

Renewable Water Resources

**Financial Statements and
Supplemental Information**

**As of and for the Year Ended
December 31, 2021**

Renewable Water Resources Greenville, South Carolina

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Report of Independent Auditor

To the Board of Commissioners
Renewable Water Resources
Greenville, South Carolina

Opinion

We have audited the accompanying financial statements of Renewable Water Resources (the “Agency”), which comprise the statement of net position as of December 31, 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency’s ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

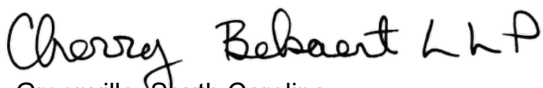
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 13 and required supplementary information schedules on pages 50 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2022, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.


Greenville, South Carolina
March 12, 2022

Management's Discussion and Analysis

Renewable Water Resources Management's Discussion and Analysis

As management of Renewable Water Resources (“ReWa” or the “Agency”), we present this narrative overview and analysis of financial performance for the year ended December 31, 2021. Please consider this information in conjunction with the financial statements and related notes, which follow this section.

Financial Highlights

- The Agency’s financial position continues to be strong, with an overall increase of \$30.7 million in net position.
- Total revenues for the year ended December 31, 2021 were \$108.4 million.
- Operating expenses before depreciation totaled \$43.2 million for the year ended December 31, 2021.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the Agency. The basic financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows; with the related notes to provide additional details. These basic financial statements provide information about the activities and performance of the Agency using accounting methods similar to those found in the private sector. The Statement of Net Position presents information on the Agency’s assets, plus deferred outflows of resources, less liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Agency’s financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents the current period results of operations and can be used to determine whether the Agency is recovering costs through user fees and charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash and cash equivalents for the current period. This statement may be used to determine sources of cash, uses of cash, and changes in cash from operating, capital, and related financing and investing activities. It may also be useful in assessing the Agency’s ability to meet short-term obligations.

The Notes to Financial Statements provide required disclosures and other information essential to a full understanding of the information reported in the statements. The notes present information about the Agency’s accounting policies, significant account balances and activities, significant risks, obligations, commitments, contingencies, and subsequent events, if applicable.

Renewable Water Resources Management's Discussion and Analysis

Net Position

The Agency's overall financial position improved during the year ended December 31, 2021, as net position increased \$30.7 million or 7.8% due to current year operations. Net position for the year ended December 31, 2021, totaled \$426.3 million. The largest portion of the Agency's net position, approximately 91.6%, reflects the Agency's investment in capital assets (e.g., land, buildings, trunk lines, equipment, and vehicles), less any related outstanding debt used to acquire those assets. The Agency uses these capital assets to provide services to ratepayers. Although the Agency's investment in capital assets is reported net of debt, the resources needed to repay this debt must be provided from other sources, as these capital assets cannot be liquidated to pay these liabilities.

An additional \$34.8 million or 8.2% of the Agency's net position is restricted (restrictions established by debt covenants, enabling legislation or other legal requirements). In the year ended December 31, 2021, restricted net position decreased \$4.0 million.

A summary of the Agency's Statement of Net Position is presented in Table A-1.

Table A-1
Condensed Statements of Net Position (in millions)

| | <u>FY 2021</u> | <u>FY 2020</u> |
|--|-----------------|-----------------|
| Current and noncurrent assets | \$ 56.6 | \$ 50.0 |
| Restricted assets | 34.8 | 38.8 |
| Capital assets | 603.7 | 568.5 |
| Total assets | <u>695.1</u> | <u>657.3</u> |
| Deferred outflows from defeasance loss, net | 2.2 | 3.1 |
| Deferred outflows from pension | 3.9 | 3.7 |
| Deferred outflows from other postemployment benefits | 5.7 | 3.8 |
| Total deferred outflows of resources | <u>11.8</u> | <u>10.6</u> |
| Current liabilities | 43.4 | 40.9 |
| Noncurrent liabilities | 232.3 | 229.8 |
| Total liabilities | <u>275.7</u> | <u>270.7</u> |
| Deferred inflows from pension | 4.4 | 1.0 |
| Deferred inflows from other postemployment benefits | 0.5 | 0.6 |
| Total deferred inflows of resources | <u>4.9</u> | <u>1.6</u> |
| Net investment in capital assets | 390.3 | 361.5 |
| Restricted | 34.8 | 38.8 |
| Unrestricted | 1.2 | (4.7) |
| Total net position | <u>\$ 426.3</u> | <u>\$ 395.6</u> |

Renewable Water Resources Management's Discussion and Analysis

Revenues

Table A-2 shows that the Agency's total revenues increased \$3.7 million or 3.5% to \$108.4 million in the year ended December 31, 2021. The Agency's regulations provide for a sewer use charge that funds the operation of the system, provides a source of funds to repay liabilities, and provides for future maintenance of the Agency's assets. The current user fee regulation in effect for the year ended December 31, 2021 was adopted April 24, 2017 and became effective January 1, 2018.

In the year ended December 31, 2021, domestic and commercial revenue increased \$4.2 million or 5.2% to \$84.7 million. Domestic revenue increased \$1.9 million or 3.5% consistent with customer growth. Commercial revenue increased \$2.3 million or 8.9%.

Industrial revenue increased \$0.5 million or 6.9% to \$7.7 million in the year ended December 31, 2021. The increase in fiscal year 2021 is primarily attributable to an increase in surcharges year over year.

New account fee revenue was \$15.1 million in the year ended December 31, 2021, demonstrating the continued record economic growth and development in the Agency's service area. New account fee revenue decreased by \$0.2 million from our all-time high year in the prior year.

Interest and other nonoperating revenues decreased \$0.9 million or 81.8% to \$0.2 million in the year ended December 31, 2021. This is largely due to a decrease in interest rates on investments.

Renewable Water Resources Management's Discussion and Analysis

Revenues, continued

Table A-2
Condensed Statements of Revenues, Expenses, and Changes in Net Position (in millions)

| | FY 2021 | FY 2020 |
|---|----------------|----------------|
| Operating revenues: | | |
| Domestic and commercial customers | \$ 84.7 | \$ 80.5 |
| Industrial customers | 7.7 | 7.2 |
| New account fees | 15.1 | 15.3 |
| Septic haulers and other | 0.7 | 0.6 |
| Interest and other nonoperating revenues | 0.2 | 1.1 |
| Total revenues | 108.4 | 104.7 |
| Operating expenses: | | |
| Technical operations | 27.5 | 26.5 |
| Administration | 15.7 | 17.3 |
| Total operating expenses before depreciation | 43.2 | 43.8 |
| Depreciation | 32.0 | 30.6 |
| Total operating expenses | 75.2 | 74.4 |
| Interest, amortization, and other nonoperating expenses | 9.5 | 8.7 |
| Total expenses | 84.7 | 83.1 |
| Capital contributions | 7.0 | 1.8 |
| Increase in net position | 30.7 | 23.4 |
| Total net position, beginning of year | 395.6 | 372.2 |
| Total net position, end of year | \$ 426.3 | \$ 395.6 |

Capital Contributions

In the year ended December 31, 2021, capital contributions totaled \$7.0 million. Approximately \$1.1 million of the total is due to contracts that the Agency enters with one or more entities to construct facilities and/or sewer conveyance systems that will be mutually beneficial. The remaining \$5.9 million is due to the transfer of the Piedmont sewer collection system in Anderson County to the Agency and represents the carrying value of the transferred assets as of the transfer date.

Renewable Water Resources Management's Discussion and Analysis

Expenses

Total expenses in the year ended December 31, 2021 were \$84.7 million. Operating expenses before depreciation decreased \$0.6 million or 1.4% from \$43.8 million to \$43.2 million. The decrease in operating expenses in fiscal year 2021 is largely attributable to decreases in pension, legal, and certain utility costs partially offset by increases in employee-related and chemical costs.

Non-project expenses, which are included in interest, amortization, and other nonoperating expenses, can vary considerably from year to year. These expenses are one-time costs that are not operational and are not capitalizable.

Capital Assets

In the year ended December 31, 2021, capital assets being depreciated, net increased \$24.1 million or 5.7% to \$446.3 million, which is attributable to various line rehabilitations and facility enhancements, which were partially offset by annual depreciation. For the year ended December 31, 2021, the Agency's \$603.7 million of net capital assets consisted of land, rights-of-way, trunk lines, buildings, operating equipment, water resource recovery facilities ("WRRF"), equipment and vehicles as shown in Table A-3 and in Note 5 of the accompanying notes to financial statements.

**Table A-3
Capital Assets (in millions)**

| | <u>FY 2021</u> | <u>FY 2020</u> |
|---|-----------------|-----------------|
| Capital assets not being depreciated: | | |
| Construction in progress | \$ 146.3 | \$ 136.5 |
| Land | 7.5 | 7.0 |
| Rights-of-way | 3.6 | 2.8 |
| Total capital assets not being depreciated | <u>157.4</u> | <u>146.3</u> |
| Capital assets being depreciated: | | |
| Buildings and land improvements | 388.6 | 386.8 |
| Collection and trunk lines | 397.4 | 368.6 |
| Machinery and equipment | 93.0 | 78.6 |
| Office furniture and equipment | 8.7 | 2.8 |
| Vehicles and heavy equipment | 1.5 | 1.4 |
| Total capital assets being depreciated | <u>889.2</u> | <u>838.2</u> |
| Less: accumulated depreciation | <u>442.9</u> | <u>416.0</u> |
| Total capital assets being depreciated, net | <u>446.3</u> | <u>422.2</u> |
| Net capital assets | <u>\$ 603.7</u> | <u>\$ 568.5</u> |

(Continued)

Renewable Water Resources Management's Discussion and Analysis

Capital Assets, continued

Capital improvement program

The Agency's Commission assembled a community-wide volunteer collaboration to develop an environmentally sound, long-term strategy for the Agency. The collaboration was named the Upstate Roundtable and was tasked with aligning the regional wastewater system capacity and infrastructure with projected growth while promoting environmental sustainability. Initially convened in 1994, reconvened in 2008, and again at the end of 2018, this strategic planning group brought together over 100 community, governmental, and industry leaders to develop a 20-year plan to guide the Agency. An intentional effort was made to align this plan with Greenville County's Comprehensive Plan. The latest Upstate Roundtable effort confirmed the Agency's five-year capital improvement program ("CIP") and expanded it through 2040.

The Agency maintains a fluid five-year CIP that merges the Agency's strategic plan with the ongoing objective of maintaining compliance with South Carolina Department of Health & Environmental Control regulations and National Pollutant Discharge Elimination System permit limitations. The current CIP calls for approximately \$418.7 million over the next five years. The CIP calls for upgrades at many of the Agency's treatment facilities as well as multiple replacement and improvement projects of the Agency's conveyance system.

Capital improvement projects

In 2021, capital projects focused on various conveyance system improvements and facility upgrade projects. During 2021, \$23.4 million was injected to improve the Agency's conveyance system; these projects encompassed collection lines, as well as pump stations. Additionally, \$26.0 million was incurred in multiple facility improvement projects. Furthermore, another \$4.5 million was invested in system planning, positioning the Agency to meet future needs.

Table A-4 illustrates the Agency's 2022 Capital Budget of \$82.2 million for conveyance system improvements, facility upgrades, service area expansion, and information technology upgrades. The Agency believes the budget requirement for the upcoming fiscal year will be funded through a combination of reserves, new account fees, bonds, and South Carolina revolving loan funds.

Renewable Water Resources Management's Discussion and Analysis

Capital Assets, continued

Capital improvement projects, continued

Table A-4
2022 Capital Budget (in millions)

| FUNDING SOURCES | |
|---|---------|
| Reserves and bonds | \$ 42.0 |
| South Carolina revolving loan fund | 12.8 |
| New account fees | 27.4 |
| Total funding sources | \$ 82.2 |
| USES | |
| Water resource recovery facilities | \$ 26.0 |
| Conveyance system | 23.4 |
| Information technology | 2.1 |
| Service area expansion and other projects | 30.7 |
| Total uses | \$ 82.2 |

On February 28, 2022, the Board of Commissioners approved an increase of \$6.0 million in the 2022 Capital Budget to \$88.2 million for the potential acquisition of additional infrastructure.

Long-Term Liabilities

The total obligation for other postemployment benefits is \$28.8 million at December 31, 2021.

The Agency's net pension liability totaled \$26.3 million at December 31, 2021.

Long-term debt for the Agency consists of outstanding balances on revenue bonds and state revolving loans with the South Carolina Water Quality Revolving Fund Authority.

Revenue bonds

As of December 31, 2021, revenue bond debt, including premiums, totaled \$109.8 million, the long-term portion of which was \$85.5 million. As of December 31, 2021, the Agency's revenue bond debt consisted of the following series of revenue and refunding revenue bonds: Series 2012, Series 2015A, Series 2017A, Series 2018A, Series 2020C, and Series 2020D.

Renewable Water Resources Management's Discussion and Analysis

Long-Term Liabilities, continued

Revenue bonds, continued

Prior to 2021, the Agency received bond premiums of \$11.4 million, \$3.6 million, \$4.6 million, and \$0.2M on the Series 2012, Series 2018A, Series 2020C, and Series 2020D revenue bonds, respectively. Bond premiums are amortized over the life of the bonds. The Series 2012, Series 2015A, Series 2017A, Series 2018A, Series 2020C, and Series 2020D bonds were issued under the 2010 Bond Resolution and are on parity with all of the Agency's state revolving loans.

The Series 2012, Series 2015A, Series 2017A, Series 2018A, Series 2020C, and Series 2020D bonds were issued based on the Agency's underlying rating. During calendar year 2017, Moody's Investors Service upgraded the Agency's Senior Lien Debt to 'Aa1' from 'Aa2' and upgraded the Agency's Junior Lien Debt to 'Aa1' from 'Aa3' rating. In September 2018, Standard & Poor's raised the Agency's Senior and Junior Lien Debt rating to 'AAA'.

State revolving loans

Since December 1989, the Agency has entered into numerous loan agreements with the South Carolina Water Quality Revolving Fund Authority for new construction and/or upgrades. Interest rates on these loans range from 1.6% to 2.4%. State revolving loans outstanding as of December 31, 2021 totaled \$95.4 million.

Listed below are the Agency's state revolving loans outstanding at December 31, 2021:

- March 2016 FY15/16 Gravity Sewer and Manhole Rehabilitation
- March 2016 Richland Creek Trunk Sewer Improvements
- December 2017 FY17 Gravity Sewer and Manhole Rehabilitation
- December 2017 Reedy River Basin Sewer Tunnel
- May 2019 Gravity Sewer and Manhole Rehabilitation
- May 2019 Lower Reedy WRRF Digester Capacity Improvements
- May 2019 Rock Creek Interceptor Upgrade
- May 2020 Unity Park Trunk Sewer Improvements
- June 2021 Simpsonville B Pump Station Elimination
- June 2021 Peppertree Pump Stations 1 and 2 Elimination

As of December 31, 2021, the remaining amount available to draw on the Reedy River Basin Sewer Tunnel, Lower Reedy WRRF Digester Capacity Improvements, Unity Park Trunk Sewer Improvements, Simpsonville B Pump Station Elimination, and Peppertree Pump Station 1 and 2 Elimination totaled \$7.7 million. Construction has been completed and all funds received for the other projects listed above.

(Continued)

Renewable Water Resources Management's Discussion and Analysis

Long-Term Liabilities, continued

Total outstanding long-term debt

At December 31, 2021, the Agency owed \$199.0 million (excluding premiums) in total long-term debt, an increase of \$7.5 million or 3.9% from \$191.5 million at December 31, 2020.

The Agency's bond covenants require net earnings (as defined in respective loan agreements) to be at least 110% of the combined annual principal and interest requirement (as defined in the respective loan agreements) in the fiscal year. The Agency has not defaulted in the payment of principal or interest or in any other material way with respect to any of its securities at any time, nor has the Agency used the proceeds of any bonds for current operating expenses, nor does the Agency intend to use the proceeds of any bonds for any such purposes. Based on the Agency's accompanying financial statements, the debt coverage ratio is calculated in Table A-5.

**Table A-5
Debt Coverage (in millions)**

| | FY 2021 | FY 2020 |
|--|----------------|----------------|
| Operating revenue | \$ 108.2 | \$ 103.6 |
| Investment revenue, unrestricted | 0.3 | 0.8 |
| Gross revenues | 108.5 | 104.4 |
| Less: operating expenses before depreciation | 43.2 | 43.7 |
| Net revenues available for debt service | \$ 65.3 | \$ 60.7 |
| Debt service | \$ 28.2 | \$ 29.0 |
| Debt coverage | 232% | 209% |

During the year ended December 31, 2021, debt service payments decreased \$0.8 million or 2.8% to \$28.2 million compared to the prior year. Debt structure on revenue bonds varies year to year causing principal payments to increase and decrease over the life of the bonds.

(Continued)

Renewable Water Resources Management's Discussion and Analysis

Long-Term Liabilities, continued

Total outstanding long-term debt

Table A-6 shows the average coupon/interest rate by issue.

**Table A-6
Debt Coupon/Interest Rate**

| | Balance (without premiums) (in millions) | Average Coupon/ Interest Rate |
|--|---|--|
| Series 2012 refunding bonds | \$ 13.5 | 2.9 |
| Series 2015A refunding bonds | 12.0 | 2.0 |
| Series 2017A refunding bonds | 7.0 | 2.1 |
| Series 2018A capital improvement bonds | 25.1 | 5.0 |
| Series 2020C refunding bonds | 22.4 | 4.8 |
| Series 2020D refunding bonds | 23.6 | 0.8 |
| State revolving loans | 95.4 | 2.0 |

More detailed information about the Agency's long-term liabilities is presented in Notes 7, 8, and 9 of the accompanying Notes to the Financial Statements.

Renewable Water Resources Management's Discussion and Analysis

Economic Factors

The Agency is moderately impacted by economic trends. The Agency's operating revenues are derived solely from user fees, as the Agency does not receive any tax appropriation. The Agency experienced domestic and commercial customer growth of 3.5% during the year ended December 31, 2021.

The Agency's customer base is diversified. No single customer represents more than 1.4% of ReWa's operating revenue.

Current economic conditions, such as the above, are considered by the Agency's Commissioners and Management when developing plans and budgets for the upcoming year.

Contacting the Agency's Financial Department

This financial report is designed to provide our users and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for funds received. If you have any questions about this report or need additional financial information, please contact Thomas Brooks, Controller, Renewable Water Resources, 561 Mauldin Road, Greenville, South Carolina 29607; 864-299-4000; or thomasb@re-wa.org.

Basic Financial Statements

Renewable Water Resources
Statement of Net Position
December 31, 2021

| | |
|--|----------------|
| Current assets: | |
| Cash and cash equivalents | \$ 20,095,092 |
| Restricted cash and cash equivalents | 34,798,433 |
| Receivables, net | 13,971,707 |
| Investments | 3,209,120 |
| Total current assets | 72,074,352 |
| Noncurrent assets: | |
| Investments | 19,003,823 |
| Capital assets, net | 603,700,076 |
| Prepaid insurance | 342,508 |
| Total noncurrent assets | 623,046,407 |
| Total assets | \$ 695,120,759 |
| Deferred outflows of resources: | |
| Deferred loss on refunding, net | \$ 2,224,944 |
| Deferred outflows from pension | 3,853,508 |
| Deferred outflows from other postemployment benefits | 5,688,833 |
| Total deferred outflows of resources | \$ 11,767,285 |
| Current liabilities: | |
| Revenue bonds payable | \$ 24,215,371 |
| State revolving loans payable | 3,652,838 |
| Accounts payable - operations | 1,620,448 |
| Accounts payable - construction projects | 10,435,034 |
| Accrued interest payable | 2,047,733 |
| Accrued expenses and other liabilities | 592,832 |
| Compensated absences | 800,669 |
| Total current liabilities | 43,364,925 |
| Long-term liabilities: | |
| Revenue bonds payable | 85,549,843 |
| State revolving loans payable | 91,733,579 |
| Other postemployment benefits | 28,802,883 |
| Net pension liability | 26,262,465 |
| Total long-term liabilities | 232,348,770 |
| Total liabilities | \$ 275,713,695 |
| Deferred inflows of resources: | |
| Deferred inflows from pension | \$ 4,433,025 |
| Deferred inflows from other postemployment benefits | 456,240 |
| Total deferred inflows of resources | \$ 4,889,265 |
| Net position: | |
| Net investment in capital assets | \$ 390,338,355 |
| Net position - restricted | |
| Debt service | 24,918,191 |
| Capital Asset Replacement | 6,037,001 |
| Other | 3,843,241 |
| Net position - unrestricted | 1,148,296 |
| Total net position | \$ 426,285,084 |

The accompanying notes are an integral part of this financial statement.

Renewable Water Resources
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended December 31, 2021

| | |
|--|----------------|
| Operating revenues: | |
| Domestic and commercial customers | \$ 84,695,259 |
| Industrial customers | 7,679,343 |
| New account fees | 15,134,025 |
| Septic haulers and other | 729,635 |
| | <hr/> |
| Total operating revenues | 108,238,262 |
| | <hr/> |
| Operating expenses: | |
| Technical operations | 27,564,781 |
| Administration | 15,654,547 |
| | <hr/> |
| Total operating expenses before depreciation | 43,219,328 |
| Depreciation | 32,019,115 |
| | <hr/> |
| Total operating expenses | 75,238,443 |
| | <hr/> |
| Operating income | 32,999,819 |
| | <hr/> |
| Nonoperating revenues (expenses): | |
| Investment loss | (74,625) |
| Interest expense | (4,954,081) |
| Amortization | (4,053) |
| Debt issuance costs | (79,415) |
| Non-project expenses | (4,454,860) |
| Other revenue | 253,886 |
| | <hr/> |
| Net nonoperating expenses | (9,313,148) |
| | <hr/> |
| Capital contributions: | |
| Transfer of operations | 5,879,734 |
| Other capital contributions | 1,074,201 |
| | <hr/> |
| Total capital contributions | 6,953,935 |
| | <hr/> |
| Increase in net position | 30,640,606 |
| | <hr/> |
| Total net position, beginning of year | 395,644,478 |
| | <hr/> |
| Total net position, end of year | \$ 426,285,084 |
| | <hr/> <hr/> |

The accompanying notes are an integral part of this financial statement.

Renewable Water Resources
Statement of Cash Flows
For the year ended December 31, 2021

Cash flows from operating activities:

| | |
|--|-------------------|
| Received from customers | \$ 107,829,340 |
| Paid to suppliers for goods and services | (28,124,500) |
| Paid to employees for services | (14,647,918) |
| Received from nonoperating revenues | 253,886 |
| Net cash from operating activities | <u>65,310,808</u> |

Cash flows from capital and related financing activities:

| | |
|--|---------------------|
| Acquisition of capital assets and project expenses | (64,716,761) |
| Proceeds from debt issuance | 30,549,227 |
| Principal payments on debt | (23,043,453) |
| Interest payments on debt | (5,441,360) |
| Debt issuance costs | (79,415) |
| Net cash from capital and related financing activities | <u>(62,731,762)</u> |

Cash flows from investing activities:

| | |
|--|-------------------|
| Interest received on investments | 78,050 |
| Purchases of investment securities | (15,138,769) |
| Proceeds from sales of investment securities | 29,167,551 |
| Net cash provided by investing activities | <u>14,106,832</u> |
| Net change in cash and cash equivalents | 16,685,878 |

| | |
|---|----------------------|
| Cash and cash equivalents, beginning of year | <u>38,207,647</u> |
| Cash and cash equivalents, end of year | <u>\$ 54,893,525</u> |

The accompanying notes are an integral part of this financial statement.

Renewable Water Resources
Statement of Cash Flows, continued
For the year ended December 31, 2021

Reconciliation of operating income to net cash flows from operating activities:

| | |
|---|---------------|
| Operating income | \$ 32,999,819 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 32,019,115 |
| Other nonoperating revenue | 253,886 |
| Pension contributions in excess of expense | (351,472) |
| Changes in asset and liability amounts: | |
| Receivables, net | (408,922) |
| Prepaid insurance | 299,332 |
| Accounts payable - operations | (293,489) |
| Accounts payable - construction projects | (689,860) |
| Accrued expenses and other liabilities | (443,243) |
| Compensated absences | 28,555 |
| Other postemployment benefits | 1,897,087 |
| Net cash provided by operating activities | \$ 65,310,808 |

Noncash activities:

| | |
|--|--------------|
| Decrease in fair value of investments | \$ (331,729) |
| Amortization of prepaid bond insurance | 4,053 |
| Total noncash activities | \$ (327,676) |

Reconciliation of cash and cash equivalents to statement of net position:

| | |
|--------------------------------------|---------------|
| Cash and cash equivalents | \$ 20,095,092 |
| Restricted cash and cash equivalents | 34,798,433 |
| Total cash and cash equivalents | \$ 54,893,525 |

The accompanying notes are an integral part of this financial statement.

Notes to Financial Statements

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 1 – Summary of Significant Accounting Policies and Activities

Description of entity

Renewable Water Resources (the “Agency”), previously known as Western Carolina Regional Sewer Authority, is a special purpose district created by the General Assembly of the state of South Carolina. The Agency is governed by a commission consisting of 11 members who are appointed by the Governor upon recommendation by the legislative delegations of Greenville, Anderson, Laurens, and Spartanburg Counties. The Agency provides wastewater treatment services for residents and industries covering substantially all of Greenville County and portions of Anderson, Laurens, Pickens, and Spartanburg Counties. In fulfilling its functions, the Agency receives wastewater from the area’s collection systems and owns and operates water resource recovery facilities (“WRRF”), pump stations, and trunk lines, which are collectively referred to as the “System”. It is the Agency’s policy to maintain customer user rates sufficient to meet operational and maintenance expenses, as well as to pay debt service on bonds and notes issued to finance upgrading and maintaining the System.

Reporting entity

This report includes all operations of the Agency for which the Agency’s Commissioners are financially accountable.

Fund accounting

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

Basis of accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting as recommended by the Governmental Accounting Standards Board (“GASB”). Basis of accounting refers to the timing of recognition of revenues and expenses. Under the accrual basis of accounting, revenues and receivables are recognized when earned and expenses and liabilities are recognized when incurred, regardless of the timing of related cash flows.

Budgetary practices

Annual budgets are prepared by management as a control device and adopted in accordance with South Carolina Code of Laws Section 6-1-80.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 1 – Summary of Significant Accounting Policies and Activities, continued

Cash and cash equivalents

For purposes of reporting cash flows, the Agency considers all liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

The Agency has adopted applicable accounting standards for its investments which clarify that fair value is an exit price, representing the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The Agency utilizes market data or assumptions that market participants would use in pricing. All investments reported at fair value are categorized within the fair value hierarchy established under accounting principles generally accepted in the United States of America (“U.S. GAAP”). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Gains or losses that result from market fluctuation are reported in the current period. As of December 31, 2021, investments in money market funds, certificates of deposit and the South Carolina Investment Pool are valued using amortized cost, while all of the Agency’s investments in U.S. agencies notes and bonds are valued using significant other observable inputs (Level 2 inputs), such as bonds valued by a pricing service that uses matrix pricing or a price or yield of a similar bond.

Restricted assets

Any unexpended bond proceeds issued by the Agency are classified as restricted assets because their use is restricted to the purpose for which the bonds were originally issued. Additionally, certain resources set aside for repayment of debt are classified as restricted assets because their use is limited by applicable bond covenants. Cash and cash equivalents and investments included in the Agency’s debt service and debt service reserve accounts are classified as restricted because their use is restricted for security and debt service of the outstanding debt. When both restricted and unrestricted resources are available for use, it is the Agency’s policy to use restricted resources first, then unrestricted resources as needed.

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 1 – Summary of Significant Accounting Policies and Activities, continued

Capital assets

Capital assets are stated at historical cost. The Agency capitalizes purchases of assets greater than \$5,000. Donated capital assets are recorded at acquisition value at the date of donation. Depreciation of capital assets is calculated on or using the straight-line method over the estimated useful lives of the respective assets as follows:

| | |
|---------------------------------|---------------|
| Buildings and land improvements | 15 – 30 years |
| Collection and trunk lines | 40 years |
| Machinery and equipment | 5–15 years |
| Office furniture and equipment | 4 – 5 years |
| Vehicles and heavy equipment | 3 – 10 years |

Intangible assets consisting of rights-of-way are recorded as capital assets at cost and considered to have an indefinite useful life; therefore, they are not amortized. If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset is evaluated for impairment because a change in the expected duration of use of the asset has occurred. The carrying value of the intangible asset, if any, following the recognition of any impairment loss, is amortized over the remaining estimated useful life of the asset.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The Agency follows the guidance of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Accordingly, interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

The cost of fully depreciated assets and the related accumulated depreciation amounts are eliminated from the accounts, whether the assets are retired or continue in service.

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

The Agency has granted a statutory lien on the System to secure its revenue bonds and state revolving loans.

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 1 – Summary of Significant Accounting Policies and Activities, continued

Capital assets, continued

Net position

Net position is classified into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

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

Long-term obligations

Long-term debt and other obligations financed by the Agency are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds using methods which approximate the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred.

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 1 – Summary of Significant Accounting Policies and Activities, continued

Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial element, *deferred outflows of resources*, represents consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Agency's deferred loss on refunding, as well as deferred pension and other postemployment benefits outflows of resources, qualify for reporting in this category. A deferred loss on refunding results from the difference in carrying value of the refunded debt and reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Pension and other postemployment benefits differences between expected and actual experience with regard to economic and demographic factors are recognized as deferred outflows/inflows of resources related to pension and other postemployment benefits and included in the pension and other postemployment benefits expense over a period based on the average expected remaining service lives of all employees that are provided with benefits through the plan. Additionally, contributions to the pension and other postemployment benefits plans made after the plans' measurement date are reported as deferred outflows of resources.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial element, *deferred inflows of resources*, represents the acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency's deferred inflows from pension and other postemployment benefits consist of differences between projected and actual experience.

Compensated absences

Vested vacation leave is recorded as an expense and liability as the benefits accrue to employees.

Revenues and receivables

- **Domestic and commercial customers** – Revenues and receivables, based on water consumption, are recognized when services are provided.
- **Industrial customers** – Revenues and receivables, based on metered effluent and surcharges, are recognized when services are provided.
- **Allowance for uncollectible accounts** – An allowance for uncollectible accounts is estimated based on historic bad debt levels, plus an amount for any specific doubtful accounts.

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 1 – Summary of Significant Accounting Policies and Activities, continued

Operating revenues and expenses

Operating revenues and expenses generally result from providing services in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency are charges to customers for wastewater conveyance and treatment services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Estimates

Preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the Agency's financial position and results of operations and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

New pronouncements

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which resulted in an 18-month postponement for Statement 87, *Leases*. Additionally, all statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018 and later have a one-year postponement.

GASB has issued several statements which have not yet been implemented by the Agency. The following statements may have a future impact on the Agency:

GASB Statement No. 87, *Leases*, effective for periods beginning after June 15, 2021, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

(Continued)

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 1 – Summary of Significant Accounting Policies and Activities, continued

New pronouncements, continued

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for periods beginning after June 15, 2022, was issued to reduce the diversity in practice of current reporting and to define subscription-based information technology arrangements by leveraging guidance in Statement No. 87, *Leases*.

Note 2 – Cash and Cash Equivalents and Investments

As of December 31, 2021, the Agency had the following cash and cash equivalents and investments:

Cash and cash equivalents:

| | |
|--|----------------------|
| Checking and other cash | \$ 4,217,869 |
| Money markets - government obligations | 50,675,656 |
| Total cash and cash equivalents | <u>\$ 54,893,525</u> |

Investments:

| | |
|----------------------------------|----------------------|
| Government sponsored enterprises | \$ 14,796,160 |
| Certificates of deposit | 3,479,955 |
| U.S. Treasury notes | 1,970,820 |
| SC investment pool | 1,966,008 |
| Total investments | <u>\$ 22,212,943</u> |

(Continued)

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 2 – Cash and Cash Equivalents and Investments, continued

Investment maturities are as follows as of December 31, 2021:

| <u>Investment type</u> | <u>Fair value</u> | <u>Investment maturities (in years)</u> | |
|---------------------------------------|----------------------|---|----------------------|
| | | <u>Less than 1 year</u> | <u>1 – 5 years</u> |
| Certificates of deposit | \$ 3,479,955 | \$ 1,243,112 | \$ 2,236,843 |
| SC investment pool | 1,966,008 | 1,966,008 | - |
| U.S. agencies notes and bonds: | | | |
| Federal Home Loan Bank | 6,928,140 | - | 6,928,140 |
| Federal National Mortgage Association | 1,960,040 | - | 1,960,040 |
| Federal Home Loan Mortgage | 1,953,360 | - | 1,953,360 |
| Federal Farm Credit Bank | 3,954,620 | - | 3,954,620 |
| U.S. Treasury notes | 1,970,820 | - | 1,970,820 |
| Total | <u>\$ 22,212,943</u> | <u>\$ 3,209,120</u> | <u>\$ 19,003,823</u> |

No investments mature beyond five years as of December 31, 2021.

Interest rate risk

The Agency’s investment policy requires structuring investment maturities and investment options to manage its exposure to fair value losses arising from increasing interest rates.

Credit risk

State law limits investments to obligations of the United States and agencies thereof, general obligations of the state of South Carolina, or any of its political units, financial institutions to the extent the same are secured by Federal Deposit Insurance, and certificates of deposit where the certificates are collaterally secured by securities of the type described above are held by a third party as escrow agent or custodian, of a fair value not less than the amount of the certificates of deposit so secured, including interest.

The Agency’s investment policy follows state law and requires, at the time of investment, the obligor to have an unsecured credit rating in one of the top two categories. In addition, state law authorizes the Agency to invest in the South Carolina Local Government Investment Pool (“SC Investment Pool”). The SC Investment Pool was created by state legislation which restricts the types of securities the pool can purchase. Specifically, the pool is permitted to purchase obligations of the United States, its agencies and instrumentalities, and any corporation within the United States, if such obligations bear any of the three highest ratings of at least two nationally-recognized rating services. The SC Investment Pool is a qualifying pool, which provides that it operates in a manner consistent with specified conservative investment strategies described in GASB Statement No. 79, *Certain External Investment Pool Participants*. The SC Investment Pool is not rated. The total fair value of the pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at \$1.00. The SC Investment Pool does not contain any restrictive redemption limitations. Funds may be deposited at any time and may be withdrawn upon 24-hours’ notice. Financial statements for the SC Investment Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, Post Office Box 11778, Columbia, South Carolina 29211-1950.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 2 – Cash and Cash Equivalents and Investments, continued

The Agency's investments at December 31, 2021 consist of SC Investment Pool shares, certificates of deposit, U.S. Treasury notes, and U.S. agencies notes and bonds. The U.S. Treasury notes and U.S. agencies notes and bonds were rated AA+ by Standard & Poor's and/or Aaa by Moody's Investors Service as of December 31, 2021.

The Agency's cash and cash equivalents at December 31, 2021 consist of cash and money market accounts. Approximately \$24.9 million of the money market funds are in First American Treasury Obligations Fund Class Y which is assigned the highest credit rating by Standard & Poor's, Moody's, and Fitch. The remaining balance of approximately \$25.8 million are held in business money market accounts which are not currently rated but are collateralized.

Concentration of credit risk

In accordance with the Agency's investment policy, all investments must be allowable under the current state law. As a result, more than 5.0% of the Agency's investments are in government sponsored enterprises due to the limited type of investment instruments available under current state law. These investments are approximately 67% of the Agency's total investments at December 31, 2021.

Custodial credit risk deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. As of December 31, 2021, all of the Agency's deposits were insured or collateralized using one of two methods. Under the dedicated method, all uninsured deposits are collateralized with securities held by the Agency's agents in the Agency's name. Under the pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agents in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Agency, these deposits are considered to be held by the Agency's agents in the Agency's name.

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 3 – Receivables

Customer and other accounts receivables as of December 31, 2021 were as follows:

| | |
|--|----------------------|
| Fees and services: | |
| Domestic and commercial customers | \$ 12,808,534 |
| Industrial customers | 1,482,383 |
| | <hr/> |
| Total receivables from fees | 14,290,917 |
| Less: allowance for uncollectible accounts | 400,000 |
| | <hr/> |
| Net receivables from fees | 13,890,917 |
| Accrued interest on cash equivalents and other receivables | 80,790 |
| | <hr/> |
| Total receivables | <u>\$ 13,971,707</u> |

Note 4 – Restricted Cash and Cash Equivalents and Investments

Provisions of the revenue bond and state revolving loan covenants require the Agency to establish funds and restrict the use of certain cash and cash equivalents and investments. A brief description of such funds follows:

- **Current principal and interest payments** – restricts resources accumulated for the next principal and interest payments.
- **Operations and maintenance** – restricts resources to cover operating and maintenance expenses for one month.
- **Capital asset replacement** – restricts resources to fund asset replacements.

Restricted cash and cash equivalents at December 31, 2021 are restricted for the following uses:

| | |
|---|----------------------|
| Current principal and interest payments | \$ 24,918,191 |
| Operations and maintenance | 3,843,241 |
| Capital asset replacement | 6,037,001 |
| | <hr/> |
| Total restricted assets | <u>\$ 34,798,433</u> |

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 5 – Capital Assets

A summary of changes in capital assets from December 31, 2020 to December 31, 2021 follows below:

| | December 31, 2020 | Additions | Disposals | December 31, 2021 |
|---|------------------------------|----------------------|----------------------|------------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 136,506,193 | \$ 64,272,088 | \$ 54,458,216 | \$ 146,320,065 |
| Land | 7,012,430 | 436,765 | - | 7,449,195 |
| Rights-of-way | 2,805,474 | 811,274 | - | 3,616,748 |
| Total capital assets not being depreciated | <u>146,324,097</u> | <u>65,520,127</u> | <u>54,458,216</u> | <u>157,386,008</u> |
| Capital assets being depreciated: | | | | |
| Buildings and land improvements | 386,858,470 | 1,995,439 | 257,333 | 388,596,576 |
| Collection and trunk lines | 368,644,277 | 28,776,683 | - | 397,420,960 |
| Machinery and equipment | 78,553,351 | 19,463,873 | 4,997,953 | 93,019,271 |
| Office furniture and equipment | 2,800,266 | 5,964,664 | 78,403 | 8,686,527 |
| Vehicles and heavy equipment | 1,368,205 | 236,666 | 133,822 | 1,471,049 |
| Total capital assets being depreciated | <u>838,224,569</u> | <u>56,437,325</u> | <u>5,467,511</u> | <u>889,194,383</u> |
| Less: accumulated depreciation: | | | | |
| Buildings and land improvements | 208,140,630 | 13,106,072 | 73,274 | 221,173,428 |
| Collection and trunk lines | 160,908,435 | 9,681,774 | - | 170,590,209 |
| Machinery and equipment | 45,477,426 | 6,899,736 | 4,898,612 | 47,478,550 |
| Office furniture and equipment | 1,127,071 | 2,041,268 | 78,403 | 3,089,936 |
| Vehicles and heavy equipment | 391,749 | 290,265 | 133,822 | 548,192 |
| Total accumulated depreciation | <u>416,045,311</u> | <u>32,019,115</u> | <u>5,184,111</u> | <u>442,880,315</u> |
| Total capital assets being depreciated, net | <u>422,179,258</u> | <u>24,418,210</u> | <u>283,400</u> | <u>446,314,068</u> |
| Capital assets, net | <u>\$ 568,503,355</u> | <u>\$ 89,938,337</u> | <u>\$ 54,741,616</u> | <u>\$ 603,700,076</u> |

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 6 – Defeasance of Debt

From time to time the Agency defeases debt through the issuance of new debt with the proceeds deposited in an irrevocable trust to provide for all debt service payments of the old debt. Thus, the defeased debt and the irrevocable trust are not part of the financial statements. Outstanding principal amounts of defeased bonds totaled \$49,737,094 at December 31, 2021.

Deferred outflow of resources from defeasance loss

When a difference exists between the reacquisition price and the net carrying amount of the old debt, a deferred loss or gain is recorded and classified in the respective deferred outflow or inflow of resources on the Statement of Net Position. This amount is amortized as a component of interest expense over the remaining life of the old debt or new debt, whichever is shorter. As of December 31, 2021, the Agency’s defeasance loss, net was \$2,224,944.

Amortization of the defeasance loss for the period ended December 31, 2021 totaled \$898,392.

Estimated future amortization expense is as follows:

| Year ending December 31, | Amortization expense |
|-------------------------------------|---------------------------------|
| 2022 | \$ 896,266 |
| 2023 | 889,642 |
| 2024 | 439,036 |
| Total | \$ 2,224,944 |

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 7 – Revenue Bonds Payable

At December 31, 2021, the Agency was obligated on various series of revenue bonds issued for purposes of constructing capital assets, with all but Series 2015A and 2017A revenue bonds being publicly traded debt. The Series 2015A and 2017A revenue bonds are direct placement. Revenue bonds outstanding at December 31, 2021 are as follows:

| | |
|--|-----------------------------|
| \$71,395,000 Series 2012 refunding revenue bonds dated March 20, 2012, with interest at 2.0% to 5.0% payable semi-annually beginning July 1, 2012. Beginning January 1, 2014, annual principal payments ranging from \$270,000 to \$15,065,000 plus semi-annual payments of interest at 2.0% to 5.0% are payable through January 2022. | \$ 13,505,000 |
| \$13,465,000 Series 2015A refunding revenue bonds dated October 7, 2015, with annual principal payments ranging from \$181,000 to \$1,649,000 plus interest at 2.0% payable semi-annually through January 2025. | 12,019,000 |
| \$11,736,000 Series 2017A refunding revenue bonds dated March 14, 2017, with annual principal payments ranging from \$141,000 to \$2,387,000 plus interest at 2.1% payable semi-annually through March 2024. | 7,031,000 |
| \$25,055,000 Series 2018A capital improvement bonds dated October 11, 2018, with principal payments ranging from \$8,445,000 to \$16,610,000 plus interest at 5.0% payable semi-annually through January 2025. | 25,055,000 |
| \$22,445,000 Series 2020C refunding revenue bonds dated October 6, 2020, with annual principal payments ranging from \$295,000 to \$5,380,000 plus semi-annual interest payments at 4.0% to 5.0% payable through January 2031. | 22,445,000 |
| \$23,730,000 Series 2020D refunding revenue bonds dated October 6, 2020, with annual principal payments ranging from \$150,000 to \$15,650,000 plus semi-annual interest payments at 0.4% to 1.0% payable through January 2024. | <u>23,580,000</u> |
| Total revenue bonds payable | 103,635,000 |
| Premium on refunding bonds | 6,130,214 |
| Less: current maturities | <u>24,215,371</u> |
| Long-term portion | <u><u>\$ 85,549,843</u></u> |

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 7 – Revenue Bonds Payable, continued

Amortization of bond premiums totaled \$1,384,700 for the year ended December 31, 2021.

Future amounts required to pay principal and interest on revenue bonds outstanding at December 31, 2021 are as follows:

| <u>Year ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|-----------------------|---------------------|-----------------------|
| 2022 | \$ 22,494,000 | \$ 3,016,702 | \$ 25,510,702 |
| 2023 | 23,859,000 | 2,496,643 | 26,355,643 |
| 2024 | 23,468,000 | 1,960,216 | 25,428,216 |
| 2025 | 23,639,000 | 1,053,772 | 24,692,772 |
| 2026 | 2,660,000 | 420,950 | 3,080,950 |
| 2027 - 2031 | 7,515,000 | 560,725 | 8,075,725 |
| Total | <u>\$ 103,635,000</u> | <u>\$ 9,509,008</u> | <u>\$ 113,144,008</u> |

Provisions of the revenue bond agreements require the Agency to maintain user rates sufficient to generate net earnings as defined by the bond agreement of at least 110% of the combined annual principal and interest payments; make timely payment of principal and interest on all outstanding debt; maintain required funds for debt service reserves, operations, and maintenance expenses, capital asset replacement and contingencies; and meet various other general requirements specified in the bond agreements. Management believes the Agency was in compliance with these covenants at December 31, 2021.

The outstanding bonds, as described above, contain a provision that upon the occurrence of an event of default, the Trustee, along with bond holders with not less than 25% of outstanding bond principal, can declare the outstanding bonds immediately due and payable. The portion of the outstanding bonds due and payable includes the entire principal amount outstanding, plus all interest accrued thereon and which will accrue thereon to the date of payment. Further, in such a default event, the Trustee may demand from the Agency, as promptly as practicable after receipt thereof, all gross revenues, as well as all moneys and securities held by the Agency or Bond Issuer under the respective Bond Resolutions in force.

The Series 2012, Series 2015A, Series 2017A, Series 2018A, Series 2020C, and Series 2020D bonds are secured by a pledge of the gross revenues, net of operations and maintenance expenses, as defined in the 2010 Bond Resolution.

Interest expense on the revenue bonds totaled \$3,457,627 for the year ended December 31, 2021.

Interest paid on the debt issued by the Agency is exempt from federal income tax except for the Series 2020D refunding revenue bonds. The Agency sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. At December 31, 2021, the Agency had no arbitrage rebate liability.

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 8 – State Revolving Loans Payable

At December 31, 2021, the Agency was obligated on various state revolving loans, constituting direct borrowing issued for purposes of constructing capital assets. State revolving loan amounts outstanding at December 31, 2021, are as follows:

| | |
|--|--------------|
| \$4,572,731 FY15/16 Gravity Sewer and Manhole Rehabilitation loan dated March 25, 2016. Payable in quarterly installments of \$49,400 including interest at 1.8%, through November 2046. | \$ 3,970,958 |
| \$13,807,197 Richland Creek Trunk Sewer Improvements loan dated March 25, 2016. Payable in quarterly installments of \$149,161 including interest at 1.8%, through July 2047. | 12,273,229 |
| \$1,529,876 FY17 Gravity Sewer and Manhole Rehabilitation loan dated December 4, 2017. Payable in quarterly installments of \$23,031 including interest at 1.9%, through July 2038. | 1,318,995 |
| \$42,690,718 Reedy River Basin Sewer Tunnel loan dated December 4, 2017. Payable in 80-quarterly installments of \$517,697 including interest at 1.9%, followed by 40-quarterly installments of \$341,979 including interest at 2.4%, through April 2050. Funds remaining to be drawn in 2022 are \$370,007. | 40,408,633 |
| \$1,242,265 FY18 Gravity Sewer and Manhole Rehabilitation loan dated May 17, 2019. Payable in quarterly installments of \$19,057 including interest at 2.1%, through July 2039. | 1,127,050 |
| \$16,031,900 Lower Reedy WRRF Digester Capacity Evaluation and Improvements loan dated May 17, 2019. Payable in quarterly installments of \$245,938 including interest at 2.1%, through May 2041. Funds remaining to be drawn in 2022 are \$1,015,383. | 14,692,127 |
| \$12,540,156 Rock Creek Interceptor Upgrade loan dated May 17, 2019. Payable in quarterly installments of \$192,373 including interest at 2.1%, through January 2041. | 12,128,463 |

(Continued)

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 8 – State Revolving Loans Payable, continued

| | |
|---|-----------------------------|
| \$10,664,665 Unity Park Trunk Sewer Improvements loan dated May 19, 2020. Payable in quarterly installments of \$165,140 including interest at 2.2%, through February 2041. Funds remaining to be drawn in 2022 are \$1,609,344. | \$ 8,734,107 |
| \$3,261,948 Peppertree Pump Stations #1 and #2 Elimination loan dated June 30, 2021. Payable in quarterly installments of \$48,644 including interest at 1.8%, through May 2042. Funds remaining to be drawn in 2022 are \$3,132,790. | 129,158 |
| \$2,184,315 Simpsonville B Pump Station Elimination loan dated June 30, 2021. Payable in quarterly installments of \$31,959 including interest at 1.60%, through March 2042. Funds remaining to be drawn in 2022 are \$1,580,618. | <u>603,697</u> |
| Total state revolving loans payable | <u>95,386,417</u> |
| Less: current maturities | <u>3,652,838</u> |
| Long-term portion | <u><u>\$ 91,733,579</u></u> |

Interest expense on the state revolving loans totaled \$1,982,762 for the year ended December 31, 2021.

Future amounts required to pay outstanding principal and interest on state revolving loans outstanding at December 31, 2021 are as follows:

| Year ending December 31, | Principal | Interest | Total |
|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| 2022 | \$ 3,652,838 | \$ 1,942,013 | \$ 5,594,851 |
| 2023 | 3,771,695 | 1,892,995 | 5,664,690 |
| 2024 | 3,784,727 | 1,790,298 | 5,575,025 |
| 2025 | 3,860,322 | 1,714,703 | 5,575,025 |
| 2026 | 3,937,435 | 1,637,590 | 5,575,025 |
| 2027 - 2031 | 20,524,874 | 6,897,227 | 27,422,101 |
| 2032 - 2036 | 22,509,313 | 4,726,626 | 27,235,939 |
| 2037 - 2041 | 19,030,560 | 2,429,354 | 21,459,914 |
| 2042 - 2046 | 9,662,197 | 1,148,595 | 10,810,792 |
| 2047 - 2050 | 4,652,456 | 210,682 | 4,863,138 |
| Total | <u><u>\$ 95,386,417</u></u> | <u><u>\$ 24,390,083</u></u> | <u><u>\$ 119,776,500</u></u> |

Provisions of the state revolving loan agreements require the Agency to use loan proceeds solely for the purpose of paying eligible project costs, submit the annual audit of its financial statements by June 30, maintain user rates sufficient to make timely payment of principal and interest on all outstanding debt, maintain required funds for current principal and interest payments, operations and maintenance expenses, capital asset replacement and contingencies, review the adequacy of its user rates at least annually, and meet various other general requirements specified in the loan agreements. Management believes the Agency was in compliance with these covenants at December 31, 2021.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 8 – State Revolving Loans Payable, continued

The state revolving loans are on parity with the bonds issued under the 2010 Bond Resolution. The state revolving loans are secured by a pledge of the gross revenues, net of operations and maintenance expenses, as defined in the 2010 Bond Resolution.

The outstanding revolving loans, as described above, contain a provision that, upon the occurrence of an event of default, the outstanding principal balance may be declared immediately due and payable. The portion of the outstanding revolving loans due and payable includes the entire principal amount outstanding, plus all interest accrued thereon and which will accrue thereon to the date of payment.

Note 9 – Changes in Long-Term Liabilities

Changes in long-term debt, other postemployment benefits (“OPEB”), and net pension liability at December 31, 2020 to December 31, 2021 are as follows:

| | December 31, 2020 | Additions | Reductions | December 31, 2021 | Due within One Year |
|---------------------------|------------------------------|----------------------|----------------------|------------------------------|--------------------------------|
| Revenue bonds | \$ 123,726,000 | \$ - | \$ 20,091,000 | \$ 103,635,000 | \$ 22,494,000 |
| State revolving loans | 67,789,643 | 30,549,227 | 2,952,453 | 95,386,417 | 3,652,838 |
| OPEB | 24,908,349 | 4,222,672 | 328,138 | 28,802,883 | - |
| Net pension liability | 29,919,764 | 11,481,381 | 15,138,680 | 26,262,465 | - |
| Subtotal | 246,343,756 | 46,253,280 | 38,510,271 | 254,086,765 | 26,146,838 |
| Premiums on bond issuance | 7,514,914 | - | 1,384,700 | 6,130,214 | 1,721,371 |
| Total | <u>\$ 253,858,670</u> | <u>\$ 46,253,280</u> | <u>\$ 39,894,971</u> | <u>\$ 260,216,979</u> | <u>\$ 27,868,209</u> |

Note 10 – Construction Contracts in Progress

At December 31, 2021, the Agency had commitments for various projects for the construction and acquisition of property and equipment. Construction in progress is included in capital assets along with land and land improvements, buildings, collection and trunk lines, machinery and equipment, office furniture, vehicles, and heavy equipment.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 10 – Construction Contracts in Progress, continued

The following summarizes construction contracts in progress at December 31, 2021 on which significant additional work is to be performed:

| Project name | Contract amount | Total contract incurred | Balance to be performed |
|---|------------------------|--------------------------------|--------------------------------|
| 5R Watershed Planning | \$ 1,329,550 | \$ 1,057,955 | \$ 271,595 |
| Asset Management Program Improvements | 1,486,710 | 968,253 | 518,457 |
| Blossom Branch Sewer Improvements | 5,671,525 | 2,973,857 | 2,697,668 |
| Burger King PS Upgrade | 3,119,888 | 2,697,458 | 422,430 |
| Cleveland/Falls Park Interceptor Rehab | 2,848,073 | 37,237 | 2,810,836 |
| Conestee Improvements | 1,533,110 | 471,278 | 1,061,832 |
| Durbin PCS Upgrade | 1,518,999 | 371,173 | 1,147,826 |
| Force Main Assessment Program | 1,236,756 | 1,106,208 | 130,548 |
| Georges Chemical Feed & Polymer System Improvements | 2,341,800 | 98,492 | 2,243,308 |
| HWY 25 Business Park Phase II | 3,978,499 | 202,400 | 3,776,099 |
| LR WRRF Digester Improvements | 18,136,702 | 17,697,983 | 438,719 |
| MR Blower Improvements | 1,204,432 | 379,974 | 824,458 |
| MR Comprehensive Facility Master Plan | 902,441 | 649,175 | 253,266 |
| MR Process Improvements | 1,129,513 | 990,493 | 139,020 |
| MR RAS PS Improvements | 4,280,616 | 827,875 | 3,452,741 |
| MR Wet Weather PS Phase I Improvements | 3,977,790 | 2,641,912 | 1,335,878 |
| NGU Regional WRRF | 1,275,505 | 1,103,993 | 171,512 |
| O&M Capital (Vehicles & Heavy equipment) | 2,100,000 | 175,000 | 1,925,000 |
| Pelham PCS Upgrade | 3,439,985 | 309,212 | 3,130,773 |
| Pelham Primary Sludge Pump Replacement | 1,878,625 | 123,454 | 1,755,171 |
| Peppertree PS 1 & 2 Elimination | 2,989,866 | 786,511 | 2,203,355 |
| Piedmont Reg Bioreactor Blower Replacement | 1,079,885 | 428,465 | 651,420 |
| Reedy River Basin Sewer Tunnel | 49,380,710 | 47,156,315 | 2,224,395 |
| Rocky Creek PS & FM Upgrade | 9,535,540 | 642,575 | 8,892,965 |
| Saluda #2 PS Improvements | 1,841,443 | 1,728,633 | 112,810 |
| Saluda #3 PS Improvements | 2,259,596 | 1,911,122 | 348,474 |
| Saluda #4 PS Elimination | 2,167,666 | 284,271 | 1,883,395 |
| Simpsonville B PS Elimination | 2,898,188 | 1,240,682 | 1,657,506 |
| Technology Updates | 1,736,609 | 1,403,356 | 333,253 |
| Travelers Rest North Regional PS | 11,368,946 | 1,467,279 | 9,901,667 |
| Unity Park Trunk Sewer | 10,918,912 | 9,683,185 | 1,235,727 |
| Upper Brushy Creek Sewer Phase I Improvements | 836,790 | 320,124 | 516,666 |
| Wet Weather Program | 9,311,955 | 6,535,418 | 2,776,537 |
| Other Projects | 9,253,445 | 3,101,765 | 6,151,680 |
| Total | <u>\$ 178,970,070</u> | <u>\$ 111,573,083</u> | <u>\$ 67,396,987</u> |

Note 11 – Compensated Absences

Full-time employees of the Agency accumulate vacation benefits at one to two days per month, based on length of service, up to 24 days per year. Annual leave in excess of 36 days at December 31 of each year is forfeited. Annual leave earned up to 36 days is paid to employees upon separation from employment. Accrued vacation benefits totaled \$800,669 at December 31, 2021.

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 12 – Employee Benefits

Pension plan

Plan description

Substantially all of the Agency’s employees are members of the South Carolina Retirement System (the “SCRS”), a cost-sharing, multiple-employer defined benefit pension plan administered by the South Carolina Public Employee Benefit Authority (“PEBA”), which is governed by an 11-member Board of Directors. The Retirement Funding and Administration Act of 2017, which became effective July 1, 2017, increased the employer and employee contribution rates, established a ceiling on the SCRS employee contribution rates, lowered the assumed rate of return, required a scheduled reduction of the funding periods, and addressed various governance issues including the assignment of the PEBA Board of Directors as custodian of the retirement trust funds and assignment of the Retirement Systems Investment Commission (“RSIC”) and PEBA as co-trustees and co-fiduciaries for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (“SFAA”), which consists of five elected officials, also reviews certain PEBA board decisions regarding the actuary of the SCRS.

The SCRS was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. The SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government, and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election. Generally, all employees of covered employers, are required to participate in and contribute to the system as a condition of employment. Employees with an effective membership date prior to July 1, 2012, are considered a Class Two member. Employees with an effective membership date on or after July 1, 2012, are considered a Class Three member. PEBA issues an Annual Comprehensive Financial Report (“ACFR”) containing financial statements and required supplementary information for the SCRS’ Pension Trust Funds. The ACFR is publicly available on the PEBA’s website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, South Carolina 29223.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 12 – Employee Benefits, continued

Pension plan, continued

Benefits, continued

A brief summary of the benefit terms for SCRS is presented below.

A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1.0% or \$500 every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.0%, while employer contribution rates were increased by two percentage points and further scheduled to increase by a minimum of one percentage point each year through July 1, 2022. However, the General Assembly postponed the one percent increase in the SCRS employer contribution rate that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS is scheduled to be reduced over a 10-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

(Continued)

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 12 – Employee Benefits, continued

Pension plan, continued

Contributions, continued

Additionally, the PEBA Board of Directors is prohibited from decreasing the SCRS contribution rates until the funded ratio is at least 85.0%. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the System (the funded ratio) that is equal to or greater than 85.0%, then the PEBA Board of Directors, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85.0%. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the System shows a funded ratio of less than 85.0%, then effective on the following July first, and annually thereafter as necessary, the PEBA Board of Directors shall increase the then current contribution rates until a subsequent annual actuarial valuation of the System shows a funded ratio that is equal to or greater than 85.0%.

Plan members were required to contribute 9.0% of their annual covered salary for the period of January 1, 2021 to December 31, 2021, and the Agency was required to contribute 16.41% of covered payroll for the period of January 1, 2021 to December 31, 2021. An additional 0.15% of payroll is contributed to a group life insurance benefit for the participants for the period ended December 31, 2021.

All required contributions for the year ended December 31, 2021 were made and are summarized as follows:

| Year ended December 31, | Employer SCRS | Employee SCRS |
|------------------------------------|--------------------------|--------------------------|
| 2021 | \$ 2,230,010 | \$ 1,247,013 |

Net pension liability

At December 31, 2021, the Agency reported a liability of \$26,262,465 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, based on the July 1, 2020 actuarial valuation. The total pension liability was rolled forward from the valuation date to the plan's year ended June 30, 2021, using generally accepted actuarial principles. The Agency's proportion of the net pension liability was based on the Agency's normal contributions. At the June 30, 2021 measurement date, the Agency's proportionate share was 0.121354%.

(Continued)

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 12 – Employee Benefits, continued

Pension plan, continued

Net pension liability, continued

For the year ended December 31, 2021, the Agency recognized pension expense of \$1,885,222 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred outflows of resources | Deferred inflows of resources |
|--|---|--|
| Difference between expected and actual experience | \$ 447,351 | \$ 35,445 |
| Changes of assumptions | 1,437,521 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 3,814,969 |
| Changes in proportion and differences between Agency's contributions and proportionate share of contributions | 741,945 | 582,611 |
| Agency contributions subsequent to the measurement date | 1,226,691 | - |
| Total | <u>\$ 3,853,508</u> | <u>\$ 4,433,025</u> |

At December 31, 2021, the Agency reported \$1,226,691 as deferred outflows of resources related to pensions resulting from the Agency's contributions subsequent to the measurement dates and will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (benefit) as follows:

| Year ending December 31, | Pension expense (benefit) |
|-------------------------------------|--|
| 2022 | \$ (181,460) |
| 2023 | (98,530) |
| 2024 | (98,706) |
| 2025 | (1,427,512) |
| Total | <u>\$ (1,806,208)</u> |

(Continued)

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 12 – Employee Benefits, continued

Pension plan, continued

Actuarial assumptions

Measurement of the total net pension liability requires the use of assumptions about numerous future events that affect the benefit payments that will be made to employees in retirement. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2019. The following provides a brief description of the significant actuarial assumptions applied to all periods included in the measurements.

| | |
|--|--|
| Cost method | Entry age normal |
| Investment rate of return ¹ | 7% |
| Salary increases | 3.0% to 11.0% (varies by service) ¹ |
| Inflation | 2.25% |
| Benefit adjustments | Lesser of 1.0% or \$500 annually |

¹ Includes inflation at 2.25%

The post-retiree mortality assumption is dependent upon the member’s job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems’ mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of PEBA’s 2021 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. For actuarial purposes, the 7% assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75% real rate of return and a 2.25% inflation component.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 12 – Employee Benefits, continued

Pension plan, continued

Actuarial assumptions, continued

| <u>Asset class</u> | <u>Target allocation</u> | <u>Expected arithmetic real rate of return</u> | <u>Long-term expected portfolio real rate of return</u> |
|------------------------------------|--------------------------|--|---|
| Public equity | 46.00% | 6.87% | 3.16% |
| Bonds | 26.00% | 0.27% | 0.07% |
| Private equity | 9.00% | 9.68% | 0.87% |
| Private debt | 7.00% | 5.47% | 0.39% |
| Real assets - real estate | 9.00% | 6.01% | 0.54% |
| Real estate - infrastructure | 3.00% | 5.08% | 0.15% |
| Total expected return | <u>100.00%</u> | | <u>5.18%</u> |
| Inflation | | | <u>2.25%</u> |
| Expected arithmetic nominal return | | | <u>7.43%</u> |

Discount rate

The discount rate used to measure the pension liability was 7%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, the SCRS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 12 – Employee Benefits, continued

Pension plan, continued

Actuarial assumptions, continued

Sensitivity of the Agency’s proportionate share of the net pension liability to changes in the discount rate

The following presents the Agency’s proportionate share of the net pension liability calculated using the discount rate of 7%, as well as what the Agency’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| 1.0% Decrease 6.00% | Current discount rate 7.00% | 1.0% Increase 8.00% |
|------------------------------------|--|------------------------------------|
| \$ 34,400,672 | \$ 26,262,465 | \$ 19,498,089 |

Pension plan fiduciary net position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued ACFR containing financial statements and required supplementary information for SCRS. The ACFR is publicly available on PEBA’s website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, South Carolina 29223.

Deferred compensation plan

The Agency offers its employees multiple deferred compensation plans, created in accordance with Internal Revenue Code Sections 401(k) and 457, which are administered and controlled by the state of South Carolina. The plans, available to all the Agency employees, permit employees to defer a portion of their salary until future years. Participation in the plans is optional. Certain employees of the Agency have elected to participate. Compensation deferred under the plans is placed in trust for the contributing employee. Empower Retirement is the program administrator of the plans based on the current state contract.

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 13 – Postemployment Healthcare Plan

Plan description

The Agency maintains a single-employer defined benefit plan (the “Plan”) to provide certain postretirement healthcare benefits to all former regular full-time employees. Healthcare coverage levels for retirees are the same as coverage provided to regular active, full-time employees in accordance with the terms and conditions of the South Carolina State Health Plan.

Benefits

The Agency contributes up to 81.1% of the monthly premium for retirees and covered dependents based on the selected healthcare Plan. The amount contributed by the Agency is determined by PEBA. This amount is based on the level of coverage selected by the retiree, not the Plan selected. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Because the Plan consists solely of the Agency’s commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

Summary of membership information

The following table provides a summary of the number of participants in the Plan as of the June 30, 2021 measurement date:

| | |
|---|------------|
| Inactive Plan members or beneficiaries currently receiving benefits | 91 |
| Inactive Plan members entitled to, but not yet receiving benefits | - |
| Active Plan members | 175 |
| Total Plan members | <u>266</u> |

Contributions

The Agency contributes the following per retiree, per month based on the level of coverage selected, and not the Plan selected by the retiree:

| | <u>Employee</u> | <u>Employer</u> |
|--------------------|-----------------|-----------------|
| Retiree only | \$ 111 | \$ 459 |
| Retiree/spouse | 289 | 909 |
| Retiree/child(ren) | 164 | 705 |
| Family | 349 | 1,139 |

(Continued)

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 13 – Postemployment Healthcare Plan, continued

Changes in the OPEB obligation

Discount rate

For Plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of the current valuation, the municipal bond rate is 1.92% (based on the Fidelity “20-year Municipal GO AA Index” as of June 30, 2020). The discount rate was 2.45% as of the prior measurement date.

Total OPEB liability

The Agency’s total OPEB liability of \$28,802,883 was measured as of June 30, 2021, and was determined by an actuarial valuation as of June 30, 2020.

Rollforward disclosure

The actuarial valuation was performed as of June 30, 2020. Update procedures were used to roll forward the total OPEB liability to June 30, 2021.

Plan assets

There are no Plan assets accumulated in a trust that meet the criteria in paragraph four of GASB Statement No. 75.

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 13 – Postemployment Healthcare Plan, continued

Actuarial methods and assumptions

Projections of health benefits are based on the Plan as understood by the Agency and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Agency and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

| | |
|------------------------|--|
| Actuarial cost method | Individual Entry Age Normal |
| Discount rate | 1.92% as of June 30, 2021 |
| Payroll growth | 3.0% to 9.5%, including inflation |
| Inflation | 2.25% per annum |
| Experience studies | Based on the experience study covering the five-year period ending June 30, 2019 as conducted for the SCRS. |
| Mortality | For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Table are used with fully generational mortality projections using 80% of Scale UMP to account for future mortality improvements and adjusted with multipliers based on plan experience. The following multipliers are applied to the base tables: 97% for male SCRS members, 107% for female SCRS members. |
| Healthcare trend rates | Initial rate of 6.00% declining to an ultimate rate of 4.00% after 15 years. |
| Participation rates | It was assumed that 90% of eligible retirees would choose to receive retiree healthcare benefits through the employer. |

Sensitivity of total OPEB liability to the discount rate assumption

The Sensitivity of Total OPEB Liability to Change in Discount Rate and Healthcare Trend Rate – OPEB Plan’s liability was prepared using a discount rate of 1.92%, which was a change from 2.45% applied in the prior year. If the discount rate were 1.0% higher than what was used in this valuation, the OPEB Plan liability would decrease to \$24,543,746 or by 14.8%. If the discount rate were 1.0% lower than what was used in this valuation, the OPEB Plan liability would increase to \$34,173,769 or by 18.6%.

| | Discount rate | | |
|-----------|-----------------------|-----------------------|-----------------------|
| | 1.00% Decrease | Baseline 1.92% | 1.00% Increase |
| OPEB Plan | \$ 34,173,769 | \$ 28,802,883 | \$ 24,543,746 |

(Continued)

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 13 – Postemployment Healthcare Plan, continued

Sensitivity of total OPEB liability to the healthcare cost trend rate assumption

The June 30, 2021 OPEB Plan liability was prepared using an initial trend rate of 6.00%. If the trend rate were 1.0% higher than what was used in this valuation, the OPEB Plan liability would increase to \$35,743,968 or by 24.1%. If the trend rate were 1.0% lower than what was used in this valuation, the OPEB Plan liability would decrease to \$23,561,948 or by 18.2%.

| | Healthcare cost trend rate | | |
|-----------|-----------------------------------|-----------------|-----------------------|
| | 1.00% Decrease | Baseline | 1.00% Increase |
| OPEB Plan | \$ 23,561,948 | \$ 28,802,883 | \$ 35,743,968 |

For the year ended December 31, 2021, the Agency recognized an increase in OPEB Plan liability of \$3,894,534 and reported deferred outflows and inflows of resources related to the OPEB Plan from the following sources:

| | Deferred outflows of resources | Deferred inflows of resources |
|--|---|--|
| Difference in expected and actual experience | \$ 256,823 | \$ 376,430 |
| Changes in assumptions | 5,083,724 | 79,810 |
| Contributions subsequent to the measurement date | 348,286 | - |
| | \$ 5,688,833 | \$ 456,240 |

The \$348,286 reported as deferred outflows of resources related to OPEB resulting from the Agency’s contributions subsequent to the June 30, 2021 measurement date will be recognized as a reduction of the OPEB liability in the year ending December 31, 2022.

Amounts reported as deferred outflows and deferred inflows of resources related to the OPEB Plan will be recognized in OPEB expense for the year ended December 31, as follows:

| | |
|------------|--------------|
| 2022 | \$ 874,535 |
| 2023 | 874,535 |
| 2024 | 874,535 |
| 2025 | 886,788 |
| 2026 | 766,669 |
| Thereafter | 607,245 |
| Total | \$ 4,884,307 |

Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021

Note 14 – Commitments

The Agency has contracted with 10 local water utilities which have common customers to provide billing and collection functions. The most significant is with the Commissioners of the Public Works of the City of Greenville, South Carolina. The fee charged is subject to adjustment annually based upon experience. The cost to the Agency for the year ended December 31, 2021 was \$2.8 million, which is included in administration operating expenses on the accompanying Statement of Revenues, Expenses, and Changes in Net Position. For the year ending December 31, 2021, billing charges to the Agency are estimated to cost approximately \$3.1 million.

The Agency has agreed to fund certain future capital projects on behalf of affiliate systems. The future maximum commitment is \$75 million over a 15-year period, with an annual maximum commitment of \$6 million. The maximum lifetime and annual commitment is to be reduced by anticipated grant funding, the total of which to be received is not yet determinable at December 31, 2021.

Note 15 – Contingencies

The Agency is from time to time subject to various claims, legal actions, and other matters arising out of the normal conduct of the Agency's operations. In particular, the Agency is regularly involved in lawsuits related to acquiring rights-of-way for its use, which requires a determination of amounts of just compensation to be paid to the owners. Based on prior experience and available information, the Agency does not anticipate any lawsuits to be material to the basic financial statements.

Note 16 – Risk Management

The Agency is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency maintains insurance coverage through the state of South Carolina and manages risk through various employee education and prevention programs. No significant reductions in insurance coverage have occurred from the prior year to the current year. The amount of settlements has not exceeded insurance coverage for the year ended December 31, 2021. The Agency believes the amount of actual or potential claims as of December 31, 2021 will not materially affect the financial condition of the Agency.

Note 17 – Transfer of Operations

During the year ended December 31, 2021, an affiliated entity transferred the Piedmont sewer collection system in Anderson County to the Agency. The Agency followed the guidance of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, whereby the Agency is required to recognize the carrying value of the transferred assets as of the transfer date. As such, the net book value of the transferred assets, totaling \$5,879,734, has been included in the Agency's capital assets, net line item on the Statement of Net Position and as a component of capital contributions on the Statement of Revenues, Expenses and Changes in Net Position.

**Renewable Water Resources
Notes to Financial Statements
For the year ended December 31, 2021**

Note 18 – Subsequent Events

During January and February 2022, the Agency executed 27 contracts approximating \$4.3 million primarily for capital projects.

In January 2022, the Agency paid the final \$13,505,000 principal payment on the Series 2012 revenue refunding bonds (see Note 7).

On February 28, 2022, the Board of Commissioners approved an increase of \$6.0 million in the 2022 Capital Budget to \$88.2 million for the potential acquisition of additional infrastructure.

Renewable Water Resources
Required Supplementary Information
Schedule of Changes in Agency's Total OPEB Liability and Related Ratios

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Service cost | \$ 1,173,921 | \$ 880,678 | \$ 719,921 | \$ 804,621 |
| Interest on the total OPEB liability | 615,488 | 683,240 | 704,663 | 667,597 |
| Difference between expected and actual experience of the total OPEB liability | 247,485 | 59,499 | (595,133) | (53,461) |
| Changes of assumptions | 2,604,349 | 2,223,335 | 2,068,201 | (168,926) |
| Benefit payments | <u>(746,709)</u> | <u>(653,624)</u> | <u>(576,585)</u> | <u>(412,174)</u> |
| Net change in total OPEB liability | 3,894,534 | 3,193,128 | 2,321,067 | 837,657 |
| Total OPEB liability - beginning | <u>24,908,349</u> | <u>21,715,221</u> | <u>19,394,154</u> | <u>18,556,497</u> |
| Total OPEB liability - ending | <u>\$ 28,802,883</u> | <u>\$ 24,908,349</u> | <u>\$ 21,715,221</u> | <u>\$ 19,394,154</u> |
| Covered-employee payroll | 14,436,712 | 14,828,638 | 13,541,854 | 13,170,405 |
| Total OPEB liability as a % of covered-employee payroll | 199.5% | 168.0% | 160.4% | 147.3% |

* Information is presented for the years for which information is available

Notes to Schedule

Changes of assumptions reflect the effects of changes in the discount rate and health care trend rate each period.

The following are the discount rates used in each period:

| | |
|------|-------|
| 2021 | 1.92% |
| 2020 | 2.45% |
| 2019 | 3.13% |
| 2018 | 3.62% |

The following are the health care trend rates used in each period:

| | |
|------|--|
| 2021 | Initial rate of 6.00% declining to an ultimate rate of 4.15% after 15 years. |
| 2020 | Initial rate of 6.40% declining to an ultimate rate of 4.00% after 16 years. |
| 2019 | Initial rate of 6.40% declining to an ultimate rate of 4.15% after 15 years. |
| 2018 | Initial rate of 6.75% declining to an ultimate rate of 4.15% after 14 years. |

There are no assets accumulated in an irrevocable trust to pay related benefits.

**Renewable Water Resources
Required Supplementary Information
Schedule of Agency's Proportionate Share of the Net Pension Liability**

| Fiscal year ¹ | Agency's proportion of net pension liability | Agency's proportionate share of the net pension liability | Agency's total payroll | Agency's proportionate share of the net pension liability as a percentage of total payroll | Plan fiduciary net position as a percentage of the total pension liability |
|--------------------------|--|---|------------------------|--|--|
| 2021 | 0.121354% | \$ 26,262,465 | \$ 14,068,285 | 186.7% | 60.7% |
| 2020 | 0.117095 | 29,919,764 | 13,534,813 | 221.1 | 50.7 |
| 2019 | 0.122266 | 27,918,387 | 13,208,153 | 211.4 | 54.4 |
| 2018 | 0.122396 | 27,424,970 | 12,677,569 | 216.3 | 54.1 |
| 2017 | 0.121972 | 27,457,859 | 12,276,416 | 223.7 | 53.3 |
| 2016 | 0.125092 | 26,719,467 | 12,109,581 | 220.6 | 52.9 |
| 2015 | 0.123507 | 23,423,698 | 11,960,378 | 195.8 | 57.0 |
| 2014 | 0.126513 | 21,781,344 | 11,961,237 | 182.1 | 59.9 |
| 2013 | 0.126513 | 22,691,919 | 11,261,359 | 201.5 | 56.4 |

¹ Represents South Carolina Retirement System's fiscal year, which is June 30.

Information is presented for the years for which information is available.

**Renewable Water Resources
Required Supplementary Information
Schedule of Agency's Pension Contribution**

| Fiscal year¹ | Actuarial required contribution | Actual contributions | Contribution deficiency (excess) | Agency's total payroll | Contributions as a percentage of total payroll |
|--------------------------------|--|-----------------------------|---|-------------------------------|---|
| 2021 | \$ 2,230,010 | \$ 2,230,010 | \$ - | \$ 14,647,918 | 15.2% |
| 2020 | 2,156,149 | 2,156,149 | - | 14,754,180 | 14.6 |
| 2019 | 1,942,662 | 1,942,662 | - | 13,535,656 | 14.4 |
| 2018 | 1,793,576 | 1,793,576 | - | 13,314,563 | 13.5 |
| 2017 | 1,448,857 | 1,448,857 | - | 12,926,984 | 11.2 |
| 2016 | 709,222 | 709,222 | - | 6,124,376 | 11.6 |
| 2016 | 1,339,320 | 1,339,320 | - | 12,109,581 | 11.1 |
| 2015 | 1,262,243 | 1,262,243 | - | 11,960,378 | 10.6 |
| 2014 | 1,215,138 | 1,215,138 | - | 11,961,237 | 10.2 |
| 2013 | 1,129,479 | 1,129,479 | - | 11,261,359 | 10.0 |
| 2012 | 972,459 | 972,459 | - | 10,666,643 | 9.1 |

¹ Prior to July 1, 2016, the Agency's fiscal year ended June 30. As of July 1, 2016, the Agency adopted a December 31 fiscal year end.

**Report of Independent Auditor on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Commissioners
Renewable Water Resources
Greenville, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of net position of Renewable Water Resources (the “Agency”) as of December 31, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency’s basic financial statements, and have issued our report thereon dated March 12, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Cherry Bebaert LHP". The signature is written in a cursive style.

Greenville, South Carolina
March 12, 2022