

Exhibit A

Water Supply Construction Permit Bureau of Water



Permission is Hereby Granted To: **MCBEE TOWN OF**
PO BOX 248
MCBEE SC 29101

for the construction of a chemical feed in accordance with the construction plans, specifications, design calculations and the SC DHEC Construction Permit Application signed by Joseph McGougan, Registered Professional Engineer, S.C. Registration Number: .

Project Name: MCBEE WATER SYSTEM WELL NO.2 **County:** Chesterfield
Location: OFF HIGHWAY 1, MCBEE SC

Project Description: Modifications to McBee Well #2, including new 200 gpm submersible pump (set at a depth of 228 ft.), sodium hypochlorite feed system (200 gal. HDLPE tank, two chemical feed pumps), associated piping and appurtenances.

Service By: The water will be provided by McBee Town Of (System Number: 1310004)

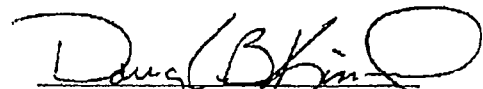
Special Conditions

1. Before an approval to "Place Into Operation" can be issued for the proposed construction, an operation and maintenance (O&M) manual must be developed. This must be a comprehensive O&M manual developed for all facility processes. The complete O&M manual must be available for review at the time of final inspection. Note that if an O&M manual already exists for a facility then only an addendum for the proposed work is required.
2. The chemical, physical and bacteriological quality of the well water must meet EPA primary and secondary standards or treatment may be required. The water must be evaluated for corrosivity to comply with the Lead and Copper Rule.
3. An operator with the appropriate certification for treatment must be provided.

In accepting this permit, the owner agrees to the admission of properly authorized persons at all reasonable hours for the purpose of sampling and inspection.

This is a permit for construction only and does not constitute State Department of Health and Environmental Control approval, temporary or otherwise, to place the system in operation. An Approval to Place in Operation is required and can be obtained following the completion of construction by contacting the FLORENCE EQC OFFICE at 843-661-4825. Additional permits may be required prior to construction (e.g., stormwater).

Permit Number: 28475-WS
Date of Issue: November 13, 2012
Expiration Date: Construction must be completed prior to November 13, 2014 or this permit will expire.
WCB


Douglas B. Kinard, P.E., Director
Drinking Water Protection Division

WW-1672-09

Water Supply Construction Permit Bureau of Water



Permission is Heret y Granted To: **MCBEE TOWN OF**
PO BOX 248
MCBEE SC 29101

for the construction of a treatment system in accordance with the construction plans, specifications, design calculations and the SC DHEC Construction Permit Application signed by Joseph McGougan, Registered Professional Engineer, S.C. Registration Number: 12335.

Project Name: WELL NO 1 & 2 GAC CONTACTOR ADDITION **County:** Chesterfield
Location: OFF HIGHWAY 1, MCBEE, SC

Project Description: Construction of two (2) GAC contactors at Well #1 (366 cu ft) and Well #2 (241 cu ft) in the Town of McBee.

Service By: The water will be provided by McBee Town Of (System Number: 1310004)

Special Conditions

1. Before an approval to "Place Into Operation" can be issued for the proposed construction, an operation and maintenance (O&M) manual must be developed. This must be a comprehensive O&M manual developed for all facility processes. The complete O&M manual must be available for review at the time of final inspection. Note that if an O&M manual already exists for a facility then only an addendum for the proposed work is required.

In accepting this permit, the owner agrees to the admission of properly authorized persons at all reasonable hours for the purpose of sampling and inspection.

This is a permit for construction only and does not constitute State Department of Health and Environmental Control approval, temporary or otherwise, to place the system in operation. An Approval to Place in Operation is required and can be obtained following the completion of construction by contacting the FLORENCE EQC OFFICE at 843-661-4825. Additional permits may be required prior to construction (e.g., stormwater).

Permit Number: 29-79-WS
Date of Issue: June 30, 2014
Expiration Date: Construction must be completed prior to June 30, 2017 or this permit will expire.
TLS


Douglas B. Kinard, P.E., Director
Drinking Water Protection Division

WW-1731-08

Exhibit B



Catherine E. Heigel, Director

Protecting the health of the people of South Carolina

DRINKING WATER

FINAL APPROVAL TO PLACE INTO OPERATION

ISSUED TO: MCBEE TOWN OF
PO BOX 248
MCBEE SC 29101

for the operation of a potable water system permitted under Construction Permit No. 29779-WS, dated June 30, 2014, as described below:

PROJECT NAME: WELL NO 1 & 2 GAC CONTACTOR ADDITION
COUNTY: Chesterfield
PROJECT DESCRIPTION: Installation of two (2) GAC contactors - Well #1 366 cubic feet, Well #2 241 cubic feet and all necessary appurtenances.
WATER PROVIDED BY: Mabee Town Of
SYSTEM NUMBER: 1310004

SPECIAL CONDITIONS:

This Final Approval to Operate is being conditionally approved. The Department has concerns about the water system's capacity if only Well No.1 and Well No. 2 are the sole sources for water supply. The Town of McBee's Public Water System Operating Permit, Permit Number 1310004, contains the following language:

B. System Specific Conditions

The Town of McBee shall maintain its water system in compliance with all of the applicable requirements of the State Primary Drinking Water Regulations, 61-58. The operator of record for the treatment system and the distribution system must be of the appropriate grade.

The total developed groundwater source capacity shall equal or exceed the design maximum day demand without pumping more than sixteen (16) hours a day. With the largest producing well out of service, the capacity of the remaining well(s) pumping twenty-four (24) hours a day shall equal or exceed the design maximum daily demand, except those systems requiring only one well. The capacity from an additional source (Surface Water Plant or Master Meter) will be included in the quantity analysis. However, emergency and stand-by wells will not be included in the quantity analysis. If the Town decides to operate and maintain their water systems either by themselves, or through a different contract operator, they can not violate either the water quantity or water quality portion of the SPDWR and the SDWA. Since Alligator's contract for operation and maintenance is linked to their supply of water, this means that prior to possible independent operation (as contemplated by the preliminary engineering report dated December 6, 2010), the Town must have at least two DHEC-approved sources of sufficient quantity and quality to ensure compliance.

The Department recommends that the Town of McBee investigate this capacity issue to demonstrate that sufficient capacity exists before utilizing Well No.1 and Well No. 2 as the primary supply for water.



Catherine E. Heigel, Director

Partnership and planning to build the people of the future.

This approval is based on the engineer's letter of certification signed by Joseph McGougan, P.E., South Carolina Registration No. 12335.

Larry Ragsdale, Regional Engineer Associate
PEE DEE REGION BEHS FLORENCE

DATE ISSUED: January 12, 2016

cc: Bureau of Water Permitting File
Mcbee Town Of
Joseph McGougan, P.E.



Catherine E. Heigel, Director

Ensuring and protecting the health of the public and the environment

DRINKING WATER

FINAL APPROVAL TO PLACE INTO OPERATION

ISSUED TO: MCBEE TOWN OF
PO BOX 248
MCBEE SC 29101

for the operation of a potable water system permitted under Construction Permit No. 28475-WS, dated June 15, 2012, as described below:

PROJECT NAME: MCBEE WATER SYSTEM WELL NO.2
COUNTY: Chesterfield
PROJECT DESCRIPTION: Installation of a 200 GPM submersible pump (set at a depth of 228 feet), sodium hypochlorite feed system, 200 gallon HDLPE tank, two feed pumps and all associated appurtenances.
WATER PROVIDED BY: McBee Town Of
SYSTEM NUMBER: 1310004

SPECIAL CONDITIONS:

This Final Approval to Operate is being conditionally approved. The Department has concerns about the water system's capacity if only Well No.1 and Well No. 2 are the sole sources for water supply. The Town of McBee's Public Water System Operating Permit, Permit Number 1310004, contains the following language:

B. System Specific Conditions

The Town of McBee shall maintain its water system in compliance with all of the applicable requirements of the State Primary Drinking Water Regulations, 61-58. The operator of record for the treatment system and the distribution system must be of the appropriate grade.

The total developed groundwater source capacity shall equal or exceed the design maximum day demand without pumping more than sixteen (16) hours a day. With the largest producing well out of service, the capacity of the remaining well(s) pumping twenty-four (24) hours a day shall equal or exceed the design maximum daily demand, except those systems requiring only one well. The capacity from an additional source (Surface Water Plant or Master Meter) will be included in the quantity analysis. However, emergency and stand-by wells will not be included in the quantity analysis. If the Town decides to operate and maintain their water systems either by themselves, or through a different contract operator, they can not violate either the water quantity or water quality portion of the SPDWR and the SDWA. Since Alligator's contract for operation and maintenance is linked to their supply of water, this means that prior to possible independent operation (as contemplated by the preliminary engineering report dated December 6, 2010), the Town must have at least two DHEC-approved sources of sufficient quantity and quality to ensure compliance.

The Department recommends that the Town of McBee investigate this capacity issue to demonstrate that sufficient capacity exists before utilizing Well No.1 and Well No. 2 as the primary supply for water.



Catherine E. Heigel, Director

Promoting a healthy environment for all South Carolinians.

This approval is based on the engineer's letter of certification signed by Joseph McGougan, P.E., South Carolina Registration No. 12335.

Larry Ragsdale, Regional Engineer Associate
PEE DEE REGION BEHS FLORENCE

DATE ISSUED: January 12, 2016

cc: Bureau of Water Permitting File
Mcbee Town Of
Joseph McGougan, P.E.

Exhibit C

NEXSEN|PRUET

RECEIVED

JAN 27 2016

Clerk, Board of Health
and Environmental Control

W. Thomas Lavender, Jr.
Member
Admitted in SC

January 27, 2016

RECEIVED

JAN 27 2015

HAND DELIVERY

Ms. Lisa Lucas Longshore, Clerk
South Carolina Board of Health and Environmental Control
2600 Bull Street
Columbia, South Carolina 29201

DHEC
OFFICE OF GENERAL COUNSEL

Re: Town of McBee
Final Approvals to Place into Operation
Well No 1 & 2 GAC Contactor Addition (Construction Permit No.
29779-WS)
McBee Water System Well No. 2 (Construction Permit No. 28475-
WS)

Charleston

Charlotte

Columbia

Greensboro

Greenville

Hilton Head

Myrtle Beach

Raleigh

Dear Ms. Longshore:

We represent A. O. Smith Corporation ("A.O. Smith") in the matters related to water service for its manufacturing facility in Chesterfield County ("A.O. Smith Facility"). Pursuant to S.C. CODE ANN. § 44-1-60, A.O. Smith requests the DHEC Board's final review of the Bureau of Water ("Bureau") decision to issue the following Final Approvals to Place in Operation to the Town of McBee ("Town"):

Final Approval to Place into Operation issued to the Town on January 12, 2016 for Well No 1 & 2 GAC Contactor Addition (Construction Permit No. 29779-WS) ("Approval for GAC")

Final Approval to Place into Operation issued to the Town on January 12, 2016 for McBee Water System Well No. 2 (Construction Permit No. 28475-WS) ("Approval for Well No. 2")

(Approval for GAC and Approval for Well No. 2 collectively referred to as "January 12, 2016 Approvals"). A copy of the January 12, 2016 Approvals are attached hereto as Appendix A. Our firm's check in the amount of \$200 for the filing fee (\$100 for each of the January 12, 2016 Approvals) is also enclosed.

1230 Main Street
Suite 700 (29201)
PO BOX 2426
Columbia, SC 29202
www.nexsenpruet.com

T 803.253.8233
F 803.727.1454
E TLavender@nexsenpruet.com
Nexsen Pruet, LLC
Attorneys and Counselors at Law

A.O. Smith is currently an at-will "retail" customer of the Town which has since approximately 1999 has been supplied potable water by Alligator Rural Water & Sewer Company, Inc. ("Alligator System") and will be directly impacted by the Town's operation of its water system without adequate potable water supplied by the Alligator System.

A.O. Smith requests a review of the January 12, 2016 Approvals on the following grounds:

- 1) The Bureau has failed to require the submittal of data necessary to make a determination that Town Well No. 1 and Well No. 2 has sufficient capacity to meet the requirements of S.C. Regulation 61-58.2(B);
- 2) The "System Specific Conditions" of the January 12, 2016 Approvals recognize the operation of the Town's public water system as "contemplated by the preliminary engineering report dated December 6, 2010" does not meet the requirements of S.C. Regulation 61-58.2(B);
- 3) The January 12, 2016 Approvals include a "recommendation" which requires the Town to "investigate the capacity issue to demonstrate sufficient capacity exists before utilizing Well No. 1 and Well No. 2 as the primary supply for water." As such, the January 12, 2016 Approvals recognize that such demonstration under S.C. Regulation 61-58.2(B) has not been made even though the preliminary engineering report dated December 6, 2010 contemplates that the Town will operate independent of the current potable water source provide by a connection to the Alligator System;
- 4) The January 12, 2016 Approvals appear to allow the operation of the Town's public water system without the potable water source provided by the Alligator System.
- 5) The Town has failed to demonstrate that the Town operation of Town Well Nos. 1 and 2 meet the requirements of a "viable water system" as defined in R.61-58(B).
- 6) Since the January 12, 2016 Approvals were issued without a prior determination by the Bureau that Well No. 1 and Well No. 2 have sufficient capacity to meet the requirements of S.C. Regulation 61-58.2(B), the January 12, 2016 Approvals subject

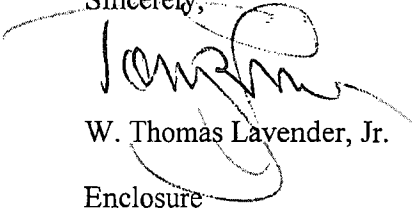
Ms. Lisa Lucas Longshore
January 27, 2016
Page 3

A.O. Smith to potential interruptions in or inadequate service for the continued operations at the A.O. Smith Facility.

- 7) Based upon available information from the Department's records it appears that Town Wells No. 1 and No. 2 do not have sufficient capacity to meet the requirements of S.C. Regulation 61-58.2(B);
- 8) The January 12, 2016 Approvals are not based on accurate peak day usage for the Town's public water system as required to demonstrate sufficient capacity to meet the requirements of S.C. Regulation 61-58.2(B);
- 9) The January 12, 2016 Approvals are based on monthly usage for the Town's customers which cannot be used to determine the "maximum day demand" for the Town's public water system as required to demonstrate sufficient capacity to meet the requirements of S.C. Regulation 61-58.2(B).
- 10) The January 12, 2016 Approvals are based on data which does not meet generally accepted practices for calculation of demand.
- 11) The Well No 1 & 2 GAC Contactor Addition is not sized in accordance with the stated yield of the two Town Wells.

Thank you for your assistance in this matter. If additional information or documentation is needed, please do not hesitate to contact me.

Sincerely,



W. Thomas Lavender, Jr.

Enclosure

cc: A. O. Smith Corporation

APPENDIX A



Catherine E. Heigel, Director

Protecting the health of the public

DRINKING WATER

FINAL APPROVAL TO PLACE INTO OPERATION

ISSUED TO: MCBEE TOWN OF
PO BOX 248
MCBEE SC 29101

for the operation of a potable water system permitted under Construction Permit No. 29779-WS, dated June 30, 2014, as described below:

PROJECT NAME: WELL NO 1 & 2 GAC CONTACTOR ADDITION
COUNTY: Chesterfield
PROJECT DESCRIPTION: Installation of two (2) GAC contactors - Well #1 366 cubic feet, Well #2 241 cubic feet and all necessary appurtenances.
WATER PROVIDED BY: Mcbee Town Of
SYSTEM NUMBER: 1310004

SPECIAL CONDITIONS:

This Final Approval to Operate is being conditionally approved. The Department has concerns about the water system's capacity if only Well No.1 and Well No. 2 are the sole sources for water supply. The Town of McBee's Public Water System Operating Permit, Permit Number 1310004, contains the following language:

B. System Specific Conditions

The Town of McBee shall maintain its water system in compliance with all of the applicable requirements of the State Primary Drinking Water Regulations, 61-58. The operator of record for the treatment system and the distribution system must be of the appropriate grade.

The total developed groundwater source capacity shall equal or exceed the design maximum day demand without pumping more than sixteen (16) hours a day. With the largest producing well out of service, the capacity of the remaining well(s) pumping twenty-four (24) hours a day shall equal or exceed the design maximum daily demand, except those systems requiring only one well. The capacity from an additional source (Surface Water Plant or Master Meter) will be included in the quantity analysis. However, emergency and stand-by wells will not be included in the quantity analysis. If the Town decides to operate and maintain their water systems either by themselves, or through a different contract operator, they can not violate either the water quantity or water quality portion of the SPDWR and the SDWA. Since Alligator's contract for operation and maintenance is linked to their supply of water, this means that prior to possible independent operation (as contemplated by the preliminary engineering report dated December 6, 2010), the Town must have at least two DHEC-approved sources of sufficient quantity and quality to ensure compliance.

The Department recommends that the Town of McBee investigate this capacity issue to demonstrate that sufficient capacity exists before utilizing Well No.1 and Well No. 2 as the primary supply for water.



Catherine E. Heigel, Director

Planning and protecting the health of the people of South Carolina

This approval is based on the engineer's letter of certification signed by Joseph McGougan, P.E., South Carolina Registration No. 12335.

Larry Ragsdale, Regional Engineer Associate
PEE DEE REGION BEHS FLORENCE

DATE ISSUED: January 12, 2016

cc: Bureau of Water Permitting File
Mcbee Town Of
Joseph McGougan, P.E.



Catherine E. Heigel, Director

Promoting and protecting the health of the public and the environment

DRINKING WATER

FINAL APPROVAL TO PLACE INTO OPERATION

ISSUED TO: MCBEE TOWN OF
PO BOX 248
MCBEE SC 29101

for the operation of a potable water system permitted under Construction Permit No. 28475-WS, dated June 15, 2012, as described below:

PROJECT NAME: MCBEE WATER SYSTEM WELL NO.2
COUNTY: Chesterfield
PROJECT DESCRIPTION: Installation of a 200 GPM submersible pump (set at a depth of 228 feet), sodium hypochlorite feed system, 200 gallon HDLPE tank, two feed pumps and all associated appurtenances.
WATER PROVIDED BY: Mcbee Town Of
SYSTEM NUMBER: 1310004

SPECIAL CONDITIONS:

This Final Approval to Operate is being conditionally approved. The Department has concerns about the water system's capacity if only Well No.1 and Well No. 2 are the sole sources for water supply. The Town of McBee's Public Water System Operating Permit, Permit Number 1310004, contains the following language:

B. System Specific Conditions

The Town of McBee shall maintain its water system in compliance with all of the applicable requirements of the State Primary Drinking Water Regulations, 61-58. The operator of record for the treatment system and the distribution system must be of the appropriate grade.

The total developed groundwater source capacity shall equal or exceed the design maximum day demand without pumping more than sixteen (16) hours a day. With the largest producing well out of service, the capacity of the remaining well(s) pumping twenty-four (24) hours a day shall equal or exceed the design maximum daily demand, except those systems requiring only one well. The capacity from an additional source (Surface Water Plant or Master Meter) will be included in the quantity analysis. However, emergency and stand-by wells will not be included in the quantity analysis. If the Town decides to operate and maintain their water systems either by themselves, or through a different contract operator, they can not violate either the water quantity or water quality portion of the SPDWR and the SDWA. Since Alligator's contract for operation and maintenance is linked to their supply of water, this means that prior to possible independent operation (as contemplated by the preliminary engineering report dated December 6, 2010), the Town must have at least two DHEC-approved sources of sufficient quantity and quality to ensure compliance.

The Department recommends that the Town of McBee investigate this capacity issue to demonstrate that sufficient capacity exists before utilizing Well No.1 and Well No. 2 as the primary supply for water.



Catherine E. Heigel, Director

Promoting the health of the people and the environment

This approval is based on the engineer's letter of certification signed by Joseph McGougan, P.E., South Carolina Registration No. 12335.

Larry Ragsdale, Regional Engineer Associate
PEE DEE REGION BEHS FLORENCE

DATE ISSUED: January 12, 2016

cc: Bureau of Water Permitting File
Mcbee Town Of
Joseph McGougan, P.E.

Exhibit D

**BEFORE THE BOARD OF HEALTH AND ENVIRONMENTAL CONTROL
STATEMENT OF STAFF POSITION**

Requestor: A.O. Smith Corporation

In re: Town of McBee Final Approvals to Place into Operation
Well No 1 & 2 GAC Contactor Addition (Construction Permit No. 29779-WS)
McBee Water System Well No. 2 (Construction Permit No. 28475-WS)
R. 61-58, State Primary Drinking Water Regulation
Docket Nos.: 16-RFR-7 and 16-RFR-8

RECEIVED

FEB 12 2016

Clerk, Board of Health
and Environmental Control

Date: February 12, 2016

SUMMARY

The Requestor, A.O. Smith Corporation ("A.O. Smith") is a water supply customer of the Town of McBee's Public Drinking Water System ("PWS") which was permitted pursuant to the requirements contained in 4 S.C. Code Ann. Regs. 61-58 (2011) (hereinafter referred to as "R.61-58"), State Primary Drinking Water Regulations. In particular, A.O. Smith has filed two Requests for Final Review ("RFR"), Docket Nos.: 16-RFR-7 and 16-RFR-8, in which it is challenging the following Department staff actions:

- The January 12, 2016 issuance of a Final Approval To Place Into Operation to the Town of McBee for the operation of a potable water system permitted under Construction Permit No. 28475-WS ("McBee Water System Well No. 2"), which was issued on June 15, 2012; and
- The January 12, 2016 issuance of a Final Approval To Place Into Operation to the Town of McBee for the operation of a potable water system permitted under Construction Permit No. 29779-WS ("Well Nos. 1 & 2 GAC Contactor Addition"), which was issued on June 30, 2014.

In its RFRs, A.O. Smith claims that it will be harmed by an inadequate supply of potable water purportedly caused by the Department's authorization to the Town of McBee to supply water to its customers from two wells instead of supplying water purchased from a rival water system, Alligator Rural Water & Sewer Company. As will be discussed in detail below in the Section entitled Response to Grounds(s) Stated in Requests for Review, A.O. Smith's claims are time barred because it did not challenge the Department's analysis and decision making under R.61-58 when the Department respectively issued Construction Permit Nos. 28475-WS and 29779-WS to the Town of McBee.

GENERAL BACKGROUND

Public Drinking Water Systems ("PWS's") are permitted based on 4 S.C. Code Ann. Regs. 61-58 (2011) (hereinafter referred to as "R.61-58"), State Primary Drinking Water Regulations. The requirements in R.61-58.2, Groundwater Sources and Treatment, apply to all new construction

and modifications that expand an existing system. The requirements in R.61-58.7 apply to the operation and maintenance, and water system capacity determinations for existing systems.

CHRONOLOGY OF FINAL APPROVALS

December 7, 2010 – The Town of McBee submitted a Preliminary Engineering Report (“PER”) to the Department for its review. The PER set forth the Town’s plan to use its own sources of drinking water and no longer use water from the Alligator Rural Water System for operation and maintenance (“O&M”). Because the PER included financial information, a business plan wasn’t required.

June 13, 2011 - Staff approved the PER.

June 14, 2011 - Staff issued a Public Water System Operating Permit to Town of McBee. No affected party challenged the issuance of the Permit despite the fact it authorized the Town to substitute its water source.

January 10, 2012 – The Town of McBee submitted an application (28475-WS) to the Department to modify Well No. 2. The modification included installation of a new 200 horsepower (“Hp”) submersible pump to be set at a depth of 228 ft., a High-Density Linear Polyethylene (“HDLPE”) tank, sodium hypochlorite feed system, two chemical feed pumps, and associated piping and appurtenances.

November 13, 2012 – The Department issued Construction Permit 28475-WS to the Town of McBee. No affected party challenged the issuance of the Permit despite the fact that it authorized the Town to modify its water system. A copy of the Construction Permit is attached hereto as Exhibit A.

November 11 & 13, 2013 -Testing of the water from Well Nos. 1 & 2 by the Town of McBee indicated that both wells were contaminated with Ethylene Dibromide (“EDB”) and 1,2-Dibromo-3-chloropropane (“DBCP”). To make use of the water in Well Nos. 1 & 2, the Town of McBee decided to add treatment to remove contaminants.

December 20, 2013 – The Town of McBee submitted an application for the construction of two (2) granulated activated carbon (“GAC”) contactors and associated appurtenances to be connected to Well No. 1 and Well No. 2.

June 30, 2014 - The Department issued Construction Permit 29779-WS to the Town of McBee authorizing the construction of the GAC contactors. No affected party challenged the issuance of the Permit despite the fact that it authorized the Town to modify its water system. A copy of the Construction Permit is attached hereto as Exhibit B.

January 12, 2016 – After receiving the letter of certification signed by Joseph McGougan, P.E. (South Carolina Registration No. 12335), certifying that that the Town had installed the new submersible pump, sodium hypochlorite feed system, and associated piping and appurtenances in accordance with Construction Permit 28475-WS, the Department issued its Final Approval to Place into Operation to the Town.

January 12, 2016 – Also after receiving the letter of certification signed by Joseph McGougan, P.E. (South Carolina Registration No. 12335), certifying that that the Town had installed the two GAC contactors and all necessary appurtenances to Well Nos. 1 & 2 in accordance with Construction Permit 29779-WS, the Department issued its Final Approval to Place into Operation to the Town.

RELEVANT LAW

The Approvals to Place into Operation were issued pursuant to the following statutes and regulations:

- S.C. Code Ann. § 44-55-10 *et seq.* (Rev. 2002 & Supp. 2015), State Safe Drinking Water Act; and
- 4 S.C. Code Ann. Regs. 61-58 (2011), State Primary Drinking Water Regulations

RESPONSE TO GROUND(S) STATED IN REQUESTS FOR REVIEW

The Board should not grant Requestor's RFRs for two reasons. First, the claims raised by Requestor are time barred since they should have been raised years ago when the Construction Permits were issued. Second, even if the claims were not time barred, they are without merit.

With regard to the first ground, Requestor sets forth 11 bases for challenging the Final Approvals to Place into Operation for Construction Permits 28475-WS and 29779-WS. These claims allege violations of the requirements in R.61-58.2(B) or other technical issues that were reviewed and acted upon by the Department during the decision making process that culminated in the Department's issuance of Construction Permits 28475-WS and 29779-WS, in 2012 and 2014, respectively. The Construction Permits constituted Department decisions, pursuant to the appellate requirements contained in the S.C. Code Ann. § 44-1-60 (Supp. 2015), and the only way that Requestor could appeal them was to file its RFR within 15 days of the service of these documents to the Town by certified mail. S.C. Code Ann. § 44-1-60(E)(2). Since Requestor failed to file a RFR within 15 days of the mailing of the Construction Permits, Requestor is now barred from challenging the decision contained in the Permits by challenging the Department's ministerial issuance of the Final Approvals to Place into Operation. Indeed, Requestor's challenge of the Department decision to issue Final Approval for the Construction Permits is futile since the only issue decided by the Department in issuance of the Approvals is whether the work performed by the Town was done in accordance with the requirements of the previously issued Construction Permits.

With regard to the second ground, Requestor's claims in 1, 2, 3, 7, 8, and 9 are as follows:

1. The Bureau has failed to require the submittal of data necessary to make a determination that Town Well No. 1 and Well No. 2 has sufficient capacity to meet the requirements of SC Regulation 61-58.2(B).

2. The "System Specific Conditions" of the January 12, 2016 Approvals recognize the operation of the Town's public water system as "contemplated by the preliminary engineering report dated December 6, 2010" does not meet the requirements of SC regulation 61-58.2(B).
3. The January 12, 2016 Approvals include a "recommendation" which requires the Town to "investigate the capacity issue to demonstrate sufficient capacity exists before utilizing Well No. 1 and Well No. 2 as the primary supply for water." As such, the January 12, 2016 Approvals recognize that such demonstration under SC Regulation 61-58.2(B) has not been made even though the preliminary engineering report dated December 6, 2010 contemplates that the Town will operate independent of the current potable water source provided by a connection to the Alligator System.
7. Based upon available information from the Department's records it appears that Town Wells No. 1 and No. 2 do not have sufficient capacity to meet the requirements of SC Regulation 61-58.2(B).
8. The January 12, 2016 Approvals are not based on accurate peak day usage for the Town's public water system as required to demonstrate sufficient capacity to meet the requirements of SC Regulation 61-58.2(B).
9. The January 12, 2016 Approvals are based on monthly usage for the Town's customers which cannot be used to determine the "maximum day demand" for the Town's public water system as required to demonstrate sufficient capacity to meet the requirements of SC Regulation 61-58.2(B).

Response: R.61-58.2.B outlines the requirements for determining water system capacity for the design of new public water systems and modifications. The requirements for determining capacity for existing water systems is contained in R.61-58.7.D(12). The term "design maximum daily demand" used in R.61-58.2.B is not defined in the regulation, and the Department interprets it as an expected demand used to design a new water system when existing use data does not exist. In addition, although the Town of McBee sought a modification of its system, the modification was for adding additional sources and not an expansion of the system. Therefore, the modification requested by the Town did not trigger the capacity requirements set forth in R.61-58.2(B).

In its fourth claim, Requestor claims that:

The January 12, 2016 Approvals appear to allow the operation of the Town's public water system without the potable water source provided by the Alligator System.

Response: The Town of McBee is allowed to operate the water system within the conditions outlined in the Public Water Supply Permit issued on June 14, 2011 and the operational approvals to the Construction Permits issued on January 12, 2016.

In its fifth claim, Requestor claims that:

The Town has failed to demonstrate that the Town (sic) operation of Town Well Nos. 1 and 2 meet the requirements of a "viable water system" as defined in R.61-58(B).

Response: The requirement for a viable water system in R.61-58.1(B)(4) applies to new water systems. The Town of McBee is an existing system; therefore, the demonstration of viability requirement does not apply.

In its sixth claim, Requestor claims that:

Since the January 12, 2016 Approvals were issued without a prior determination by the Bureau that Well No. 1 and Well No. 2 have sufficient capacity to meet the requirements of SC Regulation 61-58.2(B), the January 12, 2016 Approvals subject A.O. Smith to potential interruptions in or inadequate service for the continued operations at the A.O. Smith Facility.

Response: The Final Approval to Operate, which authorizes the Town of McBee to make use of two additional water sources made available by the Town's completion of the construction approved by the Construction Permits, will contribute more water to the water distribution system than is currently available. The additional water sources are an improvement to the total system capacity.

In its tenth claim, Requestor claims that:

The January 12, 2016 Approvals are based on data which does not meet generally accepted practices for demand.

Response: The Department decisions were based on information provided by the Town's consultant engineer, which was provided in the PER and in the applications for the Construction Permits. When the staff reviewed the information for the PER approved in 2011, and the information submitted for the Construction permits in 2012 and 2014, staff found no indication that the information provided was incorrect.

Finally, in its eleventh claim, Requestor claims that:

The Well No. 1 and 2 GAC Contactor Addition is not sized in accordance with the stated yield of the two Town Wells.

Response: The technical review for Construction Permit 29779-WS required that the consulting engineer submit the sizing calculations for the GAC contactor as part of the construction application. As part of its review for that permit in 2014, staff determined

that the submitted calculations complied with R.61-58.2.D(9)(d). In issuing the Final Approval to Place into Operation for Construction Permit 29779-WS, staff was not required to and did not consider again whether the GAC contractor was properly sized.

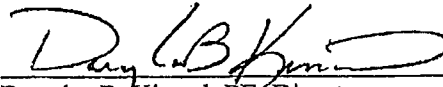
CONCLUSION

The Requestor's claims are time barred and should not be considered as a basis for challenging the Department's issuances of Final Approvals to Place into Operation for the Construction Permits. Moreover, even if the Board were to consider the Requestor's claims they are without merit as they are not supported by the law, and the facts and circumstances relevant to this matter.

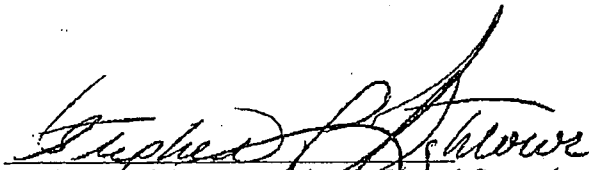
REQUESTED ACTION

The Board should deny the Requestor's request for a final review conference.

Respectfully submitted,



Douglas B. Kinard, PE, Director
Drinking Water Protection Division
Bureau of Water, SCDHEC



Stephen P. Hightower, Assistant General Counsel
SCDHEC Office of General Counsel

Exhibit E

STATE OF SOUTH CAROLINA
COUNTY OF CHESTERFIELD

Town of McBee, South Carolina

**AFFIDAVIT OF
JOHN CAMPOLONG,
MAYOR OF TOWN OF MCBEE**

Personally appeared before me the undersigned, John Campolong, who being duly sworn states as follows:

1. I am John Campolong, Mayor of the Town of McBee, South Carolina (the "Town"). I was elected Mayor in October 2008 and am currently serving my second term as Mayor.
2. I have been involved in textile manufacturing in McBee for 55 years. I came to the area from Pennsylvania when I was quality control manager and later plant manager at Saucony sportswear manufacturing plant in Cheraw, South Carolina. For a time I was also Southern region quality manager at Saucony. In 1960, I opened my own textile manufacturing facility in McBee, which I have managed since that date. Based on this experience, I understand the importance of reliable water service and fire suppression service to manufacturing facilities. I understand the importance of maintaining cooperative relationships and open communication among suppliers and customers.
3. The Town water system serves approximately 435 individual customers. A.O. Smith represents a little less than 60% of the demand on the Town's system and a similar percentage of the Town's revenues.
4. As Mayor, I have been directly involved in issues related to the Town's water supply system.

Alligator Rural Water and Sewer Company

5. In 2002, the Town signed an agreement to purchase its bulk water from Alligator Rural Water & Sewer Company, Inc. and Alligator Rural Water Company, Inc. ("Alligator").
6. At the time, Glenn Odom was both mayor of the Town and executive director of Alligator.
7. In 2005, the Town received a loan of \$4.5 million from the United States Department of Agriculture ("USDA"). Revenue from the A.O. Smith Corporation ("A.O. Smith") was a critical basis for the USDA loan to the Town.
8. The loan was used to refurbish the Town's water system. For a town which has a customer base of only 435 customers, \$4.5 million dollars was a great deal of money to borrow. Repaying that debt requires approximately 25% of our water revenues. But the result is that we now own a trouble-free system whose capital needs are largely met.
9. I had not been involved in politics before 2008. I agreed to run for mayor in 2008 specifically out of concern for how the then-current mayor, Mr. Odom, was managing the Town and Alligator. I was convinced to run by the other key business and civic leaders in the McBee area who shared my concerns about Mr. Odom and Alligator. Those leaders include John Martin, CEO of Mar-Mac Wire Company, and John McLeod, CEO of Mar-Mac Industries and President of DuPont Protective Clothing. These leaders continue to support me in the effort to ensure that Alligator is not allowed to extend its control over the Town's water system to the detriment of the Town, its citizens and businesses. I would encourage you to reach out to any or all of them to confirm what I say here. You may also want to inquire as to the general reputation of Alligator from the mayor and

City Manager of Hartsville and Cheraw, and the members of our legislative delegation.

They are well aware of these matters.

10. Alligator is a private non-profit rural water company. Alligator is not accountable to elected officials and is not regulated by the South Carolina Public Service Commission.
11. Alligator is governed by a board of directors elected by the individuals listed as members of Alligator on the voting rolls kept by Alligator. The current leadership of Alligator closely controls the election process and membership lists. Only persons who support the current leadership of Alligator have been elected or reelected to the board. Others have encountered stiff resistance.
12. Alligator has no employees. Instead, it pays a for-profit services company, Odom and Associates, for personnel and operating services.
13. My understanding is that the principal of Odom and Associates is Mr. Glenn Odom, executive director of Alligator.
14. I have attached to this affidavit as Exhibit A a report by the accounting firm of Sheheen, Hancock and Godwin, LLP of Camden, South Carolina concerning Alligator's finances.
15. Exhibit 9 to that report is a copy of the 2002 management contract between Odom and Associates and Alligator. It indicates that Odom and Associates is paid a flat rate of \$720,000 per year for operating Alligator, plus certain office expenses and overheads. In addition, Odom and Associates receives 40% of all revenues generated by water sales that exceed 600 million gallons per year, and 40% of all water revenues that are generated by rate increases that are imposed after 2002.
16. Because this compensation is paid as a flat fee, Odom and Associates is not accountable to Alligator for how these funds are spent.

17. Under this contract, Odom and Associates apparently is earning more than Alligator can currently pay. In its 2014 financial reports, Alligator lists an outstanding debt to Odom and Associates of \$1.3 million.
18. The financial data also indicate that Alligator has operated at a net loss in every year for which data is available since 2004. The total loss during that period was more than \$8 million. Alligator's 2014 loss was (\$936,142). Its unrestricted net assets (book value) was negative (\$1.7 million) and its cash balance was \$18,364. Alligator paid Odom and Associates more than \$8 million since 2004.
19. Alligator has outstanding debt to the USDA of \$23.3 million.
20. Long-term, the Town does not consider Alligator to be a viable utility either from a financial or managerial basis.
21. It is for that reason that the Town has decided to reopen its wells and place itself in a position where it no longer is dependent on Alligator.

A.O. Smith's Operational and Reliability Concerns

22. The first time that the Town learned that A.O. Smith was dissatisfied with its service from the Town was when we saw that construction crews were in the field installing a line to by-pass the Town's system and connect A.O. Smith directly with Alligator's system. We only learned of the substance of A.O. Smith's concerns when A.O. Smith agreed to have a discussion with us, albeit on a lawyer-to lawyer basis.
23. A.O. Smith has never communicated with me as mayor, or with any of our utility operations and engineering personnel, about these matters. If this were my company, I would want to know why.

24. I have reviewed Joey Oliver's and Joe McGougan's affidavits. The facts they present are consistent with my understanding of the facts in all respects. The affidavits answer directly the operational issues that A.O. Smith has now communicated to us.
25. If the information on which A.O. Smith has been acting up until now came from Alligator, I can only say that this is consistent with my understanding of Alligator's behavior in the past.
26. Concerning the discussion of fire suppression service, about four years ago, the Town worked closely with A.O. Smith and its insurers to make certain that the Town's fire suppression service was fully adequate to meet A.O. Smith's needs. We released the Town's engineer to prepare a study for A.O. Smith to provide to its insurer on this issue. To support that study, we made all of our data available to A.O. Smith. Our understanding was that A.O. Smith and its insurer were completely satisfied with this study and the service we were providing. This was our last communication with A.O. Smith related to fire protection.

Water Rates

27. In the summer of 2013, the Town received a letter from Alligator imposing a 56% wholesale water rate increase. The Town's response to this increase was discussed in three separate open sessions of council beginning on September 3, 2013.
28. On October 16, 2013, the Town conducted a public hearing on a proposed ordinance to increase the Town's rates 25% in response to this increase from Alligator. The public was informed of the hearing by a posting on the town hall marquee and a Notice of Meeting posted on the door of town hall on October 2, 2013. An agenda for the meeting was posted at town hall 24 hours prior to the meeting. A number of customers came to

the meeting to discuss their concerns. *The Link*, the local newspaper, ran a story on October 22, 2013, discussing the water rate raise. A copy of this story is attached as Exhibit B. Notice of the new water rates was printed at the bottom of November 2013 customer bills.

29. The Town also requested that Alligator provide the backup financial data necessary to support the increase as our contract provides. Our request for this information was met with silence.
30. The Town informed Alligator that it will not begin paying Alligator's new rates until Alligator provides the required financial backup. Alligator now indicates that it will provide the required financial data. We will see.
31. The 2013 rate increase was the first increase in water rates since 2008.
32. The Town has not rescinded the increase pending receipt of the financial documentation from Alligator. Having rates that yo-yo back and forth is not good utility management.
33. The Town has used the funds that it has collected from the increased rates to improve and maintain service, testing and reporting as required by DHEC, to improve the management of the water system, and to support our own meter reading when problems with the accuracy of Alligator's readings became apparent.
34. Even after the increase, the Town's water rates are reasonable. A.O. Smith pays \$2.81 per thousand for its first 20,000 gallons and \$4.50 per thousand thereafter. Alligator's published residential rate is \$6.00 per thousand. Chesterfield Rural Water Company's is \$8.00. The Town of Patrick's is \$8.00. The Town of Pageland's is \$5.20. Chesterfield and Patrick are served by Alligator.

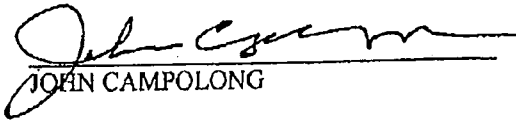
35. A.O. Smith uses a high volume of water on a very consistent basis and therefor contributes significant revenue to the Town. The Town estimates that if A.O. Smith leaves its system, the Town will be required to increase rates by a large amount.
36. The Town is in the process of restarting its wells. The incremental cost of operating these wells will be quite modest. There is no new capital borrowing associated with this project. The Town believes that it can produce water from these wells at least as cheaply as water it buys from Alligator, perhaps more cheaply. Restarting the wells should put downward pressure on rates going forward and give the Town protection from further rate increases from Alligator. The Town does not foresee any increase related to its decision to restart its wells or for any other reason it can identify at this time.

The Town and A.O. Smith

37. The Town and A.O. Smith have had a close and mutually supportive relationship for decades. Both as mayor and before that as a business owner, I personally had a close relationship with district manager, Sam Carver, and former plant manager, Carol Peters. While I am not as close with the new plant manager, Jeff Barron, I consider myself to have a good working relationship with him. I also have a good relationship with Roger Smith, member of the Smith family and Director of Community Affairs of A.O. Smith.
38. If A.O. Smith wants to increase demand from the Town, the Town would be more than happy to negotiate a favorable rate. Furthermore, the Town could install a third well for between \$250,000 and \$500,000, and the additional service to A.O. Smith could easily pay for the capital costs.

39. The Town would welcome the opportunity to put these matters behind us and to renew and strengthen that relationship. The impact to the Town and its customers, many of whom are A.O. Smith employees, will be devastating if A.O. Smith leaves our system.

FURTHER AFFIANT SAITH NOT.


JOHN CAMPOLONG

SWORN to BEFORE me the 8th day of September, 2015.

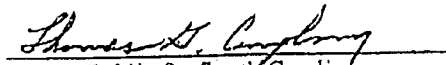

Notary Public for South Carolina
My Commission Expires: July 2nd 2022

Exhibit A

SHEHEEN, HANCOCK & GODWIN, LLP
CERTIFIED PUBLIC ACCOUNTANTS

1011 FAIR STREET

P.O. DRAWER 428

CAMDEN, SOUTH CAROLINA 29021

FOUNDED 1989

AUSTIN M. SHEHEEN, JR., CPA
TERRY M. HANCOCK, CPA
LARRY P. GODWIN, CPA
THOMAS B. MYERS, CPA
DARYL W. TAYLOR, CPA
ANTHONY E. BOYKIN, CPA
JANE M. PEACOCK, CPA
MATTHEW C. IRICK, CPA
ANTHONY N. MESSIER, CPA
J. RICHARD PARKER, CPA
R. MARC WOOD

MARC A. QUIGLEY, CPA
REBECCA M. LEE, CPA
TRACY L. FAILE, CPA
SHANE S. KIRKLEY, CPA
B. KEACH JORDAN, CPA
ADRIENNE BERG LUCAS
CHRISTOPHER H. HARRELL

MEMBERS OF
AMERICAN INSTITUTE OF CPA'S
SOUTH CAROLINA ASSOCIATION OF CPA'S

TELEPHONE

(803) 432-1424

FAX

(803) 432-1831

WEBSITE: www.shgcpa.com

August 25, 2015

Belton T. Zeigler, Esquire
Womble Carlyle Sandridge & Rice, LLP
1727 Hampton Street
Columbia, SC 29201

Dear Mr. Zeigler,

We were engaged by Womble Carlyle Sandridge & Rice, LLP to perform consulting services for its clients in relation to certain operational and financial documents involving Alligator Rural Water and Sewer Company, Inc. ("Alligator Water"). Our engagement was to assemble information and schedules in a format that is informative and understandable. We read the available audited financial statements, publically available Form 990s "Return of Organization Exempt from Income Tax", Data Collection Forms, loan agreements with the USDA, and other documents made available through Freedom of Information Act requests. This report is intended only for the information and use of Womble Carlyle Sandridge & Rice, LLP.

At the time of preparation of this report, certain financial and operation documents were not available for consideration as part of this engagement, and the management of Alligator Water was not made available for interview and inquiry. Audited financial statements were not available for the 2007 year. In addition, Form 990 tax returns were only available for 2004 through 2013. There were other documents that had been requested through the Freedom of Information Act that had not been received at the time of this report. If the management of Alligator Water and other documents were available, the considerations listed below may have changed or been presented in a different manner. This report is not intended for those who are not aware of these limitations.

Below is an executive summary and overview with a condensed version of key data. Following the Summary and Overview, we have expanded on the findings to provide additional factual information we obtained from our analysis of the documents made available to us.

SUMMARY AND OVERVIEW

The following twelve disclosures are found in Alligator Water's reports. All numbers are as of December 31, 2014 unless otherwise noted. (Information for 2007 was unavailable and not included in the multi-year totals.)

1. In each of the years 2004-2006 and 2008-2014, Alligator Water reports a net loss. That loss is between (\$421,815) and (\$1.2 million).
2. For 2014, Alligator Water reports a net loss of (\$936,142).
3. For 2014, Alligator Water lists its unrestricted net assets (book value) as negative (\$1.7 million) and its cash balance as \$18,364. Alligator Water, therefore, has no unrestricted reserves.
4. For the years 2004-2006 and 2008-2014, Alligator Water reports that it paid Odom & Associates \$7.9 million.
5. For 2014, Alligator Water reports that it had an outstanding debt to Odom & Associates of \$1.3 million. Alligator Water does not disclose the terms of this debt to Odom & Associates.
6. In its 2013 federal tax filings, Alligator Water reported it had no transactions with companies in which its key employees were direct or indirect owners.
7. In its 2013 federal tax filings, Alligator Water also reported that none of its key employees received or accrued compensation from unrelated organizations for services rendered to Alligator.
8. For the years 2004-2006 and 2008-2014, Alligator Water lists having received over \$40.2 million in USDA grants and loans.
9. For 2014, Alligator Water lists its outstanding long-term debt as \$23.3 million.
10. Alligator Water reported that its principal and interest payments on long-term debt during 2015 will be \$2.0 million, or approximately 62% of historical annual revenue.
11. For the years 2008-2013, Alligator Water did not maintain debt service reserves required by USDA.
12. Alligator Water reports funding those reserves with a loan in 2014.

The following content is an expanded summary of the information we observed presented in a manner that we believe is meaningful to Womble Carlyle Sandridge & Rice, LLP and its client as it relates to Alligator Water and related entities. We would recommend further evaluation of these considerations as more information becomes available to present more thorough and conclusive results.

GENERAL BUSINESS CONSIDERATIONS

Based upon reading the audited financial statements, the following matters were considered:

1. From 2004 through 2014, Alligator Water has received over \$40.2 million in capital grants and loan proceeds from the United States Department of Agriculture (USDA), Rural Economic Community Development (RECD). The following is a schedule of the grants and loan proceeds for the years in which they occurred:

<i>USDA - Rural Economic Development</i>			
<u>Year</u>	<u>Grant Proceeds</u>	<u>Loan Proceeds</u>	<u>Total</u>
2004	\$ 1,301,059	\$ 1,917,580	\$ 3,218,639
2005	59,262	60,000	119,262
2006	29,500	3,318,354	3,347,854
2007	<i>Information not available</i>		-
2008	1,799,441	3,750,260	5,549,701
2009	734,705	933,135	1,667,840
2010	3,412,933	4,551,000	7,963,933
2011	10,600,442	5,300,000	15,900,442
2012	2,096,973	-	2,096,973
2013	369,032	-	369,032
2014	-	-	-
	<u>\$ 20,403,347</u>	<u>\$ 19,830,329</u>	<u>\$ 40,233,676</u>

2. As of December 31, 2014, (the most recent date audited financial statements are available), Alligator Water had outstanding long-term debt totaling \$23,333,166. Based on the audit report, long-term debt was comprised of 19 loans from the USDA-RECD totaling \$21,732,125 and 3 loans with a local financial institution totaling \$1,601,041. Of these loans, the amount of principal repayment required in 2015 is \$1,184,648.
3. In addition to the long-term debt summarized in Item #2 above, Alligator Water reported a note payable outstanding to Odom & Associates, a related party, totaling \$1,347,940 at December 31, 2014. The debt repayment terms as described in the audited financial statements are unclear regarding this related party debt because the terms do not disclose an interest rate, required monthly or annual payments of principal and/or interest, and the maturity date of the debt.

General Business Considerations (continued)

4. One of the loans included in the long-term debt summarized in Item #2 above is a real estate loan with a local bank that matures annually and is renewable at the bank's discretion. That real estate loan originated in 2007 and, based upon the 2007 through 2014 audited financial statements, the Company has made no principal payments on that debt since origination. The total debt outstanding on this loan is \$753,422 at December 31, 2014, and includes a variable annual interest rate.
5. At December 31, 2014, Alligator Water reported a cash balance of \$18,364.
6. The 2014 audited financial statements report that principal and interest repayments required on existing long-term debt would be \$2,010,709 during calendar year 2015. Alligator Water reported annual gross operating revenue totaling \$3,263,742 in calendar 2014. Therefore, debt service obligations (principal and interest payments) for 2015 are calculated to be approximately 62% of the Company's total gross operating revenue.
7. As of December 31, 2014, Alligator Water reported a *negative unrestricted net assets* (equity) totaling \$1,709,035 as listed in the Statement of Net Position. This negative amount of unrestricted net position indicates that the Company does not have any unrestricted financial reserves.
8. As of December 31, 2014, Alligator Water had a net operating loss, including interest expense, of \$936,142. Excluding grant income from the USDA for capital purchases, the Company has experienced re-occurring net losses at least 10 of the last 11 years. The accumulated net losses including interest expense from 2004 through 2014 total approximately \$8 million. The following schedule summarizes the annual operating and non-operating income and losses, along with capital grant revenue, of Alligator Water for 2004 through 2014.

Year	Operating Income/(Loss) (A)	Non-Operating Income/(Expense) (B)	Net Operating & Non-Operating Income/(Loss) (A + B)	USDA Capital Grant Revenue (C)	Change in Net Assets (A + B + C)
2004	\$ (275,847)	\$ (267,696)	\$ (543,543)	\$ 1,301,059	\$ 757,516
2005	(209,927)	(211,888)	(421,815)	59,262	(362,553)
2006	(269,767)	(324,746)	(594,513)	29,500	(565,013)
2007	<i>Information not available</i>				
2008	(248,453)	(689,437)	(937,890)	1,799,441	861,551
2009	106,479	(616,181)	(509,702)	734,705	225,003
2010	(330,124)	(728,113)	(1,058,237)	3,659,470	2,601,233
2011	(309,706)	(464,415)	(774,121)	10,715,880	9,941,759
2012	(475,973)	(672,367)	(1,148,340)	2,096,973	948,633
2013	(399,582)	(829,856)	(1,229,438)	509,032	(720,406)
2014	(133,120)	(803,022)	(936,142)	-	(936,142)
Total	\$ (2,546,020)	\$ (5,607,721)	\$ (8,153,741)	\$ 20,905,322	\$ 12,523,354

General Business Considerations (continued)

9. Alligator Water's management explains in its own Management's Discussion and Analysis from the 2012 audited financial statements that "non-operating revenues are revenues received for which services are not provided to clients or community partners". Based upon reading the MD&A, Management includes USDA Grant Revenue as non-operating revenue. Management also states that they "will continue to receive a significant amount of non-operating revenue in the future". The audited financial statements report that all grant revenue from the USDA to Alligator is issued under the Catalog of Federal Domestic Assistance ("CFDA") #10.760 "Water and Waste Disposal Systems for Rural Communities". See *Exhibit 1* for the grant program information obtained from the CFDA website. Exhibit 1 indicates that USDA Grant Revenue from CFDA #10.760 is designated for capital asset purchases, and is not available to support or supplement losses from normal operations of the Company, nor can it be used to pay for interest expense on loans which were used for capital asset purchases. Alligator Water's audited financial statements for 2013 and 2014 did not include the Management's Discussion and Analysis as would normally be required.

10. For the period 2004 through 2013 (excluding payments made in 2007 due to unavailable audited information), Odom and Associates, Inc. received over \$7.9 million for services rendered to Alligator Water. *Exhibit 9* is a copy of an executed Management Agreement between Odom & Associates, Inc. and Alligator Water dated November 19, 2002. The agreement calls for certain monthly fixed and variable payments from Alligator Water to Odom & Associates as compensation for services to be provided to Alligator Water by Odom & Associates, plus the reimbursement of certain out-of-pocket expenses. The variable portion of the monthly payments is based upon the volume of gallons of water and sewer handled by Odom & Associates. The base management fee to be paid by Alligator Water is \$60,000 per month and the term of the agreement is twenty years. We have not been made aware, or provided with copies of any amendments or addendums to this original agreement in 2002, although amendments or addendums may exist that may have changed the terms of the original agreement.

The following schedule has been prepared utilizing information from the audited financial statements and Form 990 information returns filed with the Internal Revenue Service, and lists the cash payments to Odom & Associates, Inc. from Alligator Water for the period described:

<i>Payments to Odom & Associates</i>										
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
\$ 807,266	924,795	998,256	N/A	1,070,692	696,794	921,022	1,127,478	859,594	572,904	\$ 7,978,801

LOAN COMPLIANCE CONSIDERATIONS

After reading the audited financial statements, loan agreements, projected budgets and USDA letters, the following matters were considered:

1. The 2008 Loan Agreement between Alligator Water and the USDA requires Alligator Water to deposit 10% of the monthly debt payment each month into the *Debt Service Reserve* account until one annual payment is accumulated. In addition, Alligator Water is required to deposit \$777.75 monthly into a *Depreciation Reserve* account. There do not appear to be adequate Reserves reported in Alligator Water's audited financial statements until 2014. – *See Exhibit 2 for excerpts from the 2008 USDA Loan Agreement.*
2. The 2011 annual audited financial statements report a Debt Service Reserve cash account balance in the amount of \$66,384. However, there is not a Debt Service Reserve cash account shown on the 2012 annual audited financial statements. Also, Note E of the notes to the 2012 financial statements states that the Reserve Account balance is zero as of December 31, 2012. The nature of the use of the \$66,384 Reserve account between 2011 and 2012 could not be determined from the information available.
3. The USDA acknowledges in a letter dated February 16, 2012, that Alligator Water did not adequately budget the funding of the required Reserve Accounts. The letter states that as of December 31, 2012, Alligator Water should have a Reserve Account balance of \$572,133.97. The 2012 audited financial statements do not report the existence of a Reserve Account that is currently being funded and maintained for compliance with the loan agreements. – *see Exhibit 3 for the USDA letter dated February 16, 2012.*
4. The USDA also acknowledges in a letter dated February 5, 2014, that Alligator Water did not adequately fund the reserve accounts authorized by the withdrawal schedule. The letter states that as of December 31, 2012, Alligator Water's reserve balance was underfunded by \$568,433.48. The 2012 audited financial statements do not report a balance in any Reserve Account that is required to be funded and maintained for compliance with the loan agreements and it states that the Reserves were required to be \$125,937 for the Depreciation Reserve account and \$568,433 for the Debt Service Reserve account. – *see Exhibit 4*
5. Alligator Water's Independent Auditor, Timothy Cornelison, CPA, LLC, reported on the required Reserve Account loan compliance deficiency in the "Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance" dated January 5, 2014, and October 8, 2014, for the years ending December 31, 2012, and December 31, 2013, respectively.

Loan Compliance Considerations (continued)

The Auditor listed the underfunded Reserve Accounts in the "Schedule of Findings and Questioned Costs" and noted that this finding is a *Material Weakness* in internal control at Alligator whereby "There were no procedures in place to require management to maintain these funds.", referring to the required Reserve Accounts. In addition, the Auditor reports "the Company did not comply with requirement regarding CFDA #10.760 US Department of Agriculture Rural Water System" in the "Independent Auditors' 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" dated January 5, 2014.

6. A letter to Alligator Water from the USDA dated May 22, 2013, addresses the 2013 budgeting of the Reserve Accounts. The Depreciation Reserve account and the Debt Service Reserve account should have a balance of \$654,862.86, as of December 31, 2013, based upon the USDA letter. The letter also states that "It does not appear that the budget projects enough revenue to cover all operating and maintenance expenses, debt service and reserve account deposits". – *see Exhibit 5*
7. In March 2014, the Company appears to have provided some funding into the restricted cash account reserves with debt financing obtained from a local bank. The Company borrowed \$650,000 from a local bank for the purpose of providing funds into the required Reserve accounts. The 2014 audited financial statements do not specifically state the balance of the reserves allocated to each required reserve fund as mentioned above, however it reports the total balance of reserves as \$742,450 as of December 31, 2014. While the 2014 financial statements do not specifically indicate the required reserve balance, there does not appear to be a loan compliance deficiency reported by the auditor in the 2014 "Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance and Other Matters" dated June 2, 2015.

USDA GRANT PROGRAM CONSIDERATIONS

After reading the audited financial statements and grant documents, the following matters were considered:

1. The audited financial statements of Alligator Water report that all federal Grant awards received are from the USDA under CFDA #10.760 "Water and Waste Disposal Systems for Rural Communities". According to the grant program information obtained from the CFDA website, these capital grant funds are not eligible to be spent on interest expense on loans or operating or maintenance costs of the recipient organization. – *See Exhibit 1 for CFDA #10.760 Grant Program information.*
2. Alligator Water received \$10,600,442 from capital grants and \$5,300,000 from loan proceeds within the Water Fund for the year ending December 31, 2011. Alligator spent \$15,573,754 on capital assets based upon the 2011 audited financial statements. This leaves approximately \$362,638 of capital grant funds which could have been left and available to spend in 2012. As of December 31, 2011, the Company reported a cash balance in the Water Fund totaling \$362,638.
3. Alligator Water received \$2,096,973 in capital grants during the year ending December 31, 2012, and spent \$1,933,496 on capital assets during that same year according to the audited financial statements. This leaves a balance of \$163,477 of capital grant funds from 2012 which could have been available to be spent on capital asset purchases in 2013. When added with the unused portions of capital grant funds from 2011 as mentioned in Item #2 above, Alligator could have a balance of unused grant funds totaling \$526,115. As of December 31, 2012, the Company reported a negative cash balance of \$10,280 and zero restricted Reserve cash accounts.

FORM 990 TAX RETURN CONSIDERATIONS

After reading multiple years of the Company's Form 990 tax returns, amended tax returns, and audited financial statements, the following matters were considered:

1. Only 2 of the last 9 years of tax returns matches and agrees to the audit financial statements. The amounts reported as revenues, expenses and net assets per the tax returns do not agree with the corresponding audited financial statements. The following schedule has been prepared utilizing information from the audited financial statements and Form 990 information returns filed with the Internal Revenue Service, and lists the revenues, expenses and net assets for the period described:

Year	Revenues per audited financial statements	Revenues per 990 tax returns	Expenses per audited financial statements	Expenses per 990 tax returns	Net Assets per the audited financial statements	Net Assets per the 990 tax return
2004	\$ 2,749,613	\$ 2,772,219	\$ 1,992,097	\$ 2,014,701	\$ 7,126,582	\$ 7,126,585
2005	1,792,201	1,791,981	2,154,754	2,154,537	6,764,029	6,764,029
2006	1,910,483	1,909,836	2,475,496	2,455,223	6,199,016	6,218,642
2007	* N/A	4,227,506	* N/A	2,961,173	* N/A	7,465,349
2008	4,039,552	4,039,572	3,178,001	2,976,194	8,312,377	8,514,163
2009	3,048,639	3,048,639	2,823,636	2,823,636	8,537,380	8,537,380
2010	5,941,669	5,929,398	3,331,436	3,319,165	11,147,613	11,147,613
2011	13,172,846	13,151,060	3,231,087	3,404,824	21,089,372	20,917,249
2012	4,667,942	4,666,545	3,719,309	3,608,210	22,038,005	22,037,371
2013	3,484,792	3,484,792	4,205,198	4,205,198	21,289,370	21,289,370
2014	3,486,342	* N/A	4,422,464	* N/A	20,317,525	* N/A
Total	\$ 44,294,079	\$ 45,021,548	\$ 31,533,478	\$ 29,922,861	\$ 132,821,269	\$ 120,017,751

*N/A - 2007 audited financial statements were not available
- 2014 990 tax return was not available

Many of the Form 990 tax returns filed by Alligator Water include a reconciling prior period adjustment to net assets which aids in the reconciliation of the balance sheet.

2. The following presents certain facts and circumstances as they relate to Alligator Water and related entities with corresponding applicability to the filed Form 990 tax returns described in Item #3 below.

- a) Alligator Rural Water and Sewer Company, Inc. is registered with the South Carolina Secretary of State's office as a nonprofit organization in good standing. The Secretary lists Glenn C. Odom of 547 Sandy Point Lane, Hartsville, SC 29550 as the Registered Agent.

Form 990 Tax Return Considerations (continued)

- b) The 2012 and 2013 Form 990 of Alligator Water lists the organization as nonprofit, tax exempt organization under 501(c)12 of the Internal Revenue Code.
- c) The 2012 and 2013 Form 990 of Alligator Water lists Glenn Odom as the principal officer on Page 1, Item F. It also lists Glenn Odom as the General Manager of the organization responsible for signing the Form 990 on behalf of Alligator Water for filing purposes on that same Page 1 of the tax return.
- d) The 2012 and 2013 Form 990, Part IV "Governance, Management, and Disclosure", Section C, Item #20 lists Glenn Odom, P.O. Box 810, McBee, SC as the "person who possesses the books and records of the organization".
- e) The 2012 and 2013 Form 990, Part VII, "Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors" Section A, Item #1A lists Glenn Odom, General Manager, as a "Key Employee" with annual reportable compensation from Alligator Water totaling \$12,079 and \$11,249, respectively.
- f) The 2013 audited financial statements of Alligator Water include a copy of the "Corrective Action Plan" letter dated October 8, 2014, as written to the USDA and submitted by Alligator Water. The letter was addressed by Glenn Odom, Chief Executive Officer.
- g) The South Carolina Secretary of State's website (www.sos.sc.gov) lists a for-profit organization named Odom & Associates, Inc. as an entity in good standing and incorporated on January 30, 1998. The Secretary lists Glenn Odom of 378 W. Pine Avenue, McBee, SC 29101 as the Registered Agent of Odom and Associates, Inc. The registered agent was changed from Peggy J. Odom to Glenn Odom on July 8, 2014.
- h) The 2013 Form 990, Part VII "Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors" Section B. "Independent Contractors", Item #1A lists Odom and Associates, Inc. of P.O. Box 810, McBee SC 29101 as the Management Company who received compensation totaling \$572,904 in 2013. (See Page 4, Item #10 of this report for a schedule of historical payments to Odom and Associates, Inc.)

Form 990 Tax Return Considerations (continued)

- i) The 2014 audited financial statements of Alligator Water describe a contract in Note E on Page 14 whereby Alligator Water "owes the management company \$1,347,940 as of December 31, 2014, compared to \$916,743 as of December 31, 2012". The note further describes the debt as "long-term" and that "Management expects it will be three years before substantial debt payments will be made". No other mention of the relationship between Odom and Associates, Inc. and Alligator Water is referenced in the audited financial statements.
3. The Form 990 "Return of Organization Exempt from Income Tax" for the year ended December 31, 2013, (and other previous tax years) as regulated by the Internal Revenue Service, require the filing organization to respond to various questions and present certain required schedules. The following presents certain questions and answers which should be further evaluated in coordination with the information present in Item #2 above:
- a) The 2013 Form 990 Part IV, Item #26 questions whether "a loan to or by a current or former officer, director, trustee, key employee, highest compensated employee, or disqualified person" was outstanding as of December 31, 2013. The answer reported by Alligator Water was "No". If the answer had been "Yes", Alligator Water would have been required to complete and present Schedule L, Part II. No Schedule L was presented in the 2013 Form 990.
 - b) The 2013 Form 990 Part IV, Item #28 is a multi-part questions which asks "Was the organization a party to a business transaction with one of the following parties":
 - i. "A current or former officer, director, trustee or key employee?"
 - ii. "A family member of a current or former officer, director, trustee, or key employee?"
 - iii. "An entity of which a current officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner?"The 2013 Form 990 was marked "No" for each of the above questions. If the answer had been "Yes", Alligator Water would have been required to complete and present Schedule L, Part IV. No Schedule L was presented in the 2013 Form 990.
 - c) The 2013 Form 990 Part IV, Item #34 questions whether the organization was "related to any tax-exempt or taxable entity?" The answer reported by Alligator Water was "No". If the answer had been "Yes", Alligator Water would have been required to complete and present Schedule R. No Schedule R was presented in the 2013 Form 990.

Form 990 Tax Return Considerations (continued)

- d) The 2013 Form 990 Part VI, Section A, Item #2 questions whether “any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee”. The answer reported by Alligator Water was “No”.
- e) The 2013 Form 990 Part VI, Section A, Item #3 questions “Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?”. The answer reported by Alligator Water was “Yes”.
- f) The 2013 Form 990 Part VI, Section B, Item #12a questions “Did the organization have a written conflict of interest policy?”. The answer reported by Alligator Water was “No”.
- g) The 2013 Form 990, Part VII, “Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors” Section A, Item #1A lists Glenn Odom, General Manager, as a “Key Employee” with annual reportable compensation from Alligator Water totaling \$11,249. The same Part VII, Section A, Item #5 questions if “any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization?” The answer reported by Alligator Water was “No”. If the answer had been “Yes”, Alligator Water would have been required to complete and present Schedule J. No Schedule J was presented in the 2013 Form 990.
- h) The 2013 Form 990, Part V, Item #28 “Enter the number of employees reported on Form W-3, transmittal of wage and tax statements, filed for the calendar year ending” is answered with “9”. However, on the same Form 990 Part IX, “Statement of Functional Expenses”, no salary amounts are reported under Item #5, #6, or #7 for salaries expense. According to the management agreement, all salary expenses are to be incurred by Odom & Associates, Inc. – See *Exhibit 9*

FINANCIAL STATEMENT & REPORTING CONSIDERATIONS

After reading the available audited financial statements and data collection form reports, the following matters were considered:

1. The audited financial statements for the year ended December 31, 2012, was subject to the Single Audit Act (expenditures of \$500,000 or more of federal funds) and, therefore, were required to be completed nine months after year end (September 30, 2013), unless a longer period is agreed to in advance by the cognizant or oversight agency. The financial statements were not completed until January 5, 2014. The late completion of the audited financial statements has been an on-going issue for several years prior to 2012. The audited financial statements for the years ended December 31, 2013, and 2014, were not subject to the Single Audit Act and, therefore, were not subject to regulatory timing requirements.— *See Exhibit 6*
2. A Data Collection Form is required to be filed with the Federal Clearinghouse when a single audit is performed, and is also due nine months after year end unless a longer period is agreed to in advance by the cognizant or oversight agency. According to the Federal Clearinghouse website, the Data Collection Forms for Alligator Water are being filed late and there are no reports listed for either 2010 or 2011, even though Alligator Water expended over \$500,000 in federal awards in those years. If a Data Collection Form was not timely filed by Alligator Water for 2010 or 2011, then a non-compliance finding would be required to be reported in 2011 or 2012 audited financial statements according to the Single Audit Act. There were no findings reported in the audited financial statements in 2011 or 2012 related to the non-filing of Data Collection Forms. — *See Exhibit 7*
3. *Governmental Accounting Standards Board (GASB) Statement 34* outlines a number of elements *required* to be included in the Management Discussion and Analysis of a properly presented annual financial report. These required elements are presented in Exhibit 8 attached to this report. We could not locate or identify a number of the required elements within the Management Discussion and Analysis of the 2012 audited financial statements of Alligator Water. The audited financial statements for the years ended December 31, 2013 and 2014, did not include the Management Discussion and Analysis and the Auditor's Report did not appropriately address that the required supplemental information was not included. - *See Exhibit 8*
4. Under generally accepted accounting principles and governmental accounting standards, there are a multitude of financial and nonfinancial disclosure requirements which must be presented in the annual financial statements to avoid misleading the financial statement reader and misrepresenting the financial condition and operations of the reporting organization. Note disclosures are an integral part of the financial statements.

Financial Statement & Reporting Considerations (continued)

While our report could provide a detailed listing of each of the required disclosures that we believe could be absent from the financial statements, it would not be prudent to list these details without further discussion with the auditor and management of Alligator Water. Certain note disclosures are required to be presented if determined to be quantitatively or qualitatively *material* to the overall financial statements. *Materiality* is a relative concept and sometimes based upon a reasonable user of the financial statements.

5. The 2012 and 2013 audited financial statements report federal Grant Revenues received from the USDA CFDA #10.760 as "Nonoperating Revenue" on the annual Statements of Revenues, Expenditures and Changes in Fund Net Assets on page 8. ***Governmental Accounting Standards Board (GASB) Statement 34***, paragraph 100, stipulates that resources restricted to the acquisition of capital assets should be reported as "Capital Contribution Revenue" after Nonoperating Revenue and Expenses. Presenting capital grant revenue as nonoperating revenue instead of capital contributions revenue could mislead the financial statement reader to believe that the grant revenue is available for use in general operations.

This report has been prepared in accordance with the Statement on Standards for Consulting Services promulgated by the American Institute of Certified Public Accountants. The terms and use of the report are limited to the information and use of Womble Carlyle Sandridge & Rice, LLP. Our firm is not obligated to update or amend this report based upon new information made available subsequent to the date of issuance of this report.

Sincerely,

Sheheen Hancock & Godwin, L.L.P.

Sheheen Hancock & Godwin, L.L.P.
Camden, South Carolina

Exhibit 2 - 2008 Loan Agreement

Kenneth R. Sox, President
Alligator Rural Water and Sewer Co., Inc.

5

expenses including but not limited to operation and maintenance, customer deposits, and depreciation of short-lived assets.

It has been determined as part of this funding proposal that you have sufficient funds to establish reserves for the following purposes and amounts:

Operation and Maintenance	\$80,004
Existing Debt Service Reserve	\$22,783
Depreciation Short-Lived Assets	\$ 9,333

As a part of this RD loan proposal you must establish and fund monthly a debt service reserve fund equal to 10% of the monthly payment each month over the life of the loan until you accumulate one annual installment. This reserve is required to establish an emergency fund for maintenance and repairs and debt repayment should the need arise. Ten percent of the proposed loan installment would equal \$3,621 per month.

In addition, you must fund a depreciation reserve for short-lived assets by depositing a sum of \$777.75 monthly in addition to that required for the debt service reserve.

7. Users - This letter of conditions is based upon you providing evidence or a certification that there will be at least 117 bona fide users on the proposed system when construction has been completed. The RD loan and grant commitment is based on providing service to 17 large volume users.

Before RD can agree to the project being advertised for construction bids, you must provide evidence or a certification that the total required number of bona fide users are currently using the system or signed up to use the system. You must provide evidence or a certification to show those users will actually be connected to the system when the project is completed and that the monthly water usage projected for each by the engineer is reasonable. In the event any of the large volume users discontinue the offered service, you must obtain enough additional revenue (i.e., increase in user rates, sign up of an adequate number of other users, reduction in project scope to reduce debt service and O&M, etc.) to make up the projected income that would be lost by not having those users on the system.

The usage of current and proposed large volume users will be re-evaluated based on information current at that time, before we concur with advertising for bids. Also the viability of the large volume users will be analyzed before bidding.

Mandatory Hookups: A certification attesting to the number of users will be required prior to advertisement for construction bids.

Sewer User Agreements: Evidence attesting to the number of users will be required prior to advertisement for construction bids will include the enclosed

Exhibit 3



United States Department of Agriculture
Rural Development
Florence Area Office
Florence, South Carolina

February 16, 2012

Alligator Rural Water & Sewer Co., Inc.
PO Box 810
McBee, SC 29101

Dear Glenn:

The review of your proposed budget for FY 2012 has been completed. It does not appear that the budget accounted for all of the required reserve account deposits. The amount shown in the "Reserve Account" on Schedule 2 was \$67,000, which was about the same amount shown on the 2010 balance sheet. That means that the required annual deposits weren't budgeted for FY 2012. The reserve account balance, as of 12/31/12, should be \$572,133.97. Please make sure that the required deposits are being made to the reserve account.

If you have any questions, please let me know.

Sincerely,

S. Stewart Hucks

S. Stewart Hucks
Area Specialist

215 Third Loop Road • Suite 100 • Florence, SC 29505
Phone: (843) 669-9888 • Fax: (843) 665-8284 • Web: <http://www.rurdev.usda.gov/sc>

Committed to the future of rural communities.

USDA is an equal opportunity provider, employer and lender.
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326
Independence, SW, Washington, DC 20250-9410 or call (202) 720-5800
Written Building, 14th and
Office of TDD.



Exhibit 4

United States Department of Agriculture
Rural Development
Florence Area Office
Florence, South Carolina

February 5, 2014

Alligator Rural Water & Sewer Co., Inc.
Attn.: Glenn Odom
PO Box 810
McBee, SC 29101

Dear Glenn:

The review of your audit for the period ending December 31, 2012 has been completed. The audit was prepared in accordance with GAAP, and the findings are as follows:

1. There was a positive cash flow for the year for both water & sewer.
2. The audit was not received on time, but we were informed about the delay.
3. The reserve account was not adequately funded, in accordance with the authorized withdrawal schedule. The account was underfunded by \$568,433.48. ***Additional deposits must be made to the reserve account to bring it current.***
4. It was unclear whether the "Data Collection Form" was submitted. ***Please let us know if the form was submitted as required.***
5. The balances reported for deposit accounts at financial institutions was zero. ***The water company is required to maintain adequate cash flow to pay all operating & maintenance costs and debt service, in addition to funding the reserve accounts mentioned above. If current revenue is not sufficient to support operations, a rate increase could be necessary.***

If you have any questions, please call 843-669-9686, ext. 137.

Sincerely,

S. Stewart Huels

S. Stewart Huels
Area Specialist

215 Third Loop Road, Suite 100, Florence, SC 29505
Phone: (843) 669-9686 • Fax: (843) 666-8789 • Web: <http://www.rurdev.usda.gov/sc>

Committed to the future of rural communities

USDA is an equal opportunity provider, employer, and lender.
If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDR), found online at http://www.water.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, N., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email program.inake@usda.gov.

Exhibit 5

USDA

United States Department of Agriculture
Rural Development
Florence Area Office
Florence, South Carolina

May 22, 2013

Alligator Rural Water & Sewer Co., Inc.
PO Box 810
McBee, SC 29101

Dear Glenn:

The review of the FY 2013 budget has been completed. It does not appear that the budget projects enough revenue to cover all O&M expenses, debt service, and reserve account deposits. The reserve account balance as of 12/31/13 should be \$654,862.86, but it could not be determined what the projected balance would be based on the information submitted.

Please make the appropriate revisions to the budget and return a copy to me for review.

If you have any questions, please let me know.

Sincerely,

S. Stewart Hucks

S. Stewart Hucks
Area Specialist

216 Third Loop Road • Suite 100 • Florence, SC 29505
Phone: (843) 689-9080 • Fax: (843) 666-8284 • Web: <http://www.rurdev.usda.gov/sc>

Committed to the future of rural communities.

To file a complaint of discrimination, write to: USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Stop 10, Washington, DC 20250-0410; or call toll-free (888) 632-7262 (English) or (800) 877-8339 (TDD) or (888) 377-8642 (English/Federal relay). USDA is an equal opportunity provider, employer, and lender.

Exhibit 6

Circular No. A-133

Revised to show changes published in the *Federal Registers*
of June 27, 2003 and June 26, 2007
Audits of States, Local Governments, and Non-Profit Organizations

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audits of States, Local Governments, and Non-Profit Organizations

1. Purpose. This Circular is issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards.

2. Authority. Circular A-133 is issued under the authority of sections 503, 1111, and 7501 et seq. of title 31, United States Code, and Executive Orders 8248 and 11541.

3. Rescission and Supersession. This Circular rescinds Circular A-128, "Audits of State and Local Governments," issued April 12, 1985, and supersedes the prior Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Institutions," issued April 22, 1996. For effective dates, see paragraph 10.

4. Policy. Except as provided herein, the standards set forth in this Circular shall be applied by all Federal agencies. If any statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern.

Federal agencies shall apply the provisions of the sections of this Circular to non-Federal entities, whether they are recipients expending Federal awards received directly from Federal awarding agencies, or are subrecipients expending Federal awards received from a pass-through entity (a recipient or another subrecipient).

This Circular does not apply to non-U.S. based entities expending Federal awards received either directly as a recipient or indirectly as a subrecipient.

5. Definitions. The definitions of key terms used in this Circular are contained in § .105 in the Attachment to this Circular.

6. Required Action. The specific requirements and responsibilities of Federal agencies and non-Federal entities are set forth in the Attachment to this Circular. Federal agencies making awards to non-Federal entities, either directly or indirectly, shall adopt the language in the Circular in codified regulations as provided in Section 10 (below), unless different provisions are required by Federal statute or are approved by the Office of Management and Budget (OMB).

7. OMB Responsibilities. OMB will review Federal agency regulations and implementation of this Circular, and will provide interpretations of policy requirements and assistance to ensure uniform, effective and efficient implementation.

8. Information Contact. Further information concerning Circular A-133 may be obtained by contacting the Financial Standards and Reporting Branch, Office of Federal Financial Management, Office of Management and Budget, Washington, DC 20503, telephone (202) 395-3993.

the finding occurred was submitted to the Federal clearinghouse;

(ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and

(iii) A management decision was not issued.

(c) Corrective action plan. At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

§ __.320 Report submission.

(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.) Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

(b) Data Collection. (1) The auditee shall submit a data collection form which states whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The form shall be approved by OMB, available from the Federal clearinghouse designated by OMB, and include data elements similar to those presented in this paragraph. A senior level representative of the auditee (e.g., State controller, director of finance, chief executive officer, or chief financial officer) shall sign a statement to be included as part of the form certifying that: the auditee complied with the requirements of this part, the form was prepared in accordance with this part (and the instructions accompanying the form), and the information included in the form, in its entirety, are accurate and complete.

(2) The data collection form shall include the following data elements:

- (i) The type of report the auditor issued on the financial statements of the auditee (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
- (ii) Where applicable, a statement that significant deficiencies in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses.
- (iii) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee.
- (iv) Where applicable, a statement that significant deficiencies in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses.
- (v) The type of report the auditor issued on compliance for major

Exhibit 7

Results from Query of Single Audit Database

The following is a key for the status field
 P = The FAC is processing the audit.
 W = The FAC is waiting for the auditee to send additional information. (see below)
 W-1 = Missing Form.
 W-2 = Missing Components/Form Errors.
 W-3 = Missing Components.
 W-4 = Form Errors.
 W-5 = Form Errors - Audit package forwarded to Federal Agencies for follow-up.
 W-6 = Pending Cognizant Agency Assessment.
 C = The audit is complete.

Your search has produced 10 records

These results are based on the following search criteria:
 Auditee Name: ALLIGATOR.

EIN	Auditee Name	Fiscal Year End Date	Status	Street 1	Street 2	City	State	Zip Code	Initial Date Received	Form Date Received	Component Date Received	FAC Accepted Date
591173103	ALLIGATOR POINT WATER RESOURCES DISTRICT	9/30/2001	C	PO BOX 155		PANACEA	FL	32346	01/30/2002	01/30/2002		01/30/2002
570878765	ALLIGATOR RURAL WATER & SEWER CO. INC.	12/31/2001	C	PO BOX 810		MCBEE	SC	29101	10/09/2002	10/09/2002		10/09/2002
570878765	ALLIGATOR RURAL WATER & SEWER CO. INC.	12/31/2006	C	PO BOX 810		MCBEE	SC	291010810	09/27/2007	09/27/2007	09/27/2007	09/27/2007
570878765	ALLIGATOR RURAL WATER & SEWER CO. INC.	12/31/2007	C	PO BOX 810		MCBEE	SC	291010810	12/18/2008	12/18/2008	12/18/2008	12/18/2008
570878765	ALLIGATOR RURAL WATER & SEWER COMPANY INC.	12/31/1998	C	PO BOX 810		MCBEE	SC	29101	10/28/1999	10/28/1999		10/28/1999
570878765	ALLIGATOR RURAL WATER & SEWER COMPANY INC.	12/31/2002	C	P.O. BOX 810		MCBEE	SC	29101	12/03/2003	09/02/2005		09/02/2005
570878765	ALLIGATOR RURAL WATER & SEWER COMPANY INC.	12/31/2003	C	PO BOX 810		MCBEE	SC	29101	01/20/2005	05/12/2005	01/20/2005	05/12/2005
431757115	ALLIGATOR RURAL WATER AND	12/31/2012	C	378 W PINE AVENUE		MCBEE	SC	29063	03/19/2014	03/11/2014		03/11/2014

	SEWER COMPANY											
570878765	ALLIGATOR RURAL WATER AND SEWER COMPANY INC.	12/31/2004	C	PO BOX 810		MCBEE	SC	29101	02/15/2006	02/15/2006	02/15/2006	02/15/2006
570878765	ALLIGATOR RURAL WATER AND SEWER COMPANY INC.	12/31/2009	C	378 WEST PINE AVENUE		MCBEE	SC	291019229	01/25/2012	01/25/2012		01/25/2012

[Return to Status Entity Search](#)

Exhibit 8

Management's Discussion and Analysis (MD&A) 8. The basic financial statements should be preceded by MD&A, which is required supplementary information (RSI). MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The financial managers of governments are knowledgeable about the transactions, events, and conditions that are reflected in the government's financial report and of the fiscal policies that govern its operations. MD&A provides financial managers with the opportunity to present both a short- and a long-term analysis of the government's activities. 9. MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information. 10. MD&A should focus on the primary government. Comments in MD&A should distinguish between information pertaining to the primary government and that of its component units. Determining whether to discuss matters related to a component unit is a matter of professional judgment and should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government. When appropriate, the reporting entity's MD&A should refer readers to the component unit's separately issued financial statements. 11. MD&A requirements established by this Statement are general rather than specific to encourage financial managers to effectively report only the most relevant information and avoid "boilerplate" discussion. At a minimum, MD&A should include:

- a. A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.
- b. Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. At a minimum, governments should present the information needed to support their analysis of financial position and results of operations required in c, below, including these elements:
 - (1) Total assets, distinguishing between capital and other assets
 - (2) Total liabilities, distinguishing between long-term liabilities and other liabilities
 - (3) Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts
 - (4) Program revenues, by major source
 - (5) General revenues, by major source
 - (6) Total revenues
 - (7) Program expenses, at a minimum by function
 - (8) Total expenses
 - (9) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers
 - (10) Contributions
 - (11) Special and extraordinary items
 - (12) Transfers
 - (13) Change in net assets
 - (14) Ending net assets
- c. An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affected operating results for the year should be discussed.
- d. An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in

fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use. e. An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity. f. A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services. g. A discussion by governments that use the modified approach (paragraphs 23–25) to report some or all of their infrastructure assets including: (1) Significant changes in the assessed condition of eligible infrastructure assets from previous condition assessments (2) How the current assessed condition compares with the condition level the government has established (3) Any significant differences from the estimated annual amount to maintain/preserve eligible infrastructure assets compared with the actual amounts spent during the current period. h. A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).

Document Header:

Checkpoint Contents

Accounting, Audit & Corporate Finance Library

Standards and Regulations

GASB

Original Pronouncements

Statements of the Governmental Accounting Standards Board (GASBS)

GASBS 34 — Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

© 2015 Thomson Reuters/Tax & Accounting. All Rights Reserved.

Exhibit 9

MANAGEMENT AGREEMENT

BETWEEN

ODOM & ASSOCIATES, INC.

AND

ALLIGATOR RURAL WATER AND SEWER COMPANY, INC.

★ ★ ★ ★ ★

1-5-66

STATE OF SOUTH CAROLINA)
)
COUNTY OF CHESTERFIELD) MANAGEMENT AGREEMENT

AGREEMENT made and entered into this 19th day of November, 2002, by and between *Odom & Associates, Inc.*, a South Carolina corporation ("Odom & Associates"), and *Alligator Rural Water and Sewer Company, Inc.*, a South Carolina corporation (the "Water Company").

PREAMBLES :

Whereas, the Water Company owns facilities which furnish water and sewer service to the general public in certain counties in the Pee Dee area of South Carolina; and

Whereas, Odom & Associates have experience and expertise in the management and operation of facilities which provide water and sewer service to the general public; and

Whereas, the Water Company desires to avail itself of the services of Odom & Associates to manage and operate its water production and sewer facilities and Odom & Associates desires to provide such services to the Water Company; and

Whereas, both parties desire to reduce their agreement to writing;

Now, Therefore, in consideration of the premises and the consideration arising out of the mutual promises hereinafter set forth, the parties hereto agree as follows:

During the period of this agreement or any extension thereof, Odom & Associates shall perform the following services for and in behalf of the Water Company:

I - GENERAL MANAGEMENT

1. Compile the annual budget for the Board of Directors of the Water Company and Rural Development;

2. Plan and develop for future expansion and meet with Rural Development, engineers and other agencies to implement expansion plans;
3. Complete loan and grant applications from Rural Development, EDA or state resources;
4. Meet with local and state officials to promote development in the Water Company's service area;
5. Verify work completion and approve pay requests from contractors;
6. Act as legal agent in Magistrate's Court to prosecute fraudulent checks and meter tampering violations; and
7. Arrange for the annual budget retreat for the Board of Directors of the Water Company, including arranging for speakers and planning for meals and accommodations.

II - OFFICE MANAGEMENT

1. Provide a general manager, office manager, administrative assistant along with a properly equipped office necessary to carry out its functions under this agreement;
2. Service, bill and collect accounts for retail and wholesale water and sewer customers;
3. Maintain appropriate bank accounts for collections of water and sewer customers and for construction projects; reconcile bank accounts monthly; and provide financial information to the Water Company's Board of Directors and its accountant;
4. Assist the accounting firm for the Water Company, by providing financial data and all available information relevant to the preparation of the Water Company's tax return; and
5. Complete the necessary reports required by Rural Development for construction loans and assist the attorneys and engineers involved with the loans and construction projects.

III - OPERATION AND MAINTENANCE

1. Employ six (6) water treatment plant operators, two (2) certified backflow testers and one (1) certified distribution operator;
2. Monitor and test water quality daily at nine (9) wells and nine (9) sewer pump stations;
3. Employ a trained operator for the SCADA system to monitor the wells;
4. Provide operators and maintenance personnel on call at all times for water and sewer emergency calls;
5. Service over 1700 residential water customers to include reading meters monthly, repairing minor leaks at tap sites and installing taps for new customers;
6. Repair water lines or coordinate with outside contractors if line work is too large (total estimated cost of repair in excess of \$1000.00) for in-house repairs; and
7. Cut grass and maintain all well, sewer and tank sites.

IV - COMPLIANCE WITH DHEC REGULATIONS

1. Perform monthly field bacteria tests and deliver to DHEC for analysis;
2. Perform annual lead and copper tests;
3. Maintain and perform annual tests on all valves and commercial backflow devices;
4. Meet with DHEC officials for annual inspection; and
5. Prepare an annual consumer confidence report and publish it to the public.

During the period of this agreement or any extension thereof, Odom & Associates and the Water Company agree upon the following additional terms of this agreement:

V - COMPENSATION

For all services hereunder Odom & Associates shall be paid the base sum of Sixty

Thousand Dollars (\$60,000.00) per month. This sum shall cover all costs incurred by Odom & Associates to operate the water and sewer facilities of the Water Company, except for the cost of major repairs. The level of compensation paid hereunder shall be adjusted based upon the volume of water and sewer handled by Odom & Associates above 600 million gallons per year in water sales and 40 million gallons per year of sewage. The base management fee will be increased by forty percent (40%) of sales revenue on water sales in excess of 600 million gallons per year. The base management fee will also be increased by twenty-five percent (25%) of revenues for transporting sewage in excess of forty (40) million gallons per year. The base management fee will also be increased by forty percent (40%) and twenty-five percent (25%), respectively, for increased sales revenues for the base amount of water and sewer which is generated by cost increases imposed by the Water Company on its customers.

The Water Company shall pay the expenses of any continuing education courses or seminars which the employees of Odom & Associates are required to attend by the Water Company's Board of Directors, plus travel reimbursement at the standard mileage rate allowable under U.S. Treasury Regulations for car expenses incurred in carrying on a trade or business and a per diem allowance for meals of twenty dollars (\$20.00) per day.

The Water Company shall pay for all telephone expense incurred by Odom & Associates which is directly related to Water Company business. All other office overhead expenses, including, but not limited to postage, stationery or account statements shall be paid for by Odom & Associates.

The Water Company shall pay all fidelity bond premiums for Odom & Associates employees in conformity with requirements of Rural Development.

VI - LENGTH OF AGREEMENT; AGREEMENT ASSIGNABLE

The term of this agreement shall be for a period of twenty (20) years from its

effective date. In the event of any breach of a covenant hereunder, this agreement may be terminated in writing at the option of the non-defaulting party. The duties of either party hereunder shall be assignable upon the approval of the Board of Directors of the other party, which approval shall not be unreasonably withheld.

VII - REMEDIES UPON DEFAULT

Upon an actual or threatened breach of any provision of this agreement, the injured party may not have an adequate remedy at law and may pursue injunction or specific performance or any other remedy at equity or at law.

VIII - GOVERNING LAW; AGREEMENT BINDING UPON SUCCESSORS AND ASSIGNS

This agreement shall be governed by and construed under the laws of the state of South Carolina and shall be binding upon and inure to the benefit of the parties hereto, their successors and permitted assigns.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be subscribed by their duly authorized officers on the date first above written.

Witnesses:

Cornelia L. Carr
Kenneth R. Self

Cornelia L. Carr
Kenneth R. Self

Parties:

Odom & Associates, Inc.

By: Shawn C. Odom

Its: President

Alligator Rural Water and Sewer
Company, Inc.

By: Harvey L. Griggs

Its: President

Exhibit B

Display

INSIDE: Photos from S.C. Jazz Festival, General Sessions reports

THE LINK

Connecting Chesterfield County, One Week At A Time

www.thelinkpaper.com

October 22, 2013

75 cents

Two charged in shooting at Cheraw bank

Authorities uncertain of motive; alleged victim uncooperative

LAUGHTON BELL
Editor - The Link

Cheraw police are investigating a shooting that occurred in the parking lot of

Carolina Bank on Highway 9 in Cheraw around 4:45 p.m. last Tuesday.

Two suspects were apprehended shortly after the incident following a brief vehicle chase on Midway Road a few miles outside town limits. Twenty-five-year-old Marquis "Lone" Williams of 827 Wilkes St.



Williams Pegues

in Cheraw is charged with attempted murder for al-

legedly firing the shot from the gun. Forty-one-year-old James Angela Pegues of 810 Marshall St. in Cheraw, who was traveling along with Williams, is charged with accessory after the fact.

Detective John James of the Cheraw Police Department said the alleged target

of the shooting is being uncooperative with authorities; therefore, the motive is still unknown. James said the shooting could be drug or gang related and is likely connected to a separate shooting that occurred at a residence on Huger Street about a week prior to the incident at Carolina Bank.

Anyone with any information about either shooting is asked to contact the Cheraw Police Department at (843) 337-7604.

As of press time, Williams and Pegues have been released from jail on bond, which was set at \$20,000 for Williams and \$10,000 for Pegues.



Frank Lee Mikeska

Mikeska sentenced to 10 years for bank robbery

DIANNE DRIGGERS
Staff Reporter

A North Carolina man accused of robbing First Citizens Bank in downtown Cheraw on Aug. 1 pled guilty in General Sessions court last week and was sentenced to 10 years in prison.

Fifty-two-year-old Frank Lee Mikeska of Phenixville, N.C., expressed remorse in the courtroom prior to entering his guilty plea and accepting the sentence handed down by Circuit Court Judge Paul Burch.

See BANK ROBBERY, 10A



Schools celebrate reading during Teen Reading Week

Schools throughout the Chesterfield County School District celebrated reading last week with various events. Pictured above, Long Middle School hosted its annual "Read Men Read" event with guest readers pictured above. Pictured right, Chesterfield-Ruby Middle School principal Andrea Hampton reads with students during the school's first "Reading For Fun" event last Wednesday.



Man charged with criminal sexual conduct to be deported

DIANNE DRIGGERS
Staff Reporter

A 23-year-old man living illegally in the United States, who was charged with criminal sexual conduct in Pageland, was given a suspended sentence for time served, totaling 112 days, and will now be deported to Mexico.

According to a Chesterfield County Sheriff's Department report, German Ombrian of 279 Elm Drive Road, grouped his niece as they were alone in his home the afternoon of May 25, prior to offering her \$100 for sex. The victim was repeatedly trying to use the telephone when the assault occurred, and after declining his advances, she told him she would not tell anyone.

See DEPORTATION, 3A

Multiple break-ins reportedly arrested up with arrest of Wallace family

LAUGHTON BELL
Editor - The Link

Cheraw police reportedly solved three local church break-ins, as well as several Mulberry County break-ins, with the arrest of a 36-year-old woman from Wallace last week.

FreeWill, located on S.C. Highway 9 in Cheraw, was broken into three times last month, according to Detective Brian Campbell of the Cheraw Police Department. After the second break-in, the

See BREAK-INS, 2A

McBee council receives feedback, raises water rates

ROBERT MONNIE
Staff Reporter

After a short but spirited public hearing where McBee Town Council members explained their reasoning for a water rate increase, council unanimously passed the ordinance on its second reading at a special meeting last week.

The last water rate increase for McBee, which buys its water from Alligator Rural Water and Sewer Company, occurred in July 2011 when council approved an ordinance that was passed in August 2006 that raised the rates. Signed off by the previous mayor administration, the ordinance was unanimously passed by the 2006 council and was supposed to go into effect immediately. However, the ordinance was inadvertently unfiled.

Last week's increase, which is effective next



Nearly 50 local residents attended a public hearing and special meeting last week held by McBee Town Council regarding a water rate increase that passed unanimously.

month, is about 25 percent across the board in the three billing categories. For example, an in-town household with a monthly usage of 2,000 gallons was billed at \$12.75. That usage will now be billed at about \$11. The other billing categories are out-of-town residential and all commercial.

Three McBee residents

spoke out against the rate increase during last Wednesday's public hearing. While two of the speakers focused their concerns on what burden may be placed on senior citizens by the increase, the first speaker, Robert Blackwell, president of the board of directors for ARWS, questioned the validity of council's research justifying

the increase. Blackwell cited the water billing history of ARWS, which also sells water to most of the water system and central sectors of the county, including Chesterfield County Rural Water Company.

According to Blackwell, ARWS has implemented four billing increases since

July 2003 when the price was set at \$1.25 per 1,000 gallons of water; the price ARWS has been paying the non-profit private utility for at least five years. Four ARWS rate hikes since 2003 has boosted the rate to \$1.92 per 1,000 gallons effective June of this year.

"I want to know where council gets the amount of a 54 percent increase in the price of its water," said Blackwell of the figure cited in the ordinance.

Blackwell also cited a letter he wrote to the town dated Aug. 12, 2013, requesting, under the Freedom of Information Act, three years of all council minutes in addition to all documents pertaining to the McBee water system, including purchase orders, invoices, canceled checks, bids, contracts and legal services rendered. A deposit of \$100 was en-

See McBEE WATER, 12A

Fill in the blank.

Subscribe by calling (843) 337-7607, and you name and address will be on file in a ready-to-go folder.



Pageland Chamber hosting candidate forum tonight at 6:30 p.m.

Region Reports

Recognizing the need for a public forum for citizens of Pageland to meet the candidates in the upcoming municipal election, the Pageland Chamber of Commerce announced it

will host a candidate forum open to all candidates in contested races for mayor and town council of the town of Pageland. The Chamber of Commerce is a 501(c)(3) not-for-profit organization and has produced this event in prior

election cycles. "Local elections have important ramifications for a municipality's citizens as well as the business community," said chamber president Adam M. Frank. "The voting public needs to be as informed as

possible on the candidates' positions regarding the issues facing the community. Through this forum, we hope to assist the citizens and business owners of Pageland in making an informed decision." See FORUM, 7A

Volume 7, Issue 37

Index
Auction, 12 pages
Bookings, 2A
Local Link, 2A
Obituaries, 2A
Criminal, 2A
Sports, 2A
Gardens, 2A

Exhibit F

SEP 09 2016

STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT

SC ADMIN. LAW COURT

A.O. Smith Corporation,

Docket No.: 16-ALJ-07-0082-CC

Petitioner,

vs.

South Carolina Department of Health and
Environmental Control and Town of McBee,

Respondents.

**ORDER GRANTING
RESPONDENT'S
MOTION TO DISMISS****Appearances:**W. Thomas Lavender, Jr., Esquire and
Joan W. Hartley, Esquire for PetitionerBelton T. Zeigler, Esquire and
Kathryn Mansfield, Esquire for McBee

Stephen P. Hightower, Esquire for DHEC

STATEMENT OF THE CASE

This matter is before the South Carolina Administrative Law Court ("the ALC" or "the Court") pursuant to the Request for Contested Case Hearing filed March 15, 2016 by A.O. Smith Corporation ("Petitioner" or "A.O. Smith"). Petitioner challenges the decision of the South Carolina Department of Health and Environment Control ("the Department" or "DHEC") to allow the Town of McBee ("Town" or "McBee") to operate two wells to supply water to its customers.

On March 17, 2016, McBee filed a Motion to Dismiss the contested case.¹ Petitioner filed a response on April 5, 2016, to which McBee replied on April 16, 2016. A hearing to hear arguments on the motion was held April 28, 2016 at the ALC in Columbia, South Carolina. After arguments and reviewing exhibits presented by the parties, I conclude that Respondent McBee's Motion to Dismiss should be granted.

¹ McBee also filed a Motion for Relief from Stay, which has been rendered moot by the Court's decision to grant the motion to dismiss, and thus will not be addressed.

BACKGROUND

McBee has a public water system that provides water to residents of the Town and to the manufacturing facility of A.O. Smith, located outside of Town limits. Several years ago McBee ceased operating the two wells used to supply the Town's water system and instead started purchasing water from a wholesaler, Alligator Rural Water and Sewer Company ("Alligator"). Approximately six years ago, the Town decided it was no longer satisfied purchasing water exclusively from Alligator and took steps to reopen its wells, and sought permits from the Department to begin operating the wells again. A Public Water System Operating Permit was issued to McBee by the Department on June 14, 2011. In November 2012, the Department issued McBee a construction permit, number 28475-WS, to modify one of the wells by adding, among other things, a new pump. By letter dated October 10, 2013, McBee notified A.O. Smith that the Town was working with the Department to place the two wells back into service and encouraged A. O. Smith to ask questions and voice concerns. Subsequently, in June 2014, the Department issued a second construction permit, number 29779-WS, to allow McBee to install a filtration system for the two wells. The November 2012 and June 2014 construction permits were issued without comments from A.O. Smith. During a meeting between attorneys for McBee and A. O. Smith on September 3, 2015, A. O. Smith expressed concerns about McBee's plans to operate its own water system.

In January 2016, McBee's engineer certified that the permitted construction was completed and the wells were ready to be placed into operation. On January 12, 2016, the Department issued two "Final Approval to Place into Operation" documents for the wells—one for each construction permit. Under the title "**SPECIAL CONDITIONS**" each document stated "[t]his Final Approval to Operate is being conditionally approved. The Department has concerns about the water system's capacity if only Well No. 1 and Well No. 2 are the sole sources for water supply." The final approvals also recited verbatim the system specific conditions included in the Public Water System Operating Permit issued by the Department in June 2011. Each approval additionally stated "[t]he Department recommends that the Town of McBee investigate this capacity issue to demonstrate that sufficient capacity exists before utilizing Well No. 1 and Well No. 2 as the primary supply for water."

A.O. Smith challenged the final approvals and requested final review by the South Carolina Board of Health and Environmental Control (“the Board”). On February 12, 2016, the Department issued a Statement of Staff Position opposing Petitioner’s request for review. The Department’s Statement of Staff Position included a narrative of the Department’s actions relative to McBee’s water system, and requested the Board deny the request for review because the request was not filed timely. In the Statement, the Department stated in part, “[i]ndeed, Requestor’s challenge...is futile since the only issue decided by the Department in issuance of the Approvals is whether the work performed by [McBee] was done in accordance with the requirements of the previously issued Construction Permits.” On February 17, 2016, the Petitioner was notified that the Board declined the request for final review. A.O. Smith subsequently filed for a contested case hearing with this Court.

ISSUE

Whether the Final Approvals issued by the Department is a staff decision subject to appeal under section 44-1-60.

DISCUSSION

This Court has jurisdiction to hear this case pursuant to sections 1-23-310 et al. of the South Carolina Code (Supp. 2015) and section 44-1-60 of the South Carolina Code (Supp. 2015) (providing “[a]n applicant, permittee, licensee, or affected person may file a request with the Administrative Law Court for a contested case hearing” following a final decision by the Department).

Respondent McBee ask this Court to dismiss Petitioner’s Request for Contested Case Hearing filed on March 15, 2016 because Petitioner failed to file the request timely. Specifically, Respondent McBee contends the Petitioner did not follow the procedures outlined in section 44-1-60 of the South Carolina Code, and therefore is not entitled to a contested hearing before the ALC. Petitioner argues that McBee’s motion to dismiss should be denied because a timely request for final review of the Department staff’s initial decision was submitted to the Board. There is, however, disagreement among the parties as to what action by the Department constituted the staff’s “initial decision.” McBee asserts that the 2012 construction permit to modify well #2 and the 2014 construction permit for the installation of granulated activated charcoal filters to well #1 and well #2 constituted initial decisions. Because Petitioner did not challenge the 2012 and 2014

construction permits, McBee, and the Department, contend Petitioner cannot now challenge the approvals to operate the wells since they are not the Department staff's initial decisions.

Section 44-1-60(C) provides:

The initial decision involving the issuance, denial, renewal, suspension, or revocation of permits, licenses, or other action of the department shall be a staff decision.

S.C. Code Ann. § 44-1-60(C) (Supp. 2015).

The staff decision becomes the "final agency decision" fifteen calendar days after it has been mailed to the permit applicant and other affected persons who have requested in writing to be notified, unless a written request for final review is filed with the department. Id. at § 44-1-60(E)(1)–(2). No later than sixty calendar days after the request for final review is filed, the board is required to conduct a final review conference, and if the board declines to conduct a final review conference or fails to do so within sixty days of the request, the staff decision becomes the agency final decision. Id. at § 44-1-60(F). The applicant or other affected person may file a request for a contested case hearing with the ALC within thirty calendar days after: "(1) notice is mailed to the applicant, permittee, licensee, and affected persons that the board declined to hold a final review conference; or (2) the sixty calendar day deadline to hold the final review conference lapses and no conference has been held; or (3) the final agency decision resulting from the final review conference is received by the parties." Id. at § 44-1-60(G).

The exclusive process established by section 44-1-60 is the statutory equivalent of the judicial doctrine of exhaustion of administrative remedies. See Ward v. State, 343 S.C. 14, 18–19, 538 S.E.2d 245, 247 (2000) (citations omitted) ("The general rule is that while there are several exceptions that may be applied to the judicially-imposed exhaustion requirement, those that apply to a statutory requirement are few."). As statutorily provided, a party may only request a contested case hearing at the ALC if they have first availed themselves of the administrative remedies of requesting a final review of the initial agency decision in a timely manner. Failure to file the request for final review and participate in the Department's review process in a timely manner forecloses a contested case action at the ALC. Id. § 44-1-60.

In this matter, I find the Department staff's initial decisions were the 2012 and 2014 construction permits which were not challenged by the Petitioner. Petitioner didn't submit comments voicing concerns about the permits nor did Petitioner file requests for final review,

therefore the staff decisions were final fifteen days after they were mailed. Petitioner notes the Department was not obligated by the regulations to issue any public notice for the construction permits at issue, implying that because of this, the Petitioner's failure to comment on the construction permits should not preclude its challenge of the final approvals. While the court recognizes that public notice was not required for the permits, the Petitioner had notice and the opportunity to make comments or request notification as an affected person pursuant to section 44-1-60(E) and to challenge those decisions to the Board.² To allow Petitioner's untimely challenge would not only conflict with the plain language of the statute, but would also defeat the public policy purpose of finality through resolution of conflicts regarding construction projects while in the initial stages, and not after substantial investments and construction has already taken place.³

Petitioner also contends that, even if the final approvals are not generally subject to appeal under the statute, the special conditions included in the approvals are new, initial staff decisions that it can appeal. This Court does not agree with Petitioner's contention. The special conditions simply reiterate the requirements of the State Primary Drinking Water regulations, and the vast majority of the special conditions in the final approvals are the same special conditions included in the Public Water System Operating Permit issued in June of 2011. Both final approvals include the additional concern and recommendation for McBee to further investigate the water capacity before utilizing Well No. 1 and Well No. 2 as the primary supply for water. And, while the public water system operated by the Town has an obligation to comply with capacity requirements under the law, that matter is not before the Court at this time.⁴

² Petitioner had actual knowledge of McBee's plans to operate its own water supply system, at the latest, on October 10, 2013 when McBee sent a letter to Petitioner, detailing its plans and encouraging comments or questions.

³ Respondents aptly analogized this issue to the construction of a house. You begin by designing the house and getting a construction permit. Once all expenditures are made and construction is complete, you then get a certificate of occupancy. Petitioners are bringing this case at the time of the certificate of occupancy. To allow such a case would jeopardize the administrative process, create great uncertainty, and allow endless contested cases at each stage of a project.

⁴ Petitioner argues that the Department has a duty to provide it with "adequate assurances" that enough water will continue to be provided to its facility during the resolution of contract disputes between itself, the town, and Alligator. Adequate assurance is a contract term that has nothing to do with the actions of the Department in this case. See Black's Law Dictionary, "assurance," "adequate assurance" (10th ed. 2014). Interestingly, Petitioner itself stated at

McBee also contends that Petitioner has an ulterior motive for filing this contested case that is unrelated to the construction permits or the related final approvals. Specifically, it appears the Town has indicated that at some point in the future it intends to operate the water system independent of Alligator; and in response, Alligator allegedly threatened to cut off its water to the Town and to A.O. Smith if the town continues down that path.⁵ The dispute between the Town and Alligator has caused civil litigation to be filed in the circuit court, and Petitioner finds itself in the unenviable position of being caught in the middle. However, the contract disputes and other matters involved in the civil litigation have no bearing on this case and are properly decided by the circuit court. The ALC is designed to provide review of agency actions and decisions, so that citizens of this state will not be bound by state administrative action without due process. See Engaging & Guarding Laurens County's Env't (EAGLE) v. S.C. Dep't of Health & Envtl. Control, 407 S.C. 334, 344, 755 S.E.2d 444, 449 (2014) (citations omitted).

The South Carolina Supreme Court held that dismissal of a case is proper where there is a requirement to first exhaust administrative remedies as a matter of law. See. Unisys Corp. v. S.C. Budget & Control Bd., 346 S.C. 158, 176, 551 S.E.2d 263, 273 (2001) (stating that exhaustion of remedies precludes original resort to courts where an administrative agency is granted exclusive jurisdiction by the express terms of a statute); See also. MRI at Belfair, Inc. v. S.C. Dep't of Health & Envtl. Control, 07-ALJ-07-0298-CC (July 25, 2007) ("I find a clear legislative intent that a party may seek contested case review before the ALC only after a party first seeks review by the Board.") (Anderson, J.) (emphasis added); S.C. Coastal Conservation League v. S.C. Dep't of Health & Envtl. Control, 07-ALJ-07-107-CC (Sept. 4, 2007) ("....the timely filing of a request for final review with the [DHEC] Board is a jurisdictional prerequisite to challenging a DHEC decision.") (Geathers, J.).

Petitioner had sufficient process proscribed by the General Assembly in section 44-1-60 by which it could challenge the Department's issuance of the construction permits. Because

the motion hearing that it in no way seeks review of the construction actually covered by the permits, but rather the capacity of the wells.

⁵ During the hearing, there was some dispute about the Town's intention, however, it is apparent from statements made to this Court and contained in the exhibits that this is or has been McBee's plan.

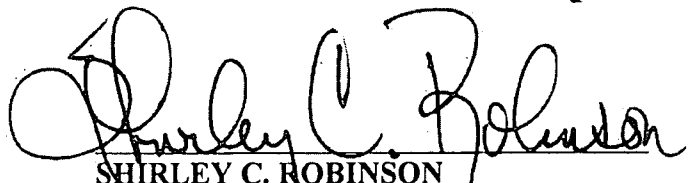
Petitioner failed to timely pursue these administrative remedies, this Court lacks the statutory authority to conduct a contested hearing predicated upon Petitioner's filing. Therefore, the Court concludes that this matter must be dismissed.

ORDER

Based on the foregoing, **IT IS HEREBY ORDERED** that the Respondent's Motion to Dismiss is **GRANTED**.

IT IS FURTHER ORDERED that this matter is **DISMISSED**.

AND IT IS SO ORDERED.


SHIRLEY C. ROBINSON
Administrative Law Judge

September 9, 2016
Columbia, South Carolina

CERTIFICATE OF SERVICE
This is to certify that the undersigned has this date
delivered this order in the above entitled action upon all
parties to this cause by depositing a copy thereof
in the United States mail postage paid by the Interagency
Mail Service addressed to the party(ies) or their attorney(s)
This 9 day of September 2016
By: Jacobi Henderson
JUDGE

Exhibit G

STATE OF SOUTH CAROLINA	)	
COUNTY OF CHESTERFIELD	)	AFFIDAVIT OF
	)	JOEY OLIVER
Town of McBee, South Carolina	)	OWNER AND PRINCIPAL,
	)	OLIVER ENVIRONMENTAL SERVICES

Personally appeared before me the undersigned, Joey Oliver, who being duly sworn deposes and states as follows:

1. I am Joey Oliver, Owner and Principal of Oliver Environmental Services, of Ruby, South Carolina.
2. I provide consulting, operating and maintenance services to the Town of McBee's (the "Town") water system. We use outside contractors for larger jobs.
3. I have had this role with the Town for five years and have been DHEC operator of the system since 2012.
4. I currently hold five Class A water and wastewater certifications from the South Carolina Department of Health and Environmental Services (DHEC). I operate water systems on a contractual basis for multiple towns and industrial facilities in the Pee Dee region of South Carolina. I have been in the water and wastewater business for 34 years and am former lead operator of the water and wastewater systems for the DuPont May Plant in Camden, South Carolina.
5. I have firsthand knowledge of the matters discussed in this affidavit.
6. The purpose of my affidavit is to respond to the concerns raised by the Town's largest and most valued customer, A.O. Smith. The first I learned of these concerns was after a meeting between the Town's attorneys and those representing A.O. Smith, which took place on September 3, 2015. These concerns have never been communicated to me or

other members of the team that operates that Town's system before now. This is the first opportunity I have had to respond to them.

7. At the September 3rd meeting, A.O. Smith told our lawyers that they believe that the Town's system has suffered multiple instances of insufficient pressure due to leaks on the system or other operational issues that are the result of the Town failing to maintain its system or operate its reliably. This is not true.
8. The Town has an exceptionally strong distribution system. I understand that in 2002, the Town spent more than \$10,000 per customer to make upgrades to distribution lines and water main lines. It did so using a \$4.5 million grant/loan package from USDA. DHEC officials have told me on more than one occasion that McBee has one of the best small town water systems in the state. As operator of the system, I have found it to be a highly reliable and efficient system.
9. There have only been two water main breaks on the system during the three years I have overseen it. One break occurred in 2015 when a car hit a hydrant. That break was restored without incident. The other was a break that occurred on June 18, 2015 on the Third Avenue 4" line. Apparently, this break was a major point of discussion in the September 3, 2015 meeting, and A.O. Smith has been led to believe that this break caused serious problems on the system and that the Town mishandled the repairs. That is completely untrue.

The Third Avenue Line Break

10. On Thursday, June 18, 2015, I responded to a report of a line break on Third Avenue. The break occurred in a sparsely populated area at the end of our system.

11. When I arrived on site at approximately 5:00 pm, Mr. Glenn Odom, executive director of Alligator Rural Water and Sewer Company ("Alligator") was present taking pictures of the leak site.
12. The break was in a relatively new 4" plastic pipe. We excavated the break and found that a shaft-like object had punched a circular hole of approximately 3/4-inch diameter in the pipe. The hole would be consistent with the hole that would be made if a probe was jammed into the line from above. The force of the blow also crushed the pipe, causing a split that ran along its length for approximately 24".
13. How the break occurred is a mystery. There was no construction or other activity in the area that would explain this happening. The pipe was otherwise in good condition.
14. Alligator was the operator of the Town's system when the Third Avenue Line was installed. The as-built plans which show the location of the cut off valves for this section of pipe are still in Alligator's possession.
15. We used metal detectors to attempt to locate the valve, but were unsuccessful. Alligator's operating personnel told me and our contractors that Mr. Odom told them earlier that day that they would be fired if they helped the Town respond to the break. Mr. Odom drove up to observe our repair efforts repeatedly during this time, but did not assist.
16. The Town's primary maintenance contractor, C&S Construction, was on another assignment that day and was not available to respond to the leak. We called in a back-up contractor, Anderson Construction. Because of the length of the break (24"), it would require slip couplings to repair it. Anderson Construction did not have the right sized slip

- couplings. We asked Alligator to assist us by supplying couplings from Alligator's spare parts inventory. Alligator refused.
17. It was now well after business hours. We checked with other local water systems but no one had the necessary parts.
 18. As a temporary measure, we fashioned a split-sleeve out of a length of 4" pipe and installed it over the break. This reduced the rate of flow considerably.
 19. Before the temporary repair, the amount of water leaking was less than 200 gallons per minute (gpm). The temporary repair reduced the rate to less than 100 gpm.
 20. Ordinary hydrant flushing results in a flow rate of over 800 gpm.
 21. A leak of this rate would not be expected to cause issues except potentially for customers downstream on the line. This leak caused no issues related to overall system pressure.
 22. In any case, I kept personnel at the site all night to ensure the situation remained under control. In the morning, when the supply stores opened, we got the properly sized slip couplings and fixed the pipe immediately.
 23. Mr. Odom continued to visit the site to monitor the progress of our repairs. In the morning, when it became apparent that we had the materials needed to complete the repairs, Alligator personnel appeared with the required slip joint from their inventory and copies of the as-built plans of the system showing values not listed on our plans. They told us that Mr. Odom had authorized them to assist us. They then showed us the as-built drawings of the system that included the location of cutoff valves not shown on our plan documents.
 24. The Town now stocks its own inventory of sleeves and couplings for all common pipe sizes.

25. Attached as Exhibit A to this affidavit are true and accurate copies of photographs I took of the leak at the time. Note the circular stream of water consistent with the circular hole in the pipe.

26. I have been in the water utility business for 34 years. As indicated above, in my judgment, the leak was discharging no more than 200 gpm before the temporary sleeve was installed, and no more than 100 gpm after it was installed. This was a very minor leak. It could not have caused issues for A.O. Smith or other customers not located downstream of the leak.

Loss of Service to A.O. Smith

27. On Friday, once the Third Avenue break was fixed, we opened hydrants to flush out any sand that may have gotten in the Third Avenue line during repairs. The Town flushes its hydrants quarterly. There is nothing unusual about such flushing. The system is designed for that.

28. While the flushing was underway, I received a call from the Town clerk. She said that A.O. Smith reported that it was without water. That made no sense. The Town's system was fully pressurized. Water was flushing out of the hydrants on the far end of the system just fine.

29. I had my field technician immediately put a valve on the hydrant at Third Avenue and take a picture to record the reading. That photograph is attached as part of Exhibit A.

30. The pressure at the Third Street hydrant was 55 psi. This level of pressure was completely inconsistent with a lack of pressure at A.O. Smith's plant.

31. The A.O. Smith plant is only a few hundred yards from connection to the main 24" line from Alligator which pressurizes the Town's system. The Third Avenue Line is at the

opposite end of our system. If there was pressure at Third Avenue, there had to be pressure at A.O. Smith's meter.

32. I was concerned that Alligator had intentionally cut water service to the Town. I called my counterpart at Alligator and told him I wanted to put my eyes on the Town's master meter from Alligator right then to ensure it was turning. I told him I was on my way to the meter station and to meet me there.

33. Less than two minutes later, I passed the A.O. Smith plant site. I saw my counterpart and Mr. Odom in the yard of the plant.

34. We went to the meter station and we verified that the meter was turning.

35. I have thought long and hard about how service to A.O. Smith could have been interrupted. There was no failure of pressure on the system. The master meter was turning. There was no problem with our line between the Alligator connection and A.O. Smith. Other customers did not lose service. In my opinion, the most reasonable explanation is that something happened to interrupt service at the A.O. Smith meter valve. I do not know how that could have happened other than someone closing the valve.

The Boil Water Notice

36. The Third Avenue break affected service to approximately five customers immediately downstream of the break. Immediately upon discovery of the break, we contacted the affected residents in person. Written notices were left with them or on their doors. I know because I delivered the notices myself.

37. On the morning of June 19, 2015, after the leak was fixed and after I received the call from the Town Clerk about A.O. Smith being out of water, Paula Brown from DHEC

called me. She said that DHEC had just received a call that A.O. Smith 'and others' had lost service and that a boil water notice should be issued. I explained to her that a boil water notice had been issued to all affected residences the night before and that the leak could not have affected other customers. She asked me to issue a second boil-water notice system-wide as a precaution.

38. We began printing the required boil-water notices for distribution to the town hall. Ms. Brown advised us not to bother with hand distribution, but to use the electronic and media notification and alert system which the Town maintains. On her advice, we did.
39. I am not aware of who called DHEC about a loss of service to A.O. Smith and 'others.' I am not aware of any customer other than A.O. Smith reporting a loss of service at this time.

Fire Flow

40. A.O. Smith's lawyers told the Town's lawyers that there have been as many as 20 periods in the past year when levels in the Town's water tanks were insufficient to meet A.O. Smith's fire flow needs and that this will need to be reported to A.O. Smith's insurance providers. This is news to the Town. Until the lawyer meeting on September 3, 2015, there had never been any report from Alligator or A.O. Smith related to this matter.
41. Fire flows for A.O. Smith are provided by the Town's 250,000 gallon Tank No. 2 located adjacent to the plant. I understand that the Town built that tank specifically to provide fire protection for the plant site. There is no reason for that tank not to function as intended.
42. Alligator supplies bulk water service to the Town, and pressurizes the Town's system through its pumping schedule. Alligator has a modern SCADA system that electronically

monitors the level of the Town's Tank No. 1 and controls the valves that allow the tanks to refill or discharge. Alligator's SCADA system should be programed so that when it drops below required levels, check valves on the tanks open, pumps are activated, supply pressures increase and the tanks begin to fill.

43. There is more than enough capacity in the Town's lines and the lines to Alligator to allow the tanks to be kept full. Alligator has a 24" line that connects immediately adjacent to the tank and more than enough pumping and line capacity to ensure that the tank is kept full and regularly cycled.

44. If the tanks were not full, it was because Alligator decided not to fill them. I am not aware of any other possible explanation. Specifically, there has been no operational problem in the Town's system that would explain the failure of the tank to be kept full. This is a matter which the Town will investigate at once.

45. If in fact there are problems, it is disturbing that those problems have never been reported to the Town. As I said earlier, this is the first report we have had of them.

Conclusion

46. I am familiar with all aspects of the Town's system as it has operated over the past five years. It is an excellent system in excellent condition. It operates efficiently. There is no basis to conclude that the Town has mismanaged its system or cannot meet A.O. Smith's needs. It is clear to me that A.O. Smith's concerns about the Town's system are based on information that is untrue.

[Remainder of Page Left Blank]

FURTHER THE DEPONENT SAITH NOT.

Joy Oliver

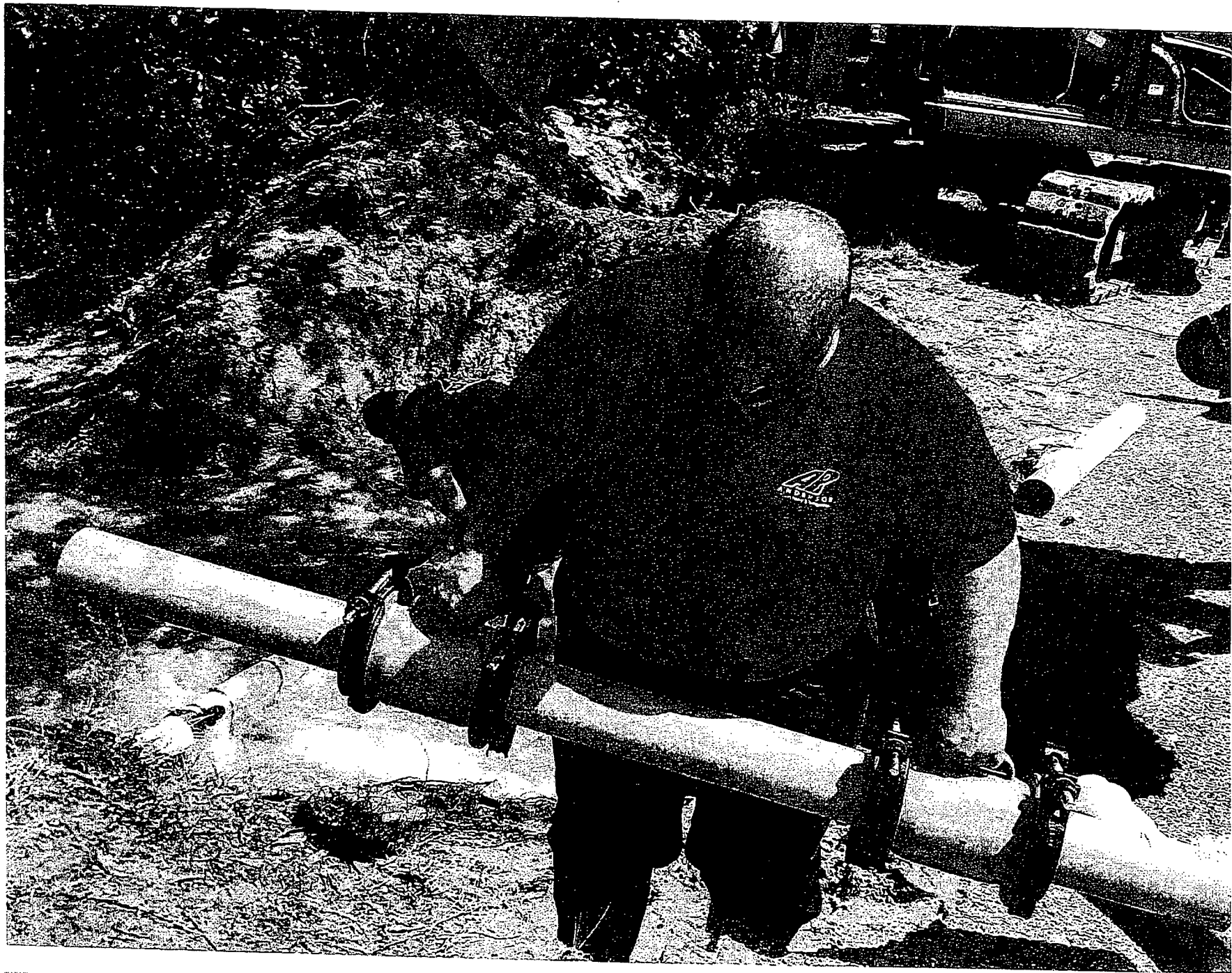
SWORN to BEFORE me the 9 day of Sept. 2017. ⁽⁹²⁾

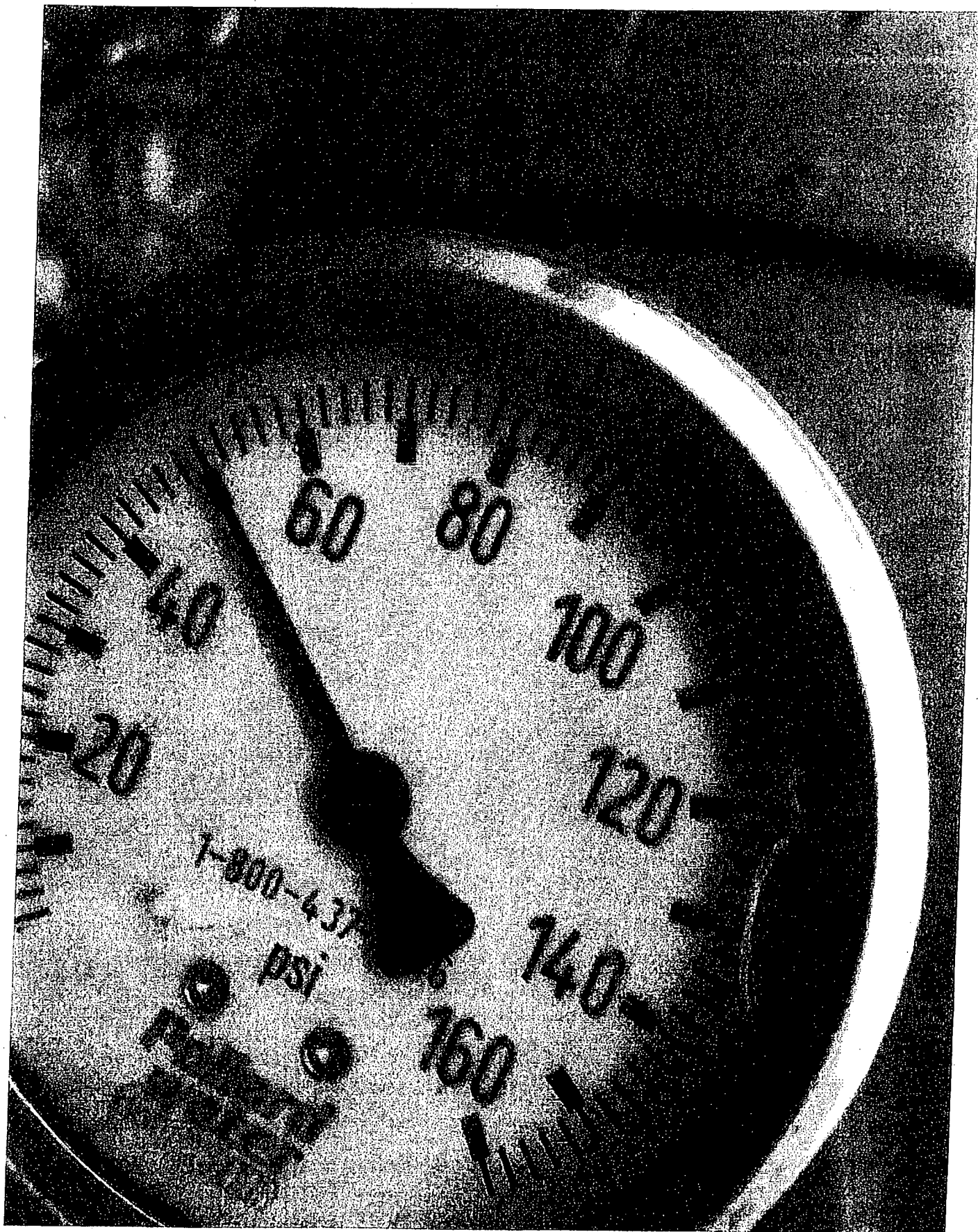
Walter H. King

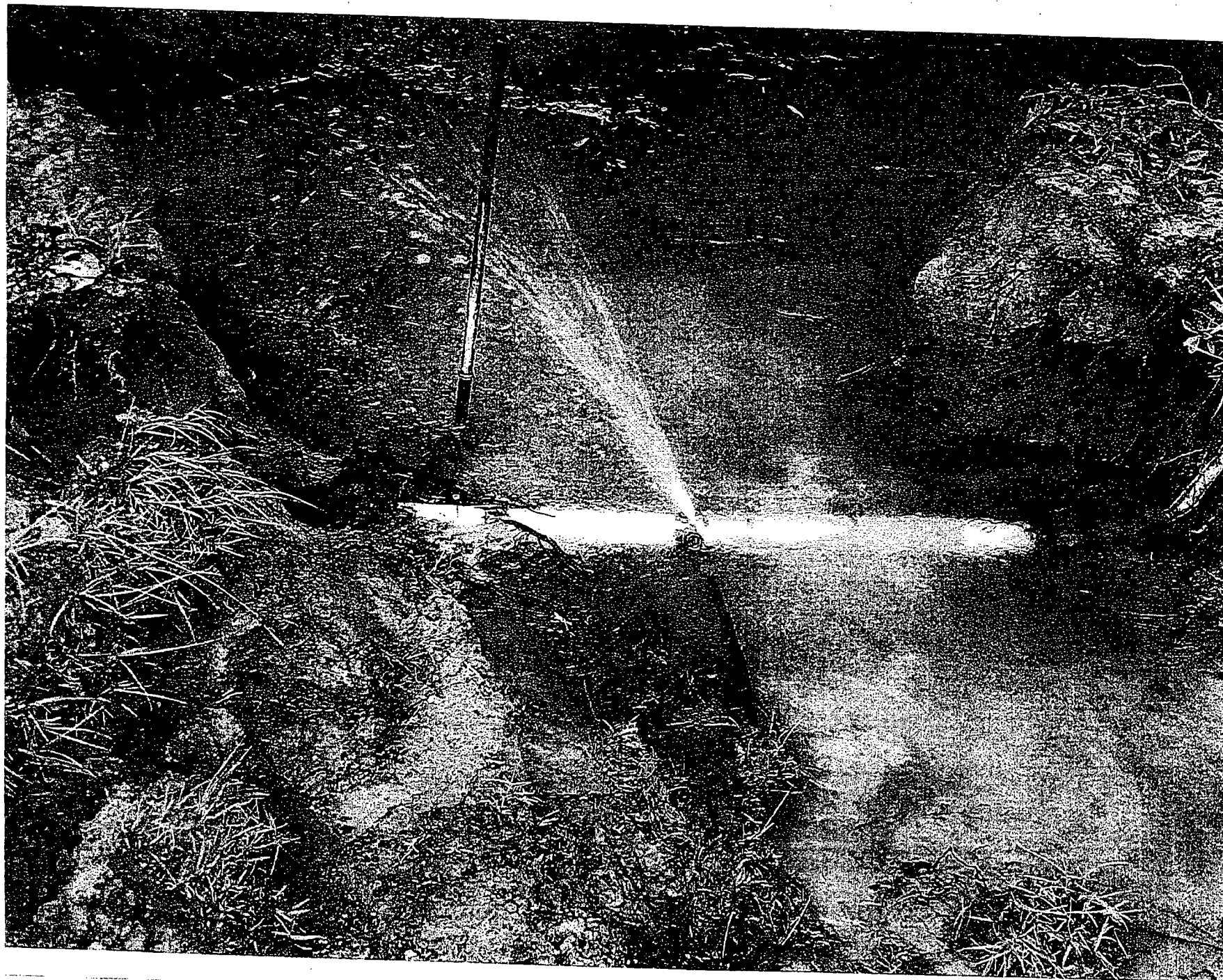
Notary Public for South Carolina

My Commission Expires: 4-28-2018

Exhibit A







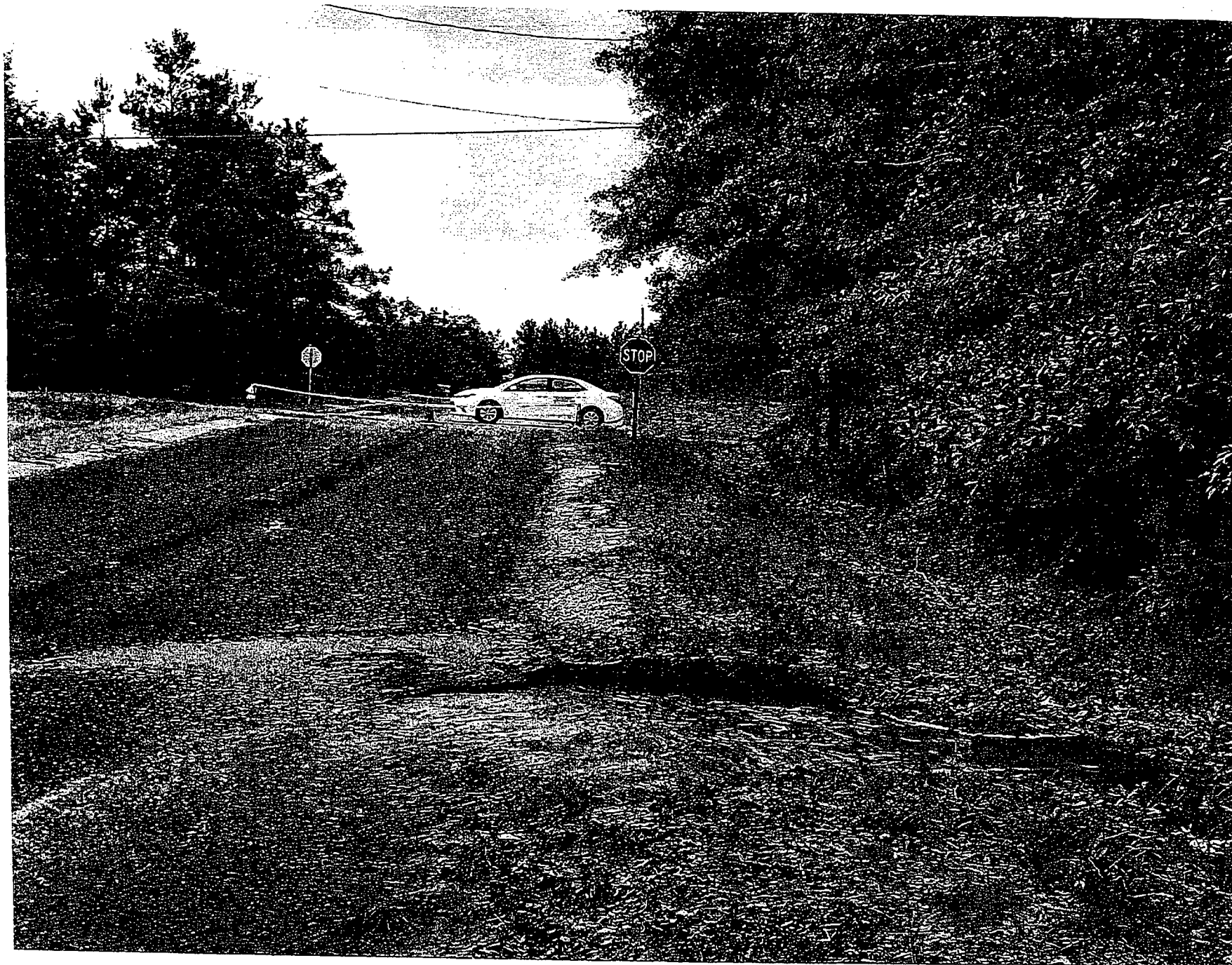


Exhibit H

STATE OF SOUTH CAROLINA
COUNTY OF CHESTERFIELD

Town of McBee, South Carolina

)
)
)
)
)
)
)
)
)
)
**AFFIDAVIT OF
JOSEPH W. MCGOUGAN**

Personally appeared before me the undersigned, Joseph W. McGougan, who being duly sworn states as follows:

1. I am Joseph W. McGougan, President of MBD Consulting Engineers, P.A.
2. I have been licensed as a Professional Engineer since 1987 and have over 33 years of civil engineering consulting experience, specializing in water and wastewater treatment and water and wastewater plant and infrastructure design.
3. I have been personally involved with the water supply system in the Town of McBee ("Town"), since 2008, and serve as the Town's engineer.
4. In this capacity, I have direct knowledge of the Town's water system from an engineering and operating standpoint.
5. The purpose of my affidavit is to assist the town in responding to concerns raised by A.O. Smith in a meeting A.O. Smith's lawyers held with the Town's lawyers on September 3, 2015.
6. At that meeting, A.O. Smith raised concerns about the Town's system related to fire protection and future raw water supply.
7. I am not aware of any of these concerns being raised before the meeting. This is my first opportunity to respond to them. A.O. Smith's failure to raise these issues before now is a matter of concern. If there are operational problems that jeopardize the safety of the A.O.

Smith plant and the future reliability of our system, we would have expected A.O. Smith's engineers and plant management to have raised them to us at once.

Raw Water Supply

8. The Town currently operates under a raw water supply agreement with Alligator Regional Water and Sewer System ("Alligator"). The agreement dates to 2002, when Alligator's executive director, Mr. Odom, was also the Mayor of the Town. As I understand it, at that time, Alligator took over operation of the Town's water system and had the South Carolina Department of Health and Environmental Control ("DHEC") transfer the operating permits for the system to Alligator.
9. In the years that followed, Mr. Odom was replaced as mayor.
10. In the years following 2002, South Carolina Department of Health and Environmental Control (DHEC) discontinued the Town's Operational Permit for its supply wells and for the entire water system and transferred them to Alligator. In 2012, the Town petitioned and received the Operational Permit for the entire system. The Town recently applied to DHEC for authority to be allowed to place the two existing wells back into operation.
11. In the September 3, 2015 attorneys meeting, A.O. Smith's lawyers raised concerns about the ability of the Town to meet the plant's fire flow requirements in reliance on its two wells.
12. These concerns are without substance.
13. The Town's average current water usage per day, including A.O. Smith, is 230,088 gallons per day (gpd).
14. A.O. Smith required, on average, 136,956 gpd in 2014. See Exhibit A attached.

15. Town Well No. 1 has a capacity of 384,192 gpd when pumped for 16 hours a day.
16. Town Well No. 2 has a capacity of 192,096 gpd when pumped for 16 hours a day.
17. The wells' total combined capacity is 576,288 gpd when pumped for 16 hours a day, or 250 % of average daily demand.
18. In emergency circumstances, *i.e.*, if Well No. 1 fails, Well No. 2 can be pumped 24 hours a day, seven days a week. Under those circumstances, Well No. 2 can supply in excess of 288,000 gpd or 125 % of average daily demand.
19. In addition, the Town has two storage tanks with a combined storage capacity of 325,000 gallons. The larger of these two tanks, Tank No. 2, was specifically engineered and constructed to provide fire flow reserves for A.O. Smith. It is located adjacent to the plant. Town Well No. 2 was placed adjacent to Tank No. 2 to allow it to efficiently serve A.O. Smith's fire protection needs.
20. The Town intends to remain interconnected with Alligator. Alligator will represent an additional source of backup supply to the town and to A.O. Smith in case of emergency, and the Town will represent the same to Alligator.
21. In my engineering opinion, and based on my knowledge of the Town's system, with the two wells in operation, the Town will be fully capable of meeting 100% of all customers' requirements, including fire protection service for A.O. Smith. This is true both under normal operating conditions and in emergency conditions when Well No. 1 is out of service.

22. We have modeled the cost to the Town of ceasing to take all of its water supply requirements from Alligator. We determined that restarting the Town wells will reduce the cost of operating the Town's system significantly.

23. In my engineering judgment, the Town can fully meet all DHEC permit requirements in reliance on the two wells.

Well Contamination

24. In the September 3, 2015 attorneys meeting, A.O. Smith's lawyers raised concerns about the contaminants in the Town's wells. These concerns are groundless.

25. The Town's two wells have been extensively tested as part of the recent relicensing process. They fully comply with DHEC drinking water standards regarding all constituents of concern. I am not aware of any test results where the wells have not met all state and federal water quality standards.

26. In the Chesterfield County area, there are three common constituents of concern in ground water. One is radium, which occurs naturally in the area but is very unevenly distributed. Radium has not been found at levels that exceed the MCL (Maximum Contaminant Level) in any of the sampling performed.

27. The other two constituents of concern for wells in the area are the organic compounds ethylene dibromide ("EDB"), and 1,2-Dibromo-3-chloropropane ("DBCP"). EDB and DBCP occurrence in the area well is sporadic. While some amount of these compounds has been found in the Town's wells, I am not aware of any test results where the levels have exceeded the MCL for drinking water. The Town could meet drinking water standards without further treatment of this water.

28. Even though water from the Town's wells' levels meets all drinking water standards, DHEC has asked the Town to install carbon filtration, and the Town has agreed to do so. DHEC took this position based on 'public concerns' raised during the permitting process. It is not clear who in the public raised these concerns with DHEC. Rather than contest this issue with DHEC, the Town obtained state grants to underwrite the cost of the filtration. These concerns did not derail the restarting of the wells as was initially feared.
29. When the wells go into operation, the quality of the water set out into the Town's system will exceed all applicable drinking water standards. Carbon filtration will ensure that this is the case regardless of future circumstances.

Current Fire Suppression Capability

30. Keeping Tank No. 2 filled is the key operating requirement for meeting A.O. Smith's needs for fire suppression capacity. Alligator presently monitors the water level in the 125,000 gallon tank downtown and is responsible for keeping this tank filled. Due to the proximity of the two tanks and the connection to the Alligator system, if the tank downtown has water, the tank at A.O. Smith has water (the level at the A.O. Smith tank would hydraulically be slightly higher than the level downtown).
31. I have reviewed Mr. Oliver's affidavit concerning the fire suppression service. What he says is completely accurate. Alligator directly meters and controls the water tanks, their levels, and the level in Tank No. 2. There is no engineering or operating constraint on the Town's system that would prevent Alligator from ensuring that Tank No. 2 is properly filled at all times. It is Alligator's operating responsibility to ensure that there is sufficient water in both tanks. If Tank No. 2 has not been filled properly, Alligator failed in its operating responsibilities.

32. As I mentioned above, this is the first I have heard of this issue. This is a serious issue and accountability needs to be determined. As Town engineer, I expect the Town to conduct a full engineering study to determine why this happened. In my opinion, this issue reinforces the wisdom of the Town's decision to no longer rely exclusively on Alligator for wholesale supply or hydraulic management of its system.

The Third Avenue Break

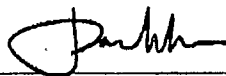
33. I have also reviewed Mr. Oliver's conclusions and the discussion in his affidavit related to the Third Avenue break, and the 'interruption of service' to A.O. Smith on June 19, 2015.

34. Mr. Oliver's analysis is correct from an engineering and hydrological perspective. The Third Avenue break and the flushing that was done afterwards could not have caused a loss of service to A.O. Smith's plant. There is no engineering basis to explain a loss of service to A.O. Smith on June 19, 2015.

Conclusion

35. In my engineering judgment, the Town has operated its system using good engineering and operating practice. It has provided safe and reliable service to all its customers, including A.O. Smith, and will continue to be able to provide such service in reliance on the two wells it has recently permitted with DHEC. If there have been problems maintaining proper levels in Tank No. 2, those problems were caused by Alligator.

FURTHER THE AFFAINT SAITH NOT.



JOSEPH W. MCGOUGAN

SWORN to BEFORE me the 9th day of September, 2015.

Jennifer L. Graham

Notary Public for South Carolina

My Commission Expires: 8/22/22

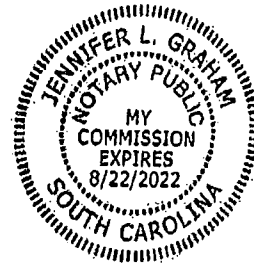
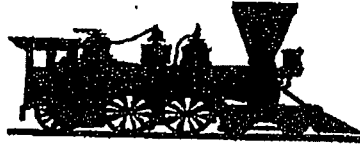


Exhibit A

TOWN OF McBEE

COUNCIL MEMBERS:

Mrs. Marilyn Fields
Mr. Shilon Green
Mr. A. C. McLeod
Mr. Charlie Sutton



MAYOR:
Mr. John Campolong

ADMINISTRATOR:
Terri King

AO Smith Water Usage Analysis 2014

The following information is a twelve month analysis of water usage for all meters assigned to AO Smith:

Total Gallons Used:	49,989,130
Average Gallons per Day:	136,956
Total Invoiced Amount:	\$242,822.06
Average Cost per Day:	\$665.27

Exhibit I

**STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT**

A. O. Smith Corporation,

Petitioner,

vs.

South Carolina Department of Health and
Environmental Control and Town of McBee,

Respondents.

Docket No. 16-ALJ-07-0082-CC

**AFFIDAVIT OF CHARLES K.
PARNELL**

PERSONALLY APPEARED BEFORE Charles K. Parnell, who, after being duly sworn,
deposes and says that:

1. I am an adult over the age of 21 years and am competent to make this affidavit.
2. I am a professional engineer licensed by the South Carolina Board of Labor, Licensing and Regulation. I have been a licensed professional engineer since 1983.
3. Since 1993, I have been President of HPG and Company, Consulting Engineers, Inc. ("HPG"). I have more than 30 years of experience in civil engineering and environmental work, including treatment and process design and management for public water systems.
4. I have been retained by the attorneys for Petitioner A.O. Smith Corporation ("A.O. Smith") as a consulting engineer to provide an analysis regarding the supply of water for A.O. Smith's manufacturing facility in Chesterfield County, South Carolina ("Chesterfield County Facility").
5. My curriculum vitae is attached as Exhibit A to this Affidavit.
6. In the course of my engagement by counsel for A.O. Smith, I have reviewed the Bureau of Water file on the Town of McBee's public water system maintained by the South Carolina Department of Health and Environmental Control ("DHEC").

7. The Town's public water system is generally comprised of two (2) elevated tanks (capacity of 75,000 gallons and 250,000 gallons), a wholesale connection to a public water system owned and operated by Alligator Rural Water & Sewer Company, Inc. ("Alligator"), and water distribution lines of differing sizes.

8. Additionally, I have reviewed documents related to and conferred with A.O. Smith management regarding the water requirements for the Chesterfield County Facility, including water demand for its manufacturing and testing operations, fire protection, and domestic uses.

9. I have reviewed telemetry data in titled "Tank Level Report" provided by Alligator indicating a number of times during 2015, the water level in the A O Smith area elevated tank dropped to a level of 0 feet. This would indicate insufficient water and pressure to operate the manufacturing facility and provide sufficient flow and pressures to supply adequate fire protection.

10. I have also reviewed documents related to the public water system owned and operated by Alligator, and the Alligator connection to supply water to the Town of McBee. Alligator operates a public water supply and distribution system throughout a large area of Chesterfield County, including the area where the A.O. Smith facility is located. The Alligator system has approximately 2,300,000 gallons of ground and elevated storage capacity within two miles of the A.O. Smith facility, as well as 5.7 million gallons per day of high service pumping. Additionally, Alligator has a 24-inch water line which runs along U.S. Highway No. 1 adjacent to the facility.

11. Based on documents and data provided to me, the following demands were used in my analysis:

A O Smith Average Day	161 gpm
A O Smith Peak Day	239 gpm
McBee Average Day	70 gpm
McBee Peak Day	373 gpm
Fire Flow (A O Smith)	1500 gpm

12. I have reached the following professional opinions within a reasonable degree of certainty in my field of expertise:

- A. Without the connection to the water supply from Alligator, the Town's two water wells along with its current storage capacity will not be sufficient to meet A.O. Smith's demands, including the minimum fire flow demands for its Chesterfield County Facility.
- B. Without the metered connection to the water supply from Alligator, the capacity of the Town wells does not satisfy the redundancy requirements of Section 61-58.2(B)(1) of the State Primary Drinking Water Regulation.

13. Attached hereto are true and correct copies of the following documents from the DHEC Bureau of Water file on the Town of McBee provided to me by DHEC in response to my Freedom of Information Act request:

- Exhibit B – May 25, 2007 letter from David C. Price to John Campolong, Jr.;
- Exhibit C – Preliminary Engineering Report – Town of McBee, South Carolina Groundwater Well Testing & Evaluation, Well #1 and Well #2, DHEC Submittal, Revisions 1 – December 6, 2010;
- Exhibit D – September 3, 2013 letter from Robert E. Blackwell to John Campolong;
- Exhibit E – March 11, 2011 email from Glenn Odom to DHEC;
- Exhibit F – April 26, 2011 letter from Glenn Odom to Kimberly Forston;
- Exhibit G – June 3, 2011 email from John "Mark" Noble to William Botts;
- Exhibit H – June 14, 2011 Letter from DHEC to Town with Operating permit for System # 1310004;
- Exhibit I – June 14, 2011 letter from William C. Botts to Brian Sexton; and
- Exhibit J – August 12, 2011 letter from Jeffrey P. DeBessonnet to J. Anthony Floyd;

Exhibit K - May 8, 2014 letter from Joseph W. McGougan to Tracy Scott;

Exhibit L - September 11, 2014 letter from Paula R. Brown to John Campolong.

FURTHER AFFIANT SAYETH NOT.

Charles K. Parnell

Charles K. Parnell

SWORN and subscribed to before me
this 5th day of April, 2016.

Georgina D. Graham (L.S.)

Notary Public for South Carolina

My Commission Expires: May 13, 2024

Exhibit J

STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT

A. O. Smith Corporation,

Petitioner,

vs.

South Carolina Department of Health and
Environmental Control and Town of McBee,

Respondents.

Docket No. 16-ALJ-07-0082-CC

AFFIDAVIT OF JEFF BARRON

PERSONALLY APPEARED BEFORE Jeff Barron, who, after being duly sworn,
deposes and says that:

1. I am an adult over the age of 21 years and am competent to make this affidavit.
2. Since March 2014, I have been employed by A.O. Smith Corporation ("A.O. Smith") as the Director of Operations for its facility in Chesterfield County, South Carolina ("Chesterfield County Facility"). As Director of Operations, I am responsible for the operations and management of A.O. Smith's Chesterfield County Facility.
3. The Chesterfield County facility has been fully operational since 1983 and manufactures water heaters and boilers. The facility consists of manufacturing operations, an engineering division which designs and tests company products, and administrative offices. The facility employs approximately 500 persons and currently operates five days per week with two shifts of eight hours each.
4. The property on which the Chesterfield County facility is located is not within the town limits of, or contiguous to, the Town of McBee.
5. The operations of the Chesterfield County Facility are dependent on an adequate, dependable water supply. In addition to domestic water needs, the Facility requires process

water for the manufacturing operations and for the testing of company products in the engineering division. Based on historical use, the Chesterfield County Facility's manufacturing, testing, and domestic water requirements are 161 gallons per minute on an average day and 239 gallon per minute on a peak use day. Additionally, the fire protection system for the Facility requires an additional minimum instantaneous flow for not less than two hours to meet the requirements of our insurance carrier.

6. In 2014, A.O. Smith upgraded its fire protection system and its engineer determined that the Town's water storage capacity was not sufficient to support the upgraded system. At that time, A.O. Smith entered into discussions with Alligator to provide water service to the Chesterfield County Facility.

7. In May 2015, Alligator began construction of approximately 925 linear feet of 12-inch water line to connect its 24-inch line to the A.O. Smith facility water system.

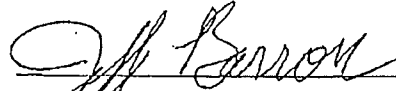
8. In recent months, the Town's service to A.O. Smith has been interrupted and inadequate to meet its water needs. For example, on June 19, 2015, A.O. Smith lost water pressure at the Chesterfield County plant to the point that all non-essential water uses were curtailed.

9. Attached hereto are true and correct copies of the following documents which are maintained by A.O. Smith in the ordinary course of business:

Exhibit A – Non-Annexation Agreement between the Town of McBee and A.O. Smith Corporation dated August 7, 1999; and

Exhibit B – October 10, 2013 letter from John Campolong to A.O. Smith.

FURTHER AFFIANT SAYETH NOT.


Jeff Barron

SWORN and subscribed to before me
this 5 day of April, 2016.

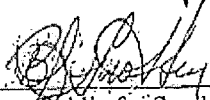

(L.S.)
Notary Public for South Carolina
My Commission Expires March 19, 2017
My Commission Expires
March 19, 2017

Exhibit A

STATE OF SOUTH CAROLINA)
TOWN OF McBEE) NON-ANNEXATION AGREEMENT

THIS AGREEMENT consisting of three (3) pages made and entered into this 7th day of August, 1979, by and between the TOWN OF McBEE, a municipal corporation organized and existing under the laws of the State of South Carolina, hereinafter referred to as the "Town," and A. O. SMITH CORPORATION, a corporation organized and existing under the laws of the State of New York having its principal corporate office in Milwaukee, Wisconsin, hereinafter referred to as the "Company."

WHEREAS, the Company is considering the establishment of a manufacturing facility in the vicinity of McBee, South Carolina; and,

WHEREAS, the Company has entered into a conditional contract to purchase certain real property located near the town limits of the Town as the site of its contemplated manufacturing facility (commonly referred to as of the date of this Agreement as the MAFCO Plant) which real property is more fully described in Exhibit "A" attached hereto and incorporated herein by reference, and is referred to hereinafter as the "Property;" and,

WHEREAS, the contemplated manufacturing facility will provide favorable employment opportunities for the citizens and residents of McBee and environs and would result in considerable benefits to and for the Town; and,

WHEREAS, included among other conditions of the aforementioned contract to purchase the Property are provisions that: (i) the Town will provide a reasonable supply of water to the Property; (ii) fire prevention and rescue services operated by the Town will respond to requests for assistance on the Property; and, (iii) the Town will not annex the Property into the corporate town limits and that the Property will not be

Jon

included within the town limits at any time prior to October 1, 2009; and

WHEREAS, duly authorized representatives of the Town have concluded that the welfare and best interest of the Town would be best served by agreeing to the aforementioned conditions pertaining to the furnishing of utilities and services to the Property and to future extension of the town limits in order to secure the benefits of a new manufacturing facility in the proximity of the Town.

NOW, THEREFORE,

FOR AND IN CONSIDERATION OF the mutual promises and covenants contained herein, the Town and the Company do hereby agree and contract as follows:

1. The Town agrees to provide a reasonable supply of water to the Company in connection with its contemplated manufacturing facility, consistent with the Town's ability to provide such service from time to time, at published rates and/or fees not in excess of the rate and fees charged to water users in the Town of McBee.

2. The Town agrees that equipment and personnel maintained for the purposes of fire prevention and rescue operations will be made available upon request, from time to time, to render service and assistance to the Property and/or persons thereon, as the case may be.

3. If the boundaries of the Town are extended by annexation or otherwise, the Property will not be included by the Town within the town limits at any time prior to October 1, 2009.

4. This Agreement shall be assignable by the Company on one or more occasions but only with the prior written consent of the Town on each such occasion, which consent the Town agrees will not be unreasonably withheld; and this Agreement shall enure to the benefit of and be binding upon the parties hereto, their successors, and assigns.

L. B. S. J. M.

IN WITNESS WHEREOF, the parties do hereby bind themselves, their successors and assigns, unto this Agreement by affixing the hands and seals of the proper corporate officials of the parties to this page and initialling all other pages and attached Exhibit on the date first above written.

(Seal)

TOWN OF MCBEE

ATTEST:

By: *Calvin M. Hudson* By: *James M. McCaskill*
Town Clerk JAMES M. MCCASKILL, Mayor

(Seal)

A. O. SMITH CORPORATION

ATTEST:

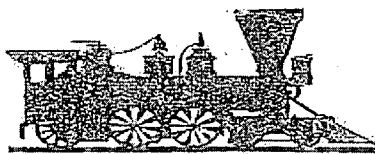
By: *John R. Phelan* By: *H. B. Smith*
Its Secretary Its Chairman

Exhibit B

TOWN OF M^cBEE

COUNCIL MEMBERS:

Mrs. Marilyn Fields
Mr. Shilon Green
Mr. A. C. McLeod
Mr. Charlie Sutton



MAYOR:

Mr. John Campolong

ADMINISTRATOR:

Terri King

October 10, 2013

A.O. Smith Corporation
25589 Highway No. 1
McBee, SC 29101-8510

RE: Water Service to A.O. Smith

Dear Gentlemen:

A.O. Smith manufacturing is a valued partner in the Town of McBee community and the Town of McBee appreciates the opportunity to serve this industry. A part of the services that the Town of McBee provides to A.O. Smith is a safe, reliable supply of potable water. This is a role that the Town of McBee takes very seriously for all of our customers, including A.O. Smith.

As you know, the Town of McBee owns and operates the distribution system that provides water to A.O. Smith. This system includes elevated storage tanks and newly reconstructed line work throughout the Town. This network currently provides service to A.O. Smith through a metered connection that is located adjacent to our 250,000 gallon elevated storage tank.

The Town of McBee currently purchases bulk water from Alligator Rural Water through a single metered connection located on Highway 145. In order to be able to ensure the delivery of a high quality water source at a reasonable cost, the Town of McBee has over the period of 3 years embarked on an evaluation of the existing water supply system currently owned by the Town of McBee, as well as other sources of water for the Town's customers. These facilities were in operation until just a couple of years ago.

Post Office Box 248, McBee, SC 29101
Phone: 843-335-8474 Fax: 843-335-5163

This source of water includes two potable water wells, each capable of providing 100% of the Town's daily water requirements. These two wells will each have their own independent chemical treatment facilities. The well located near the Town Hall on Juniper Street, has a permanently installed emergency generator and the well that is located on the north edge of town will have a hook-up for a portable generator. This redundancy and backup goes beyond the minimum requirements by South Carolina DHEC for a water system.

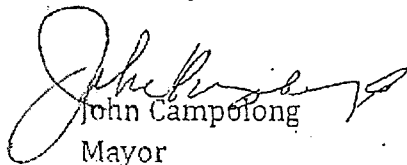
Throughout the review process and the permitting required to place the existing water supply system back into operation, the Town of McBee has worked closely with South Carolina DHEC. They have been aware of the study that was performed on the water system and our efforts to provide a safe, reliable water source for our customers. We have received all of the necessary permits for the new construction and modifications to the existing wells and are working together on a daily basis with South Carolina DHEC in moving forward to place the system back into operation. The water supply system will meet all of the requirements of South Carolina DHEC from a water quality and redundancy standpoint.

The Town of McBee wanted to provide this information to A.O. Smith to assure you that you will receive the highest water quality available. The water quality will be constantly monitored and any need for additional source or treatment will be addressed immediately by the Town of McBee as we work to provide the highest quality of water at the best cost for all of our customers.

We encourage you to ask questions or voice your concerns regarding the Town of McBee's water system. We will be happy to meet with you at any time to discuss these issues and have the Consulting Engineer that has been working closely with us and with South Carolina DHEC available to address your questions or concerns.

I look forward to discussing the water system with you further.

Sincerely,


John Campolong
Mayor

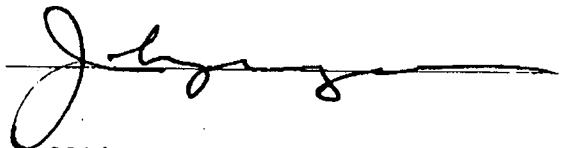
Post Office Box 248, McBee, SC 29101
Phone: 843-335-8474 Fax: 843-335-5163

Exhibit K

4. While this temporary restraining order is in place, the Town will have to continue to manually adjust the water levels in the tank, requiring constant attention by a Town employee, or replace the SCADA system.
5. To replace the SCADA system will cost the Town approximately \$50,000.
6. Should the grant of the temporary restraining order be overturned on appeal, the Town will be able to operate its own wells, which do not require a SCADA system.
7. Additionally, the Town is currently paying Alligator approximately \$75,000 a year for water because it is prohibited from operating its own wells.
8. The Town has no simple means to recover these payments, as they are paid for water service provided by Alligator under the terms of the injunction.

FURTHER THE DEPONENT SAITH NOT.

SWORN to BEFORE me the 17th day of Oct., 2016.



Notary Public for South Carolina
My Commission Expires: 2/24/2023