



Lowcountry
Council of Governments

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

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FINANCIAL SECTION



CROWLEY WECHSLER & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lowcountry Council of Governments
Yemassee, South Carolina

We have audited the accompanying financial statements of the governmental activities, and each major fund of Lowcountry Council of Governments as of and for the year ended June 30, 2012, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lowcountry Council of Government's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Lowcountry Regional Development Corporation, a discretely presented component unit of the Lowcountry Council of Governments, as of September 30, 2011, were audited by other auditors whose report dated January 19, 2012 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Lowcountry Regional Development Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lowcountry Council of Governments as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2012, on our consideration of the Council'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* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 26 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's financial statements as a whole. The combining general fund program financial statements and the schedules of indirect cost rate and fringe benefits rate are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining general fund program financial statements, the schedules of indirect cost rate and fringe benefits rate, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Crowley Wechsler & Associates LLC

Beaufort, South Carolina
October 18, 2012

Lowcountry Council of Governments

Management's Discussion and Analysis

As management of Lowcountry Council of Governments (LCOG), we offer readers of LCOG's financial statements this narrative overview and analysis of the financial activities of LCOG for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of LCOG exceed its liabilities at the close of the most recent fiscal year by \$1,163,588 (net assets). Of this amount, \$350,743 represents the investment in capital assets less depreciation and debt on those assets. \$286,292 represents restricted net assets. The remaining balance of \$526,553 represents unrestricted net assets. LCOG's total net assets decreased by \$948,071. This decrease was primarily a result of transferring \$932,294 to Catawba Council of Governments for the Title IX revolving loan fund.
- As of the close of the current fiscal year LCOG's governmental funds reported a combined ending fund balance of \$812,845, a decrease of \$944,315, all of which represents the unreserved fund balance. This decrease was primarily a result of transferring \$932,294 to Catawba Council of Governments for the Title IX revolving loan fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to LCOG's basic financial statements. LCOG's basic financial statements comprise three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Agency-wide (governmental-wide) financial statements. The agency-wide financial statements are designed to provide readers with a broad overview of LCOG's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of LCOG's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in the net assets may serve as a useful indicator of whether the financial position of LCOG is improving or deteriorating.

The statement of activities presents information showing how LCOG's net assets changed during the most recent fiscal year. Changes in net assets are reported on a full accrual basis, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The agency-wide financial statements distinguish functions of LCOG that are supported by charges for services and operating or capital grants and contributions (governmental activities). The governmental activities of LCOG include programs related to community and economic development and aging. LCOG currently has no business type activities. The supplemental statements by program present the detail to support the agency-wide statement of activities.

The agency-wide financial statements can be found on pages 8 through 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been grouped for specific activities. LCOG like other public agencies uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the programs of LCOG can be divided into governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the agency-wide financial statements. However, unlike the agency-wide financial statements, governmental fund financial statements focus on near-term inflows

and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a LCOG's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the agency-wide financial statements, it may be useful to compare the two for similar activities and programs. By doing so, readers may better understand the long-term impact of the agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to assist in this comparison of governmental programs and governmental activities.

LCOG maintains six individual governmental programs. Information is presented by expenditure category in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund. Data from these programs are combined into a single, aggregated presentation.

LCOG adopts an annual budget. A statement comparing actual to budgeted revenues and expenditures has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 to 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the agency-wide and fund financial statements. The notes to the financial statements can be found on pages 14 to 25 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information on LCOG's program costs by expense categories. There is also a schedule of fringe benefits costs and indirect costs.

Agency-wide (government-wide) Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a public agency's financial position. In the case of Lowcountry Council of Governments assets exceeded liabilities by \$1,163,588 at the close of the most recent fiscal year. The following table reflects the condensed agency-wide statement of net assets. Comparable data is provided from the 2011 annual financial report.

LOWCOUNTRY COUNCIL OF GOVERNMENTS NET ASSETS		
	Governmental Activities	
	2012	2011
Current and Other Assets	\$ 1,852,942	\$ 3,032,877
Capital Assets	1,137,906	1,187,001
Total Assets	<u>2,990,848</u>	<u>4,219,878</u>
Long-Term Liabilities	787,163	832,502
Other Liabilities	1,040,097	1,275,717
Total Liabilities	<u>1,827,260</u>	<u>2,108,219</u>
Net Assets		
Investment in Capital Assets, Net of Related Debt	350,743	354,499
Unrestricted	526,553	824,866
Restricted	286,292	932,294
Total Net Assets	<u>\$ 1,163,588</u>	<u>\$ 2,111,659</u>

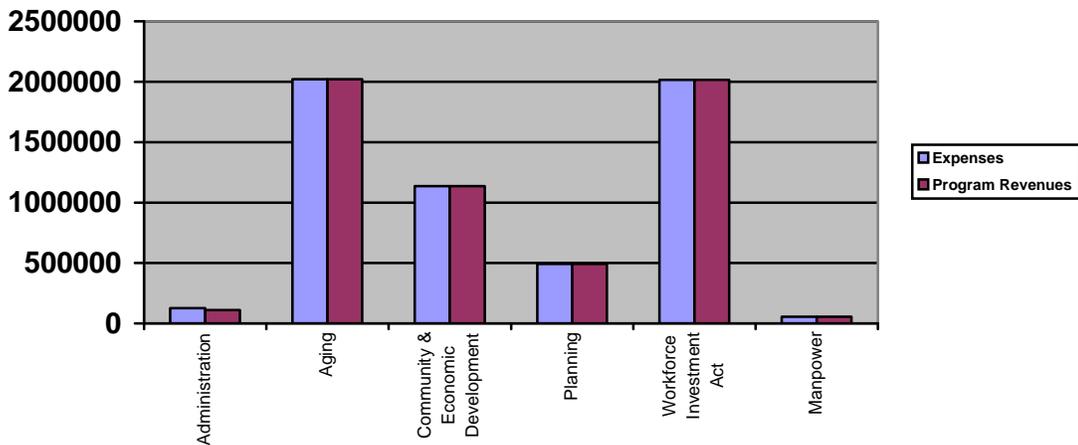
The largest portion of LCOG's net assets \$526,553 (45 percent) reflects its unrestricted fund balance. The \$350,743 (30 percent) represents the investment in capital assets (e.g. land, building and improvements, furniture and equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The remaining \$286,292 (25 percent) represents restricted net assets. These capital assets are not available for future spending. Although LCOG's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2012, LCOG had outstanding long-term debt of \$787,163, that being the office building mortgage.

At the end of the current fiscal year, Lowcountry Council of Governments is able to report positive balances in all categories of net assets.

Governmental activities. LCOG's total net assets decreased by \$15,777. Key elements of this decrease are as shown in the following table.

	Governmental Activities	
	2012	2011
Revenues:		
Program Revenues:		
Operating Grants and Contributions	\$ 5,776,083	\$ 6,453,055
Total Revenues	<u>5,776,083</u>	<u>6,453,055</u>
Expenses:		
Administration	71,727	55,475
Aging	2,020,301	2,169,768
Community and Economic Development	1,135,722	1,368,047
Planning	493,256	415,413
Workforce	2,015,977	2,082,366
Manpower	54,877	354,842
Title IX	-	87,315
Total Expenses	<u>5,791,860</u>	<u>6,533,226</u>
Increase in Net Assets	(15,777)	(80,171)
Net assets - beginning	2,111,659	2,191,830
Transfer IX Funds	(932,294)	-
Net assets - ending	<u>\$ 1,163,588</u>	<u>\$ 2,111,659</u>

Expenses and Program Revenues – Governmental Activities



Financial Analysis of the Agency's Funds

As noted earlier, LCOG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of LCOG's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing LCOG's financing requirements. In particular, unreserved fund balance may serve as a useful measure of an agency's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, LCOG's governmental funds reported combined ending fund balances of \$812,845, a decrease of \$944,315. The major governmental fund consists of the general fund.

Overall, there was an decrease in the fund balance of \$944,315. Primarily, \$932,294 was a result of transferring Title IX revolving loan fund to Catawba Council of Government. Department directors are responsible for successfully implementing their program and project budgets, and the finance director is an integral member of the management team. Additionally, no significant unanticipated expenditures were required during the year.

Capital Assets and Debt Administration

Capital Assets. LCOG's investment in capital assets for its governmental type activities as of June 30, 2012 amounts to \$1,137,906 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment, and vehicles. Increases in LCOG's investment in capital assets for the current fiscal year were \$17,327 for vehicles. Depreciation expense was \$66,422 for the year.

LOWCOUNTRY COUNCIL OF GOVERNMENTS CAPITAL ASSETS - NET OF DEPRECIATION		
	Governmental Activities	
	2012	2011
Land and Improvements	\$ 75,000	\$ 75,000
Buildings and Improvements	983,442	1,034,932
Furniture and Equipment	33,276	39,917
Vehicles	46,188	37,152
Total	\$ 1,137,906	\$ 1,187,001

Additional information on LCOG's capital assets can be found in Note 5 on page 21 of this report.

Long-term debt. At the end of the current fiscal year, LCOG had long-term debt outstanding in the amount of \$787,163. The debt was attributable to the renovations of the building.

LOWCOUNTRY COUNCIL OF GOVERNMENTS LONG-TERM DEBT OUTSTANDING		
	Governmental Activities	
	2012	2011
Mortgage Payable	\$ 787,163	\$ 832,502
Total	\$ 787,163	\$ 832,502

Additional information on LCOG's long-term debt can be found in Note 6 on page 21 of this report.

Economic Factors and Next Year's Budgets

Management expects the challenging economy of recent years to continue. LCOG has dealt with this "new normal" through its strong system of direct and indirect expenditure accountability and control. Capital expenditures, however, are a matter of concern. Capital purchases, defined as those with a unit cost of \$5,000 or more, must be funded from local revenues. Local revenues must also be used to meet the local matching funds requirement of several programs. Local revenues consist primarily of the LCOG's state budget appropriation and annual per capita dues paid by the four counties. The dues amount is locked in until the next Census, and the four county councils are very supportive even though facing budget challenges of their own. The COG's state appropriation has decreased each of the last 5 years, and management expects this to continue. The net result of this situation is less local revenue. This year, for the first time, the COG declined a small Aging Program grant because local match was required. The COG is constrained in its ability to expand programs requiring additional local match. LCOG enjoys a healthy fund balance grown over years during better financial times. However, cash flow is an increasing concern. Our Workforce department is responsible for the day-to-day operations of the SC Works centers in the region. While there is funding for this function, it comes after-the-fact as a reimbursement. Also, due to a change in the CDBG reimbursement requirements, administrative funds are being delayed by the progress of the construction project. This results in an increase in accounts receivable and a drain on operating cash. The prospect of budgetary sequestration in Washington is another major concern. If this happens, management expects significant cuts in the COG's largest programs. Indirect cost rate increases caused by staff layoffs is a growing concern. Overall, management remains committed to taking all steps necessary to keep LCOG financially healthy and believes it has the staff and systems in place to do it.

Requests for information

This financial report is designed to provide a general overview of Lowcountry Council of Governments finances for all those with an interest in the agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Lowcountry Council of Governments, Post Office Box 98, Yemassee, South Carolina, 29945-0098.

BASIC FINANCIAL STATEMENTS

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	PRIMARY GOVERNMENT	COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	DEVELOPMENT CORPORATION
ASSETS		
Cash	\$ 856,452	\$ 255,518
Accounts Receivable	446,544	-
Work-in-Process Contracts	542,078	-
Prepaid Expenses	7,868	-
Notes and Leases Receivable	-	453,646
Capital assets not being depreciated	75,000	-
Capital assets being depreciated	1,062,906	131,802
Total Assets	\$ 2,990,848	\$ 840,966
LIABILITIES		
Salaries and Benefits	\$ 102,965	\$ -
Accounts Payable	365,427	143,228
Deferred Income	571,705	184,581
Noncurrent Liabilities		
Due within one year	47,559	-
Due in more than one year	739,604	-
Total Liabilities	1,827,260	327,809
NET ASSETS		
Invested in Capital Assets, net of related debt	350,743	-
Net Assets, Restricted	286,292	356,831
Net Assets, Unrestricted	526,553	156,326
Total Net Assets	\$ 1,163,588	\$ 513,157

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

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Functions/Programs</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>	
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>	<u>COMPONENT UNIT DEVELOPMENT CORPORATION</u>
Primary Government					
Administration	\$ 71,727	\$ -	\$ 55,950	\$ (15,777)	\$ -
Aging	2,020,301	-	2,020,301	-	-
Community and Economic Development	1,135,722	-	1,135,722	-	-
Planning	493,256	-	493,256	-	-
Workforce Investment Act	2,015,977	-	2,015,977	-	-
Manpower	54,877	-	54,877	-	-
Total Primary Government	<u>\$ 5,791,860</u>	<u>\$ -</u>	<u>\$ 5,776,083</u>	<u>\$ (15,777)</u>	<u>\$ -</u>
Component Units					
Development Corporation	<u>\$ 59,856</u>	<u>\$ 70,362</u>	<u>\$ -</u>	\$ -	\$ 10,506
Change in Net Assets				(15,777)	10,506
Net Assets, Beginning of Year				2,111,659	502,651
Transfer of program to Catawba COG				<u>(932,294)</u>	<u>-</u>
Net Assets, End of Year				<u>\$ 1,163,588</u>	<u>\$ 513,157</u>

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

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>GENERAL FUND</u>	<u>TITLE IX FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS			
Assets			
Cash	\$ 856,452	\$ -	\$ 856,452
Accounts Receivable	446,544	-	446,544
Work-in-Process Contracts	542,078	-	542,078
Prepaid Expenses	<u>7,868</u>	-	<u>7,868</u>
Total Assets and Other Debits	<u>\$ 1,852,942</u>	<u>\$ -</u>	<u>\$ 1,852,942</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Salaries and Benefits	\$ 102,965	\$ -	\$ 102,965
Accounts Payable	365,427	-	365,427
Deferred Income	<u>571,705</u>	-	<u>571,705</u>
Total Liabilities	<u>1,040,097</u>	<u>-</u>	<u>1,040,097</u>
Fund Balances			
Nonspendable	7,868	-	7,868
Restricted	286,292	-	286,292
Unassigned	<u>518,685</u>	-	<u>518,685</u>
Total Fund Balances	<u>812,845</u>	<u>-</u>	<u>812,845</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,852,942</u>	 <u>\$ -</u>	 <u>\$ 1,852,942</u>

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

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total net assets reported for governmental activities in the statement of net assets is different because:

Total fund balances for governmental funds		\$ 812,845
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Capital assets used in LCOG's activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land and improvements	\$ 75,000	
Buildings and improvements, net of \$303,810 accumulated depreciation	983,442	
Vehicles, net of \$71,862 accumulated depreciation	46,188	
Furniture and equipment, net of \$131,328 accumulated depreciation	<u>33,276</u>	
Total Capital Assets		1,137,906

Long-term liabilities applicable to the LCOG's activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities --both current and long-term--are reported in the statement of net assets. Balances at June 30, 2012 are:

Mortgages Payable	<u>(787,163)</u>	
Total Long-Term Liabilities		<u>(787,163)</u>

Total net assets of governmental activities		\$ <u>1,163,588</u>
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The notes to the financial statements are an integral part of this statement.

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>GENERAL FUND</u>	<u>TITLE IX FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES			
Federal	\$ 4,671,366	\$ -	\$ 4,671,366
State	321,646	-	321,646
Local	768,801	-	768,801
Other	<u>14,270</u>	<u>-</u>	<u>14,270</u>
Total Revenues	<u>5,776,083</u>	<u>-</u>	<u>5,776,083</u>
EXPENDITURES			
Administration	67,971	-	67,971
Aging	2,020,301	-	2,020,301
Community and Economic Development	1,135,722	-	1,135,722
Planning	493,256	-	493,256
Workforce Investment Act	2,015,977	-	2,015,977
Manpower	<u>54,877</u>	<u>-</u>	<u>54,877</u>
Total Expenditures	<u>5,788,104</u>	<u>-</u>	<u>5,788,104</u>
Excess (deficiency) of revenues over expenditures	(12,021)	-	(12,021)
Fund Balances, beginning of year	824,866	932,294	1,757,160
Transfer of program to Catawba COG	<u>-</u>	<u>(932,294)</u>	<u>(932,294)</u>
Fund Balances, end of year	<u>\$ 812,845</u>	<u>\$ -</u>	<u>\$ 812,845</u>

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

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

The change in net assets reported for governmental activities in the statement of activities is different because:

Net change in fund balances -- total governmental funds	\$ (12,021)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$17,327) was less than depreciation (\$66,422) in the current period.	(49,095)
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	<u>45,339</u>
Total change in net assets of governmental activities	<u><u>\$ (15,777)</u></u>

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

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lowcountry Council of Governments (LCOG) was organized under provisions of Article 2 Act 487 of the 1967 South Carolina General Assembly, as amended in 1971. It does not have stockholders or equity holders and is not subject to income taxes. In general, LCOG has the power to carry on such planning activities and to develop such studies and programs as it deems to be in the interest of the lowcountry area, which includes Beaufort, Colleton, Hampton, and Jasper counties.

REPORTING ENTITY

LCOG is an autonomous government whose appointed board controls its operations and fiscal accountability. LCOG is a separate reporting entity and is not a component unit of any other governmental entity.

Generally accepted accounting principles, as established by the Governmental Accounting Standards Board, require that the financial reporting entity's financial statements include the financial operation of the primary government organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The basic criteria for including organizations as component units within the reporting entity include imposition of will, and financial benefit or burden on a primary government and selection of governing authority. Based on the above criteria, the Lowcountry Regional Development Corporation (LRDC) must be included in the reporting entity. Complete financial statements for LRDC may be obtained at the offices of LCOG, P.O. Box 98, Yemassee, S.C. 29945-0098.

LRDC is a non-profit 501(c)(6) corporation that strives to stimulate and support economic and community development in Beaufort, Colleton, Hampton and Jasper Counties, South Carolina by offering, among other things, attractive lease agreements on business sites to induce businesses to locate in the Lowcountry.

LRDC has a September 30 fiscal year end and the financial data for this component unit is as of September 30, 2011 and for the fiscal year then ended.

The accompanying financial statements present the combined financial positions and combined results of operations of the various fund types controlled by the appointed board and the executive director.

Federal, state and local governments fund all of the operating budgets. The operating revenues and expenditures are included in the General Fund. The accounting policies of LCOG conform to generally accepted accounting principles, as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting.

LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the reporting government as a whole, except for its fiduciary activities. Governmental activities are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. LCOG reports only governmental activities, as there are no business type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

LCOG reports the following major governmental funds:

The *general fund* is LCOG's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is LCOG's policy to use restricted resources first then unrestricted resources, as they are needed.

Indirect expenses are allocated to programs based on the ratio to direct salaries within the individual programs.

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

LCOG's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

LCOG is authorized by state statute to invest in the following:

- (1) Obligations of the United States and its agencies;
- (2) General obligations of the State of South Carolina and its political units;
- (3) Savings and loan associations to the extent that the same are insured by an agency of the Federal Government;

Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above and are held by a third party as escrow agent or custodian, at a market value not less than the amounts of the certificates of deposit plus interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the Federal Government.

Inventories and Prepaid Items

Inventories of the general fund consist of supplies held for consumption and are immaterial to the financial statements and accordingly are not recorded.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by LCOG as property and equipment with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. LCOG does not have any significant infrastructure assets that should be recorded at this time.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30 years
Furniture and Equipment	5 – 15 years
Vehicles	5 years

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Assets, Liabilities, and Net Assets or Equity - Continued

Compensated Absences

Unused vacation leave liabilities are reported in the applicable governmental type activities columns in the government-wide financial statements. With sufficient notification of employment termination, unused vacation will be paid. LCOG employees can accumulate annual leave up to forty-five (45) days for subsequent use or for payment upon termination, death or retirement. Employer share of retirement and social security is added to the accrued leave liability. LCOG has no financial liability for its unused sick leave. The accumulated unpaid vacation earned as of June 30, 2012 totaled \$102,143. Compensated absences are paid from the general fund.

All vested annual leave pay is accrued as expense in the current year.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Fund Equity

In the fund financial statements, governmental funds report:

Fund balance of governmental funds is reported in various categories based on the nature of any limitation requiring the use of resources for specific resources. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The following categories of fund balance are used in the fund level financial statements of the government funds:

- Nonspendable fund balance – amounts that are not in a spendable form or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grants, bondholders and higher levels of government) through constitutional provisions or enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Assets, Liabilities, and Net Assets or Equity - Continued

Government-wide and fund financial statements must be presented using an all-inclusive format. That is, the results of the current period's activities are to be reported as an addition to (or a deduction from) equity at the beginning of the period to arrive at the closing equity balance. Thus changes in net assets on the government-wide statement of activities is added to (or deducted from) net assets – beginning of the fiscal year to arrive at net assets – end of the fiscal year.

Net assets are defined as the difference between assets and liabilities in the government-wide statement of net assets.

The government-wide statement of net assets reports all government assets; therefore, a significant portion of the net assets reported there typically reflects a government's investment in capital assets. To draw financial statement users' attention to this important information, GAAP requires the amount of net assets invested in capital assets to be reported as a separate category of net assets. Net assets invested in capital assets, net of related debt includes all capital assets less accumulated depreciation and outstanding principal of related debt.

Restrictions may be imposed on a portion of LCOG's net assets by parties outside the government (such as creditors, grantors, contributors). In some cases, such restricted assets are directly associated with particular liabilities (for instance, restricted assets associated with revenue bonds). An amount equal to these restricted assets, less any related liabilities, is reported as restricted net assets.

GAAP direct that the difference between total net assets and the two categories discussed above (invested in capital assets, net of related debt and restricted net assets) be reported as unrestricted net assets.

Comparative Data/Reclassifications

Comparative total data for the prior year has not been presented. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Expenses/Expenditures

Consistent with the current financial resources measurement focus, the governmental fund statement of activities report expenditures rather than expenses. Expenditures in the fund financial statements are presented by character for the governmental funds. The character of an expenditure is based upon the periods it is presumed to benefit. Expenditures that primarily benefit the present period (current expenditures) are distinguished from those presumed to benefit both the present and future periods (debt service expenditures and capital outlay expenditures). GAAP also provides for a fourth character classification, intergovernmental expenditures, for situations where one governmental entity provides resources to another.

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Assets, Liabilities, and Net Assets or Equity - Continued

Government-wide expenses are reported by function. The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. As a result, there are important differences between the expenditures reported on the governmental fund financial statements and those expenses reported on the government-wide financial statements. For example, the governmental funds report capital outlay expenditures, while the government-wide financial statements report depreciation.

BUDGET AND BUDGETARY ACCOUNTING

Prior to the start of each fiscal year, LCOG approves an operating budget prepared in accordance with generally accepted accounting principles. LCOG's executive committee approves any revisions to the budget during the year.

CERTAIN CONCENTRATIONS

During the year ended June 30, 2012 LCOG received approximately 81% and 6%, respectively, of its total revenues from federal and state financial assistance grants.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results may differ from these estimates.

COST ALLOCATION METHOD

LCOG has elected, in accordance with Office of Management and Budget Circular A-87, to allocate allowable indirect costs and fringe benefits to the applicable federal, state and local grants and contracts. Using gross salaries as a basis, LCOG applies cognizant agency approved indirect, fringe, and release rates in properly allocating cost based on the actual expenditures during the current fiscal year. During the year, applicable grant programs have been charged with an employee benefits rate of 65.13% and an indirect cost rate of 61.39% on the wages charged to the program.

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits: The deposits for LCOG at June 30, 2012 were \$332,190 and the bank balance was \$417,409. The pledging institution's agent held \$167,409 in U.S. governmental securities and \$250,000 was covered by federal depository insurance. At June 30, 2012, LCOG had \$524,262 in the South Carolina Local Government Investment Pool. These deposits are part of a fund invested by the Office of State Treasurer for local governments. As such, collateral is not identified for each deposit, but rather for the fund as a whole and is fully collateralized. South Carolina Local Government Investment Pool is classified as a risk Category A.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, LCOG will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. LCOG does not maintain a deposit policy regarding custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 was as follows:

Workforce	\$ 246,480
Aging	185,802
Administration	<u>14,262</u>
Total Accounts Receivable	<u>\$ 446,544</u>

NOTE 4 – WORK-IN-PROCESS CONTRACTS

LCOG has entered into contracts with the municipalities and counties in its service district to provide administration, professional and technical services under various community development block grants, economic development grants and planning grants. LCOG's accumulated costs including direct time, fringe benefits and indirect overhead in these contracts follows:

Community and Economic Development	\$ 263,079
Home Investments	86,598
Planning	<u>202,401</u>
Total	552,078
Less: Allowance for Uncollectible Accounts	<u>(10,000)</u>
Net Work-in-Progress Contracts	<u>\$ 542,078</u>

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – PROPERTY AND EQUIPMENT

A summary of changes in the LCOG's property and equipment is as follows:

	<u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land and Improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Total Capital Assets, not being depreciated	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	1,287,252	-	-	1,287,252
Furniture and Equipment	164,604	-	-	164,604
Vehicles	100,723	17,327	-	118,050
Total Capital Assets, being depreciated	<u>1,552,579</u>	<u>17,327</u>	<u>-</u>	<u>1,569,906</u>
Less Accumulated Depreciated for:				
Buildings and Improvements	252,320	51,490	-	303,810
Furniture and Equipment	124,687	6,641	-	131,328
Vehicles	63,571	8,291	-	71,862
Total Accumulated Depreciation	<u>440,578</u>	<u>66,422</u>	<u>-</u>	<u>507,000</u>
Total Capital Assets, being depreciated, net	<u>1,112,001</u>	<u>(49,095)</u>	<u>-</u>	<u>1,062,906</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,187,001</u>	<u>\$ (49,095)</u>	<u>\$ -</u>	<u>\$ 1,137,906</u>

Depreciation expense was \$66,422 for the year ended June 30, 2012. This amount was allocated to the administrative function.

NOTE 6 – LONG-TERM DEBT

On November 19, 2009, Jasper County obtained a loan to assist LCOG with funding a building expansion. This loan is structured as a Building Lease Purchase. Jasper County assigned the County's right, title and interest in the building project to Branch Banking and Trust (BB&T). The loan is collateralized by land together with the building located on the land. BB&T holds a first lien leasehold mortgage on the land and the building. LCOG is responsible for the repayment of the debt and Jasper County is not responsible for repayment and none of the County's assets are pledged for the repayment of the loan.

A summary of long-term debt is as follows:

Mortgage payable on LCOG's building expansion dated November 19, 2009 had an original balance of \$900,000 and is repayable in monthly payments of \$7,019 over a fifteen-year term including interest at 4.79%.

\$ 787,163

\$ 787,163

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – LONG-TERM DEBT - CONTINUED

Approximate maturities of long-term debt for the next five fiscal years and thereafter are as follows:

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 47,559	\$ 36,670	\$ 84,229
2014	49,888	34,341	84,229
2015	52,330	31,899	84,229
2016	54,893	29,336	84,229
2017	57,581	26,648	84,229
2018 - 2022	333,060	88,085	421,145
2023 - 2025	191,852	11,700	203,552
Total	<u>\$ 787,163</u>	<u>\$ 258,679</u>	<u>\$ 1,045,842</u>

A schedule of changes on long-term indebtedness follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Building Expansion				
Mortgage	\$ 832,502	\$ -	\$ 45,339	\$ 787,163
Total	<u>\$ 832,502</u>	<u>\$ -</u>	<u>\$ 45,339</u>	<u>\$ 787,163</u>

NOTE 7 – DEFERRED INCOME

Deferred income at June 30, 2012 was as follows:

Aging	\$ 26,233
Community and Economic Development	174,431
Planning	280,871
Workforce	90,170
Total	<u>\$ 571,705</u>

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 – FUND BALANCES

LCOG no longer has Title IX funds as this was transferred to Catawba Council of Government. The fund balances of the governmental funds are as follows as of June 30, 2012:

	General Fund
Fund Balances:	
Nonspendable:	
Prepaid Expenses	\$ 7,868
Restricted for:	
Building Expansion	33,193
Military Base Task Force	253,099
Unassigned	518,685
Total	\$ 812,845

NOTE 9 – PENSION FUND OBLIGATIONS

Description of Plan

As a condition of employment, all eligible Board employees are required to participate in a pension plan. All eligible employees must belong to the South Carolina Retirement System (SCRS). The plan is a cost-sharing multiple-employer Public Employee Retirement System (PERS) administered by the Retirement Division of the State Budget and Control Board. Retirement costs are funded by withholding from the employees' salaries, and by a contribution from the Board of a percentage of the employees' salaries. The Retirement System is administered by the South Carolina Retirement System, which is a state agency. The Board has no fiduciary responsibility for or further liability for the retirement plan beyond their current contributions. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System and Police Officers Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29211-1960.

Basic Provisions

Benefit provisions are established under the authority of Title IX of the South Carolina Code of Laws. Under current statutes pertaining to the SCRS, member employees who retire at age 65 or after 28 years of credited services are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.82 percent of the average final compensation (average compensation over the last three years of credited service) times years of credited service. A member with at least 25 years of credited services who terminates employment may continue to pay employee and employer contributions until 28 years of credited services credit is reached. The contributions will be made through the most recent employer on a regular basis and remitted to the South Carolina Retirement System.

Member employees who are least 60 years of age may elect early retirement in which case the full service benefit is reduced by 5 percent for each year the employee's age at retirement is less than 65. In either case, any unrecovered contributions are payable upon death and cost of living adjustments are evaluated annually on an *ad hoc* basis. Full service or early retirees may elect other optional methods of benefit distributions, including lump sum distribution, benefit levels coordinated with the retiree's social security benefits and distributions to a named beneficiary. Benefits are fully vested on reaching 5 years of service. The SCRS also provide life insurance, survivor and disability benefits to all member employees.

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 – PENSION FUND OBLIGATIONS - CONTINUED

Funding Policy

South Carolina Retirement System (SCRS)

Effective July 1, 2007, the employer contribution rate became 9.535 percent which includes 0.15 percent towards group life insurance. Board contributions to SCRS for the years ended June 30, 2010, 2011, and 2012 were \$186,010, \$175,394, and \$147,623, respectively, equal to the actuarially required contributions for each year.

NOTE 10 – CONTINGENCIES

LCOG participates in a number of state and federally assisted programs. These programs are subject to compliance audits by the state or federal government and their representatives. LCOG believes that the amount, if any, of program expenditures that may be disallowed by the granting agencies is not material.

NOTE 11 – RELATED PARTY TRANSACTIONS

LCOG has entered into an agreement with LRDC, a component unit, in which LCOG agreed to furnish office space, technical assistance and personnel necessary to perform the duties of LRDC. LCOG charged \$0 in expenses to LRDC during the year June 30, 2012. LCOG has a receivable of \$0 as of June 30, 2012.

NOTE 12 – OPERATING LEASE OBLIGATIONS

The LCOG lease various equipment and facilities under operating leases expiring at various dates through June 2013. Total rental expense for the year ended June 30, 2012, for all operating leases was approximately \$14,822.

Minimum future rental payments for each of the next five years and in the aggregate for the leases are as follows:

Fiscal Year Ending June 30,		
2013	\$	21,544
2014		19,344
2015		19,344
2016		14,660
2017		<u>3,275</u>
Total	\$	<u>78,167</u>

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 13 – SUBSEQUENT EVENTS

The contract on the building construction went to mediation due to some problems with construction. A payable of \$35,299 was included in accounts payable as of June 30, 2012. Subsequent to year end, the mediation determined that a final payment of \$45,000 was payable from LCOG to complete the project. This amount was escrowed with an attorney handling the mediation in August 2012; however, as of the date of the financials, no activity had occurred to finalize the settlement.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

GENERAL FUND				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Federal	\$ 4,889,758	\$ 4,889,758	\$ 4,671,366	\$ (218,392)
State	310,520	310,520	321,646	11,126
Local	622,117	622,117	768,801	146,684
Other	23,168	23,168	14,270	(8,898)
Total Revenues	<u>5,845,563</u>	<u>5,845,563</u>	<u>5,776,083</u>	<u>(69,480)</u>
EXPENDITURES				
Administration	55,601	55,601	67,971	(12,370)
Aging	2,044,512	2,044,512	2,020,301	24,211
Community and Economic Development	1,087,548	1,087,548	1,135,722	(48,174)
Planning	478,147	478,147	493,256	(15,109)
Workforce Investment Act	2,122,856	2,122,856	2,015,977	106,879
Manpower	56,899	56,899	54,877	2,022
Total Expenditures	<u>5,845,563</u>	<u>5,845,563</u>	<u>5,788,104</u>	<u>57,459</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	(12,021)	<u>\$ (12,021)</u>
Fund Balances, beginning of year			<u>824,866</u>	
Fund Balances, end of year			<u>\$ 812,845</u>	

SUPPLEMENTARY INFORMATION

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL FUND BY PROGRAM
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>ADMINISTRATION</u>	<u>AGING</u>	<u>COMMUNITY AND ECONOMIC DEVELOPMENT</u>	<u>PLANNING</u>	<u>WORKFORCE INVESTMENT ACT</u>	<u>MANPOWER</u>	<u>TOTAL</u>
Revenues							
Federal	\$ -	\$ 1,665,686	\$ 706,577	\$ 409,025	\$ 1,890,078	\$ -	\$ 4,671,366
State	42,664	278,982	-	-	-	-	321,646
Local	151,966	4,135	394,920	37,004	125,899	54,877	768,801
Other	5,854	50	-	8,366	-	-	14,270
Required Match	(139,798)	71,073	31,341	37,384	-	-	-
Over Match	<u>(4,736)</u>	<u>375</u>	<u>2,884</u>	<u>1,477</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>55,950</u>	<u>2,020,301</u>	<u>1,135,722</u>	<u>493,256</u>	<u>2,015,977</u>	<u>54,877</u>	<u>5,776,083</u>
Expenditures							
Salaries and Related Costs	1,103,932	204,675	176,674	135,423	543,778	54,877	2,219,359
Automobile and Related Costs	1,524	5,647	2,511	1,130	1,175	-	11,987
Building and Related Costs	122,453	2,240	-	103	104,217	-	229,013
Advertising	207	6,789	8,731	1,036	1,582	-	18,345
Contracts	46,852	1,460,767	687,637	157,617	627,290	-	2,980,163
Dues, Subscriptions, and Publications	9,334	1,074	310	1,078	1,091	-	12,887
Equipment Leasing and Maintenance	7,097	-	-	1,898	12,175	-	21,170
Insurance and Bonding	11,226	-	-	-	-	-	11,226
Meetings	7,466	798	26	1,093	746	-	10,129
Legal Fees	169	346	279	200	-	-	994
Miscellaneous	13,062	292	-	592	8,678	-	22,624
Postage and Shipping	9,027	-	268	55	1,421	-	10,771
Printing	15,362	6,817	261	556	9,984	-	32,980
Supplies	9,728	13,257	5,336	4,106	31,657	-	64,084
Travel and Related Costs	27,104	38,478	11,678	3,442	27,507	-	108,209
Building and Equipment Purchases	25,148	1,443	2,324	1,201	4,047	-	34,163
Fringe Benefits	(689,725)	133,310	114,037	88,205	354,173	-	-
Indirect Costs	<u>(651,995)</u>	<u>144,368</u>	<u>125,650</u>	<u>95,521</u>	<u>286,456</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>67,971</u>	<u>2,020,301</u>	<u>1,135,722</u>	<u>493,256</u>	<u>2,015,977</u>	<u>54,877</u>	<u>5,788,104</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (12,021)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,021)</u>

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
SCHEDULE OF FRINGE BENEFITS RATE
FOR THE YEAR ENDED JUNE 30, 2012**

Fringe Benefits	
Vacation, Holiday and Sick Pay	\$ 233,524
SC Retirement System	208,509
Social Security	112,020
Unemployment Insurance	6,477
Workmen's Compensation Insurance	21,141
Health Insurance Benefits	<u>272,051</u>
Total Fringe Benefits	<u>\$ 853,722</u>
Chargable Salaries	
Total Salaries	\$ 1,585,534
Less: Vacation, Holiday and Sick Pay	(233,524)
Less: Manpower	<u>(41,250)</u>
Total Chargable Salaries	<u>\$ 1,310,760</u>
Fringe Benefit Allocation Rate	<u>65.13%</u>

See auditors' report

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
SCHEDULE OF INDIRECT COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Indirect Costs	
Salaries	\$ 248,760
Fringe Benefit Allocation	162,023
Advertising	207
Auto Cost Allocation	9,719
Building Depreciation	50,907
Building Maintenance, Telephone, and Utilities	38,224
Contracts	24,559
Depreciation - Equipment	5,465
Dues and Subscriptions	9,334
Equipment	7,835
Equipment Maintenance	7,192
Insurance	11,226
Legal Fees	169
Lodging	10,361
Meetings	6,639
Mileage	7,672
Miscellaneous	8,525
Per Diem	1,946
Postage	9,027
Printing	15,362
Registration	4,182
Supplies	8,857
Software	871
Transportation Costs	<u>2,920</u>
Total Allocable Indirect Costs	<u><u>\$ 651,982</u></u>
Total Direct Salaries	
Total Salaries	\$ 1,585,534
Less: Vacation, Holiday, and Sick Pay	(233,524)
Less: Manpower	(41,250)
Less: Indirect Salaries	<u>(248,760)</u>
Total Direct Salaries	<u><u>\$ 1,062,000</u></u>
Indirect Cost Allocation Rate	<u><u>61.39%</u></u>

See auditors' report

COMPLIANCE SECTION

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Commerce		
Economic Development-Support for Planning Organizations	11.302	\$ 73,129
U.S. Department of Defense		
Community Planning Assistance - Joint Land Use Study	12.610	19,137
U.S. Department of Housing and Urban Development		
<i>Passed through Beaufort County, South Carolina</i>		
Home Investments Partnership Program	14.239	* 633,448
U.S. Department of Labor		
<i>Passed through the S.C. Department of Employment and Workforce:</i>		
WIA Cluster		
WIA Adult Program	17.258	* 613,509
WIA Youth Program	17.259	* 582,249
WIA Dislocated Workers	17.260	* 199,035
WIA Youth Program	17.269	* 27,800
WIA Dislocated Workers	17.278	* 467,486
Total WIA Cluster		<u>1,890,079</u>
U.S. Department of Transportation		
<i>Passed through the S.C. Department of Transportation</i>		
Highway Planning and Construction	20.205	147,715
State Planning and Research	20.515	66,048
Transit Services Program Cluster		
Job Access Reserve Commute	20.516	10,000
New Freedom Program	20.521	10,000
Total Transit Services Program Cluster		<u>20,000</u>
Environmental Protection Agency		
<i>Passed through the S.C. Department of Health & Environmental Control:</i>		
Water Quality Management Planning	66.454	21,183
Non Point Source Implementation Grants Section 319	66.460	134,941
U.S. Department of Health and Human Services		
<i>Passed through the S.C. Lieutenant Governor's Office on Aging:</i>		
Aging Cluster		
Special Programs for the Aging - Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	* 496,720
Special Programs for the Aging - Title III, Part C-Nutrition Services	93.045	* 679,513
Nutrition Services Incentive Program	93.053	* 121,009
Total Aging Cluster		<u>1,297,242</u>
Special Programs for the Aging - Title VII, Chapter 2 - Ombudsman Services for Older Individuals	93.042	15,379
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	22,399
Special Programs for the Aging - Title IV, and Title II - Discretionary Projects	93.048	37,978
National Family Care Giver Support, Title III, Part E	93.052	184,172
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	35,982
MIPPA	93.518	17,730
MIPPA	93.725	50,829
Title VI Elder Abuse	96.041	3,975
Total Expenditures of Federal Awards		<u>\$ 4,671,366</u>

* - Major Program

See accompanying notes to schedule of federal expenditures.

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lowcountry Council of Government presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Lowcountry Council of Governments
Yemassee, South Carolina

We have audited the financial statements of the governmental activities, the discretely presented component unit, and each major fund of Lowcountry Council of Governments, as of and for the year ended June 30, 2012, which collectively comprise Lowcountry Council of Government's basic financial statements and have issued our report thereon dated October 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Lowcountry Council of Governments, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lowcountry Council of Government's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lowcountry Council of Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lowcountry Council of Government's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lowcountry Council of Government's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cronley Wechsler & Associates LLC

Beaufort, South Carolina
October 18, 2012



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Lowcountry Council of Governments
Yemassee, South Carolina

Compliance

We have audited Lowcountry Council of Government's 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 Lowcountry Council of Government's major federal programs for the year ended June 30, 2012. Lowcountry Council of Government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lowcountry Council of Government's management. Our responsibility is to express an opinion on Lowcountry Council of Government's compliance based on our audit.

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 Lowcountry Council of Government'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. Our audit does not provide a legal determination of Lowcountry Council of Government's compliance with those requirements.

In our opinion, Lowcountry Council of Governments, complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-01.

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Internal Control over Compliance

Management of Lowcountry Council of Governments, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lowcountry Council of Government's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Lowcountry Council of Government'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, as described in the accompanying schedule of findings and questioned costs as item 2012-01. *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.

Lowcountry Council of Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Lowcountry Council of Government's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cronley Wechsler & Associates LLC

Beaufort, South Carolina
October 18, 2012

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Reportable condition(s) identified that are not considered material weaknesses?	<u> </u> Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Reportable condition(s) identified that are not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

	<u> </u> Yes	<u> X </u> No
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Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.239	Home Investments Partnership Program
17.258, 17.259, 17.260, 17.269, 17.278	WIA Cluster
93.044, 93.045, 93.053	Aging Cluster

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding: 2012-01 WIA Cluster CFDA Nos. 17.258, 17.259, 17.260, 17.269, 17.278

Condition: During a sample of testing for eligibility in the Workforce Investment Act (WIA) Program, it was noted that 1 recipient of the funding did not meet the standards for income eligibility in the program.

Criteria: The WIA program has income eligibility requirements that must be met in order to receive federally funded benefits of the program.

Cause: The computer software database is designed to consider all information entered into the system to determine income eligibility under the WIA program requirements. Due to an oversight in data input, the computer function used to determine income eligibility was not utilized to calculate income eligibility.

Effect: The recipient received \$3,600 in training services from federal grant funding when federally mandated income eligibility standards were not met.

Recommendation: The \$3,600 should be adjusted to local funding sources.

Management's Response: Agrees with finding and will take corrective action.

Corrective Action Plan: Since this is an ongoing program, the \$3,600 will be reclassified to local funding sources in the subsequent year. In the future, WIA program supervisors will be reviewing database forms to insure that all the eligibility requirements have been met in the program.

**LOWCOUNTRY COUNCIL OF GOVERNMENTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding: 2011-01 Economic Adjustment Assistance – CFDA 11.307 – Grant No. 890610-026

Condition: In the RLF fund, the LCOG did not maintain required file documentation to demonstrate the basis for the LCOG's determination as to the availability of credit to the borrower.

Follow-up: This program has been transferred to another council of government in the current fiscal year; thus, the problem has ended.