

**Renewable Water Resources
Financial Statements
and Supplemental Information**

Years Ended June 30, 2014 and 2013

Renewable Water Resources Greenville, South Carolina

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Independent Auditor's Report

To the Board of Commissioners
Greenville, South Carolina

Report on the Financial Statements

We have audited the accompanying statements of net position of Renewable Water Resources (the "Agency") as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of June 30, 2014 and 2013, and the results of its operations and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the Agency implemented the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 and the Schedule of Funding Progress – Other Postemployment Benefits on page 40 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 September 8, 2014 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Cherry Behaert LLP

Greenville, South Carolina
September 8, 2014

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 fiscal years ended June 30, 2014 and 2013. Please consider this information in conjunction with the financial statements and related notes, which follow this section.

Financial Highlights

- The Agency was one of several utilities in North and South Carolina that was adversely impacted by an illegal dumping of polychlorinated biphenyls ("PCB's"). While there is an ongoing criminal investigation being conducted by the Environmental Protection Agency to identify the source of contamination, the Agency believes the PCB's entered the system through multiple intentional discharges into grease interceptors at food service establishments, which either overflowed to the Agency's trunk lines or were pumped by unknowing Septic haulers and transported to the Agency's facilities. Throughout fiscal year 2014, the Agency expended nearly \$5.0 million in operating expenses and fixed assets to remediate the contamination and has implemented several programs to minimize the potential of future contamination.
- The Agency's financial position continues to be strong, despite the additional expenditures related to the PCB contamination, as net position increased \$6.7 million or 2.4% to \$290.6 million as a result of current year operations, as compared to an increase of 3.5% in fiscal year 2013.
- Total revenues increased \$3.4 million or 4.5% to \$78.3 million due to increases in domestic and commercial revenue, as well as industrial revenue which is primarily attributable to an approximate 4.0% rate increase and modest customer growth. Septic haulers and other revenue increased \$0.1 million or 20.0% due to a new rate structure adopted to mitigate the costs associated with the hauled waste sampling and analysis program which was implemented after the PCB contamination.
- Total expenses increased \$6.2 million or 9.5% to \$71.6 million largely due to PCB remediation. During fiscal year 2014, the Agency has worked diligently to remove PCB's from the Agency's contaminated water resource recovery facilities ("WRRF") and reduce the likelihood of future contamination. PCB remediation expenses totaled \$4.6 million in fiscal year 2014 and are expected to approximate \$7.0 million when complete.
- Total outstanding debt, excluding premiums, decreased \$17.8 million or 6.6% to \$250.9 million due to planned debt service.

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 Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows; with the related notes to provide additional details. These basic financial statements provide information about the

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Overview of the Financial Statements, continued

activities and performance of the Agency using accounting methods similar to those found in the private sector. The Statements of Net Position present 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 Statements of Revenues, Expenses and Changes in Net Position present the current and prior fiscal years' results of operations and can be used to determine whether the Agency is recovering costs through user fees and charges.

The Statements of Cash Flows report cash receipts, cash payments and net changes in cash and cash equivalents for the current and prior fiscal years. 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. The statement may be useful in assessing the Agency's ability to meet short-term obligations.

The Notes to the Financial Statements provide required disclosures and other information essential to a full understanding of 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 fiscal year 2014 as net position grew 2.4%. Net position in fiscal years 2014, 2013 and 2012 totaled \$290.6 million, \$283.9 million and \$274.4 million, respectively. The largest portion of the Agency's net position, approximately 74.7%, 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 \$28.1 million or 9.7% of the Agency's net position is restricted (restrictions established by debt covenants, enabling legislation, or other legal requirements). In fiscal year 2014, restricted net position increased \$0.1 million or 0.4% primarily due to an increase in resources restricted for operations and maintenance which was offset by decreases in resources restricted for current debt service and depreciation. In fiscal year 2013, restricted net position increased \$0.8 million predominantly due to an increase in amounts restricted for debt service.

The third and final component of net position is unrestricted, which may be used to fund day to day operations or capital projects. In fiscal year 2014, the Agency's unrestricted net position totaled \$45.4 million, a decrease of 3.1 million or 6.4%. The decrease in unrestricted net position is principally a result of the increase in net investment in capital assets. In fiscal year 2013, the Agency's unrestricted net position totaled \$48.5 million.

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Net Position, continued

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)
For the Years Ended June 30,

	<u>2014</u>	<u>Restated 2013</u>	<u>Restated 2012</u>
Current and non-current assets	\$ 55.6	\$ 58.1	\$ 71.5
Restricted assets	28.1	28.0	34.2
Capital assets	476.0	487.5	484.8
Total assets	<u>559.7</u>	<u>573.6</u>	<u>590.5</u>
Defeasance loss	9.2	10.2	11.1
Total deferred outflows of resources	<u>9.2</u>	<u>10.2</u>	<u>11.1</u>
Current liabilities	28.6	30.5	38.6
Non-current liabilities	249.7	269.4	288.6
Total liabilities	<u>278.3</u>	<u>299.9</u>	<u>327.2</u>
Net investment in capital assets	217.1	207.4	183.9
Restricted	28.1	28.0	27.2
Unrestricted	45.4	48.5	63.3
Total net position	<u>\$ 290.6</u>	<u>\$ 283.9</u>	<u>\$ 274.4</u>

Revenues

Table A-2 reveals that the Agency's total revenues increased by \$3.4 million or 4.5% in fiscal year 2014 to \$78.3 million. In fiscal year 2013, the Agency's total revenue decreased \$0.1 million to \$74.9 million. 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 facilities. The current user fee regulation in effect for fiscal year 2014 was adopted December 6, 2010, and became effective March 1, 2014, with a subsequent increase in monthly base fees and volume charges effective on March 1, 2015.

In fiscal year 2014, domestic and commercial revenue increased \$2.8 million or 4.5%. The increase is largely attributable to an approximate 4.0% rate increase and modest customer growth of 1.0%. These increases were offset by continued decline in consumption. Domestic and commercial customer revenues decreased 1.0% to \$61.9 million in fiscal year 2013. The decrease was a result of reduced consumption despite an approximate 4.0% rate increase and customer growth of 2.6%.

In fiscal year 2014, industrial revenues increased \$0.2 million or 3.0% to \$6.9 million. The increase in fiscal year 2014 is primarily attributable to an approximate 4.0% rate increase. In fiscal year 2013, industrial revenues decreased slightly to \$6.7 million from \$6.8 million in fiscal year 2012.

New account fees, based on water meter size, totaled \$5.5 million in fiscal years 2014 and 2013. New account fees have steadily improved after a historic low in fiscal year 2010.

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Revenues, continued

Interest and other non-operating revenues increased to \$0.6 million in fiscal year 2014 as the Agency increased investment holdings. In fiscal year 2013, interest and other non-operating revenues declined to \$0.3 million from \$0.5 million in fiscal year 2012.

Table A-2
Condensed Statements of Revenues, Expenses and Changes in Net Position (in millions)
For the Years Ended June 30,

	<u>2014</u>	<u>Restated 2013</u>	<u>Restated 2012</u>
Operating revenues			
Domestic and commercial customers	\$ 64.7	\$ 61.9	\$ 62.5
Industrial customers	6.9	6.7	6.8
New account fee	5.5	5.5	4.7
Septic haulers and other	0.6	0.5	0.5
Interest and other non-operating revenues	<u>0.6</u>	<u>0.3</u>	<u>0.5</u>
Total revenues	78.3	74.9	75.0
Operating expenses			
Operations	18.8	13.9	12.9
Technical services	3.0	2.8	2.8
Collection system	3.5	2.9	2.7
IS and instrumentation	1.8	1.6	1.5
Human resources	2.4	2.1	2.0
Administration finance	<u>5.7</u>	<u>5.7</u>	<u>5.4</u>
Total operating expenses before depreciation	35.2	29.0	27.3
Depreciation	<u>26.6</u>	<u>26.1</u>	<u>24.1</u>
Total operating expenses	61.8	55.1	51.4
Interest, amortization & other non-operating expenses	<u>9.8</u>	<u>10.3</u>	<u>11.7</u>
Total expenses	<u>71.6</u>	<u>65.4</u>	<u>63.1</u>
Capital project cost reimbursements	-	-	0.6
Increase in net position	6.7	9.5	12.5
Total net position, beginning of year	283.9	274.4	267.5
Change in accounting principle	<u>-</u>	<u>-</u>	<u>(5.6)</u>
Total net position, beginning of year, restated	<u>283.9</u>	<u>274.4</u>	<u>261.9</u>
Total net position, end of year	<u>\$ 290.6</u>	<u>\$ 283.9</u>	<u>\$ 274.4</u>

Capital Contributions

Project reimbursement occurs when the Agency enters into a contract with one or more entities to construct facilities and/or sewer conveyance systems that will be mutually beneficial. There were no participating entities in fiscal years 2014 and 2013.

Expenses

Total expenses in fiscal years 2014, 2013 and 2012 totaled \$71.6 million, \$65.4 million and \$63.1 million, respectively. Total expenses in fiscal year 2014 increased \$6.2 million. Operating expenses before depreciation increased \$6.2 million or 21.4% and \$1.7 million or 6.2% in fiscal years 2014 and 2013, respectively. In fiscal year 2014, approximately 15.9% of the 21.4% increase is related to PCB remediation. In fiscal year 2014, the Agency incurred \$4.6 million as a result of the PCB contamination. The remainder of the increase in fiscal year 2014 was primarily comprised of increases in electricity, billing expense and other postemployment benefits obligation. Depreciation increased \$0.5 million and was offset by a net decrease of \$0.5 million in interest, amortization and other non-operating expenses.

In fiscal year 2013, total expenses increased \$2.3 million or 3.6%. In fiscal year 2013, \$1.7 million of the increase is primarily attributable to increases in chemicals, repairs and maintenance, employee related expenses, as well as carbon media replacement. An increase of \$2.0 million in depreciation also contributed to the overall increase in fiscal year 2013. These increases were offset by a decrease of \$1.4 million in interest, amortization and other non-operating expenses.

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

Capital Assets

In fiscal year 2014, capital assets being depreciated increased \$12.3 million or 1.6% to \$776.7 million, which was attributable to various line rehabilitations, pump station improvements and facility enhancements. In fiscal year 2013, capital assets being depreciated increased by \$55.8 million or 7.9% to \$764.4 million. Approximately \$46.5 million of the increase in fiscal year 2013 pertains to the capitalization of the Agency's newest facility, Piedmont Regional WRRF. At the end of fiscal year 2014, the Agency had invested \$476.0 million in infrastructure, which includes land, rights-of-way, trunk lines, buildings, operating equipment, WRRF equipment and vehicles as shown in Table A-3 and in Note 5 of the accompanying notes to the financial statements.

(Continued)

Capital Assets, continued

Table A-3
Capital Assets (in millions)
For the Years Ended June 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital assets not being depreciated:			
Construction in progress	\$ 4.2	\$ 10.1	\$ 41.0
Land	3.6	3.6	3.5
Rights-of-way	0.1	-	-
Total capital assets not being depreciated	<u>\$ 7.9</u>	<u>\$ 13.7</u>	<u>\$ 44.5</u>
Capital assets being depreciated:			
Buildings	\$ 348.1	\$ 341.2	\$ 318.0
Trunk lines	331.9	326.3	305.2
Water resource recovery facility equipment	89.0	90.0	82.9
Operational equipment	6.5	5.7	1.3
Office furniture	0.4	0.4	0.5
Vehicles	0.8	0.8	0.7
Total capital assets being depreciated	<u>776.7</u>	<u>764.4</u>	<u>708.6</u>
Less: accumulated depreciation	<u>308.6</u>	<u>290.6</u>	<u>268.3</u>
Total capital assets being depreciated, net	<u>468.1</u>	<u>473.8</u>	<u>440.3</u>
Net capital assets	<u>\$ 476.0</u>	<u>\$ 487.5</u>	<u>\$ 484.8</u>

Capital improvement program

The 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 and reconvened in 2008, this strategic planning group brought together over 60 community, governmental and industry leaders to develop a 20-year plan to guide the Agency. The 1994 Upstate Roundtable Plan identified needs of approximately \$326.5 million for growth in the Reedy, Saluda and Enoree basins. In fiscal year 2013, all projects that were identified in this plan were completed. The 2008 Upstate Roundtable Plan identified \$809.7 million of projects which have been incorporated into the Agency's capital improvements program ("CIP").

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Capital Assets, continued

Capital improvement program, continued

The Agency maintains a fluid five year CIP that merges the Agency's strategic plan with the ongoing objective of maintaining compliance with South Carolina Department of Health & Environmental Control regulations and National Pollutant Discharge Elimination System permit limitations. The CIP calls for upgrades to three of the Agency's WRRF, numerous line and conveyance system projects, as well as various green energy and reuse projects that support the 2008 Upstate Roundtable Plan.

Major capital expenditures in fiscal year 2014 focused on various line and conveyance rehabilitation and facility improvement projects.

Capital improvement expenditures

Significant capital improvement expenditures for fiscal year 2014 include the following:

- **Grove Creek and Piedmont Pump Station Modifications** – Total investment of \$6.8 million for the construction of a new 2.75 MGD pump station for conveyance of raw sewage to the new Piedmont Regional WRRF, as well as conversion of the Grove Creek WRRF effluent pump station to an influent pump station capable of providing influent flow to the Piedmont Regional WRRF. Modifications include a new influent screenings facility, Parshall flume and manhole, mag meter vault, lagoon pump suction intake, flow diversion structure, associated manholes, miscellaneous piping and all associated electrical and instrumentation.
- **Gravity Sewer Rehabilitation** – Total investment of \$3.5 million within multiple basins to rehabilitate the Agency's aging infrastructure and reduce the effects of inflow and infiltration into the collection system.
- **Gilder Creek PCS Upgrade** – Expenditure of \$1.1 million to replace the existing facility control system with new hardware and software used to control and monitor existing process equipment.

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Capital Assets, continued

Capital improvement expenditures, continued

Table A-4 illustrates the Agency's 2015 Capital Expenditures Budget of \$57.5 million for potential spending on facility enhancements, design of a new laboratory building and collection system improvements. The Agency believes that the budget requirement for the upcoming fiscal year will be funded through a combination of reserves, bonds and South Carolina revolving loan funds.

Table A-4
Fiscal Year 2015 Capital Expenditures Budget (in millions)

<i>FUNDING SOURCES</i>	
South Carolina revolving loan fund	\$ 16.6
Reserves and bonds	<u>40.9</u>
Total funding sources	<u><u>\$ 57.5</u></u>
<i>EXPENDITURES</i>	
Water resource recovery facilities	\$ 20.4
Collection system	20.7
Sustainability and reuse	3.2
Other projects	<u>13.2</u>
Total expenditures	<u><u>\$ 57.5</u></u>

Long-Term Liabilities

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.

At June 30, 2014, the total liability for compensated absences was \$0.7 million.

The total obligation for other postemployment benefits increased \$0.8 million to \$3.3 million during fiscal year 2014.

Revenue bonds

As of June 30, 2014, revenue bond debt, including premiums, totaled \$226.4 million; the long-term portion of which was \$208.3 million. At the end of fiscal year 2014, the Agency's revenue bond debt consisted of six series of revenue and refunding revenue bonds: Series 2005, Series 2005B, Series 2009, Series 2010A, Series 2010B and Series 2012. Revenue bond debt totaled \$243.9 million at the end of fiscal year 2013.

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Long-Term Liabilities, continued

Revenue bonds, continued

The Agency received bond premiums of \$4.7 million, \$7.6 million, \$6.1 million and \$11.4 million on the Series 2005, 2005B, 2010A and 2012 revenue bonds, respectively. The bond premiums are amortized over the life of the bonds. The Series 2005, Series 2005B and Series 2009 are payable from gross revenues and are on parity with all of the Agency's state revolving loans. These obligations are collectively referred to as the Senior Lien Debt. The Series 2010A, Series 2010B and Series 2012 were issued under the 2010 Bond Resolution and are subordinate in all aspects to the Senior Lien Debt.

The Series 2005 and Series 2005B revenue bonds carry 'Aa2' and 'AA' ratings from Moody's Investors Service and Standard & Poor's, respectively. Both the Series 2005 and 2005B ratings were enhanced through the purchase of a surety agreement at issuance and carry the rating of the surety provider or the underlying rating of the Agency, whichever is higher. In fiscal year 2009, Moody's Investors Service downgraded the Agency's surety provider, triggering the funding of the Agency's debt service reserve requirement. In fiscal year 2011, Standard & Poor's downgraded the Agency's surety provider.

The Series 2009, Series 2010A and Series 2010B revenue bonds were issued based on the Agency's underlying rating. In fiscal year 2012, Standard & Poor's affirmed its 'AA' rating on the Agency's Senior Lien Debt, Series 2010A bonds, Series 2010B bonds and assigned its 'AA' rating to the Series 2012 bonds. Also in fiscal year 2012, Moody's Investors Service affirmed its 'Aa2' rating on the Agency's Senior Lien Debt, affirmed its 'Aa3' rating on the Series 2010A and 2010B bonds and assigned its 'Aa3' rating to the Series 2012 bonds.

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 of the system. Interest rates on these loans range from 1.84 to 2.25 percent. State revolving loans outstanding as of June 30, 2014 totaled \$40.4 million.

Listed below are the Agency's state revolving loans outstanding at year end:

- June 2005 Lower Reedy WRRF expansion Phase II
- November 2006 Durbin Creek WRRF expansion
- December 2009 Gravity Sewer and Manhole Rehabilitation Phase I
- December 2009 Gravity Sewer and Manhole Rehabilitation Phase II

Construction has been completed and all funds received for the projects listed above.

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Long-Term Liabilities, continued

Total outstanding long-term debt

At June 30, 2014, the Agency owed \$250.9 million (excluding premiums) in total long-term debt, a decrease of \$17.8 million or 6.6% from \$268.7 million at the end of fiscal year 2013. In fiscal years 2014 and 2013 the decrease is due to planned debt service.

The Agency's bond covenants require net earnings (as defined in respective loan agreements) to be at least 110 percent 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 at any time, 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)
For the Years Ended June 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenue	\$ 77.8	\$ 74.6	\$ 74.4
Investment revenue, unrestricted	<u>0.5</u>	<u>0.2</u>	<u>0.4</u>
Gross revenues	78.3	74.8	74.8
Less: operating expenses before depreciation	<u>35.2</u>	<u>29.1</u>	<u>27.3</u>
Net revenues available for debt service	<u>\$ 43.1</u>	<u>\$ 45.7</u>	<u>\$ 47.5</u>
Debt service on bonds	\$ 28.8	\$ 27.8	\$ 29.2
Debt coverage	150%	164%	163%

Fiscal year 2014 debt service payments increased \$1.0 million or 3.6% to \$28.8 million. Debt service payments decreased \$1.4 million or 4.8% in fiscal year 2013. Debt structure on revenue bonds varies year to year causing principal payments to increase and decrease over the life of the bonds.

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Long-Term Liabilities, continued

Total outstanding long-term debt, continued

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

Table A-6
Average Coupon/Interest Rate

	Balance (without premiums) <u>(in millions)</u>	<u>Average coupon / rate</u>
Series 2005 revenue bonds	\$ 0.5	4.3%
Series 2005B refunding revenue bonds	53.4	4.0
Series 2009 revenue bonds	20.2	3.8
Series 2010A refunding revenue bonds	46.8	3.4
Series 2010B revenue bonds	18.5	2.7
Series 2012 refunding revenue bonds	71.1	2.9
State revolving loans	40.4	2.1

General obligation bonds limitation on debt

Under the debt limitation provisions of Article X of the South Carolina Constitution, every county, incorporated municipality, special purpose district and school district has the power, in such manner and upon such terms and conditions as the General Assembly shall prescribe by general law, (a) to incur general obligation debt authorized by a majority vote of the qualified electors thereof voting in a referendum, without limitation as to amount and (b) to incur, without an election, debt, in addition to bonded indebtedness existing on November 30, 1977, and bonded indebtedness authorized by majority vote of qualified electors, in an amount not exceeding 8.0% of the assessed value of all taxable property therein. As of June 30, 2014, the Agency's assessed value was approximately \$1.7 billion. The Agency had no general obligation debt outstanding as of June 30, 2014.

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.

Change in Accounting Principle

During fiscal year 2014, the Agency adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The implementation of this statement required retroactive write-off of debt issue cost that had previously been capitalized; therefore, beginning net position has been restated to show the cumulative impact in the earliest period presented. The application of this statement also resulted in reclassification of the Agency's deferred loss on refunding from revenue bonds payable to deferred outflows of resources. For additional information, please refer to Notes 1 and 6 of the accompanying notes to the financial statements.

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, while new account fees remained consistent; hopefully an indication that the economy is continuing to recover. Interest rates remain low, decreasing interest earnings and the cost of borrowing.

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 Patricia Dennis, Controller, Renewable Water Resources at 561 Mauldin Road, Greenville, South Carolina 29607, 864-299-4000, or patriciad@re-wa.org.

Basic Financial Statements

Renewable Water Resources
Statements of Net Position
June 30,

	2014	Restated 2013
Current assets		
Cash and cash equivalents	\$ 20,470,672	\$ 29,925,252
Restricted cash and cash equivalents	20,336,219	19,728,940
Receivables, net	10,398,377	9,949,800
Restricted investments	7,723,768	8,268,669
Total current assets	58,929,036	67,872,661
Non-current assets		
Receivables, net	2,782,303	3,020,834
Investments	21,619,730	15,033,007
Capital assets, net	476,028,619	487,489,863
Prepaid insurance, net	353,946	231,443
Total non-current assets	500,784,598	505,775,147
Total assets	\$ 559,713,634	\$ 573,647,808
Deferred outflows of resources		
Defeasance loss, net	\$ 9,286,090	\$ 10,216,358
Total deferred outflows of resources	\$ 9,286,090	\$ 10,216,358
Current liabilities		
Revenue bonds payable	\$ 18,071,602	\$ 17,537,476
State revolving loans payable	2,455,405	2,402,392
Accounts payable - operations	1,290,236	776,125
Accounts payable - construction projects	1,469,300	3,648,566
Accrued interest payable	4,177,545	4,443,962
Accrued expenses and other liabilities	635,236	1,075,713
Compensated absences	517,837	625,550
Total current liabilities	28,617,161	30,509,784
Long-term liabilities		
Revenue bonds payable	208,323,234	226,394,836
State revolving loans payable	37,898,566	40,353,970
Compensated absences	219,500	126,055
Other postemployment benefits	3,293,091	2,532,266
Total long-term liabilities	249,734,391	269,407,127
Total liabilities	\$ 278,351,552	\$ 299,916,911
Net position		
Net investment in capital assets	\$ 217,096,602	\$ 207,368,981
Net position - restricted		
Debt service	19,357,293	19,560,054
Depreciation	4,760,286	4,874,899
Other	3,942,408	3,562,656
Net position - unrestricted	45,491,583	48,580,665
Total net position	\$ 290,648,172	\$ 283,947,255

The accompanying notes are an integral part of these financial statements.

Renewable Water Resources
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30,

	2014	Restated 2013
Operating revenues		
Domestic and commercial customers	\$ 64,718,545	\$ 61,858,932
Industrial customers	6,987,451	6,734,685
New account fees	5,477,500	5,492,500
Septic haulers and other	589,610	546,015
Total operating revenues	77,773,106	74,632,132
Operating expenses		
Operations	18,824,484	13,862,048
Technical services	2,986,682	2,830,767
Collection system	3,489,312	2,938,441
IS and instrumentation	1,788,463	1,597,780
Human resources	2,424,403	2,144,962
Administrative finance	5,731,767	5,711,236
Total operating expenses before depreciation	35,245,111	29,085,234
Depreciation	26,579,447	26,061,618
Total operating expenses	61,824,558	55,146,852
Net operating revenue	15,948,548	19,485,280
Non-operating revenues (expenses)		
Investment revenue	457,974	218,939
Interest expense	(9,435,113)	(10,094,401)
Amortization	(29,005)	(29,005)
Non-project expenses	(373,610)	(154,442)
Other revenue	132,123	108,829
Net non-operating expenses	(9,247,631)	(9,950,080)
Increase in net position	6,700,917	9,535,200
Total net position, beginning of year	283,947,255	280,053,181
Change in accounting principle	-	(5,641,126)
Total net position, beginning of year, restated	283,947,255	274,412,055
Total net position, end of year	\$ 290,648,172	\$ 283,947,255

The accompanying notes are an integral part of these financial statements.

Renewable Water Resources
Statements of Cash Flows
For the Years Ended June 30,

	2014	2013
Cash flows from operating activities		
Received from customers	\$ 77,392,294	\$ 74,309,111
Paid to suppliers for goods and services	(24,664,230)	(26,898,624)
Paid to employees for services	(12,091,463)	(11,033,995)
	40,636,601	36,376,492
Cash flows from capital and related financing activities		
Cash received on notes receivable for capital	229,398	220,616
Acquisition of capital assets and project expenses	(15,389,559)	(28,710,805)
Principal payments on debt	(17,777,391)	(16,890,601)
Interest payments on debt	(11,035,991)	(10,925,177)
Proceeds from non-operating revenue	132,123	108,829
	(43,841,420)	(56,197,138)
Cash flows from investing activities		
Interest received on investments	399,342	227,174
Proceeds from sales of investment securities	12,234,325	21,590,256
Purchases of investment securities	(18,276,149)	(31,084,202)
	(5,642,482)	(9,266,772)
Net cash used for investing activities	(5,642,482)	(9,266,772)
Net decrease in cash and cash equivalents	(8,847,301)	(29,087,418)
Cash and cash equivalents, beginning of year	49,654,192	78,741,610
Cash and cash equivalents, end of year	\$ 40,806,891	\$ 49,654,192

The accompanying notes are an integral part of these financial statements.

Renewable Water Resources
Statements of Cash Flows
For the Years Ended June 30,

	2014	2013
Reconciliation of net operating revenue to net cash flows from operating activities		
Net operating revenue	\$ 15,948,548	\$ 19,485,280
Adjustments to reconcile net operating revenue to net cash provided by operating activities		
Depreciation	26,579,447	26,061,618
Changes in asset and liability amounts		
Receivables	(380,812)	(323,021)
Prepaid expenses	(151,507)	-
Accounts payable - operations	514,111	26,680
Accounts payable - construction projects	(2,179,266)	(9,886,296)
Accrued expenses and other liabilities	(440,477)	376,534
Compensated absences	(14,268)	57,355
Other postemployment benefits	760,825	578,342
	\$ 40,636,601	\$ 36,376,492
Non-cash activities		
Decrease in fair value of investments	\$ (45,406)	\$ (48,512)
Amortization of prepaid bond insurance	\$ 29,005	\$ 29,005
Capitalized interest costs	\$ 102,254	\$ 152,049
Reconciliation of cash and cash equivalents to statement of net position		
Cash and cash equivalents	\$ 20,470,672	\$ 29,925,252
Restricted cash and cash equivalents	20,336,219	19,728,940
	\$ 40,806,891	\$ 49,654,192

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

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 nine members who are appointed by the Governor upon recommendation by the legislative delegations of Greenville, Anderson, and Laurens 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 type fund to record its activities which consists of a self-balancing set of accounts. Enterprise type 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”) and the American Institute of Certified Public Accountants (“AICPA”). 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. The budget required by the State of South Carolina is prepared on the cash basis of accounting. Management also prepares a budget on the accrual basis of accounting which is used for internal purposes.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

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

Investments are reported at fair value. Gains or losses that result from market fluctuation are reported in the current period.

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. 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.

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 estimated fair value at the date of donation. Depreciation of capital assets is calculated by use of the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings, trunk lines, and WRRF equipment	15 – 40 years
Office furniture and operational equipment	5 – 8 years
Vehicles	3 years

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

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is 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.

Net position

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

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on an assets' 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 Statements 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)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

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

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.

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 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 non-operating revenues and expenses.

Estimates

Preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America ("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.

Change in Accounting Principle

During fiscal year 2014, the Agency adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The implementation of this statement required retroactive write-off of debt issue cost that had previously been capitalized; therefore, fiscal year 2013 beginning net position has been restated to show the cumulative impact. The application of this statement also resulted in reclassification of the Agency's deferred loss on refunding from revenue bonds payable to deferred outflows of resources. As of and for the year ended June 30, 2013, the net position and increase in net position have been adjusted accordingly:

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

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

	Increase in net position, year ended June 30, 2013	Beginning net position, year ended June 30, 2013
As previously reported	\$ 9,006,469	\$ 280,053,181
Change in accounting principle	528,731	(5,641,126)
As restated	\$ 9,535,200	\$ 274,412,055

New pronouncements

The Agency has implemented the following GASB pronouncements:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, identifies deferred outflows and inflows that are to be separated from assets and liabilities under GASB Statement No. 63 and provides for immediate recognition of certain costs and fees. This statement also provides financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Implementation of this statement resulted in reclassifications of the Agency’s deferred loss on refunding from revenue bonds payable to deferred outflows of resources and elimination of the Agency’s bond issuance cost assets. Where practical this statement requires retroactive application. As a result, fiscal year 2013 beginning net position has been restated to show the cumulative impact.

The GASB has issued several statements which are applicable to future reporting periods. The only statement which is expected to have a future impact on the Agency is described below:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014, replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The statement requires government employers to recognize as a liability, for the first time, their long-term obligation for pension benefits. The employer liability is to be measured as the difference between the present value of projected benefit payments to be provided through the pension plan for past periods of service less the amount of the pension plan’s fiduciary net position, with obligations for employers with cost sharing plans based on their proportionate share of contributions to the pension plan. The statement also requires more immediate recognition of annual service cost, interest and changes in benefits for pension expense, specifies requirements for discount rates and actuarial methods and changes disclosure requirements.

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 2 – Cash and Cash Equivalents and Investments

As of June 30, 2014 and 2013, the Agency had the following cash and cash equivalents and investments:

<u>Description</u>	<u>Fair Value</u>	
	<u>2014</u>	<u>2013</u>
Cash and cash equivalents		
Checking and other cash	\$ 29,158,600	\$ 38,358,560
Money markets – government obligations	11,107,307	11,295,632
United States Treasury Bills	540,984	-
Total cash and cash equivalents	<u>\$ 40,806,891</u>	<u>\$ 49,654,192</u>
Investments		
Government sponsored enterprises	\$ 12,509,930	\$ 6,033,007
Certificates of deposit	9,109,800	9,000,000
United States Treasury Bills	7,723,768	8,268,669
Total investments	<u>\$ 29,343,498</u>	<u>\$ 23,301,676</u>

Investment maturities are as follows as of June 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment maturities</u> <u>(in years)</u>		
		<u>Less than</u> <u>1 year</u>	<u>1 – 5 years</u>	<u>More than</u> <u>5 years</u>
Certificates of Deposit	\$ 9,109,800	\$ -	\$ 9,109,800	\$ -
US Treasury Bills	7,723,768	7,723,768	-	-
US Agencies notes and bonds				
Federal Home Loan Mortgage notes	3,993,127	-	3,993,127	-
Federal National Mortgage Association notes	3,958,195	-	3,958,195	-
Federal Farm Credit Bank bonds	2,426,253	-	1,574,580	851,673
Federal Home Loan Bank bonds	1,225,320	-	833,892	391,428
United States Treasury notes	907,035	-	506,283	400,752
Total	<u>\$ 29,343,498</u>	<u>\$ 7,723,768</u>	<u>\$ 19,975,877</u>	<u>\$ 1,643,853</u>

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 2 – Cash and Cash Equivalents and Investments, continued

Investment maturities are as follows as of June 30, 2013:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment maturities (in years)</u>	
		<u>Less than 1 year</u>	<u>1 – 5 years</u>
Certificates of Deposit	\$ 9,000,000	\$ -	\$ 9,000,000
US Treasury Bills	8,268,669	8,268,669	-
US Agencies notes and bonds			
Federal Farm Credit Bank bonds	3,912,425	-	3,912,425
Federal Home Loan Bank bonds	878,621	-	878,621
Federal National Mortgage Association notes	1,241,961	-	1,241,961
Total	<u>\$ 23,301,676</u>	<u>\$ 8,268,669</u>	<u>\$ 15,033,007</u>

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 that the same are secured by Federal Deposit Insurance, and certificates of deposits 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 market 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 has an unsecured credit rating in one of the top two categories. The Agency's investments at June 30, 2014 and 2013 consist of US Treasury Bills and US Agencies notes and bonds. The bills and US Agencies notes and bonds were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service as of June 30, 2014.

Concentration of credit risk

The Agency has an investment policy that limits the types of investments the Agency may invest in any one issuer. More than 5 percent of the Agency's investments are in US Treasury Bills. These investments are approximately 26 percent and 35 percent of the Agency's total investments at June 30, 2014 and 2013, respectively.

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. The Agency has a policy for custodial credit risk. As of June 30, 2014 and 2013 all of the Agency's deposits were insured or collateralized with securities held by the Agency's agents in the Agency's name.

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 3 – Receivables

Customer and other accounts receivables as of June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Fees and services		
Domestic and commercial customers	\$ 9,595,472	\$ 9,162,313
Industrial customers	1,243,670	1,246,274
Total receivables from fees	10,839,142	10,408,587
Less: allowance for uncollectible accounts	725,000	725,000
Net receivables from fees	10,114,142	9,683,587
Accrued interest on cash equivalents & other receivables	45,704	36,815
Reimbursements due from other governmental units	3,020,834	3,250,232
Total receivables	13,180,680	12,970,634
Less: current receivables, net	10,398,377	9,949,800
Non-current receivables, net	<u>\$ 2,782,303</u>	<u>\$ 3,020,834</u>

Note 4 – Restricted Cash and Cash Equivalents and Investments

Provisions of the revenue bond and state revolving loan agreements 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:

- **Capital projects** - restricts the use of revenue bond, state revolving loan, real property sales proceeds, and interest earnings on such proceeds, to the construction of capital projects.
- **Current principal and interest payments** - reports resources accumulated for the next principal and interest payments.
- **Debt service reserves** - reports resources set aside to cover potential future deficiencies in the current principal and interest payments account.
- **Operations and maintenance** - reports resources set aside to cover operating and maintenance expenses for one month.
- **Depreciation** - reports resources set aside to fund asset replacements.
- **Contingencies** - reports resources set aside to meet unexpected contingencies.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 4 – Restricted Cash and Cash Equivalents and Investments, continued

Restricted cash and cash equivalents and investments at June 30, 2014 and 2013 are restricted for the following uses:

	<u>2014</u>	<u>2013</u>
Current principal and interest payments	\$ 11,087,293	\$ 11,283,895
Debt service reserves	8,270,000	8,276,159
Operations and maintenance	2,942,408	2,562,656
Depreciation	4,760,286	4,874,899
Contingencies	1,000,000	1,000,000
Total restricted assets	<u>\$ 28,059,987</u>	<u>\$ 27,997,609</u>

Restricted assets consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Cash	\$ 20,336,219	\$ 19,728,940
Investments	7,723,768	8,268,669
Total restricted assets	<u>\$ 28,059,987</u>	<u>\$ 27,997,609</u>

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 5 – Capital Assets

A summary of changes in capital assets from June 30, 2013 to June 30, 2014 follows below:

	Balance			Balance
	June 30, 2013	Additions	Disposals	June 30, 2014
Capital assets not being depreciated				
Construction in progress	\$ 10,113,874	\$ 3,040,855	\$ 8,966,808	\$ 4,187,921
Land	3,550,494	-	-	3,550,494
Rights-of-way	60,267	84,370	-	144,637
Total capital assets not being depreciated	<u>13,724,635</u>	<u>3,125,225</u>	<u>8,966,808</u>	<u>7,883,052</u>
Capital assets being depreciated				
Buildings	341,219,516	8,939,784	2,062,107	348,097,193
Trunk lines	326,285,227	7,946,473	2,319,104	331,912,596
Water resource recovery facilities equipment	90,017,306	2,979,928	3,979,683	89,017,551
Operational equipment	5,731,735	849,561	82,558	6,498,738
Office furniture	386,758	75,466	69,801	392,423
Vehicles	779,788	168,574	172,531	775,831
Total capital assets being depreciated	<u>764,420,330</u>	<u>20,959,786</u>	<u>8,685,784</u>	<u>776,694,332</u>
Less: accumulated depreciation				
Buildings	130,797,713	11,603,240	2,062,107	140,338,846
Trunk lines	107,869,227	8,297,815	2,319,104	113,847,938
Water resource recovery facilities equipment	50,611,910	5,934,504	3,979,683	52,566,731
Operational equipment	693,343	468,600	82,558	1,079,385
Office furniture	252,581	65,022	69,801	247,802
Vehicles	430,328	210,266	172,531	468,063
Total accumulated depreciation	<u>290,655,102</u>	<u>26,579,447</u>	<u>8,685,784</u>	<u>308,548,765</u>
Total capital assets being depreciated, net	<u>473,765,228</u>	<u>(5,619,661)</u>	<u>-</u>	<u>468,145,567</u>
Capital assets, net	<u>\$ 487,489,863</u>	<u>\$ (2,494,436)</u>	<u>\$ 8,966,808</u>	<u>\$ 476,028,619</u>

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 5 – Capital Assets, continued

A summary of changes in capital assets from June 30, 2012 to June 30, 2013 follows below:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets not being depreciated				
Construction in progress	\$ 40,981,998	\$ 8,991,619	\$ 39,859,743	\$ 10,113,874
Land	3,544,803	5,691	-	3,550,494
Rights-of-way	41,417	18,850	-	60,267
Total capital assets not being depreciated	<u>44,568,218</u>	<u>9,016,160</u>	<u>39,859,743</u>	<u>13,724,635</u>
Capital assets being depreciated				
Buildings	318,005,443	24,667,983	1,453,910	341,219,516
Trunk lines	305,208,393	21,927,096	850,262	326,285,227
Water resource recovery facilities equipment	82,853,162	8,222,661	1,058,517	90,017,306
Operational equipment	1,266,849	4,537,033	72,147	5,731,735
Office furniture	482,394	-	95,636	386,758
Vehicles	751,511	197,504	169,227	779,788
Total capital assets being depreciated	<u>708,567,752</u>	<u>59,552,277</u>	<u>3,699,699</u>	<u>764,420,330</u>
Less: accumulated depreciation				
Buildings	120,877,639	11,373,984	1,453,910	130,797,713
Trunk lines	100,562,358	8,157,131	850,262	107,869,227
Water resource recovery facilities equipment	45,669,273	6,001,154	1,058,517	50,611,910
Operational equipment	504,662	260,828	72,147	693,343
Office furniture	275,708	72,227	95,354	252,581
Vehicles	403,261	196,294	169,227	430,328
Total accumulated depreciation	<u>268,292,901</u>	<u>26,061,618</u>	<u>3,699,417</u>	<u>290,655,102</u>
Total capital assets being depreciated, net	<u>440,274,851</u>	<u>33,490,659</u>	<u>282</u>	<u>473,765,228</u>
Capital assets, net	<u>\$ 484,843,069</u>	<u>\$ 42,506,819</u>	<u>\$ 39,860,025</u>	<u>\$ 487,489,863</u>

Interest cost in 2014 and 2013 totaled \$10,749,170 and 11,380,851, respectively, of which \$102,254 and \$152,049 was capitalized.

Note 6 – Deferred Outflows of Resources

As a result of the implementation of GASB Statement No. 65, the Agency's deferred loss on refunding, which is the difference between the reacquisition price and the net carrying amount of the old debt, was reclassified from a contra liability, which offset revenue bonds payable, to defeasance loss, which is classified as deferred outflows of resources. This amount is amortized as a component of interest expense over the remaining life of the old debt or the new debt, whichever is shorter. As of June 30, 2014 and 2013, the Agency's defeasance losses, net were as follows:

	<u>2014</u>	<u>2013</u>
Defeasance loss, net	\$ 9,286,090	\$ 10,216,358

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 6 – Deferred Outflows of Resources, continued

Amortization of the defeasance loss for the years ended June 30, 2014 and 2013 totaled \$930,268.

Estimated future amortization expense is as follows:

<u>Year ending June 30,</u>	<u>Amortization expense</u>
2015	\$ 930,268
2016	930,454
2017	929,820
2018	929,820
2019	929,820
Thereafter	4,635,908
Total	<u>\$ 9,286,090</u>

Note 7 – Revenue Bonds Payable

At June 30, 2014 and 2013, the Agency was obligated on various series of revenue bonds issued for purposes of constructing WRRF and trunk lines. Revenue bonds outstanding at June 30, 2014 and 2013 are as follows:

	2014	Restated 2013
\$86,560,000 Series 2005 revenue bonds dated January 11, 2005, with annual principal payments ranging from \$65,000 to \$2,250,000 plus interest at 2.40 to 4.88 percent payable semi-annually through March 2015.	\$ 520,000	\$ 1,025,000
\$69,695,000 Series 2005B refunding revenue bonds dated March 15, 2005, with interest at 2.55 to 5.07 percent payable semi-annually beginning September 1, 2005. Beginning March 1, 2012, annual principal payments ranging from \$5,180,000 to \$9,400,000 plus semi-annual payments of interest at 2.55 to 5.07 percent are payable through March 2021.	53,395,000	59,070,000
\$30,000,000 Series 2009 revenue bonds dated April 29, 2009, with annual principal payments ranging from \$1,520,000 to \$5,000,000 plus interest at 3.79 percent payable semi-annually through March 2024.	20,260,000	21,900,000
\$63,630,000 Series 2010A refunding revenue bonds dated July 9, 2010, with interest at 3.00 to 5.00 percent payable semi-annually beginning January 1, 2011. Beginning January 1, 2011, annual principal payments ranging from \$1,665,000 to \$5,585,000 plus semi-annual payments of interest at 3.00 to 5.00 percent are payable through January 2025.	46,770,000	51,285,000
\$26,800,000 Series 2010B revenue bonds dated December 7, 2010, with interest at 1.99 to 5.81 percent payable semi-annually beginning July 1, 2011. Beginning January 1, 2012, annual principal payments ranging from \$225,000 to \$3,080,000 plus semi-annual payments of interest at 1.99 to 5.81 percent are payable through January 2025.	18,500,000	21,270,000

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 7 – Revenue Bonds Payable, continued

	2014	Restated 2013
\$71,395,000 Series 2012 refunding revenue bonds dated March 20, 2012, with interest at 2.00 to 5.00 percent payable semi-annually beginning July 1, 2012. Beginning January 1, 2014, annual principal payments ranging from \$270,000 to \$17,325,000 plus semi-annual payments of interest at 2.00 to 5.00 percent are payable through January 2025.	71,125,000	71,395,000
Total revenue bonds payable	210,570,000	225,945,000
Premium on Series 2005 revenue bonds	17,034	34,068
Premium on Series 2005B refunding bonds	3,146,425	3,618,389
Premium on Series 2010A refunding bonds	2,890,548	3,652,905
Premium on Series 2012 refunding bonds	9,770,829	10,681,950
Less: current maturities	18,071,602	17,537,476
Long-term portion	\$ 208,323,234	\$ 226,394,836

Amortization of bond premiums totaled approximately \$2,162,476 and \$2,083,212 for the years ended June 30, 2014 and 2013, respectively.

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

June 30,	Principal	Interest	Total
2015	\$ 16,015,000	\$ 9,444,469	\$ 25,459,469
2016	16,560,000	8,812,980	25,372,980
2017	17,290,000	8,090,890	25,380,890
2018	18,080,000	7,367,975	25,447,975
2019	18,815,000	6,546,826	25,361,826
2020 - 2024	101,740,000	19,388,125	121,128,125
2025	22,070,000	1,031,305	23,101,305
Total	\$ 210,570,000	\$ 60,682,570	\$ 271,252,570

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 percent of the combined annual principal and interest payments, make timely payment of principal and interest on all outstanding debt, maintain required funds for debt service reserves, operations and maintenance expenses, depreciation and contingencies, and meet various other general requirements specified in the bond agreements. Management believes that the Agency was in compliance with these covenants at June 30, 2014 and 2013.

The Series 2005, 2005B and 2009 bonds are payable solely from and secured by a pledge of the gross revenues of the Agency.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 7 – Revenue Bonds Payable, continued

The Series 2010A, 2010B and 2012 bonds are secured by a pledge of the gross revenues, net of operations and maintenance expenses, as defined in the 2010 Bond Resolution, which is subordinate to the aforementioned Series 2005, 2005B and 2009 pledge.

Interest expense on the revenue bonds totaled \$9,747,458 and \$10,275,580 for the years ended June 30, 2014 and 2013, respectively.

Note 8 – State Revolving Loans Payable

At June 30, 2014 and 2013, the Agency was obligated on various state revolving loans issued for purposes of constructing capital assets. State revolving loan amounts outstanding at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
\$19,571,443 Lower Reedy water resource recovery facility expansion phase II loan dated June 10, 2005. Payable in quarterly installments of \$312,731, including interest at 2.25 percent, through March 2027.	\$ 13,831,919	\$ 14,758,556
\$27,800,000 Durbin Creek water resource recovery facility upgrade and expansion loan dated November 14, 2006. Payable in quarterly installments of \$438,048, including interest at 2.25 percent, through March 2029.	21,941,747	23,182,748
\$2,850,550 Gravity sewer and manhole rehabilitation phase I loan dated December 9, 2009. Payable in quarterly installments of \$42,187 including interest at 1.84 percent, through November 2030.	2,413,171	2,540,283
\$2,509,938 Gravity sewer and manhole rehabilitation phase II loan dated December 9, 2009. Payable in quarterly installments of \$38,755 including interest at 2.17 percent, through January 2031.	<u>2,167,134</u>	<u>2,274,775</u>
Total state revolving loans payable	40,353,971	42,756,362
Less: current maturities	<u>2,455,405</u>	<u>2,402,392</u>
Long-term portion	<u>\$ 37,898,566</u>	<u>\$ 40,353,970</u>

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 8 – State Revolving Loans Payable, continued

Interest expense on the state revolving loans totaled \$919,862 and \$971,765 for the years ended June 30, 2014 and 2013, respectively.

Future amounts required to pay outstanding principal and interest on state revolving loans outstanding at June 30, 2014 are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,455,405	\$ 871,476	\$ 3,326,881
2016	2,509,670	817,211	3,326,881
2017	2,565,217	761,664	3,326,881
2018	2,622,077	704,804	3,326,881
2019	2,680,281	646,600	3,326,881
2020 - 2024	14,323,843	2,310,563	16,634,406
2025 - 2029	12,683,458	698,324	13,381,782
2030 - 2031	514,020	10,385	524,405
Total	<u>\$ 40,353,971</u>	<u>\$ 6,821,027</u>	<u>\$ 47,174,998</u>

Provisions of the state revolving loan agreements require the Agency to use loan proceeds solely for the purpose of paying eligible project costs, submit the annual audit of its financial statements by December 31, 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, depreciation 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 that the Agency was in compliance with these covenants at June 30, 2014 and 2013.

The state revolving loans are secured by a pledge of the gross revenues of the Agency. As additional security, the Agency has granted a statutory lien on the System.

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 9 – Changes in Long-Term Liabilities

Changes in long-term debt, compensated absences and other postemployment benefits (“OPEB”) June 30, 2013 to 2014 are as follows:

	Restated Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
Revenue bonds	\$ 225,945,000	\$ -	\$ 15,375,000	\$ 210,570,000	\$ 16,015,000
State revolving loans	42,756,362	-	2,402,391	40,353,971	2,455,405
Compensated absences	751,605	503,732	518,000	737,337	517,837
OPEB	2,532,266	1,119,979	359,154	3,293,091	-
Subtotal	<u>271,985,233</u>	<u>1,623,711</u>	<u>18,654,545</u>	<u>254,954,399</u>	<u>18,988,242</u>
Premiums on bond issuance	17,987,312	-	2,162,476	15,824,836	2,056,602
Total	<u>\$ 289,972,545</u>	<u>\$ 1,623,711</u>	<u>\$ 20,817,021</u>	<u>\$ 270,779,235</u>	<u>\$ 21,044,844</u>

Changes in long-term debt, compensated absences and OPEB June 30, 2012 to 2013 are as follows:

	Restated Balance July 1, 2012	Additions	Reductions	Restated Balance June 30, 2013	Due within one year
Revenue bonds	\$ 240,485,000	\$ -	\$ 14,540,000	\$ 225,945,000	\$ 15,375,000
State revolving loans	45,106,963	-	2,350,601	42,756,362	2,402,392
Compensated absences	694,250	683,355	626,000	751,605	625,550
OPEB	1,953,924	871,159	292,817	2,532,266	-
Subtotal	<u>288,240,137</u>	<u>1,554,514</u>	<u>17,809,418</u>	<u>271,985,233</u>	<u>18,402,942</u>
Premiums on bond issuance	20,070,524	-	2,083,212	17,987,312	2,162,476
Total	<u>\$ 308,310,661</u>	<u>\$ 1,554,514</u>	<u>\$ 19,892,630</u>	<u>\$ 289,972,545</u>	<u>\$ 20,565,418</u>

A portion of the Series 2005 bonds were defeased through the issuance of the Series 2012 bonds and by depositing the proceeds in an irrevocable trust to provide for future debt service payments. Thus, the defeased debt and the irrevocable trust are not a part of the financial statements. Outstanding principal amounts of defeased bonds totaled \$79,770,000 at June 30, 2014.

Note 10 – Construction Contracts in Progress

At June 30, 2014 the Agency had commitments for various projects for the construction and acquisition of property and equipment. Construction in progress is included in the property and equipment balance as land, buildings, trunk lines and WRRF equipment.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 10 – Construction Contracts in Progress, continued

The following summarizes construction contracts in progress at June 30, 2014 on which significant additional work is to be performed:

<u>Project Name</u>	<u>Contract amount</u>	<u>Total contract incurred</u>	<u>Balance to be performed</u>
FY13 Gravity Sewer Rehab	\$ 3,494,807	\$ 3,337,599	\$ 157,208
Fountain Inn “D” PS Upgrades	449,099	327,728	121,371
Marietta WRRF New IPS & Bar Screen	230,200	112,396	117,804
Mauldin Road Grit Classifiers Replacement	621,180	517,154	104,026
PC#2 Drain Valve Replacement	182,000	54,618	127,382
Pelham IPS Equipment Replacement	1,685,441	1,570,890	114,551
Piedmont and Grove Modifications	6,598,053	6,408,416	189,637
Richland Creek Sewer Improvements	644,690	334,093	310,597
Spring Park PS Study & Replacement	1,181,385	120,766	1,060,619
	<u>\$ 15,086,855</u>	<u>\$ 12,783,660</u>	<u>\$ 2,303,195</u>

Note 11 – Compensated Absences

Full-time employees of the Agency accumulate vacation benefits at 1 to 2 days per month, based on length of service, up to 24 days per year. Annual leave in excess of 24 days at December 31 of each year is forfeited. Annual leave earned up to 24 days is paid to employees upon separation from employment. Accrued vacation benefits totaled \$737,337 and \$751,605 at June 30, 2014 and 2013, respectively.

Note 12 – Employee Benefits

Pension plan

Substantially all of the Agency’s employees are members of the South Carolina Retirement System (the “SCRS”), a cost-sharing multiple-employer pension plan administered by the South Carolina Public Employee Benefit Authority (“SC PEBA”). The SCRS provides retirement and disability benefits, cost of living adjustments on an adhoc basis, life insurance benefits and survivor benefits. The Plan’s provisions are established under Title 9 of the South Carolina Code of Laws. The SC PEBA issues a publicly available financial report that includes financial statements and required information for the SCRS. That report may be obtained by writing the South Carolina Public Employee Benefit Authority Retirement Benefits, Post Office Box 11960, Columbia, South Carolina 29211-1960 or by calling 1-800-868-9002.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 12 – Employee Benefits, continued

Plan members are required to contribute 7.5 and 7.0 percent of their annual covered salary for the years ended June 30, 2014 and 2013, respectively, and the Agency is required to contribute at an actuarially determined rate. The Agency’s rate is 10.45 percent of annual covered payroll for the years ended June 30, 2014 and 2013 and an additional 0.15 percent of payroll is contributed to a group life insurance benefit for the participants for each of the years ended June 30, 2014 and 2013.

Required contributions were made at 100 percent and are summarized as follows:

<u>June 30</u>	<u>Employer SCRS</u>	<u>Employee SCRS</u>
2014	\$ 1,215,138	\$ 859,768
2013	1,129,479	745,882
2012	972,459	662,924

Deferred compensation plan

The Agency offers its employees a deferred compensation plan, created in accordance with Internal Revenue Code Section 457, which is administered and controlled by the state of South Carolina. The plan, available to all the Agency employees, permits employees to defer a portion of their salary until future years. Participation in the plan is optional. Certain employees of the Agency have elected to participate. Compensation deferred under the Section 457 plan is placed in trust for the contributing employee.

The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Participants' rights under the plan are equal to those of general creditors of the Agency in an amount equal to the fair market value of the deferred account for each participant. Great-West Retirement Services is the program administrator of the Section 457 Plan based on current state contract.

Note 13 – Postemployment Healthcare Plan

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 SC State Health Plan. The Agency contributes up to 78 percent of the monthly premium for retirees and covered dependents based on the selected healthcare plan. The amount contributed by the Agency is determined by the SC 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)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 13 – Postemployment Healthcare Plan, continued

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

	July 2013 to December 2013	January 2014 to June 2014
Retiree only	\$ 328	\$ 332
Retiree/spouse	650	657
Retiree/child(ren)	504	509
Family	814	823

For the year ended June 30, 2014, Plan members receiving benefits paid \$130,877 which was used to offset the Agency’s cash outlays to insurance carriers equaling \$464,967 for the current year premiums due. The net outlay from the Agency, which totaled \$334,090, represents the Agency’s net cost paid for current year premiums due. The Plan is financed on a pay-as-you-go basis.

The Agency’s annual OPEB cost is calculated based on the annual required contributions (“ARC”) of the Agency, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Agency’s annual OPEB cost for the years ended 2014 and 2013, the amount actually contributed to the plan, and changes in the Agency’s net OPEB obligation to the Plan:

	2014	2013
Annual required contribution	\$ 1,111,602	\$ 864,695
Interest on net OPEB obligation	113,952	87,927
Adjustment to annual required contribution	(105,575)	(81,463)
Annual OPEB cost (expense)	1,119,979	871,159
Contributions made*	(359,154)	(292,817)
Increase in net OPEB obligation	760,825	578,342
Net OPEB obligation, beginning of year	2,532,266	1,953,924
Net OPEB obligation, end of year	\$ 3,293,091	\$ 2,532,266

The Agency’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2014 and the preceding two fiscal years were as follows:

Fiscal year ended	Annual required contribution	Annual OPEB cost	Employer amount contributed	Percentage contributed	Net OPEB obligation
June 30, 2014	\$ 1,111,602	\$ 1,119,979	\$ 359,154 *	32.1%	\$ 3,293,091
June 30, 2013	864,695	871,159	292,817 *	33.6%	2,532,266
June 30, 2012	839,510	844,007	249,687 *	29.6%	1,953,924

*includes adjustment for implicit rate subsidy.

(Continued)

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 13 – Postemployment Healthcare Plan, continued

As of June 30, 2012, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$11,756,531, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$11,756,531. The covered payroll, which is the annual payroll of active employees covered by the plan, was \$11,463,560, and the ratio of the UAAL to the covered payroll was 102.6 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, because the Agency maintains no Plan assets, information relative to Plan asset required disclosure is not applicable.

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the Agency’s retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

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:

Investment rate of return	4.50%, net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	Open 30 year period
Payroll growth	3.00% per annum
Inflation	3.00% per annum
Medical trend	Initial rate of 6.75% declining to an ultimate rate of 4.50% over 9 years
Drug trend	Initial rate of 7.00% declining to an ultimate rate of 4.50% over 9 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the ARC of the Agency’s retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Renewable Water Resources
Notes to Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 14 – Commitments

The Agency has contracted with seven 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 ending June 30, 2014 was \$1.9 million, which is included in administrative finance expenses on the accompanying Statements of Revenues, Expenses and Changes in Net Position. For the year ended June 30, 2015, billing charges to the Agency are estimated to cost approximately \$2.1 million.

Note 15 – Contingencies

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

Note 16 – Risk Management

The Agency is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency maintains insurance coverage through the State of South Carolina, and has effectively managed risk through various employee education and prevention programs. No significant reductions in insurance coverage have occurred from the prior year to the current year. The amount of settlements has not exceeded insurance coverage for the years ending June 30, 2014 and 2013. The Agency believes that the amount of actual or potential claims as of June 30, 2014 will not materially affect the financial condition of the Agency.

Note 17 – Subsequent Events

The Agency executed two contracts in July 2014 totaling approximately \$6.7 million. These were a Biosolids and Wastewater Residuals Management contract for approximately \$0.6 million in fiscal year 2015 and \$1.2 million for subsequent years, as well as approximately \$4.9 million for additional construction services which are expected to be completed in fiscal year 2015.

Renewable Water Resources
Required Supplementary Information
Schedule of Funding Progress – Other Postemployment Benefits

Fiscal Year	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
2012	June 30, 2010	-	\$ 8,780,194	\$ 8,780,194	0.00%	\$ 10,198,831	86.1%
2013	June 30, 2010	-	8,780,194	8,780,194	0.00%	10,660,375	82.3%
2014	June 30, 2012	-	11,756,531	11,756,531	0.00%	11,463,560	102.6%

Compliance Section

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

To the Board of Commissioners
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 financial statements of Renewable Water Resources (the “Agency”), as of and for the year ended June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated September 8, 2014.

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”) to determine the 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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Cherry Bebaert LHP". The signature is written in a cursive style with a large initial 'C' and 'B'.

Greenville, South Carolina
September 8, 2014