Renewable Water Resources

Financial Statements and Supplemental Information

As of and for the Year Ended December 31, 2022

Cherry Bekaert LLP
Your Guide Forward

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, 2022, 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, 2022, and the change in its financial position 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 of 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 Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that 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 twelve 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.

Required 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 April 15, 2023, 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.

Cherry Bekaert LLP

Greenville, South Carolina
April 15, 2023

Management's Discussion and Analysis

Renewable Water Resources
Management's Discussion and Analysis

As management of Renewable Water Resources (the "Agency"), we present this narrative overview and analysis of financial performance for the year ended December 31, 2022. 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, 2022 were $114.8 million.
- Operating expenses before depreciation totaled $44.3 million for the year ended December 31, 2022.

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 present 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. They 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.

Net Position

The Agency's overall financial position improved during the year ended December 31, 2022, as net position increased $30.7 million or 7.2% due to current year operations. Net position for the year ended December 31, 2022, totaled $457.0 million. The largest portion of the Agency's net position, approximately 91.5%, 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 $30.4 million or 6.7% 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, 2022, restricted net position decreased $4.4 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)

	FY 2022	FY 2021
Current and noncurrent assets	$ 65.6	$ 56.6
Restricted assets	30.4	34.8
Capital assets	655.3	603.7
Total assets	751.3	695.1
Deferred outflows from defeasance loss, net	1.3	2.2
Deferred outflows from pension	3.0	3.9
Deferred outflows from other postemployment benefits	4.8	5.7
Total deferred outflows of resources	9.1	11.8
Current liabilities	51.2	43.4
Noncurrent liabilities	242.7	232.3
Total liabilities	293.9	275.7
Deferred inflows from pension	1.4	4.4
Deferred inflows from other postemployment benefits	7.8	0.5
Deferred inflows from lease	0.3	-
Total deferred inflows of resources	9.5	4.9
Net investment in capital assets	418.3	390.3
Restricted	30.4	34.8
Unrestricted	8.3	1.2
Total net position	$ 457.0	$ 426.3

(Continued)

Revenues

Table A-2 shows that the Agency's total revenues increased $6.4 million or 5.9% to $114.8 million in the year ended December 31, 2022. 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, 2022 was adopted June 28, 2021 and became effective January 1, 2022.

In the year ended December 31, 2022, domestic and commercial revenue increased $7.5 million or 8.9% to $92.2 million. Domestic revenue increased $3.6 million or 6.5% driven by rate increases and customer growth. Commercial revenue increased $3.9 million or 13.4% driven by consumption increases of almost 8%, rate increases, and modest customer growth.

Industrial revenue increased $0.5 million or 6.5% to $8.2 million in the year ended December 31, 2022. The increase in fiscal year 2022 is primarily attributable to increases in rates and consumption volumes.

New account fee revenue was $13.3 million in the year ended December 31, 2022 demonstrating the continued strong economic growth and development in the Agency's service area. New account fee revenue decreased $1.8 million or 11.9%.

Interest and other nonoperating revenues increased $0.2 million to $0.4 million in the year ended December 31, 2022. The increase is primarily related to insurance recoveries and surplus assets sales.

(Continued)

Revenues, continued

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

	FY 2022	FY 2021
Operating revenues:		
Domestic and commercial customers	$ 92.2	$ 84.7
Industrial customers	8.2	7.7
New account fees	13.3	15.1
Septic haulers and other	0.7	0.7
Interest and other nonoperating revenues	0.4	0.2
Total revenues	114.8	108.4
Operating expenses:		
Technical operations	29.2	27.5
Administration	15.1	15.7
Total operating expenses before depreciation	44.3	43.2
Depreciation	37.0	32.0
Total operating expenses	81.3	75.2
Interest, amortization, and other nonoperating expenses	6.3	9.5
Total expenses	87.6	84.7
Capital contributions	3.5	7.0
Increase in net position	30.7	30.7
Total net position, beginning of year	426.3	395.6
Total net position, end of year	$ 457.0	$ 426.3

Capital Contributions

Project reimbursement occurs when the Agency enters a contract with one or more entities to construct facilities and/or sewer conveyance systems that will be mutually beneficial. In the year ended December 31, 2022, capital contributions totaled $3.5 million.

(Continued)

Expenses

Total expenses in the year ended December 31, 2022 totaled $87.6 million. Operating expenses before depreciation increased $1.1 million or 2.5% from $43.2 million to $44.3 million. The increase in operating expenses in fiscal year 2022 is primarily attributable to increases in outside technical services, biosolids management, natural gas, fuel, and chemicals partially offset by decreases in employee related costs, legal fees, and bad debt.

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, 2022, capital assets being depreciated, net increased $88.8 million or 19.9% to $535.1 million, which is attributable to various line rehabilitations and facility enhancements, which were partially offset by annual depreciation. For the year ended December 31, 2022, the Agency's $655.3 million of net capital assets primarily 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)

	FY 2022	FY 2021
Capital assets not being depreciated:		
Construction in progress	$ 108.5	$ 146.3
Land	7.8	7.5
Rights-of-way	3.9	3.6
Total capital assets not being depreciated	120.2	157.4
Capital assets being depreciated:		
Buildings and land improvements	406.6	388.6
Collection and trunk lines	471.1	397.4
Machinery and equipment	118.4	93.0
Office furniture and equipment	8.4	8.7
Vehicles and heavy equipment	1.8	1.5
Other assets	5.1	-
Total capital assets being depreciated	1,011.4	889.2
Less: accumulated depreciation	476.3	442.9
Total capital assets being depreciated, net	535.1	446.3
Net capital assets	$ 655.3	$ 603.7

(Continued)

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 dynamic 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 $536.7 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 2022, capital projects focused on conveyance system improvements, expansion, and facility upgrade projects. During 2022, $25.3 million was incurred to improve the Agency's conveyance system, $24.5 million was incurred on projects to expand the Agency's service area, and $23.6 million was incurred in multiple facility improvement projects. The remaining projects focused on system planning and technology and other priority projects.

Table A-4 illustrates the Agency's 2023 Capital Budget of $102.9 million for conveyance system improvements, facility upgrades, service area expansion, and information technology upgrades. The budget requirement for the upcoming fiscal year will be funded through a combination of reserves, new account fees, grants, bonds, and South Carolina revolving loan funds.

(Continued)

Capital Assets, continued

Capital improvement projects, continued

Table A-4
2023 Capital Budget (in millions)

FUNDING SOURCES		
Reserves and bonds	$	50.2
South Carolina revolving loan fund		26.6
Grants		14.1
New account fees		12.0
Total funding sources	$	102.9
USES		
Water resource recovery facilities	$	36.2
Conveyance system		45.2
Information technology		1.7
Service area expansion and other projects		19.8
Total uses	$	102.9

Long-Term Liabilities

The total obligation for other postemployment benefits is $21.3 million at December 31, 2022.

The Agency's net pension liability totaled $28.0 million at December 31, 2022.

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, 2022, revenue bond debt, including premiums, totaled $125.2 million, the long-term portion of which was $99.8 million. As of December 31, 2022, the Agency's revenue bond debt consisted of the following series of revenue and refunding revenue bonds: Series 2015A, Series 2017A, Series 2018A, Series 2020C, Series 2020D, and Series 2022A.

(Continued)

Long-Term Liabilities, continued

Revenue bonds, continued

Prior to 2022, the Agency received bond premiums of $3.6 million, $4.6 million, and $0.2 million on the Series 2018A, Series 2020C, and Series 2020D revenue bonds, respectively. Bond premiums are amortized over the life of the bonds. The Series 2015A, Series 2017A, Series 2018A, Series 2020C, Series 2020D, and Series 2022A bonds were issued under the 2010 Bond Resolution and are on parity with all of the Agency's state revolving loans.

The Series 2015A, Series 2017A, Series 2018A, Series 2020C, and Series 2020D bonds were issued based on the Agency's underlying rating. In March 2017, Moody's Investors Service upgraded the Agency's existing Debt to 'Aa1' from 'Aa2'. In September 2018, Standard & Poor's raised the Agency's existing 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, 2022 totaled $96.4 million.

Listed below are the Agency's state revolving loans outstanding at December 31, 2022:

- 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, 2022, the remaining amount available to draw on the Reedy River Basin Sewer Tunnel, Unity Park Trunk Sewer Improvements, Simpsonville B Pump Station Elimination, and Peppertree Pump Station 1 and 2 Elimination totaled $2.4 million. Construction has been completed and all funds received for the other projects listed above.

(Continued)

Long-Term Liabilities, continued

Total outstanding long-term debt

At December 31, 2022, the Agency owed $217.2 million (excluding premiums) in total long-term debt, an increase of $18.2 million or 9.1% from $199.0 million at December 31, 2021.

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 2022	FY 2021
Operating revenue	$ 114.4	$ 108.2
Investment revenue, unrestricted	0.5	0.3
Gross revenues available for debt service	114.9	108.5
Less: operating expenses before depreciation	44.3	43.2
Net revenues available for debt service	$ 70.6	$ 65.3
Debt service	$ 31.1	$ 28.2
Debt coverage	227%	232%

For the year ended December 31, 2022, debt service payments increased $2.9 million or 10.3% to $31.1 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)

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 2015A refunding bonds	8.1	2.0
Series 2017A refunding bonds	4.7	2.1
Series 2018A capital improvement bonds	25.1	5.0
Series 2020C refunding bonds	20.3	4.8
Series 2020D refunding bonds	23.0	0.8
Series 2022A revenue bonds	39.7	3.7
State revolving loans	96.4	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.

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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 2.6% during the year ended December 31, 2022.

The Agency's customer base is diversified. No single customer represents more than 2.0% of Agency'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, 2022

Current assets:	
Cash and cash equivalents	$ 27,753,385
Restricted cash and cash equivalents	30,354,234
Receivables, net	16,043,908
Investments	4,490,864
Total current assets	78,642,391
Noncurrent assets:	
Investments	16,392,859
Capital assets, net	655,280,063
Prepaid assets	1,023,681
Total noncurrent assets	672,696,603
Total assets	$ 751,338,994
Deferred outflows of resources:	
Deferred loss on refunding, net	$ 1,328,677
Deferred outflows from pension	2,964,526
Deferred outflows from other postemployment benefits	4,809,821
Total deferred outflows of resources	$ 9,103,024
Current liabilities:	
Revenue bonds payable	$ 25,395,592
State revolving loans payable	3,819,874
Lease liability	337,123
Accounts payable - operations	2,998,071
Accounts payable - construction projects	15,325,143
Accrued interest payable	1,790,566
Accrued expenses and other liabilities	627,824
Compensated absences	890,851
Total current liabilities	51,185,044
Long-term liabilities:	
Revenue bonds payable	99,825,122
State revolving loans payable	92,557,106
Lease liability	989,144
Other postemployment benefits	21,345,212
Net pension liability	28,004,791
Total long-term liabilities	242,721,375
Total liabilities	$ 293,906,419
Deferred inflows of resources:	
Deferred inflows from pension	$ 1,404,877
Deferred inflows from other postemployment benefits	7,786,723
Deferred inflows from lease	297,891
Total deferred inflows of resources	$ 9,489,491
Net position:	
Net investment in capital assets	$ 418,359,636
Net position - restricted:	
Debt service	26,158,454
Other	4,195,780
Net position - unrestricted	8,332,238
Total net position	$ 457,046,108

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, 2022

Operating revenues:	
Domestic and commercial customers	$ 92,175,865
Industrial customers	8,194,317
New account fees	13,288,613
Septic haulers and other	718,674
Total operating revenues	114,377,469
Operating expenses:	
Technical operations	29,244,816
Administration	15,037,590
Total operating expenses before depreciation	44,282,406
Depreciation	37,042,369
Total operating expenses	81,324,775
Operating income	33,052,694
Nonoperating revenues (expenses):	
Investment loss, net	(664,823)
Interest expense	(4,145,307)
Debt issuance costs	(201,191)
Non-project expenses	(1,261,414)
Other revenue	450,694
Net nonoperating expenses	(5,822,041)
Capital contributions:	
Capital Contributions	3,530,371
Total capital contributions	3,530,371
Increase in net position	30,761,024
Total net position, beginning of year	426,285,084
Total net position, end of year	$ 457,046,108

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

Renewable Water Resources
Statement of Cash Flows
For the year ended December 31, 2022

Cash flows from operating activities:	
Received from customers	$ 112,308,474
Paid to suppliers for goods and services	(23,731,372)
Paid to employees for services	(14,625,159)
Received from nonoperating revenues	1,481,944
Net cash flows from operating activities	75,433,887
Cash flows from capital and related financing activities:	
Acquisition of capital assets and project expenses	(85,619,640)
Proceeds from debt issuance	44,272,143
Principal payments on debt	(26,104,709)
Interest payments on debt and leases	(5,227,578)
Debt issuance costs	(201,191)
Net cash flows from capital and related financing activities	(72,880,975)
Cash flows from investing activities:	
Interest received on investments	539,883
Purchases of investment securities	(11,990,000)
Proceeds from sales of investment securities	12,111,299
Net cash flows from investing activities	661,182
Net change in cash and cash equivalents	3,214,094
Cash and cash equivalents, beginning of year	54,893,525
Cash and cash equivalents, end of year	$ 58,107,619

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, 2022

Reconciliation of operating income to net cash flows from operating activities:		
Operating income	$	33,052,694
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation		37,042,369
Other nonoperating revenue		1,481,944
Pension contributions in excess of expense		(396,840)
Changes in asset and liability amounts:		
Receivables, net		(2,068,995)
Prepaid insurance		(681,173)
Accounts payable - operations		1,377,623
Accounts payable - construction projects		4,890,109
Accrued expenses and other liabilities		34,992
Compensated absences		90,182
Other postemployment benefits		751,824
Lease liability and deferred inflows from lease		(140,842)
Net cash flows provided by operating activities	$	75,433,887
Noncash activities:		
Acquisition of leased equipment	$	1,765,000
Decrease in fair value of investments		1,207,912
Total noncash activities	$	2,972,912
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	$	27,753,385
Restricted cash and cash equivalents		30,354,234
Total cash and cash equivalents	$	58,107,619

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, 2022

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.

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, 2022, 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.

(Continued)

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-ways 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 after December 31, 2017 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.

(Continued)

Note 1 – Summary of Significant Accounting Policies and Activities, 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, lease liabilities, 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.

(Continued)

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. The Agency's deferred inflows from leases represents revenue which will be recognized over the life of lease agreement in which the Agency is a lessor.

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.

(Continued)

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

The Agency has implemented the following GASB pronouncements:

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. As a result of adopting this Statement, the Agency recorded right-of-use ("ROU") assets and a lease liability of $1,765,000 on January 1, 2022 as a lessee (see Note 11), and approximately $359,000 of lease receivable and deferred inflow of resources as lessor (see Note 12).

GASB Statement No. 91, *Conduit Debt Obligation*, effective for periods beginning after December 15, 2021, provides state and local governments with a single financial reporting method for conduit debt obligations by users, ending the diversity in reporting. This Statement was adopted and had no material impact on the Agency.

(Continued)

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

New pronouncements, continued

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. 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*.

GASB Statement No. 101, *Compensated Absences*, effective for periods beginning after December 15, 2023, was issued to align the recognition and measurement guidance for compensated absences under a unified model and amend certain previously required disclosures.

Note 2 – Cash and Cash Equivalents and Investments

As of December 31, 2022, the Agency had the following cash and cash equivalents and investments:

Cash and cash equivalents:	
Checking and other cash	$ 25,105,332
Money markets - government obligations	33,002,287
Total cash and cash equivalents	$ 58,107,619
Investments:	
Government sponsored enterprises	$ 15,756,363
Certificates of deposit	2,168,210
U.S. Treasury notes	1,869,450
SC investment pool	1,089,700
Total investments	$ 20,883,723

(Continued)

Note 2 – Cash and Cash Equivalents and Investments, continued

Investment maturities are as follows as of December 31, 2022:

		Investment maturities (in years)	
Investment type	**Fair value**	**Less than 1 year**	**1 – 5 years**
Certificates of deposit	$ 2,168,210	$ 1,465,231	$ 702,979
SC investment pool	1,089,700	1,089,700	-
U.S. agencies notes and bonds:			
Federal Home Loan Bank	7,451,723	979,813	6,471,910
Federal National Mortgage Association	1,808,160	-	1,808,160
Federal Home Loan Mortgage	1,796,670	-	1,796,670
Federal Farm Credit Bank	4,699,810	956,120	3,743,690
U.S. Treasury notes	1,869,450	-	1,869,450
Total	$ 20,883,723	$ 4,490,864	$ 16,392,859

No investments mature beyond five years as of December 31, 2022.

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*, and is accounted for at amortized cost. The SC Investment Pool is not rated. The total 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)

Note 2 – Cash and Cash Equivalents and Investments, continued

The Agency's investments at December 31, 2022 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, 2022.

The Agency's cash and cash equivalents at December 31, 2022 consist of cash and money market accounts. Approximately $26.2 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 $6.8 million is 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 75% of the Agency's total investments at December 31, 2022.

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, 2022, 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.

(Continued)

Note 3 – Receivables

Customer and other accounts receivables as of December 31, 2022 were as follows:

Fees and services:	
Domestic and commercial customers	$ 14,334,527
Industrial customers	1,574,081
Total receivables from fees	15,908,608
Less: allowance for uncollectible accounts	400,000
Net receivables from fees	15,508,608
Accrued interest on cash equivalents and other receivables	535,300
Total receivables	$ 16,043,908

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.

Restricted cash and cash equivalents at December 31, 2022 are restricted for the following uses:

Current principal and interest payments	$ 26,158,454
Operations and maintenance	4,195,780
Total restricted assets	$ 30,354,234

(Continued)

Note 5 – Capital Assets

A summary of changes in capital assets from December 31, 2021 to December 31, 2022 follows below:

	December 31, 2021	Additions	Disposals	December 31, 2022
Capital assets not being depreciated:				
Construction in progress	$ 146,320,065	$ 86,075,701	$ 123,849,099	$ 108,546,667
Land	7,449,195	306,170	-	7,755,365
Rights-of-way	3,616,748	253,315	-	3,870,063
Total capital assets not being depreciated	157,386,008	86,635,186	123,849,099	120,172,095
Capital assets being depreciated:				
Buildings and land improvements	388,596,576	20,034,227	2,063,257	406,567,546
Collection and trunk lines	397,420,960	74,352,069	708,612	471,064,417
Machinery and equipment	93,019,271	26,060,207	654,220	118,425,258
Office furniture and equipment	8,686,527	637,349	883,500	8,440,376
Vehicles and heavy equipment	1,471,049	726,613	357,051	1,840,611
Other assets	-	5,057,045	-	5,057,045
Total capital assets being depreciated	889,194,383	126,867,510	4,666,640	1,011,395,253
Less: accumulated depreciation:				
Buildings and land improvements	221,173,428	13,854,474	1,166,584	233,861,318
Collection and trunk lines	170,590,209	11,541,195	708,612	181,422,792
Machinery and equipment	47,478,550	8,085,751	519,651	55,044,650
Office furniture and equipment	3,089,936	2,179,568	883,501	4,386,003
Vehicles and heavy equipment	548,192	343,407	357,051	534,548
Other assets	-	1,037,974	-	1,037,974
Total accumulated depreciation	442,880,315	37,042,369	3,635,399	476,287,285
Total capital assets being depreciated, net	446,314,068	89,825,141	1,031,241	535,107,968
Capital assets, net	$ 603,700,076	$ 176,460,327	$ 124,880,340	$ 655,280,063

(Continued)

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 $26,158,454 at December 31, 2022.

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, 2022, the Agency's defeasance loss, net was $1,328,677.

Amortization of the defeasance loss for the year ended December 31, 2022 totaled $896,266.

Estimated future amortization expense is as follows:

Year ending December 31,	Amortization expense
2023	$ 889,642
2024	439,035
Total	$ 1,328,677

(Continued)

Note 7 – Revenue Bonds Payable

At December 31, 2022, the Agency was obligated on various series of revenue bonds issued for purposes of constructing capital assets, with all but Series 2015A, 2017A, and 2022A revenue bonds being publicly traded debt. The Series 2015A, 2017A, and 2022A revenue bonds are direct placement. Revenue bonds outstanding at December 31, 2022 are as follows:

$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.	$ 8,090,000
$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.	4,726,000
$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.	20,265,000
$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.	23,005,000
$120,000,000 Series 2022A revenue bonds dated September 8, 2022, with monthly interest payments at a variable rate of one month secured overnight financing rate ("SOFR") multiplied by 81.5% plus .35% (3.5% at December 31, 2022) payable through the maturity date of September 1, 2026. The entire principal balance is due at maturity. Funds remaining to be drawn as of December 31, 2022 are $80,329,129.	39,670,871
Total revenue bonds payable	120,811,871
Premium on revenue bonds	4,408,843
Less: current maturities	25,395,592
Long-term portion	$ 99,825,122

(Continued)

Note 7 – Revenue Bonds Payable, continued

Amortization of bond premiums totaled $1,721,371 for the year ended December 31, 2022.

Future amounts required to pay principal and interest on revenue bonds outstanding at December 31, 2022 are as follows:

Year ending December 31,	Principal	Interest	Total
2023	$ 23,859,000	$ 3,989,287	$ 27,848,287
2024	23,468,000	3,456,950	26,924,950
2025	23,639,000	2,546,416	26,185,416
2026	42,330,871	1,414,683	43,745,554
2027	2,795,000	284,575	3,079,575
2028 - 2031	4,720,000	276,150	4,996,150
Total	$ 120,811,871	$ 11,968,061	$ 132,779,932

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, 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, 2022.

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 2015A, Series 2017A, Series 2018A, Series 2020C, Series 2020D, and Series 2022A 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 $1,159,563 for the year ended December 31, 2022.

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 may 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, 2022, the Agency had no arbitrage rebate liability.

(Continued)

Note 8 – State Revolving Loans Payable

At December 31, 2022, 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, 2022, 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.	$	3,843,982
$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.		11,894,959
$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.		1,251,451
$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 2023 are $71,229.		39,402,154
$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.		1,074,075
$15,343,433 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.		14,402,216
$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.		11,640,326

(Continued)

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 2023 are $1,352,343.	$	8,554,517
$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 2023 are $591,041.		2,602,824
$2,187,570 Simpsonville B Pump Station Elimination loan dated June 30, 2021. Payable in quarterly installments of $31,959 including interest at 1.6%, through March 2042. Funds remaining to be drawn in 2023 are $407,045.		1,710,476
Total state revolving loans payable		96,376,980
Less: current maturities		3,819,874
Long-term portion	$	92,557,106

Interest expense on the state revolving loans totaled $1,933,210 for the year ended December 31, 2022.

Future amounts required to pay outstanding principal and interest on state revolving loans outstanding at December 31, 2022 are as follows:

Year ending December 31,	Principal	Interest	Total
2023	$ 3,819,874	$ 1,907,671	$ 5,727,545
2024	3,895,872	1,831,673	5,727,545
2025	3,973,391	1,754,154	5,727,545
2026	4,052,461	1,675,084	5,727,545
2027	4,133,113	1,594,432	5,727,545
2028 - 2032	21,932,999	6,704,726	28,637,725
2033 - 2037	24,205,751	4,431,974	28,637,725
2038 - 2042	17,599,936	2,122,496	19,722,432
2043 - 2047	9,525,221	938,810	10,464,031
2048 - 2050	3,238,362	110,196	3,348,558
Total	$ 96,376,980	$ 23,071,216	$ 119,448,196

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 not later than one hundred and twenty (120) days after the close of each fiscal year, 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, 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, 2022.

(Continued)

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, leases, other postemployment benefits ("OPEB"), and net pension liability at December 31, 2021 to December 31, 2022 are as follows:

	December 31, 2021	Additions	Reductions	December 31, 2022	Due within One Year
Revenue bonds	$ 103,635,000	$ 39,670,871	$ 22,494,000	$ 120,811,871	$ 23,859,000
Lease	-	1,765,000	438,733	1,326,267	337,123
State revolving loans	95,386,417	4,601,272	3,610,709	96,376,980	3,819,874
OPEB	28,802,883	-	7,457,671	21,345,212	-
Net pension liability	26,262,465	11,325,840	9,583,514	28,004,791	-
Subtotal	254,086,765	57,362,983	43,584,627	267,865,121	28,015,997
Premiums on bond issuance	6,130,214	-	1,721,371	4,408,843	1,536,592
Total	$ 260,216,979	$ 57,362,983	$ 45,305,998	$ 272,273,964	$ 29,552,589

Note 10 – Construction Contracts in Progress

At December 31, 2022, 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)

Note 10 – Construction Contracts in Progress, continued

The following summarizes construction contracts in progress at December 31, 2022 on which significant additional work is to be performed:

Project name	Contract amount	Total contract incurred	Balance to be performed
Anderson Co. Upper Brushy Creek Sewer Ph I Improvements	$ 836,790	$ 455,571	$ 381,219
Asset Management Program Implementation	1,138,112	751,584	386,528
Blossom Branch Sewer Improvements	5,423,904	4,566,116	857,788
Brushy & Welcome Creeks Gravity Sewer Upgrade	810,932	155,915	655,017
Coachman Estates PS Imp/Pond Closure	1,230,895	783,579	447,316
Conestee Improvements	1,560,833	812,585	748,248
Durbin PCS Upgrade	1,643,499	1,345,664	297,835
ER - Gilder Creek Trunk Sewer Replacement	4,003,989	1,973,829	2,030,160
FOG/Septic Receiving Facility Improvements	1,225,232	659,184	566,048
FY19 Sewer Rehab & Point Repairs	3,897,561	220,434	3,677,127
Georges Chem Feed & Polymer System Improvements	2,503,500	1,772,000	731,500
Gilder Creek Hypo System Improvements	1,521,495	312,873	1,208,622
Heritage Park Branch Improvements	1,973,940	-	1,973,940
HWY 25 Business Park Ph II	3,947,710	3,143,244	804,466
LR Odor Control	8,165,370	541,570	7,623,800
Misc. WRRF Repairs and Improvements	1,063,351	531,446	531,905
MR Blower Improvements	1,060,313	761,863	298,450
MR RAS PS Improvements	3,558,612	2,594,583	964,029
MR Wet Weather PS Ph I Improvements	3,867,119	3,087,082	780,037
Unity Park Trunk Sewer	10,857,665	9,486,814	1,370,851
Wet Weather Program	8,567,033	7,715,785	851,248
Travelers Rest North Regional PS	11,313,665	5,513,142	5,800,523
Private Property Piedmont Lateral II Reduction	779,485	390,933	388,552
ReCOM	1,379,751	565,479	814,272
Reedy River Basin Sewer Tunnel	39,972,535	38,080,027	1,892,508
Rocky Creek PS & FM Upgrade	8,891,900	4,109,142	4,782,758
Saluda #3 Pump Station Improvements	2,662,846	2,415,189	247,657
Saluda #4 PS Elimination	2,090,844	1,200,753	890,091
Simpsonville B PS Elimination	2,621,057	2,069,274	551,783
Piedmont Park Rehabilitation	2,294,027	766,117	1,527,910
Pelham PCS Upgrade	3,290,167	2,027,704	1,262,463
Pelham Primary Sludge Pump Replacement	1,837,590	531,177	1,306,413
O&M Capital (vehicles & heavy equipment)	2,716,649	-	2,716,649
Payne Branch Basin Ph I	10,666,824	6,531,321	4,135,503
Other Projects	13,889,661	6,881,479	7,008,182
Total	$ 173,264,856	$ 112,753,458	$ 60,511,398

(Continued)

Note 11 – Lease as Lessee

The Agency leases various assets under a noncancelable lease. The Agency determines whether a contract contains a lease at inception by determining if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

ROU assets and lease liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Renewal and termination clauses are factored into the determination of the lease term if it is reasonably certain that these options would be exercised by the Agency. ROU assets are amortized over the lease term. In order to determine the present value of lease payments, the Agency uses the rate implicit in the lease when it is readily determinable.

The Agency's lease agreement does not contain any material residual value guarantees or material restrictive covenants. The Agency does not have leases where it is involved with the construction or design of an underlying asset.

The following is a schedule summarizing the lease terms for the lease agreement held by the Agency at December 31, 2022:

	Length of lease	Implicit rate	Lease liability
Asset Lease	60 months	7.06%	$ 1,326,267

ROU assets are included with capital assets on the statement of net position, and amortization of the ROUs is included with depreciation expense. The following is a schedule summarizing the ROU assets held by the Agency and related amortization for the year ended December 31, 2022:

	Balance 12/31/2021	Increases	Decreases	Balance 12/31/2022
Right to use assets:				
Heavy equipment	$ 1,320,000	$ -	$ -	$ 1,320,000
Equipment	310,000	-	-	310,000
Vehicles	135,000	-	-	135,000
Total right to use assets	1,765,000	-	-	1,765,000
Less accumulated amortization for:				
Heavy equipment	-	(187,000)	-	(187,000)
Equipment	-	(54,896)	-	(54,896)
Vehicles	-	(38,250)	-	(38,250)
Total amortization	-	(280,146)	-	(280,146)
Right to use assets, net	$ 1,765,000	$ (280,146)	$ -	$ 1,484,854

(Continued)

Note 11 – Lease as Lessee, continued

Future minimum lease payments as of December 31, 2022 are as follows:

Years Ending December 31,	Principal	Interest	Total
2023	$ 337,123	$ 82,877	$ 420,000
2024	361,713	58,287	420,000
2025	388,097	31,903	420,000
2026	239,334	5,666	245,000
	$ 1,326,267	$ 178,733	$ 1,505,000

Note 12 – Lease as Lessor

In February 2022 the Agency, as a lessor, entered into an agreement with a tenant, the lessee, to lease space in one of the Agency's buildings. The lease calls for a term of five years commencing February 2022. The lease does not include options for renewing the lease nor may either party terminate the lease. In accordance with the provisions of GASB Statement No. 87, the lease was measured as of February 2022 with a lease term of five years and a rate of 0.39%, the Agency's incremental borrowing rate based on benchmarks and spreads on the recent borrowings.

Rental payments of $6,042 are payable monthly. The Agency collected $62,143 from the tenant for the year ended December 31, 2022, which includes $61,033 in lease revenue and $1,110 in lease interest revenue. At December 31, 2022, the Agency recorded a receivable balance of $297,891 and deferred inflows of $297,891 related to this agreement.

Note 13 – 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 $890,851 at December 31, 2022.

(Continued)

Note 14 – 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 and participating charter schools, higher education institutions, other participating local subdivisions of government, and first-term individuals elected to the South Carolina General Assembly. 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.

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)

Note 14 – Employee Benefits, continued

Pension plan, 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. In accordance with the legislative funding schedule, employer contribution rates will continue to increase by one percentage point each year until reaching 18.56% but may be increased further, if the scheduled contributions are not sufficient to meet the funding periods set for the applicable year. The PEBA board shall increase the employer contribution rates as necessary to meet the amortization period set in the statute.

(Continued)

Note 14 – Employee Benefits, continued

Pension plan, continued

Pension reform legislation modified statute such that the employer contribution rates for SCRS to be further increased, not to exceed one-half of one percent in any one year if necessary, in order to improve the funding of the plans. The statute set rates intended to reduce the unfunded liability of SCRS to the maximum amortization period of 20 years from 30 years over a ten-year schedule, as determined by the annual actuarial valuations of the plan. Finally, under the revised statute, the contribution rates for SCRS may not be decreased until the plans are at least 85 percent funded.

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, 2022 to December 31, 2022, and the Agency was required to contribute 16.41% of covered payroll for the period of January 1, 2022 to June 30, 2022 and 17.41% of covered payroll for the period of July 1, 2022 to December 31, 2022. An additional 0.15% of payroll is contributed to a group life insurance benefit for the participants for the period ended December 31, 2022.

All required contributions for the year ended December 31, 2022 were made and are summarized as follows:

Year ended December 31,	Employer SCRS	Employee SCRS
2022	$ 2,345,256	$ 1,234,504

Net pension liability

At December 31, 2022, the Agency reported a liability of $28,004,791 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, based on the July 1, 2021 actuarial valuation. The total pension liability was rolled forward from the valuation date to the plan's year ended June 30, 2022, 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, 2022 measurement date, the Agency's proportionate share was 0.115521%.

(Continued)

Note 14 – Employee Benefits, continued

Pension plan, continued

For the year ended December 31, 2022, the Agency recognized pension expense of $1,948,416 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	$ 243,309	$ 122,044
Changes of assumptions	898,179	-
Net difference between projected and actual earnings on pension plan investments	43,189	-
Changes in proportion and differences between Agency's contributions and proportionate share of contributions	485,869	1,282,833
Agency contributions subsequent to the measurement date	1,293,980	-
Total	$ 2,964,526	$ 1,404,877

At December 31, 2022, the Agency reported $1,293,980 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, 2023. 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)
2023	$ (230,762)
2024	(243,213)
2025	938,652
2026	(730,346)
Total	$ (265,669)

(Continued)

Note 14 – 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 2022 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)

Note 14 – Employee Benefits, continued

Pension plan, continued

Actuarial assumptions, continued

Asset class	Target allocation	Expected arithmetic real rate of return	Long-term expected portfolio real rate of return
Public equity	46.00%	6.79%	3.12%
Bonds	26.00%	(0.35%)	(0.09%)
Private equity	9.00%	8.75%	0.79%
Private debt	7.00%	6.00%	0.42%
Real assets - real estate	9.00%	4.12%	0.37%
Real estate - infrastructure	3.00%	5.88%	0.18%
Total expected return	100.00%		4.79%
Inflation			2.25%
Expected arithmetic nominal return			7.04%

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.

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%
$ 35,905,597	$ 28,004,791	$ 21,436,296

(Continued)

Note 14 – Employee Benefits, continued

Pension plan, continued

Pension plan fiduciary net position

PEBA issues an ACFR containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The ACFR is publicly available through 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. PEBA is a division of the primary government of the state of South Carolina and, therefore, retirement trust fund financial information is also included in the ACFR for the state.

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.

Note 15 – 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 81.3% 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.

(Continued)

Note 15 – Postemployment Healthcare Plan, continued

Summary of membership information

The following table provides a summary of the number of participants in the Plan as of the June 30, 2022 measurement date:

Inactive Plan members or beneficiaries currently receiving benefits	90
Inactive Plan members entitled to, but not yet receiving benefits	-
Active Plan members	172
Total Plan members	262

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:

	Employee	Employer
Retiree only	$ 106	$ 438
Retiree/spouse	276	875
Retiree/child(ren)	157	681
Family	334	1,108

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 3.69% (based on the Fidelity "20-year Municipal GO AA Index" as of June 30, 2020). The discount rate was 1.92% as of the prior measurement date.

Total OPEB liability

The Agency's total OPEB liability of $21,345,212 was measured as of June 30, 2022, 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, 2022.

(Continued)

Note 15 – Postemployment Healthcare Plan, continued

Plan assets

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

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	3.69% as of June 30, 2022
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 is used with male rates multiplied by 97% and female rates multiplied by 107%. The rates are projected on a fully generational basis using 80% of the ultimate rates of Scale MP-2019 to account for future mortality improvements.
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.

(Continued)

Note 15 – Postemployment Healthcare Plan, continued

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 3.69%, which was a change from 1.92% 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 $18,610,173 or by 12.8%. If the discount rate were 1.0% lower than what was used in this valuation, the OPEB Plan liability would increase to $24,723,461 or by 15.8%.

	Discount rate		
	1.00% Decrease	Baseline 3.69%	1.00% Increase
OPEB Plan	$ 24,723,461	$ 21,345,212	$ 18,610,173

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

The June 30, 2022 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 $25,926,577 or by 21.5%. If the trend rate were 1.0% lower than what was used in this valuation, the OPEB Plan liability would decrease to $17,788,007 or by 16.7%.

	Healthcare cost trend rate		
	1.00% Decrease	Baseline 6.00%	1.00% Increase
OPEB Plan	$ 17,788,007	$ 21,345,212	$ 25,926,577

For the year ended December 31, 2022, the Agency recognized a decrease in OPEB Plan liability of $7,457,671 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	$ 289,282	$ 288,059
Changes in assumptions	4,140,570	7,498,664
Contributions subsequent to the measurement date	379,969	-
	$ 4,809,821	$ 7,786,723

The $379,969 reported as deferred outflows of resources related to OPEB resulting from the Agency's contributions subsequent to the June 30, 2022 measurement date will be recognized as a reduction of the OPEB liability in the year ending December 31, 2023.

(Continued)

Note 15 – Postemployment Healthcare Plan, continued

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

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

2023	$	(325,986)
2024		(325,986)
2025		(313,733)
2026		(433,852)
2027		(710,553)
Thereafter		(1,246,761)
Total	$	(3,356,871)

Note 16 – 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, 2022 was $2.9 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, 2023, billing charges to the Agency are estimated to cost approximately $3.0 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, 2022.

Note 17 – 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 18 – 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 reputable insurance providers 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

(Continued)

Note 18 – Risk Management, continued

the year ended December 31, 2022. The Agency believes the amount of actual or potential claims as of December 31, 2022 will not materially affect the financial condition of the Agency.

Note 19 – Subsequent Events

During January, February, and March 2023, the Agency executed or amended 25 contracts approximating $32.8 million primarily for capital projects.

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

	2022	2021	2020	2019	2018
Service cost	$ 1,333,564	$ 1,173,921	$ 880,678	$ 719,921	$ 804,621
Interest on the total OPEB liability	558,307	615,488	683,240	704,663	667,597
Difference between expected and actual experience of the total OPEB liability	86,630	247,485	59,499	(595,133)	(53,461)
Changes of assumptions	(8,653,794)	2,604,349	2,223,335	2,068,201	(168,926)
Benefit payments	(782,378)	(746,709)	(653,624)	(576,585)	(412,174)
Net change in total OPEB liability	(7,457,671)	3,894,534	3,193,128	2,321,067	837,657
Total OPEB liability - beginning	28,802,883	24,908,349	21,715,221	19,394,154	18,556,497
Total OPEB liability - ending	$ 21,345,212	$ 28,802,883	$ 24,908,349	$ 21,715,221	$ 19,394,154
Covered-employee payroll	14,730,245	14,436,712	14,828,638	13,541,854	13,170,405
Total OPEB liability as a % of covered-employee payroll	144.9%	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:

2022	3.69%
2021	1.92%
2020	2.45%
2019	3.13%
2018	3.62%

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

2022	Initial rate of 6.00% declining to an ultimate rate of 4.00% after 15 years.
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
2022	0.115521%	$ 28,004,791	$ 13,716,469	204.2%	57.1%
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 year [1]	Actuarial required contribution	Actual contributions	Contribution deficiency (excess)	Agency's total payroll	Contributions as a percentage of total payroll
2022	$ 2,345,256	$ 2,345,256	$ -	$ 14,625,159	16.0%
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

[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.

Cherry Bekaert
Your Guide Forward

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, 2022, 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 April 15, 2023.

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 or significant deficiencies 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 financial statements. 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.

Cherry Bekaert LLP

Greenville, South Carolina
April 15, 2023