (%)
Revenues from Members	$9,528,585	$9,281,668	$(246,917)	-2.6%
Interest earnings	100,500	143,790	43,290	43.1%
Transfer from Reserves	898,644	1,366,485	467,841	52.1%
Expenses	$9,006,241	$9,628,356	$622,115	6.9%

Variance between budgeted and actual revenues in the Operating Budget was the result of decreased water sales during the peak delivery months. Expenditures exceeded budget largely as a result of variable costs of chemical usage for water treatment.

STATISTICS

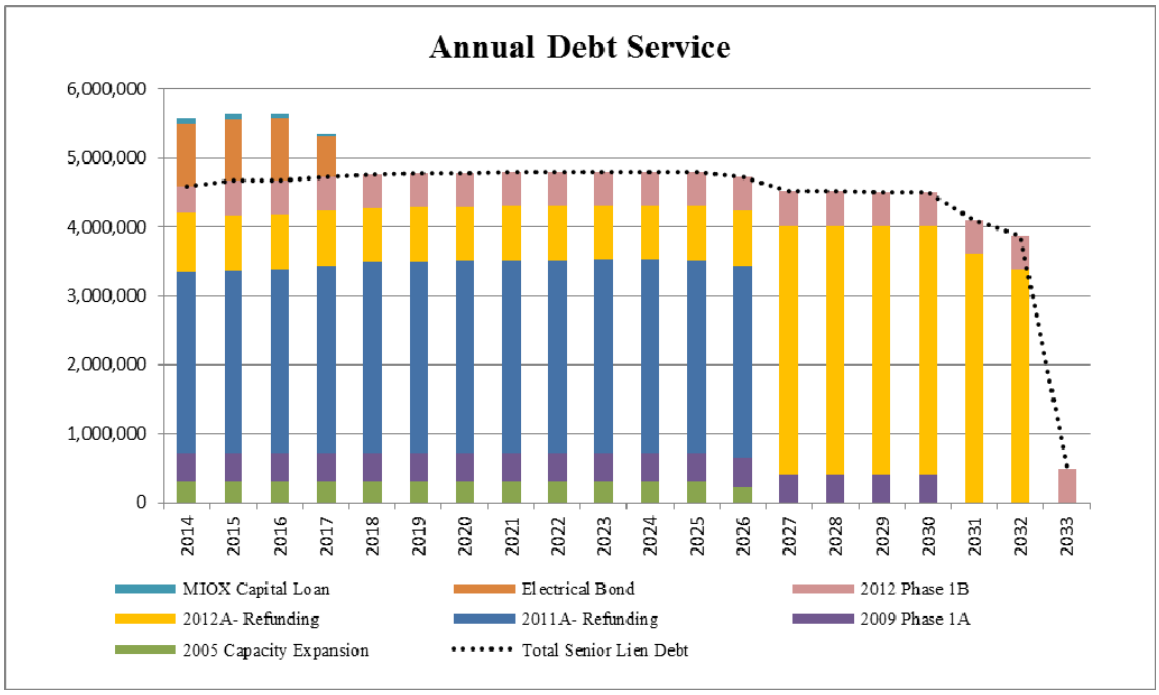
Financial Planning

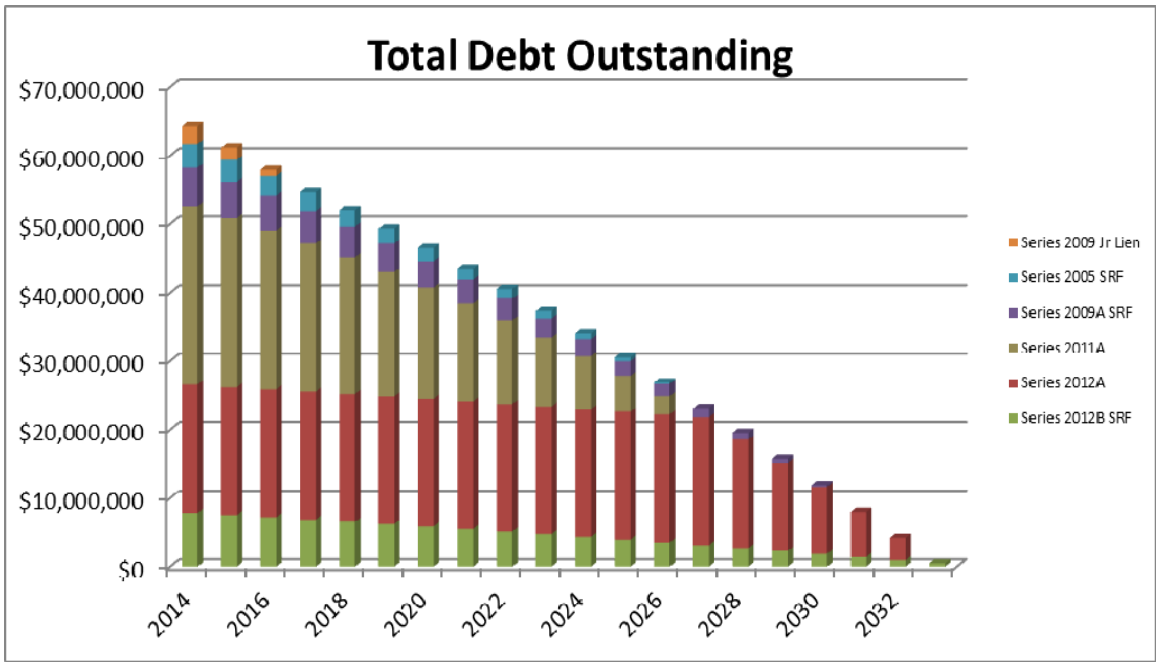
The Board has adopted a Comprehensive Financial Policy that details the parameters necessary to develop a financial model capable of evaluating multiple planning scenarios. The financial model predicts revenue, expenses and water rate requirements of the utility allowing debt issuances to be optimized under each scenario. The financial model is annually updated to provide multiple year projections for the System and estimated impacts on each member agency.

The Joint Water System adheres to SC state guidelines requiring insured or collateralized accounts with respect to investment policies for all of its funds. While the System bylaws allow the use of limited variable interest rate debt, the Commission has elected to utilize only fixed rate debt issuances. Debt issuances have been made seeking to minimize the total debt outstanding as well as year-over-year debt service cost increases wherever possible.

The Joint Water System bond covenants are strong with step-up provisions and absolute repayment obligations. All of the Joint Water System's debt payments, regarding revenue bonds and other loan and repayment contracts, are being made in accordance with prescribed requirements. In addition to the strong financial planning during the budget preparation cycle, it has an excellent record of executing the adopted annual budget. As a result, the Joint Water System is able to maintain an AA rating on its outstanding bonds from Standard & Poor's and an Aa3 rating from Moody's.

The chart below depicts the Joint Water System's existing and planned annual debt repayment plans. In addition, accelerated defeasance of the Electrical System Improvements debt is provided.





Potable Water System
Annual Revenue

FY	O&M Revenue	Debt Service	R&R Revenue	Total Revenue	Demand (kGals)	Unit cost
2010	$3,244,935	$4,528,110	$1,286,558	$9,059,603	6,306,191	$1.44
2011	3,721,351	4,528,610	1,286,708	9,536,669	6,437,476	1.48
2012	3,475,668	4,706,978	1,421,477	9,604,096	6,327,755	1.52
2013	3,549,009	4,538,853	1,392,002	9,479,864	5,852,492	1.62
2014	$3,413,820	$4,693,037	$1,436,050	$9,542,907	5,569,827	$1.71

In lieu of fully funding depreciation, the Joint Water System collects funds for Repair and Replacement (R&R). The Water Sale and Purchase Agreement stipulates that an amount equivalent to 30% of the gross debt service payments on senior lien bonds be set aside to fund capital refurbishments. The Commission has been diligently channeling R&R funds into rebuilding and refurbishing the water treatment facilities and the pumping stations. While many of the physical facilities are approaching 45 years of life, refurbishments have reduced the effective age (age since last major refurbishment) to less than 10 years on all major equipment classes except the filters, which are planned for refurbishment over the next 3 years.

Potable Water System
Depreciation

FY	Annual Depreciation	Cumulative Depreciation	Annual R&R	Cumulative R&R	Cumulative Depreciation Funding (%)
2010	$1,697,013	$12,601,913	$1,286,558	$9,118,081	72.35%
2011	1,814,277	14,416,190	1,286,708	10,404,789	72.17%
2012	1,867,560	16,283,750	1,421,477	11,826,266	72.63%
2013	1,955,937	18,239,687	1,392,002	13,218,268	72.47%
2014	$2,267,658	$20,468,445	$1,436,050	$14,654,318	71.60%

FINANCIAL STATEMENTS

Statement of Net Position

The Statement of Net Position is a financial snapshot of the Anderson Regional Joint Water System at June 30, 2014 and 2013 of both the potable and raw water activities. It presents the fiscal resources of the Joint Water System (assets and deferred outflows of resources), the claims against those resources (liabilities and deferred inflows of resources) and the residual available for future operations (net position). Assets and liabilities are classified by liquidity as either current or non-current. Net position is classified by the ways in which they may be used for future operations.

The Joint Water System's total assets at June 30, 2014 were $86,294,368. Assets consisted primarily of net capital assets, which account for $76,389,450 of total assets. The Joint Water System uses its capital assets to facilitate its mission, which is to provide the highest quality water at the lowest possible price. Comparable figures for 2013 were $88,217,399 in total assets, with capital assets accounting for $76,876,273 of total assets.

Depreciation provides an ongoing mechanism for accumulating sufficient reserves to replace plant capital when it reaches the end of its useful life. Depreciation is an annual expense that effectively reduces net position to account for facility aging. Accumulated depreciation through FY 2014 is $20,468,445 and $18,239,687 through FY 2013. In lieu of funding depreciation, the Joint Water System utilizes a set of Repair and Replacement Accounts. Presently, these accounts have collected 71.6% of cumulative depreciation.

The Joint Water System implemented GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities"* ("GASB #65") in fiscal year 2014 and retroactively applied it to all years presented. GASB #65 reclassified, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB #65 required the Joint Water System to reclassify its deferred losses on refundings (contra-liability included within revenue bonds) in its statements of net position from a liability to a component of deferred outflows of resources. The Joint Water System's total deferred outflows of resources at June 30, 2014 and 2013 were $3,192,746 and $3,450,391, respectively.

The Joint Water System's total liabilities at June 30, 2014, totaled $67,894,812 of which $47,198,489 was Bond debt used to fund capital projects. Comparably, the Joint Water System's total liabilities at June 30, 2013 totaled $71,340,123, of which $49,793,786 was Bond debt used to fund capital projects.

Joint Water System Equity

	2014	2013	2012
Total Assets net of Depreciation	$86,294,368	$88,217,399	$78,050,430
Total Deferred Outflows of Resources	3,192,746	3,450,391	-
Total Liabilities	$67,894,812	$71,340,123	$64,252,114
Equity Ratio (As a Percent of Assets)	25.02%	23.04%	17.68%
Accumulated Depreciation	$20,468,445	$18,239,687	$16,283,750

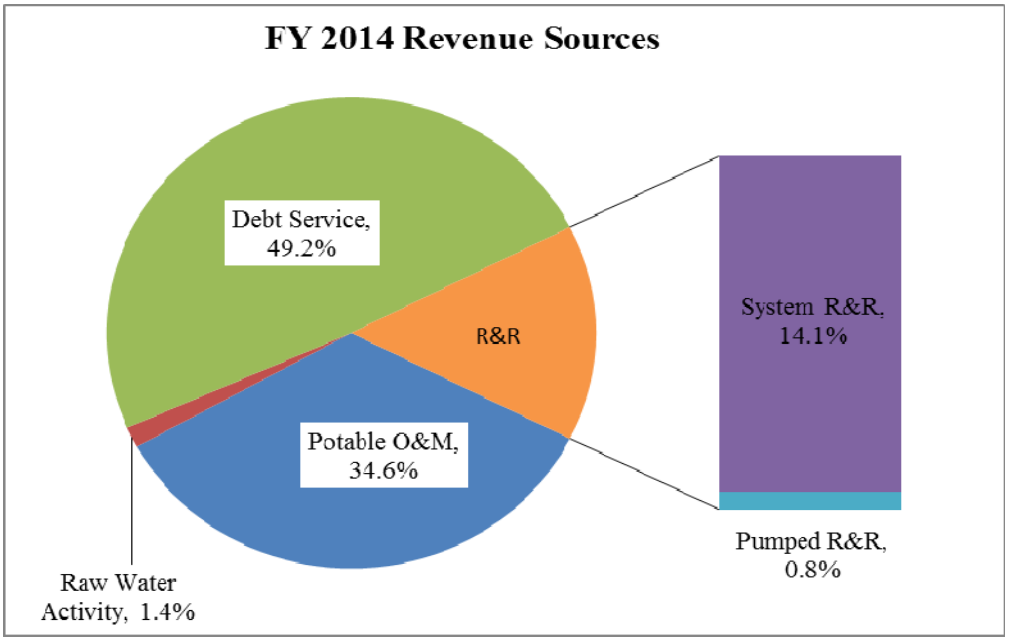
The Joint Water System's net position is separated into three categories. The first category, net investment in capital assets, consists of capital assets (net of depreciation) less related outstanding debt (including deferred losses on refundings) incurred to purchase or produce those assets ($13,051,846). The second category, restricted, consists of restricted assets less accrued interest on construction related long-term debt and funds reserved for use in future years for rate stabilization ($6,239,421). The third category, unrestricted, consists of current assets plus other assets less all liabilities unrelated to acquisitions of capital assets ($2,301,035).

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the financial activity of the Joint Water System for the years ended June 30, 2014 and 2013. The Joint Water system operates two separate activities: a potable water system comprising 98.6% of total income and 97.1% of expenses net of depreciation and a raw water system comprising the balance. Detailed information by activity can be found in the Combining Schedule of Revenues, Expenses and Changes in Net Position. The focus of the following discussion is on operating revenues and expenses that have a significant effect on the provision of water to the customers of the Joint Water System.

- ***Operating Revenues***

Total Operating Revenue is generated under four categories: Operations and Maintenance Fees including Miscellaneous, Capital Charge for Debt Service, Renewal and Replacement Charges, and Raw Water. The potable water activity contributed 98.6% of the $9,581,047 in total operating revenues. As shown in the financial statements, total operating revenue for 2014 increased 0.5% from 2013 with relatively equivalent changes in each category.



- ***Non-operating Revenues and (Expenses)***

Non-operating revenues and (expenses) are made up of the cumulative of interest income plus proceeds from the sales of assets and grant revenues received, less interest paid on bonds and notes payable and any applicable water credits. For FY 2014 net non-operating expense was ($2,341,445) a change of $96,993 from the prior year's ($2,438,438) with the change associated with interest expense and amortization of the bond refunding.

- ***Operating Expenses***

There are five main categories of operating expenses: salaries and benefits paid or accrued to or for Joint Water System employees; expense funding general operations and maintenance; professional fees; insurance and depreciation. The following table shows each category of total operating expenses, excluding debt service.

Total Operating Expense Profile

	2014	2013
Personnel	$1,402,492	$1,408,431
O&M	2,233,994	1,869,062
Professional Fees	57,001	68,093
Insurance	90,647	83,228
Depreciation	2,267,658	1,955,937
Total ($)	$6,051,792	$5,384,751

During the budget process, operating expenses are further categorized into six functional budget groups. Administrative expenses cover most general expenses of going business. Operating expenses detail the major costs of operating the water treatment plant such as chemicals and electricity, as well as laboratory costs. Maintenance expenses cover the cost of routine repairs and replacements. Large infrequent repairs or refurbishments that significantly extend the life of a capital item are funded from the System Repair and Replacement Fund or the Pumped Repair and Replacement Fund. All staff costs, including salaries, retirement and health insurance are summarized in personnel expenses. Miscellaneous expenses are specifically identified as they comprise the discretionary spending associated with professional development and travel. Debt service expenses comprise the largest single expense in the budget. Debt service expenses are for the direct payment of principal and interest on all outstanding Joint Water System debt.

Statement of Cash Flows

Net cash provided by operating activities was $5,418,884 in FY 2014 compared to $5,630,346 in the prior year. The Joint Water System spent $2,567,425 for acquisition and construction of capital assets. Normal debt service payments resulted in principal repayment of $228,287 for Series 2005 SRF Revenue Bond, $284,447 for Series 2009A SRF Revenue Bond, and $821,672 for Series 2009B Junior Lien Bond. In addition, principal payments of $1,485,000 were made on the Series 2011A Advanced Refunding Revenue Bonds and $250,000 on the Series 2012A Refunding Revenue Bonds.

Long-Term Debt Outstanding

	2014	2013	Difference
Series 2005, SRF	$3,407,639	$3,635,926	$228,287
Series 2006, Equipment Note	198,274	272,157	73,883
Series 2009A, SRF 1A	5,434,238	5,718,685	284,447
Series 2009B, Jr Lien	2,234,902	3,056,574	821,672
Series 2011A, Advance Refunding	26,170,000	27,655,000	1,485,000
Series 2012A, Refunding	18,700,000	18,950,000	250,000
Series 2012B, SRF 1B	$7,508,609	$6,649,366	$(859,243)

DEBT SERVICE COVERAGE REQUIREMENTS

In the Bond Resolutions, the Joint Water System covenants and agrees that it will, at all times, maintain rates sufficient to yield annual Net Earnings in the fiscal year equal to at least one hundred twenty percent of the sum of the annual debt service payments for all senior lien bonds outstanding (1.20x). Net earnings are derived by adjusting the change in net position. The Joint Water System has been increasing its Pay as You Go (PAYGO) financing of capital projects to minimize debt issuance levels which reduces current year net operating income, but provides reduced debt service expenses in future years. For FY 2014, the debt service ratio was 1.28x, as computed below.

Debt Service Coverage Ratio

	2014
Increase in Net Position	1,264,635
Less Contributions in Aid	(76,825)
Plus Interest Expense	2,352,959
Plus Water Credits	143,790
Plus Gain/Loss Capital Assets	3,346
Plus Depreciation	2,267,658
Plus Contingency Reserve Draws	467,841
Net Earnings	6,423,404
Debt Service	5,033,392
Debt Service Coverage Ratio	1.28x
(1.20x Required)	

A LOOK AHEAD

The Management's Discussion and Analysis section "A Look Ahead" in the Annual Financial Report of the Joint Water System for the fiscal year ended June 30, 2014 (Financial Report) contains forward-looking statements regarding the Joint Water System's business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in the Financial Report. Additionally, statements concerning future matters such as budgets and the financial outlook for future years, state and federal matters that may impact the Joint Water System, revenue and expense levels and other statements regarding matters that are not historical are also forward-looking statements.

Although forward-looking statements in the Financial Report reflect Management's good faith judgment, such statements can only be based on facts and factors currently known. Consequently, forward-looking statements are inherently subject to risks and uncertainties. The actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements.

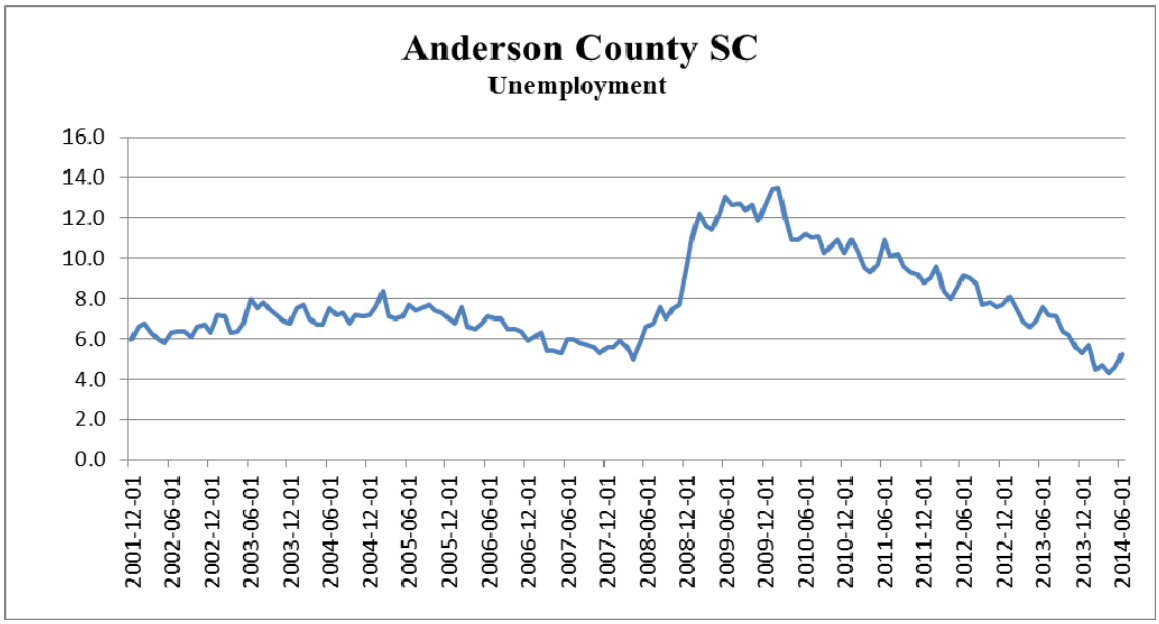
Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of the Financial Report. Management undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of the Financial Report.

Readers are urged to carefully review and consider the various disclosures made in the Financial Report which attempt to advise interested parties of factors that may affect the business, financial condition, results of operations and prospects of the Joint Water System.

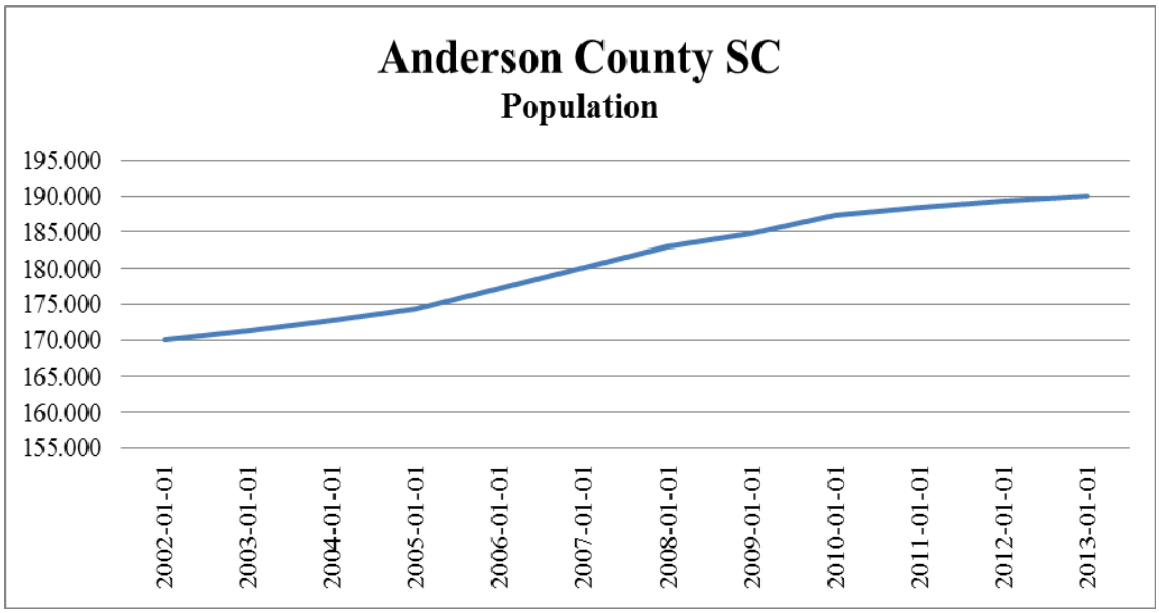
Economic Factors

- ***Local Economy***

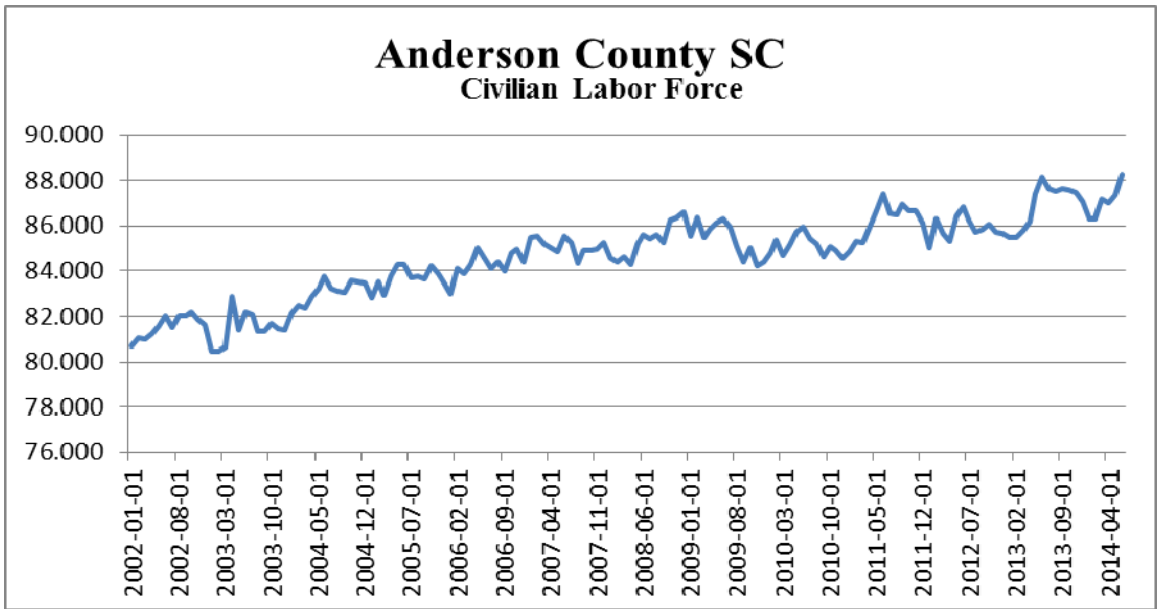
  The service area continues to experience modest job creation, largely through expansion of existing industries. Several large manufacturers are presently expanding their local workforce as part of previously announced expansions. Locally unemployment levels are slowly returning to pre-recessionary levels. However, compared to the national level, the service area is reducing unemployment with job creation rather than reductions in actual labor force participation rates.



Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis w/ 2013 forecast from SC Budget Control board



Source: Federal Reserve Bank of St. Louis

Planned Initiatives

- ***CBS Consolidation***

  Completion of the Transmission System Improvements Phase 1B project will replace the existing Clemson Booster Pump Station. The existing pump station is located on an approximately 5 acre parcel that is an attractive location for future commercial development. As the project is nearing completion, Management anticipates offering the parcel for public bidding. Proceeds of the sale may be used to further reduce the cost of the overall project or to PAYGO future capital projects.

- ***Additional Water Supply Storage Allocation***

  The Joint Water System's storage rights were initially contracted for 50 years with the contract expiring in 2017. In FY 2012, Management initiated the renewal process with the Corps of Engineers. At the same time, additional capacity sufficient to meet customer demands for an estimated 30 years was sought. The process of lake storage reallocation requires a thorough environmental analysis and an economic study to determine the value of lost power generation revenue from the consumptive demands. Sequestration of the Federal budget has reduced the local Corps District budget which has delayed the start of the required hydrologic and economic studies. Currently, cost of supply estimates are expected in fall 2015 and contract execution in spring 2016. The Joint Water System anticipates a significant increase in raw water cost of supply commencing with the receipt of the new allocation.

FY 2015 Budget

The Joint Water System's budget is determined by a variety of methods. The process begins in early February when capital expenditures for the renewal and replacement program are planned. Preliminary changes to the Joint Water System financial planning model are made and discussed with the Executive Committee. In March, sectional budget requests are developed and submitted to the Executive Director. These requests are reviewed, subsequently used to prepare a preliminary budget. In early April, the preliminary budget and the predicted impacts from the financial planning model are reviewed by the Executive Committee, after which time it is made available for public inspection. The final budget is initially presented to the Board of Commissioners for a first reading and usually adopted at a subsequent meeting.

The FY 2015 Budget received final approval in May 2014. The Commission directed a continued emphasis on debt defeasance and PAYGO financing of capital projects to reduce or eliminate future debt issuances. The new budget will result in an approximate 2.00% ($187,346) increase over the FY 2014 budget largely associated with an increase to full year debt service costs of Series 2012B Revenue Bonds. As per the Water Sale and Purchase Agreement budgeting guidelines, revenues and expenditures are balanced.

5 Year Pro Forma Forecast

The Joint Water System maintains an annually updated long-term Financial Pro Forma that incorporates all existing and planned debt issuances, projected operations and maintenance budgets and future repair and replacement initiatives. It provides both an overall financial perspective and detailed estimate of each agency's cost of supply.

5 Year Financial Pro Forma

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Operating Revenues					
O&M Payments	$3,645,840	$3,726,867	$3,762,340	$3,784,590	$3,837,690
Capital Charge - Sr Lien	4,659,305	4,676,055	4,723,305	4,769,305	4,778,805
Capital Charge - R&R	1,397,792	1,402,817	1,416,992	1,430,792	1,433,642
Total Revenues	9,702,937	9,805,739	9,902,637	9,984,687	10,050,137
Total Operating Expenses:	3,645,840	3,726,867	3,762,340	3,784,590	3,837,690
Net Operating Revenues	6,057,097	6,078,872	6,140,297	6,200,097	6,212,447
Total Debt Service -Sr. Lien	4,659,305	4,676,055	4,723,305	4,769,305	4,778,805
Net Revenues after Debt Service	1,397,792	1,402,817	1,416,992	1,430,792	1,433,642
Interest on Debt Service Reserve	$140,000	$140,000	$140,000	$140,000	$140,000
Bottom Line					
Net Revenues Paid by Members	$9,562,937	$9,665,739	$9,762,637	$9,844,687	$9,910,137
Increased Revenue Requirement	2.00%	1.08%	1.00%	0.84%	0.66%
Demand Growth Rate	0.00%	0.64%	0.64%	0.67%	0.67%
Demand (kGals)	5,825,546	5,862,594	5,900,081	5,939,612	5,979,407
Debt Service Coverage Ratio	1.320 X	1.321 X	1.321 X	1.321 X	1.321 X

Requests for Information

This report is provided as a general overview of the Anderson Regional Joint Water System finances and demonstrates the Joint Water System's accountability for the money it receives and the stewardship of the facilities it maintains. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Executive Director
Anderson Regional Joint Water System
998 Hunters Trail
Anderson, SC 29625

BASIC FINANCIAL STATEMENTS

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	2014	(Restated) 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,027,940	$ 1,825,958
Restricted cash and cash equivalents	1,590,965	1,803,687
Restricted investments	5,645,174	5,824,936
Accounts receivable		
Trade	794,639	787,591
Grants, contributions in aid of construction and other	219,494	626,094
Accrued interest	72,079	72,079
Supply costs	136,816	-
Prepaid expenses	147,940	122,094
Total current assets	9,635,047	11,062,439
Noncurrent assets:		
Note receivable	269,871	278,687
Capital assets, net:		
Non-depreciable	10,101,138	12,482,560
Depreciable	66,288,312	64,393,713
Total noncurrent assets	76,659,321	77,154,960
Total assets	86,294,368	88,217,399
DEFERRED OUTFLOWS OF RESOURCES		
Deferred losses on refundings	3,192,746	3,450,391
LIABILITIES		
Current liabilities:		
Accounts payable	637,008	1,522,886
Accrued interest	996,718	1,029,869
Accrued expenses and other liabilities	218,270	153,501
Unearned revenue	-	17,092
Current portion of revenue bonds	2,295,567	2,546,855
Current portion of other long-term debt	938,765	943,589
Total current liabilities	5,086,328	6,213,792
Noncurrent liabilities:		
Revenue bonds, less current portion	47,198,489	49,793,786
Other long-term debt, less current portion	15,609,995	15,332,545
Total noncurrent liabilities	62,808,484	65,126,331
Total liabilities	67,894,812	71,340,123
NET POSITION		
Net investment in capital assets	13,051,846	10,381,807
Restricted for debt service and renewal and replacement	6,239,421	6,581,662
Unrestricted	2,301,035	3,364,198
Total net position	$ 21,592,302	$ 20,327,667

The notes to the financial statements are an integral part of these statements.
See accompanying independent auditor's report.

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	(Restated) 2013
OPERATING REVENUES		
Operations and maintenance	$ 3,413,820	$ 3,549,009
Debt service	4,693,037	4,538,853
Renewal and replacement		
Water system	1,364,045	1,312,796
Pump station	72,005	79,206
Miscellaneous	38,140	48,652
Total operating revenues	9,581,047	9,528,516
OPERATING EXPENSES		
Salaries and wages	1,038,668	1,030,091
Payroll taxes and employee benefits	363,824	378,340
Operations and maintenance	2,233,994	1,869,062
Professional fees	57,001	68,093
Insurance	90,647	83,228
Total operating expenses before depreciation	3,784,134	3,428,814
Depreciation	2,267,658	1,955,937
Total operating expenses	6,051,792	5,384,751
Net operating income	3,529,255	4,143,765
NON-OPERATING REVENUES (EXPENSES)		
Interest income	158,650	158,947
Gain (loss) on sale of capital assets	(3,346)	-
Water credits	(143,790)	(160,466)
Interest expense	(2,352,959)	(2,436,919)
Net non-operating expenses	(2,341,445)	(2,438,438)
INCOME BEFORE CONTRIBUTIONS	1,187,810	1,705,327
Contributions in aid of construction	76,825	5,628,942
Increase in net position	1,264,635	7,334,269
NET POSITION, beginning of year - as previously reported	20,327,667	13,798,316
Cumulative change in accounting principle - GASB #65	-	(804,918)
NET POSITION, beginning of year - restated	20,327,667	12,993,398
NET POSITION, end of year	$ 21,592,302	$ 20,327,667

The notes to the financial statements are an integral part of these statements.
See accompanying independent auditor's report.

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	$ 9,413,117	$ 9,073,180
Paid to suppliers for goods and services	(2,943,133)	(2,402,312)
Paid to employees for services	(1,051,100)	(1,040,522)
Net cash provided by operating activities	5,418,884	5,630,346
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,567,425)	(9,152,786)
Proceeds from sale of capital assets	108,861	-
Payments on revenue bonds	(2,556,672)	(874,133)
Receipt of contributions in aid of construction	496,906	5,408,540
Proceeds from long-term debt	1,200,634	4,351,875
Payments on long-term debt	(928,008)	(572,323)
Interest paid	(2,531,148)	(2,351,527)
Net cash used in capital and related financing activities	(6,776,852)	(3,190,354)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments	179,762	(1,292,790)
Interest received	158,650	178,479
Collection of notes receivable	8,816	8,368
Net cash provided by (used in) investing activities	347,228	(1,105,943)
Net (decrease) increase in cash and cash equivalents	(1,010,740)	1,334,049
CASH AND CASH EQUIVALENTS, beginning of year	3,629,645	2,295,596
CASH AND CASH EQUIVALENTS, end of year	$ 2,618,905	$ 3,629,645
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Net operating income	$ 3,529,255	$ 4,143,765
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	2,267,658	1,955,937
Water credits	(143,790)	(160,466)
Changes in assets and liabilities:		
Accounts receivable	(7,048)	13,308
Supply costs	(136,816)	-
Prepaid expenses	(25,846)	4,864
Accounts payable	21,563	(8,453)
Accrued expenses and other liabilities	(69,000)	(10,431)
Unearned revenue	(17,092)	(308,178)
Net cash provided by operating activities	$ 5,418,884	$ 5,630,346
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Cash and cash equivalents	$ 1,027,940	$ 1,825,958
Restricted cash and cash equivalents	1,590,965	1,803,687
	$ 2,618,905	$ 3,629,645

The notes to the financial statements are an integral part of these statements.
See accompanying independent auditor's report.

The Anderson Regional Joint Water System (the "Joint Water System") is a special purpose district created by the General Assembly of the State of South Carolina on February 28, 2000. A fourteen member Board of Commissioners representing the participating member agencies governs the Joint Water System. Clemson University also purchases water from the System, but because of state statute is exempt from membership on the Board. The fourteen member agencies who serve on the Board of Commissioners are as follows:

- Anderson, City of (Electric City Utilities)
- Belton-Honea Path Water Authority
- Big Creek Water & Sewerage District
- Broadway Water & Sewerage District
- Central, Town of
- Clemson,City of
- Hammond Water District
- Homeland Park Water District
- Pendleton,Town of
- Powdersville Water District
- Sandy Springs Water District
- Starr-Iva Water and Sewer District
- West Anderson Water District
- Williamston,Town of

The Joint Water System's function is to plan and finance acquisition and location of water supply and water distribution systems to insure for an adequate, reliable and economical supply of water to the persons and property served by the members of the Joint Water System. During April 2002, water treatment facilities, equipment and trunk lines were acquired by the Joint Water System's issuance of Series 2002 Revenue Bonds. It is the Joint Water System's policy to maintain customer user rates sufficient to meet operational and maintenance expenses and to pay debt service on debt issued to finance acquiring, upgrading and maintaining the System.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

REPORTING ENTITY

This report includes all operations of the Joint Water System for which the Joint Water System's Commissioners are financially accountable. The Joint Water System does not have any component units.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

Fund Accounting

The Joint Water System maintains a single enterprise fund (one of the proprietary fund types) to record its activities which consists of a self-balancing set of accounts. Enterprise funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.

Basis of Accounting

The financial statements of the Joint Water System have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Joint Water System's accounting policies are described below.

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting as required by GAAP. Basis of accounting refers to the timing of recording revenues and expenses. Under the accrual basis of accounting, revenues and receivables are recognized when earned and expenses and liabilities are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Joint Water System's principal ongoing operations. The principal operating revenues of the Joint Water System are charges to customers for water. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Joint Water System's policy to use restricted resources first, and then unrestricted resources as needed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (CONTINUED)

Basis of Accounting (Continued)

The Joint Water System implemented Governmental Accounting Standards Board Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* ("GASB #63") in 2013 (which was applied retroactively for all periods presented). GASB #63 establishes financial reporting requirements and related disclosures for certain elements of a statement of financial position that were discussed in the GASB's 2007 Concepts Statement No. 4, "*Elements of Financial Statements"*. In Concepts Statement No. 4, the GASB defines a *deferred outflow of resources* as a consumption of net assets by a government that is applicable to a future reporting period; a *deferred inflow of resources* as an acquisition of net assets by a government that is applicable to a future reporting period; and *net position* as the residual of all other elements presented in a statement of financial position (the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources). Under GASB #63, amounts for items that the GASB has designated to be deferred outflows of resources are to be presented in a statement of financial position in a separate section following assets, while amounts for items that the GASB has designated to be deferred inflows of resources are to be presented in a separate section following liabilities. The residual of assets and deferred outflows of resources over liabilities and deferred inflows of resources is to be reported as net position rather than as net assets in a statement of financial position.

The Joint Water System implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities"* ("GASB #65") in fiscal year 2014 and retroactively applied it to all years presented. The primary objective of GASB #65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB #65 supplements and extends the reach of GASB #63 which was adopted by the Joint Water System in fiscal year 2013. In particular, GASB #65 requires that bond issuance costs (as defined) should be recognized as an expense in the period incurred. The Joint Water System has written off its bond issuance costs of approximately $805,000 as an adjustment (cumulative change in accounting principle) to beginning net position for fiscal year 2013. The Joint Water System has also restated its 2013 financial statements to eliminate the amortization of bond issuance costs of approximately $44,000. In addition, the Joint Water System reclassified its deferred losses on refundings (contra-liability included within revenue bonds) in its statements of net position from a liability to a component of deferred outflows of resources.

CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

The Joint Water System considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Securities with an initial maturity of more than three months when initially purchased are reported as investments.

Certain cash and cash equivalents are classified as restricted on the balance sheet because their use is limited by debt covenants or by the Board of Commissioners.

Investments

The Joint Water System's operating cash and investment policy is designed to operate within existing statutes (which are identical for all non-fiduciary funds, fund types and component units within the State of South Carolina). The statutes of the State of South Carolina authorize the Joint Water System to invest in the following:

(a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.

(b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Investments (Continued)

(c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.

(e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.

(f) Repurchase agreements when collateralized by securities as set forth in this section.

(g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The Joint Water System's cash and investment objectives are preservation of capital, liquidity and yield. The Joint Water System reports its cash and investments at fair value which is normally determined by quoted market prices.

RECEIVABLES

All trade and other receivables are shown net of an allowance for uncollectible amounts (if material). Trade receivables are generally comprised of amounts due from a member agency, grantor, and other fees and charges.

INVENTORIES AND PREPAID ITEMS

Inventory related items are generally expensed when purchased (as the amounts are generally consumed rapidly) unless the balance available is material to the Joint Water System. The Joint Water System accounts for prepaid items under the consumption method as they are expensed as consumed.

CAPITAL ASSETS

The Water System defines capital assets as assets with an initial, individual cost of more than $5,000. Capital assets are recorded at cost. Donated capital assets are recorded at estimated fair market value (as estimated by the Water System) at the date of donation. Capital assets are depreciated on the straight-line method over the estimated useful lives.

Estimated useful lives of the respective capital assets as follows:

Treatment facilities, trunk lines, and equipment	15 - 40 years
Operations and maintenance equipment	5 - 15 years
Office furniture and fixtures	3 - 7 years
Vehicles	5 years

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. Interest costs related to construction is capitalized as part of the capitalized value of the asset constructed. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Construction in progress at June 30, 2014 represents water transmission main improvements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

COMPENSATED ABSENCES

It is the Joint Water System's policy to permit employees to accumulate earned but unused vacation, compensatory, and sick pay benefits. Unused vacation and compensatory time is accumulated in varying amounts based on years of service up to a maximum of 240 hours of vacation (with those within three years of retirement allowed to accumulate up to 360 hours). Regular full-time employees accumulate 12 days of sick leave per year with no maximum limit.

Earned vacation and compensatory time will be paid out when used or at retirement up to the maximum limits. Sick leave will only be paid out when used by an employee for personal illness and any remaining unused sick leave balances will be forfeited upon separation of employment.

The Joint Water System reports compensated absences in accordance with the provisions of GASB Statement No. 16, "*Accounting for Compensated Absences*." The entire compensated absence liability and expense is reported on the Joint Water System's financial statements.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the Joint Water System's financial statements when incurred. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight-line method (as it approximates the effective interest method) if material. Debt is reported net of applicable bond premiums and discounts.

UNEARNED REVENUE

Unearned revenues in the Joint Water System represent amounts collected, but not due. In the statements of net position, unearned revenues represent the deferral of renewal and replacement revenues which are collected for a future period.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The Joint Water System has only one type of deferred outflows of resources that qualifies for reporting in this category. Accordingly, the item, *deferred losses on refundings*, is deferred and recognized/amortized as an outflow of resources (expense) over the life of the debt.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Joint Water System does not currently have any deferred inflows of resources.

NET POSITION

Net position represents the difference between assets and deferred outflows of resources (if any) and liabilities and deferred inflows of resources (if any) in the statement of net position. Net position is classified into three components as follows:

- *Net Investment in Capital Assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of items that do not meet the definition of "restricted" or "net investment in capital assets."

REVENUES AND RECEIVABLES

Revenues and receivables, based on water consumption, are recognized when services are provided and are billed monthly.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES (CONTINUED)

ESTIMATES

Preparation of the 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 Joint Water System's financial position and changes in financial position and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

RECLASSIFICATIONS

Certain amounts have been reclassified/restated in the prior year financial statements to conform to the implementation of GASB #65. See "Basis of Accounting" in Note 1 for more details.

NOTE 2 – DEPOSITS AND INVESTMENTS

DEPOSITS

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Joint Water System's deposits might not be recovered. The Joint Water System does not have a formal deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of June 30, 2014, none of the Joint Water System's bank balances of approximately $2,671,000 (with a carrying value of approximately $2,619,000) were exposed to custodial credit risk. As of June 30, 2013, none of the Joint Water System's bank balances of approximately $2,320,000 (with a carrying value of approximately $2,296,000) were exposed to custodial credit risk.

INVESTMENTS

As of June 30, 2014, the Joint Water System had the following investments:

Investment Type	Credit Rating ^	Fair Value	Investment Maturities in Years			
			< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs
Guaranteed Investment Contract	NR, NR	$ 2,537,980	-	-	-	$ 2,537,980
Government Money Market Funds	AAAm, Aaamf	3,107,194	3,107,194	-	-	-
Total		$ 5,645,174	3,107,194	-	-	$ 2,537,980

^ If available, credit ratings are for Standard & Poor's and Moody's Investors Service.
NR – Not rated.

As of June 30, 2013, the Joint Water System had the following investments:

Investment Type	Credit Rating ^	Fair Value	Investment Maturities in Years			
			< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs
Guaranteed Investment Contract	NR, NR	$ 2,537,980	-	-	-	$ 2,537,980
Government Money Market Funds	AAAm, Aaamf	3,286,956	3,286,956	-	-	-
Total		$ 5,824,936	3,286,956	-	-	$ 2,537,980

^ If available, credit ratings are for Standard & Poor's and Moody's Investors Service.
NR – Not rated.

Interest Rate Risk: The Joint Water System does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Joint Water System does not have an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Joint Water System does not have an investment policy for credit risk but follows the investment policy statutes of the State of South Carolina.

Concentration of Credit Risk for Investments: The Joint Water System places no limit on the amount the Joint Water System may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures

RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS

Provisions of the revenue bonds require the Joint Water System to establish various funds and restrict the use of certain cash, cash equivalents, and investments. A brief description follows:

Current principal and interest payments funds - reports resources accumulated for the next principal and interest payments.

Debt service reserves funds - reports resources set aside to cover potential future deficiencies in the current principal and interest payments funds.

Renewal and replacement funds - reports resources set aside to fund capital asset replacements.

Cash, cash equivalents, and investments are restricted as follows at June 30:

	2014	2013
Current principal and interest payments	$ 2,667,134	$ 2,847,339
Debt service reserves	2,978,040	2,977,597
Renewal and replacement	1,590,965	1,803,687
Total restricted cash, cash equivalents, and investments	$ 7,236,139	$ 7,628,623

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the Joint Water System for the year ended June 30, 2014, was as follows:

	Balance at June 30, 2013	Increases	Decreases	Transfers	Balance at June 30, 2014
Capital Assets, Non-Depreciable:					
Land	$ 4,096,896	-	-	-	$ 4,096,896
Construction In Progress	8,385,664	1,811,290	-	(4,192,712)	6,004,242
Total Capital Assets, Non-Depreciable	12,482,560	1,811,290	-	(4,192,712)	10,101,138
Capital Assets, Depreciable:					
Treatment facilities, trunk lines, and equipment	80,614,877	72,048	148,540	4,192,712	84,731,097
Buildings	979,380	-	-	-	979,380
Operations and maintenance equipment	735,908	-	-	-	735,908
Office furniture and fixtures	161,680	-	-	-	161,680
Vehicles	141,555	23,185	16,048	-	148,692
Total Capital Assets, Depreciable	82,633,400	95,233	164,588	4,192,712	86,756,757
Less: Accumulated Depreciation	18,239,687	2,267,658	38,900		20,468,445
Total Capital Assets, Depreciable, Net	64,393,713	(2,172,425)	125,688	4,192,712	66,288,312
Total Capital Assets, Net	$ 76,876,273	(361,135)	125,688	-	$ 76,389,450

NOTE 3 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the Joint Water System for the year ended June 30, 2013, was as follows:

	Balance at June 30, 2012	Increases	Decreases	Transfers	Balance at June 30, 2013
Capital Assets, Non-Depreciable:					
Land	$ 4,096,896	-	-	-	$ 4,096,896
Construction In Progress	11,538,927	10,100,855	-	(13,254,118)	8,385,664
Total Capital Assets, Non-Depreciable	15,635,823	10,100,855	-	(13,254,118)	12,482,560
Capital Assets, Depreciable:					
Treatment facilities, trunk lines, and equipment	67,360,759	-	-	13,254,118	80,614,877
Buildings	979,380	-	-	-	979,380
Operations and maintenance equipment	735,908	-	-	-	735,908
Office furniture and fixtures	161,680	-	-	-	161,680
Vehicles	115,755	25,800	-	-	141,555
Total Capital Assets, Depreciable	69,353,482	25,800	-	13,254,118	82,633,400
Less: Accumulated Depreciation	16,283,750	1,955,937			18,239,687
Total Capital Assets, Depreciable, Net	53,069,732	(1,930,137)	-	13,254,118	64,393,713
Total Capital Assets, Net	$ 68,705,555	8,170,718	-	-	$ 76,876,273

Depreciation expense was $2,267,658 and $1,955,937 for the years ended June 30, 2014 and 2013, respectively.

Interest capitalized to construction in progress was $112,770 and $105,717, for the years ended June 30, 2014 and 2013, respectively.

At June 30, 2014, the Joint Water System had commitments for the construction of treatment facilities. The following summarizes construction contracts in progress at June 30, 2014 on which significant additional work is to be performed:

Project Name	Contract Amount	Total Contract Incurred Through June 30, 2014	Balance To Be Performed
Phase 1B	$ 5,437,329	$ 5,387,645	$ 49,684
Polylime Feed System	158,336	-	158,336
Total	$ 5,595,665	$ 5,387,645	$ 208,020

NOTE 4 – DEFERRED LOSSES ON REFUNDINGS

Deferred losses on refunding debt consisted of the following at June 30, 2014 and 2013:

	2014	2013
Deferred losses on refundings	$ 3,708,036	$ 3,708,036
Less: accumulated amortization	(515,290)	(257,645)
Deferred losses on refundings, net	$ 3,192,746	$ 3,450,391

Amortization expense was $257,645 for the years ended June 30, 2014 and 2013.

NOTE 5 – LONG-TERM OBLIGATIONS

REVENUE BONDS PAYABLE

The Joint Water System is obligated on various series of revenue bonds issued for purposes of acquiring water treatment facilities, equipment and trunk lines. Revenue bonds outstanding are as follows:

	JUNE 30, 2014	JUNE 30, 2013
Series 2009B term bonds dated January 14, 2010, bearing interest at the rate of 3.87%. The Bond is payable in monthly installment of principal and interest of $47,917 for a period of twelve months through January 14, 2011 and $76,332 for a period of seventy-two months through January 14, 2017.	$ 2,234,902	$ 3,056,574
Series 2011A serial bonds dated June 15, 2011 with annual principal payments ranging from $90,000 to $2,690,000, plus interest at 2.00 to 5.00 percent payable semi-annually through July 15, 2026.	26,170,000	27,655,000
Series 2012A serial bonds dated April 18, 2012 with annual principal payments ranging from $60,000 to $3,250,000, plus interest at 2.00 to 5.00 percent payable semi-annually through July 15, 2032.	18,700,000	18,950,000
Gross debt	47,104,902	49,661,574
Premium on Series 2011A and 2012A bonds	2,389,154	2,679,067
Net debt	49,494,056	52,340,641
Less current portion	(2,295,567)	(2,546,855)
Long-term portion	$ 47,198,489	$ 49,793,786

Interest expense on revenue bonds totaled $2,122,345 and $2,237,553 for the years ended June 30, 2014 and 2013, respectively. Amortization of the 2011A bond premium totaled $269,245 and $267,688 for the years ended June 30, 2014 and 2013, respectively. Amortization of the 2012A bond premium totaled $20,668 and $14,799 for the years ended June 30, 2014 and 2013, respectively.

Future amounts required to pay principal and interest on revenue bonds outstanding at June 30, 2014 are as follows:

June 30,	Principal	Interest	Total
2015	$ 2,295,567	2,068,377	$ 4,363,944
2016	2,335,157	1,978,763	4,313,920
2017	2,074,178	1,879,753	3,953,931
2018	1,680,000	1,793,900	3,473,900
2019	1,810,000	1,706,650	3,516,650
2020-2024	10,580,000	7,088,750	17,668,750
2025-2029	13,445,000	4,240,250	17,685,250
2030-2033	12,885,000	1,063,550	13,948,550
	$ 47,104,902	21,819,993	$ 68,924,895

Provisions of the revenue bond agreements require the Joint Water System to maintain user rates sufficient to generate net earnings, as defined by the agreements, of at least 120 percent of the combined annual principal and interest payments, make timely payment of principal and interest on all outstanding debt, maintain required funds for debt service reserves, and meet various other general requirements specified in the bond agreements. Management believes that the Joint Water System was in compliance with these covenants at June 30, 2014 and 2013.

The revenue bonds are payable solely from and secured by a pledge of the gross revenues of the Joint Water System.

On June 15, 2011, $27,745,000 in waterworks system revenue bond Series 2011A were issued to advance refund $29,010,000 of outstanding bonds. The net proceeds of $31,208,444 (after payment of $430,254 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. These advanced refunded bonds were ultimately paid off in July 2012.

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

REVENUE BONDS PAYABLE (CONTINUED)

On April 18, 2012, $18,950,000 in waterworks system revenue bond Series 2012A with an interest rate range of 2.0 – 5.0 percent were issued to advance refund $21,480,000 of outstanding bonds with an interest rate of 3.25 – 5.20 percent. The net proceeds of $22,012,223 (after payment of $337,384 in underwriting fees, insurance, and other issuance costs) were used to purchase SLGS Treasury securities. Those securities provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 20 years by approximately $5,003,000 resulting in an economic gain of $1,827,906. The advance refunded bonds were ultimately paid off in July 2012.

The Joint Water System's 2012 and 2011 bond refundings resulted in a loss of $1,135,739 and $2,572,297, respectively. The loss is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Amortization is expensed over the term as a component of interest expense. The unamortized balance follows the debt for purposes of calculating the various components of net position. See Note 4 for more details on the outstanding balances of the deferred losses on refundings at June 30, 2014 and June 30, 2013.

OTHER LONG-TERM DEBT

	June 30, 2014	June 30, 2013
On December 16, 2005, the Joint Water System entered into an agreement with the South Carolina Water Quality Revolving Fund Authority to borrow up to $4,878,604 to fund construction on the expansion and upgrade of the Water Treatment Plant. The Joint Water System was reimbursed costs during construction. On May 1, 2007, the Joint Water System began making quarterly principal and interest payments. The first 19 payments of $81,318 at 3 percent and the remaining 61 payments of $77,045 at 2.25 percent.	$ 3,407,639	$ 3,635,926
On April 9, 2009, the Joint Water System entered into an agreement with the South Carolina Water Quality Revolving Fund Authority to borrow up to $7,212,765 to fund Water Transmission Main Improvements – Phase 1A. The Joint Water System will be reimbursed for costs during construction. On July 1, 2010, the Joint Water System began making quarterly principal and interest payments. The first 6 payments of $114,048 at 3.5 percent and the remaining 73 payments of $102,682 at 2.25 percent.	5,434,238	5,718,685
On November 29, 2006, the Joint Water System entered into a note agreement with a financial institution for $686,121 to purchase water treatment equipment. The note accrues interest at 4.05 percent, with quarterly principal and interest payments of $20,948 through November 30, 2016. The note is collateralized by equipment.	198,274	272,157
On April 19, 2012, the Joint Water System entered into an agreement with the South Carolina Water Quality Revolving Fund Authority to borrow up to $8,000,000 to fund Water Transmission Main Improvements – Phase 1B. The Joint Water System will be reimbursed for costs during construction. On September 1, 2013, the Joint Water System began making quarterly principal and interest payments of $125,896 at 2.25 percent interest through June 1, 2033.	7,508,609	6,649,366
	16,548,760	16,276,134
Less current portion	938,765	943,589
Long-term portion	$ 15,609,995	$ 15,332,545

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

OTHER LONG-TERM DEBT (CONTINUED)

Future amounts required to pay principal and interest on long-term debt outstanding at June 30, 2014 are as follows:

June 30,	Principal	Interest	Total
2015	$ 938,765	367,520	$ 1,306,285
2016	961,484	344,801	1,306,285
2017	942,667	321,721	1,264,388
2018	921,852	300,640	1,222,492
2019	942,770	279,722	1,222,492
2020-2024	5,044,603	1,067,858	6,112,461
2025-2029	4,934,287	484,772	5,419,059
2030-2033	1,862,332	64,874	1,927,206
	$ 16,548,760	3,231,908	$ 19,780,668

Interest expense on the long-term debt totaled $375,652 and $330,016 for the years ended June 30, 2014 and 2013, respectively.

CHANGES IN LONG-TERM OBLIGATIONS

Changes in long-term debt for the years ended June 30, 2014 and 2013 are as follows:

	2014			
	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
Revenue bonds	$ 49,661,574	-	2,556,672	$ 47,104,902
Net premium/discount on bonds	2,679,067	-	289,913	2,389,154
State revolving loans	16,003,977	1,200,634	854,125	16,350,486
Note payable	272,157	-	73,883	198,274
	$ 68,616,775	1,200,634	3,774,593	$ 66,042,816

	2013			
	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
Revenue bonds	$ 50,535,707	-	874,133	$ 49,661,574
Net premium/discount on bonds	2,961,645	-	282,578	2,679,067
State revolving loans	12,153,460	4,351,875	501,358	16,003,977
Note payable	343,122	-	70,965	272,157
	$ 65,993,934	4,351,875	1,729,034	$ 68,616,775

NOTE 6 - EMPLOYEE BENEFITS

INSURANCE

The Joint Water System offers medical and life insurance through the State of South Carolina. The Joint Water System pays the entire cost of the employee portion of medical and dental coverage, and will pay a portion of dependent coverage if elected by the employee. Medical and life insurance totaled $142,634 and $135,096 for the years ended June 30, 2014 and 2013, respectively. The Joint Water System does provide medical insurance to retirees.

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

DEFERRED COMPENSATION PLAN

The Joint Water System offers its employees a deferred compensation plan, created in accordance with Internal Revenue Code Section 457, which is administered and controlled by the State of South Carolina. The plan, available to all Joint Water System employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Participants' rights under the plan are equal to those of general creditors of the Joint Water System in an amount equal to the fair market value of the deferred account for each participant. CitiStreet (under state contract) is the program administrator of the 457 Plan.

PENSION PLAN

Effective July 1, 2006, the Joint Water System's employees began participating in the South Carolina Retirement System ("SCRS" or "Plan"), a cost-sharing, multiple-employer, defined benefit public employee retirement system.

The SCRS was established by the South Carolina state legislature on July 1, 1945, for the benefit of teachers and employees of the State and its political subdivisions. The SCRS offers retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. Those who retire at age 65 or after 28 years of credited service are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.82 percent of the employee's annual average final compensation (average compensation over the highest twelve consecutive quarters) times years of service. The Plan's provisions are established under Title 9 of the South Carolina Code of Laws and were originally administered by the South Carolina Budget and Control Board. Effective July 1, 2012, the South Carolina General Assembly transferred administration of the SCRS to the newly created South Carolina Public Employee Benefit Authority ("PEBA"). The PEBA has the authority to establish and amend benefits and funding policy. A comprehensive annual financial report containing financial statements and required supplementary information for the retirement benefits is issued and publicly available by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, SC 29211-1960.

Group life insurance for active employees are covered by an insurance benefit equal to one year's salary after one year of SCRS service and retirees are covered by a benefit up to $6,000 based on years of service.

Both employees and the Joint Water System are required to contribute to the Plan at rates established and as amended by the PEBA. The Joint Water System's contributions are actuarially determined, but are communicated to and paid by the Joint Water System as a percentage of the employees' annual earnings.

An early retirement option with reduced benefits is available as early as age 60. Employees are vested for a deferred annuity after 5 years service and qualify for a survivor's benefit upon completion of 15 years of credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an employee with a minimum of one year of credited service. Employees are required to contribute 7.5 and 7.0 percent of their salary for the years ended June 30, 2014 and 2013, respectively. The Joint Water System is required to contribute 10.450 percent of employee's salary for the years ended June 30, 2014 and 2013. Full service or early retirees may elect other optional methods of benefit distributions, including lump-sum distributions, benefit levels coordinated with the retiree's social security benefits, and distributions to a named beneficiary. The Joint Water System's contributions to the SCRS totaled $110,428 and $104,043 for the years ended June 30, 2014 and 2013, respectively. The Joint Water System's employee contributions to the SCRS totaled $78,858 and $69,520 for the years ended June 30, 2014 and 2013, respectively.

NOTE 7 – COMMITMENTS

In February 2013, the Joint Water System entered into a fifteen year agreement for commercial power electric service. During the initial period of the agreement the Joint Water System is required to pay an excess facilities charge of $1,535 per month through February 2028. The agreement expense was $6,140 for the year ended June 30, 2013. Future amounts to be paid for the commercial power electric service agreement are as follows:

June 30,	
2015	$ 18,420
2016	18,420
2017	18,420
2018	18,420
2019	18,420
2020-2028	159,640
	$ 251,740

NOTE 8 - MAJOR CUSTOMERS

At June 30, 2014, the Joint Water System had three customers which accounted for 28 percent, 12 percent, and 10 percent of operating revenue. At June 30, 2014, these customers accounted for 27 percent, 13 percent, and 10 percent of trade accounts receivable.

At June 30, 2013, the Joint Water System had two customers which accounted for 28 percent and 13 percent of operating revenue. At June 30, 2013, these customers accounted for 26 percent and 13 percent of trade accounts receivable.

NOTE 9 - PENDING IMPLEMENTATION OF GASB STATEMENT ON PENSIONS

GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions"* ("Statement"), which was issued by the GASB in June 2012, is required to be implemented by the Joint Water System for the fiscal year ended June 30, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that are provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple employer plan will now be required to recognize a liability for its proportionate share of the net pension liability of that plan. It is GASB's intention that this new Statement will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Joint Water System's financial obligations to current and former employees for past services rendered.

In particular, the Statement will require the Joint Water System to recognize a net pension liability (and related deferred outflows and inflows of resources) for its participation in the SCRS on its financial statements (i.e., the Statement of Net Position) and present more extensive note disclosures.

The Joint Water System has been in communications with the PEBA on the effect of implementing this Statement. Based on recent information provided by the PEBA, it is anticipated that the Joint Water System's proportionate share of the net pension liability associated with the SCRS will decrease the Joint Water System's beginning unrestricted net position for the year ended June 30, 2015 by approximately $2,107,000.

SUPPLEMENTARY INFORMATION

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	2014			(Restated) 2013		
	Potable Water	**Raw Water**	**Total**	**Potable Water**	**Raw Water**	**Total**
OPERATING REVENUES						
Operations and maintenance	$ 3,299,517	114,303	$ 3,413,820	$ 3,453,756	95,253	$ 3,549,009
Debt service	4,693,037	-	4,693,037	4,538,853	-	4,538,853
Renewal and replacement						
Water system	1,342,852	21,193	1,364,045	1,289,396	23,400	1,312,796
Pump station	72,005	-	72,005	79,206	-	79,206
Miscellaneous	38,140	-	38,140	48,652	-	48,652
Total operating revenues	9,445,551	135,496	9,581,047	9,409,863	118,653	9,528,516
OPERATING EXPENSES						
Salaries and wages	1,038,668	-	1,038,668	1,030,091	-	1,030,091
Payroll taxes and employee benefits	363,824	-	363,824	378,340	-	378,340
Operations and maintenance	2,123,813	110,181	2,233,994	1,836,659	32,403	1,869,062
Professional fees	57,001	-	57,001	68,093	-	68,093
Insurance	90,647	-	90,647	83,228	-	83,228
Total operating expenses before depreciation	3,673,953	110,181	3,784,134	3,396,411	32,403	3,428,814
Depreciation	1,949,696	317,962	2,267,658	1,849,967	105,970	1,955,937
Total operating expenses	5,623,649	428,143	6,051,792	5,246,378	138,373	5,384,751
Net operating income (loss)	3,821,902	(292,647)	3,529,255	4,163,485	(19,720)	4,143,765
NON-OPERATING REVENUES (EXPENSES)						
Interest income	158,650	-	158,650	158,947	-	158,947
Gain (loss) on sale of capital assets	(3,346)		(3,346)	-	-	-
Water credits	(143,790)	-	(143,790)	(160,466)	-	(160,466)
Interest expense	(2,352,959)	-	(2,352,959)	(2,436,919)	-	(2,436,919)
Net non-operating expenses	(2,341,445)	-	(2,341,445)	(2,438,438)	-	(2,438,438)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,480,457	(292,647)	1,187,810	1,725,047	(19,720)	1,705,327
Contributions in aid of construction	76,825	-	76,825	2,419,958	3,208,984	5,628,942
Increase in net position	1,557,282	(292,647)	1,264,635	4,145,005	3,189,264	7,334,269
NET POSITION, beginning of year - as previously reported	13,249,810	7,077,857	20,327,667	9,909,723	3,888,593	13,798,316
Cumulative change in accounting principle - GASB #65	-	-	-	(804,918)	-	(804,918)
NET POSITION, beginning of year - restated	13,249,810	7,077,857	20,327,667	9,104,805	3,888,593	12,993,398
NET POSITION, end of year	$ 14,807,092	6,785,210	$ 21,592,302	$ 13,249,810	7,077,857	$ 20,327,667

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures
Environmental Protection Agency		
Passed Through SC Department of Health and Environmental Control		
Capitalization Grant for Drinking Water State Revolving Funds (Loan)	66.468	$ 1,200,634
Appalachian Regional Commission		
Passed Through SC Department of Health and Environmental Control		
Appalachian Regional Commission - Water Transmission Improvements - Phase 1B	23.001	76,825
Total Expenditures of Federal Awards		$ 1,277,459

The accompanying notes to the schedule of expenditures of federal awards is an integral part of this schedule.

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

A. – General

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal award programs of Anderson Regional Joint Water System (the "Joint Water System") for the year ended June 30, 2014. All federal loans and federal awards received directly from the federal agencies, as well as those passed through other government agencies, are included on the Schedule.

B. – Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting, which is described in Note I to the Joint Water System's financial statements.

C. – Relationship to Financial Statements

Federal award expenditures are reported in the Joint Water System's financial statements.

D. – Sub-Recipients

There were no federal expenditures provided to sub-recipients presented in the accompanying Schedule.

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*

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Anderson Regional Joint Water System
Anderson, South Carolina

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 Anderson Regional Joint Water System, South Carolina (the "Joint Water System"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Joint Water System's basic financial statements, and have issued our report thereon dated October 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Joint Water System's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Joint Water System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Joint Water 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 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 Joint Water 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.

Greene, Finney & Horton, LLP
Mauldin, South Carolina
October 17, 2014

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Anderson Regional Joint Water System
Anderson, South Carolina

Report on Compliance for Each Major Federal Program

We have audited Anderson Regional Joint Water System's (the "Joint Water System") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Joint Water System's major federal programs for the year ended June 30, 2014. The Joint Water 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 Joint Water 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Joint Water 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 Joint Water System's compliance.

Opinion on Each Major Federal Program

In our opinion, the Joint Water 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 June 30, 2014.

Report on Internal Control Over Compliance

Management of the Joint Water 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 Joint Water 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 OMB Circular A-133, 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 Joint Water 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Greene, Finney & Horton, LLP
Mauldin, South Carolina
October 17, 2014

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2014

There were no OMB A-133 audit findings in the prior year.

ANDERSON REGIONAL JOINT WATER SYSTEM
ANDERSON, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	____ Yes	X No	
Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes	X None Reported	
Noncompliance material to financial statements noted?	____ Yes	X No	

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	____ Yes	X No	
Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes	X None Reported	

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ____ Yes X No

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
66.468	Capitalization Grant for Drinking Water State Revolving Funds (Loan)

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee? X Yes ____ No

Section II – 2014 Financial Statements Findings

No matters to report.

Section III – 2014 Federal Award Findings and Questioned Costs

No matters to report.