Renewable Water Resources

Financial Statements
and Supplemental Information

Years Ended June 30, 2016 and 2015

Cherry Bekaert LLP
CPAs & Advisors

Renewable Water Resources
Greenville, South Carolina

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to financial statements, 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 opinions.

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, 2016 and 2015, 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.

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 13 and the required supplementary information schedules on pages 45 through 47 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 2, 2016 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 Bekaert LLP

Greenville, South Carolina
September 2, 2016

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, 2016 and 2015. 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. Net assets increased $21.4 million or 7.6%, to $304.7 million as a result of current year operations.

- Total revenues increased $4.2 million or 4.9% to $89.2 million in fiscal year 2016. The increase of $2.9 million in domestic and commercial revenue is primarily attributable to customer growth of 1.8%. New account fees increased 10.8% or $0.8 million to $8.2 million in fiscal year 2016 due to continued growth and development.

- Operating expenses before depreciation decreased $2.1 million or 5.9% to $33.3 million. The decrease is largely attributable to the completion of the Agency's polychlorinated biphenyls ("PCB") remediation efforts. This decrease was offset by increases in general insurance, legal and employee related expenses.

- Total outstanding debt, excluding premiums, decreased $17.4 million or 7.5% to $215.1 million due to the issuance of the Series 2015A refunding revenue bonds which refunded a portion of the Series 2010A revenue bonds, as well as planned debt service.

- During fiscal year 2016, the South Carolina Water Quality Revolving Fund Authority agreed to amend the four existing state revolving loan agreements so that the loans are now on parity with the bonds issued under the 2010 Bond Resolution, which is subordinate to bonds issued under the 1990 Bond Resolution, thereby reducing Senior Lien Debt by $35.4 million as of June 30, 2016.

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 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.

(Continued)

Overview of the Financial Statements, continued

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. These statements 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 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 2016. Net position in fiscal years 2016, 2015 and 2014 totaled $304.7 million, $283.3 million and $290.6 million, respectively. In fiscal year 2016, net position increased $21.4 million or 7.6% due to current year operations. In fiscal year 2015, net position decreased $7.3 million due to the recognition of a $21.4 million pension liability as a result of a change in accounting principle. The largest portion of the Agency's net position, approximately 77.7%, 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 $27.6 million or 9.1% of the Agency's net position is restricted (restrictions established by debt covenants, enabling legislation or other legal requirements). In fiscal year 2016, restricted net position increased $0.1 million or 0.4%. In fiscal year 2015, restricted net position decreased $0.6 million or 2.1%. The decrease in fiscal year 2015 is largely due to the maturity of the Series 2005 bonds and corresponding reduction of debt service reserve funds. 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 years 2016, 2015 and 2014, the Agency's unrestricted net position totaled $40.3 million, $34.0 million and $45.4 million, respectively.

(Continued)

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)
June 30,

	2016	2015	2014
Current and noncurrent assets	$ 72.7	$ 66.1	$ 55.6
Restricted assets	27.6	27.5	28.1
Capital assets	460.3	462.0	476.0
Total assets	560.6	555.6	559.7
Defeasance loss, net	8.6	8.3	9.2
Deferred outflows from pension	1.9	1.9	-
Total deferred outflows of resources	10.5	10.2	9.2
Current liabilities	32.9	29.6	28.6
Noncurrent liabilities	233.0	251.1	249.7
Total liabilities	265.9	280.7	278.3
Deferred inflows from pension	0.5	1.8	-
Total deferred inflows of resources	0.5	1.8	-
Net investment in capital assets	236.8	221.8	217.1
Restricted	27.6	27.5	28.1
Unrestricted	40.3	34.0	45.4
Total net position	$ 304.7	$ 283.3	$ 290.6

Revenues

Table A-2 shows that the Agency's total revenues increased $4.2 million or 4.9% to $89.2 million and $6.7 million or 8.6% to $85.0 million in fiscal years 2016 and 2015, respectively. 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 fiscal year 2016 was adopted December 6, 2010, and became effective March 1, 2015.

In fiscal year 2016, domestic and commercial revenue increased $2.9 million or 4.2% to $72.0 million which is primarily due to customer growth. Domestic and commercial revenue increased $4.4 million or 6.8% in fiscal year 2015. The increase in fiscal year 2015 is a result of an approximate 4.0% rate increase, 2.0% customer growth and increased consumption.

Industrial revenue increased $0.2 million or 2.7% to $7.6 million in fiscal year 2016. In fiscal year 2015, industrial revenue increased $0.5 million to $7.4 million. In fiscal year 2016, the increase is attributable to an increase in consumption. The increase in fiscal year 2015 is primarily attributable to an approximate 4.0% volume and base rate increase, as well as an increase in surcharge fees.

(Continued)

Revenues, continued

New account fees, based on water meter size, increased 10.8% or $0.8 million to $8.2 million in fiscal year 2016 and totaled $7.4 million and $5.5 million in fiscal years 2015 and 2014, respectively.

Interest, amortization and other nonoperating revenues increased $0.3 million or 60.0% in fiscal year 2016 which is primarily due to increases in the investment portfolio. Interest, amortization and other nonoperating revenues decreased slightly in fiscal year 2015 to $0.5 million from $0.6 million in fiscal year 2014.

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

	2016	2015	2014
Operating revenues			
Domestic and commercial customers	$ 72.0	$ 69.1	$ 64.7
Industrial customers	7.6	7.4	6.9
New account fees	8.2	7.4	5.5
Septic haulers and other	0.6	0.6	0.6
Interest and other nonoperating revenues	0.8	0.5	0.6
Total revenues	89.2	85.0	78.3
Operating expenses			
Operations	15.4	18.8	18.8
Technical services	3.1	3.0	3.0
Collection system	3.8	3.5	3.5
IS and instrumentation	2.1	2.0	1.8
Human resources	2.4	2.5	2.4
Administration finance	6.5	5.6	5.7
Total operating expenses before depreciation	33.3	35.4	35.2
Depreciation	26.3	26.3	26.6
Total operating expenses	59.6	61.7	61.8
Interest, amortization and other nonoperating expenses	8.2	9.2	9.8
Total expenses	67.8	70.9	71.6
Increase in net position	21.4	14.1	6.7
Cumulative effect of change in accounting principle	-	(21.4)	-
Increase (decrease) in net position	21.4	(7.3)	6.7
Total net position, beginning of year	283.3	290.6	283.9
Total net position, end of year	$ 304.7	$ 283.3	$ 290.6

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. In fiscal year 2016, capital contributions totaled $0.02 million. There were no participating entities in fiscal years 2015 and 2014.

Expenses

Total expenses in fiscal years 2016, 2015 and 2014 totaled $67.8 million, $70.9 million and $71.6 million, respectively. In fiscal year 2016, operating expenses before depreciation decreased $2.1 million or 5.9% to $33.3 million. The decrease in operating expenses in fiscal year 2016 is largely attributable to the completion of PCB remediation efforts. These savings were offset by increases in legal, general insurance and employee related expenses. Further, in fiscal year 2016, interest, amortization and other nonoperating expenses decreased $1.0 million.

Operating expenses before depreciation increased $0.2 million or 0.6% to $35.4 million in fiscal year 2015. In fiscal years 2015 and 2014, the Agency spent $4.4 million and $4.6 million, respectively, to remediate PCB at three facilities. In fiscal year 2015, the Agency experienced increases in electricity, billing expense and employee related expenses such as pension and other postemployment benefits. Depreciation decreased $0.3 million to $26.3 million in fiscal year 2015. Additionally in fiscal year 2015, interest, amortization and other nonoperating expenses decreased by $0.6 million primarily due to a reduction in interest expense.

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 nonoperational and are not capitalizable.

Capital Assets

In fiscal year 2016, capital assets being depreciated, net decreased $13.0 million or 2.9% to $439.5 million. In fiscal year 2015, capital assets being depreciated, net decreased $15.6 million or 3.3% to $452.5 million from $468.1 million in fiscal year 2014. In fiscal years 2016 and 2015, the decrease resulted from retirements exceeding additions. At the end of fiscal year 2016, the Agency had invested $460.3 million in infrastructure, which includes 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.

(Continued)

Capital Assets, continued

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

	2016	2015	2014
Capital assets not being depreciated			
Construction in progress	$ 16.9	$ 5.8	$ 4.2
Land	3.6	3.5	3.6
Rights-of-way	0.3	0.2	0.1
Total capital assets not being depreciated	20.8	9.5	7.9
Capital assets being depreciated			
Buildings	350.8	349.9	348.1
Trunk lines	335.1	332.8	331.9
WRRF equipment	80.4	82.6	89.0
Operational equipment	6.8	6.5	6.5
Office furniture	0.4	0.5	0.4
Vehicles	0.9	0.9	0.8
Total capital assets being depreciated	774.4	773.2	776.7
Less: accumulated depreciation	334.9	320.7	308.6
Total capital assets being depreciated, net	439.5	452.5	468.1
Net capital assets	$ 460.3	$ 462.0	$ 476.0

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 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 numerous projects which have been incorporated into the Agency's capital improvement program ("CIP").

(Continued)

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 multiple replacement and improvement projects at the Agency's WRRF and numerous conveyance system projects including a 1.5 mile gravity sewer tunnel located approximately 100 feet below ground.

Capital improvement projects

Fiscal year 2016 capital projects focused on various conveyance system improvements and facility upgrade projects. During fiscal year 2016, $1.4 million was invested to update basin plans and create models which will enable the Agency to prioritize capital projects in the future. Another $9.5 million was injected to improve the Agency's conveyance system; these projects encompassed collection lines, as well as pump stations. Additionally, $8.1 million was invested in multiple facility improvement projects spanning all three river basins and $2.6 million was spent to decommission WRRF.

Table A-4 illustrates the Agency's 2017 Capital Budget of $56.8 million for potential spending on facility enhancements, design and construction of a new laboratory building, basin plans and conveyance system improvements. The Agency believes 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 2017 Capital Budget (in millions)

FUNDING SOURCES		
South Carolina revolving loan fund	$	23.3
Reserves and bonds		33.5
Total funding sources	$	56.8
USES		
Water resource recovery facilities	$	16.4
Conveyance system		24.6
Sustainability and reuse		1.3
Other projects		14.5
Total uses	$	56.8

Long-Term Liabilities

At June 30, 2016 and 2015, the total liability for compensated absences was $0.7 million.

The total obligation for other postemployment benefits increased $0.8 million in fiscal years 2016 and 2015 to $4.9 million and $4.1 million, respectively.

The Agency's net pension liability totaled $23.4 million and $21.8 million in fiscal years 2016 and 2015, respectively.

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 June 30, 2016, revenue bond debt, including premiums, totaled $191.0 million; the long-term portion of which was $171.6 million. At the end of fiscal year 2016, the Agency's revenue bond debt consisted of six series of revenue and refunding revenue bonds: Series 2005B, Series 2009, Series 2010A, Series 2010B, Series 2012 and Series 2015A. Revenue bond debt totaled $208.3 million at the end of fiscal year 2015.

The Agency received bond premiums of $7.6 million, $6.1 million and $11.4 million on the Series 2005B, Series 2010A and Series 2012 revenue bonds, respectively. The bond premiums are amortized over the life of the bonds. The Series 2005B and Series 2009 bonds are payable from gross revenues and collectively referred to as the Senior Lien Debt. The Series 2010A, Series 2010B, Series 2012 and Series 2015A bonds were issued under the 2010 Bond Resolution and are now on parity with all of the Agency's state revolving loans, as mentioned in the financial highlights. These obligations are collectively referred to as the Junior Lien Debt and are subordinate in all aspects to the Senior Lien Debt.

The Series 2005B revenue bonds carry 'Aa2' and 'AA+' ratings from Moody's Investors Service and Standard & Poor's, respectively. The Series 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. The Series 2009, Series 2010A, Series 2010B and Series 2015A bonds were issued based on the Agency's underlying rating. In fiscal year 2015, Standard & Poor's raised the Agency's Senior Lien Debt rating to 'AA+' and simultaneously affirmed its 'AA' rating to The Agency's Junior Lien Debt. Also in fiscal year 2015, Moody's Investors Service affirmed its 'Aa2' rating on the Agency's Senior Lien Debt, affirmed its 'Aa3' rating on the Agency's Junior Lien Debt.

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 1.8% to 2.3%. State revolving loans outstanding as of June 30, 2016 totaled $35.4 million.

(Continued)

Long-Term Liabilities, continued

State revolving loans, continued

Listed below are the Agency's state revolving loans outstanding at June 30, 2016:

- 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.

During fiscal year 2016, the Agency entered into two loan agreements with South Carolina Water Quality Revolving Fund Authority totaling approximately $19.3 million. As of June 30, 2016, no draws have taken place on either loan.

Total outstanding long-term debt

At June 30, 2016, the Agency owed $215.1 million (excluding premiums) in total long-term debt, a decrease of $17.4 million or 7.5% from $232.5 million at the end of fiscal year 2015.

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 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,

	2016	2015	2014
Operating revenue	$ 88.4	$ 84.5	$ 77.8
Investment revenue, unrestricted	0.7	0.4	0.5
Gross revenues	89.1	84.9	78.3
Less: operating expenses before depreciation	33.3	35.4	35.2
Net revenues available for debt service	$ 55.8	$ 49.5	$ 43.1
Debt service	$ 28.7	$ 28.8	$ 28.8
Debt coverage	194%	172%	150%

In fiscal year 2016, debt service payments decreased $0.1 million or 0.3% to $28.7 million. Debt service payments remained level at $28.8 million in fiscal years 2015 and 2014. 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, continued

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

Table A-6
Average Coupon/Interest Rate

	Balance (without premiums) (in millions)	Average coupon/rate
Series 2005B refunding bonds	$ 41.2	4.0%
Series 2009 revenue bonds	16.8	3.8
Series 2010A refunding bonds	25.5	3.4
Series 2010B revenue bonds	12.9	2.7
Series 2012 refunding bonds	70.0	2.9
Series 2015A refunding bonds	13.3	2.0
State revolving loans	35.4	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, 2016, the Agency's assessed value was approximately $1.8 billion. The Agency had no general obligation debt outstanding as of June 30, 2016.

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.

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 and a continued surge in new account fees during fiscal year 2016.

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,

		2016		2015
Current assets				
Cash and cash equivalents	$	15,365,223	$	29,540,817
Restricted cash and cash equivalents		19,895,872		19,738,527
Receivables, net		12,254,422		11,749,142
Investments		6,267,748		-
Restricted investments		7,721,374		7,724,077
Total current assets		61,504,639		68,752,563
Noncurrent assets				
Receivables, net		2,276,375		2,534,275
Investments		36,326,446		21,649,067
Capital assets, net		460,295,034		462,010,924
Prepaid insurance, net		190,402		672,370
Total noncurrent assets		499,088,257		486,866,636
Total assets	$	560,592,896	$	555,619,199
Deferred outflows of resources				
Defeasance loss, net	$	8,564,384	$	8,355,822
Deferred outflows from pension		1,912,265		1,879,435
Total deferred outflows of resources	$	10,476,649	$	10,235,257
Current liabilities				
Revenue bonds payable	$	19,345,781	$	18,538,667
State revolving loans payable		2,565,217		2,509,670
Accounts payable - operations		515,909		1,039,281
Accounts payable - construction projects		5,698,790		2,330,806
Accrued interest payable		3,493,271		3,921,183
Accrued expenses and other liabilities		816,697		592,546
Compensated absences		433,924		694,821
Total current liabilities		32,869,589		29,626,974
Long-term liabilities				
Revenue bonds payable		171,607,972		189,784,567
State revolving loans payable		32,823,679		35,388,896
Compensated absences		310,043		51,092
Other postemployment benefits		4,856,305		4,089,432
Net pension liability		23,423,698		21,781,344
Total long-term liabilities		233,021,697		251,095,331
Total liabilities	$	265,891,286	$	280,722,305
Deferred inflows of resources				
Deferred inflows from pension	$	457,592	$	1,836,326
Total deferred inflows of resources	$	457,592	$	1,836,326
Net position				
Net investment in capital assets	$	236,817,979	$	221,814,140
Net position - restricted				
Debt service		18,937,075		18,972,661
Capital asset replacement		4,602,950		4,620,109
Other		4,077,221		3,869,834
Net position - unrestricted		40,285,442		34,019,081
Total net position	$	304,720,667	$	283,295,825

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,

	2016	2015
Operating revenues		
Domestic and commercial customers	$ 71,975,651	$ 69,136,651
Industrial customers	7,555,116	7,448,487
New account fees	8,227,500	7,420,000
Septic haulers and other	595,787	564,857
Total operating revenues	88,354,054	84,569,995
Operating expenses		
Operations	15,383,411	18,837,191
Technical services	3,041,569	2,992,188
Collection system	3,823,954	3,536,984
IS and instrumentation	2,100,659	1,961,810
Human resources	2,421,288	2,489,142
Administrative finance	6,490,248	5,625,008
Total operating expenses before depreciation	33,261,129	35,442,323
Depreciation	26,286,924	26,274,360
Total operating expenses	59,548,053	61,716,683
Net operating revenue	28,806,001	22,853,312
Nonoperating revenues (expenses)		
Investment revenue	705,283	424,023
Interest expense	(7,891,725)	(8,806,068)
Amortization	(27,131)	(29,005)
Non-project expenses	(119,327)	(385,131)
Debt issuance costs	(191,537)	-
Other revenue	127,636	64,376
Net nonoperating expenses	(7,396,801)	(8,731,805)
Capital project cost reimbursements	15,642	-
Increase in net position before cumulative effect of change in accounting principle	21,424,842	14,121,507
Cumulative effect of change in accounting principle	-	(21,473,854)
Increase (decrease) in net position	21,424,842	(7,352,347)
Total net position, beginning of year	283,295,825	290,648,172
Total net position, end of year	$ 304,720,667	$ 283,295,825

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

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

	2016	2015
Cash flows from operating activities		
Received from customers	$ 87,923,406	$ 83,221,725
Paid to suppliers for goods and services	(16,267,306)	(22,116,711)
Paid to employees for services	(12,474,504)	(12,035,882)
Received from nonoperating revenues	127,636	64,376
Net cash provided by operating activities	59,309,232	49,133,508
Cash flows from capital and related financing activities		
Cash received on notes receivable for capital	248,028	238,531
Acquisition of capital assets and project expenses	(24,561,893)	(12,496,326)
Proceeds from debt issuance	13,465,000	-
Principal payments on debt	(32,635,091)	(18,470,405)
Interest payments on debt	(9,433,259)	(10,334,234)
Debt issuance costs	(191,537)	-
Other	83,172	-
Net cash used for capital and related financing activities	(53,025,580)	(41,062,434)
Cash flows from investing activities		
Interest received on investments	640,523	431,025
Purchases of investment securities	(47,979,472)	(23,579,174)
Proceeds from sales of investment securities	27,037,048	23,549,528
Net cash provided (used) for investing activities	(20,301,901)	401,379
Net increase (decrease) in cash and cash equivalents	(14,018,249)	8,472,453
Cash and cash equivalents, beginning of year	49,279,344	40,806,891
Cash and cash equivalents, end of year	$ 35,261,095	$ 49,279,344

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

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

		2016		2015
Reconciliation of net operating revenue to net cash flows from operating activities				
Net operating revenue	$	28,806,001	$	22,853,312
Adjustments to reconcile net operating revenue to net cash provided by operating activities				
Depreciation		26,286,924		26,274,360
Other nonoperating revenue		127,636		64,376
Pension expense recognized in excess of contributions		230,791		264,381
Changes in asset and liability amounts				
Receivables		(430,648)		(1,348,270)
Prepaid expenses		454,838		(347,429)
Accounts payable - operations		(523,372)		(250,955)
Accounts payable - construction projects		3,367,984		861,506
Accrued expenses and other liabilities		224,151		(42,690)
Compensated absences		(1,946)		8,576
Other postemployment benefits		766,873		796,341
Net cash provided by operating activities	$	59,309,232	$	49,133,508
Noncash activities				
Increase (decrease) in fair value of investments	$	125,786	$	(12,259)
Amortization of prepaid bond insurance	$	27,130	$	29,005
Capitalized interest costs	$	196,000	$	145,470
Reconciliation of cash and cash equivalents to statement of net position				
Cash and cash equivalents	$	15,365,223	$	29,540,817
Restricted cash and cash equivalents		19,895,872		19,738,527
Total cash and cash equivalents	$	35,261,095	$	49,279,344

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

Notes to Financial Statements

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 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 by South Carolina Code of Laws Section 6-1-80.

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.

(Continued)

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

Investments

Investments are reported at fair value and categorized within the fair value hierarchy established under accounting principles generally accepted in the United States of America ("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 June 30, 2016 and 2015, the Agency's Treasury bills and US agencies investments are valued using significant other observable inputs (Level 2 inputs).

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.

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 on or using 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.

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.

(Continued)

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

Capital assets, continued

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)

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

Deferred outflows/inflows of resources

In addition to assets, the Statements 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 experience and contributions 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. Changes in the total pension liability resulting from 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 included in the pension expense over a period to the average expected remaining service lives of all employees that are provided with benefits through the plan. Additionally, contributions to the pension plan made after the plan's measurement date are reported as deferred outflows of resources.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. The 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 consist of differences between projected and actual experience.

Compensated absences

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

Revenues and receivables

- **Domestic and commercial customers** - Revenues and receivables, based on water consumption, are recognized when services are provided.

- **Industrial customers -** Revenues and receivables, based on metered effluent and surcharges, are recognized when services are provided.

- **Allowance for uncollectible accounts** - An allowance for uncollectible accounts is estimated based on historic bad debt levels, plus an amount for any specific doubtful accounts.

(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 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 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 2015, the Agency adopted **GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27 ("Statement No. 68")* and **GASB Statement No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 ("Statement No. 71").*

As of July 1, 2014, the deferred outflows of resources, net pension liability and net position were adjusted as follows due to the implementation of these standards:

	Deferred outflows from pension	Net pension liability	Net position
Beginning balance, July 1, 2014	$ -	$ -	$ 290,648,172
Change in accounting principle	1,218,065	22,691,919	(21,473,854)
Adjusted balance, July 1, 2014	$ 1,218,065	$ 22,691,919	$ 269,174,318

New pronouncements

The Agency has implemented the following GASB pronouncements during fiscal year 2016:

GASB Statement No. 72, *Fair Value Measurement and Application,* effective for periods beginning after June 15, 2015, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement does not have a material impact on the Agency's financial statements.

(Continued)

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

New pronouncements, continued

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for periods beginning after June 15, 2015, reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. This statement does not have a material impact on the Agency's financial statements.

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Among other things, GASB Statement No. 75 requires governments to report a liability on the face of the financial statements for the other postemployment benefits ("OPEB") that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities.

Note 2 – Cash and Cash Equivalents and Investments

As of June 30, 2016 and 2015, the Agency had the following cash and cash equivalents and investments:

	Fair value	
	2016	**2015**
Cash and cash equivalents		
Checking and other cash	$ 24,045,394	$ 37,999,249
Money markets – government obligations	11,215,701	11,280,095
Total cash and cash equivalents	$ 35,261,095	$ 49,279,344
Investments		
Government sponsored enterprises	$ 30,270,125	$ 12,428,128
Certificates of deposit	12,324,069	9,220,939
US Treasury bills	7,721,374	7,724,077
Total investments	$ 50,315,568	$ 29,373,144

(Continued)

Note 2 – Cash and Cash Equivalents and Investments, continued

Investment maturities are as follows as of June 30, 2016:

		Investment maturities (in years)		
Investment type	**Fair value**	**Less than 1 year**	**1 – 5 years**	**More than 5 years**
Certificates of deposit	$ 12,324,069	$ 993,844	$ 11,330,225	$ -
US Treasury bills	7,721,374	7,721,374	-	-
US agencies notes and bonds				
Federal Home Loan Bank	4,388,619	638,130	3,750,489	-
Federal National Mortgage Association	3,707,879	401,817	3,306,062	-
Federal Home Loan Mortgage	8,541,438	500,558	8,040,880	-
Federal Farm Credit Bank	6,430,349	830,027	4,601,418	998,904
US Treasury notes	7,201,840	2,903,373	4,298,467	-
Total	$ 50,315,568	$ 13,989,123	$ 35,327,541	$ 998,904

Investment maturities are as follows as of June 30, 2015:

		Investment maturities (in years)		
Investment type	**Fair value**	**Less than 1 year**	**1 – 5 years**	**More than 5 years**
Certificates of deposit	$ 9,220,939	$ -	$ 9,220,939	$ -
US Treasury bills	7,724,077	7,724,077	-	-
US agencies notes and bonds				
Federal Home Loan Bank	4,742,842	-	4,742,842	-
Federal National Mortgage Association	3,366,669	802,492	2,564,177	-
Federal Home Loan Mortgage	1,728,156	-	1,728,156	-
Federal Farm Credit Bank	1,327,996	-	1,327,996	-
US Treasury notes	1,262,465	101,313	403,064	758,088
Total	$ 29,373,144	$ 8,627,882	$ 19,987,174	$ 758,088

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.

(Continued)

Note 2 – Cash and Cash Equivalents and Investments, continued

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 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. The Agency's investments at June 30, 2016 and 2015 consist of certificates of deposit, 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/or Aaa by Moody's Investors Service as of June 30, 2016.

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 5.0% of the Agency's investments are in US Treasury bills. These investments are approximately 15.3% and 26.3% of the Agency's total investments at June 30, 2016 and 2015, 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, 2016 and 2015, all of the Agency's deposits were insured or collateralized with securities held by the Agency's agents in the Agency's name.

Note 3 – Receivables

Customer and other accounts receivables as of June 30, 2016 and 2015 were as follows:

	2016	2015
Fees and services		
Domestic and commercial customers	$ 11,239,254	$ 10,825,058
Industrial customers	1,312,848	1,362,972
Total receivables from fees	12,552,102	12,188,030
Less: allowance for uncollectible accounts	650,000	725,000
Net receivables from fees	11,902,102	11,463,030
Accrued interest on cash equivalents and other receivables	94,417	38,084
Reimbursements due from other governmental units	2,534,278	2,782,303
Total receivables	14,530,797	14,283,417
Less: current receivables, net	12,254,422	11,749,142
Noncurrent receivables, net	$ 2,276,375	$ 2,534,275

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:

- **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** - restricts resources accumulated for the next principal and interest payments.

- **Debt service reserves** - restricts resources to cover potential future deficiencies in the current principal and interest payments account.

- **Operations and maintenance** - restricts resources to cover operating and maintenance expenses for one month.

- **Capital asset replacement -** restricts resources to fund asset replacements.

- **Contingencies** - restricts resources to meet unexpected contingencies.

Restricted cash and cash equivalents and investments at June 30, 2016 and 2015 are restricted for the following uses:

	2016	2015
Current principal and interest payments	$ 11,193,254	$ 11,245,989
Debt service reserves	7,743,821	7,726,672
Operations and maintenance	3,077,221	2,869,834
Capital asset replacement	4,602,950	4,620,109
Contingencies	1,000,000	1,000,000
Total restricted assets	$ 27,617,246	$ 27,462,604

Restricted assets consisted of the following at June 30:

	2016	2015
Cash	$ 19,895,872	$ 19,738,527
Investments	7,721,374	7,724,077
Total restricted assets	$ 27,617,246	$ 27,462,604

Note 5 – Capital Assets

A summary of changes in capital assets from June 30, 2015 to June 30, 2016 follows below:

	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated				
Construction in progress	$ 5,788,699	$ 13,555,476	$ 2,480,218	$ 16,863,957
Land	3,550,494	-	-	3,550,494
Rights-of-way	203,847	121,904	-	325,751
Total capital assets not being depreciated	9,543,040	13,677,380	2,480,218	20,740,202
Capital assets being depreciated				
Buildings	349,931,941	5,661,317	4,769,567	350,823,691
Trunk lines	332,746,054	5,032,283	2,701,910	335,076,427
WRRF equipment	82,621,574	1,887,105	4,109,058	80,399,621
Operational equipment	6,538,461	461,223	193,448	6,806,236
Office furniture	515,923	16,859	140,662	392,120
Vehicles	849,438	382,617	292,726	939,329
Total capital assets being depreciated	773,203,391	13,441,404	12,207,371	774,437,424
Less: accumulated depreciation				
Buildings	149,290,979	11,694,123	4,769,567	156,215,535
Trunk lines	118,958,253	8,376,911	2,701,910	124,633,254
WRRF equipment	50,163,186	5,359,976	4,109,058	51,414,104
Operational equipment	1,545,250	559,475	125,917	1,978,808
Office furniture	245,028	75,930	140,662	180,296
Vehicles	532,811	220,509	292,725	460,595
Total accumulated depreciation	320,735,507	26,286,924	12,139,839	334,882,592
Total capital assets being depreciated, net	452,467,884	(12,845,520)	67,532	439,554,832
Capital assets, net	$ 462,010,924	$ 831,860	$ 2,547,750	$ 460,295,034

(Continued)

Note 5 – Capital Assets, continued

A summary of changes in capital assets from June 30, 2014 to June 30, 2015 follows below:

	Balance June 30, 2014	Additions	Disposals	Balance June 30, 2015
Capital assets not being depreciated				
Construction in progress	$ 4,187,921	$ 3,141,175	$ 1,540,397	$ 5,788,699
Land	3,550,494	-	-	3,550,494
Rights-of-way	144,637	59,210	-	203,847
Total capital assets not being depreciated	7,883,052	3,200,385	1,540,397	9,543,040
Capital assets being depreciated				
Buildings	348,097,193	4,547,017	2,712,269	349,931,941
Trunk lines	331,912,596	4,041,794	3,208,336	332,746,054
WRRF equipment	89,017,551	1,515,673	7,911,650	82,621,574
Operational equipment	6,498,738	113,246	73,523	6,538,461
Office furniture	392,423	188,313	64,813	515,923
Vehicles	775,831	190,634	117,027	849,438
Total capital assets being depreciated	776,694,332	10,596,677	14,087,618	773,203,391
Less: accumulated depreciation				
Buildings	140,338,846	11,664,402	2,712,269	149,290,979
Trunk lines	113,847,938	8,318,651	3,208,336	118,958,253
WRRF equipment	52,566,731	5,508,105	7,911,650	50,163,186
Operational equipment	1,079,385	539,388	73,523	1,545,250
Office furniture	247,802	62,039	64,813	245,028
Vehicles	468,063	181,775	117,027	532,811
Total accumulated depreciation	308,548,765	26,274,360	14,087,618	320,735,507
Total capital assets being depreciated, net	468,145,567	(15,677,683)	-	452,467,884
Capital assets, net	$ 476,028,619	$ (12,477,298)	$ 1,540,397	$ 462,010,924

Interest cost in 2016 and 2015 totaled $8,969,048 and $10,059,772, respectively, of which $196,000 and $145,470 were capitalized.

Note 6 – Defeasance Loss

In fiscal year 2016 and in prior years, the Agency defeased outstanding 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 $11,535,000 at June 30, 2016.

In October 2015, the Agency issued $13,465,000 of refunding bonds to defease a portion of the Series 2010A refunding revenue bonds. This refunding transaction provided the Agency with an economic gain of $450,627.

(Continued)

Note 6 – Defeasance Loss, continued

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 Statements 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 June 30, 2016 and 2015, the Agency's defeasance losses, net were as follows:

	2016	2015
Defeasance loss, net	$ 8,564,384	$ 8,355,822

Amortization of the defeasance loss for the years ended June 30, 2016 and 2015 totaled $987,915 and $930,268, respectively.

Estimated future amortization expense is as follows:

Year ending June 30,	Amortization expense
2017	$ 1,048,385
2018	1,048,385
2019	1,048,385
2020	1,048,385
2021	1,012,316
Thereafter	3,358,528
Total	$ 8,564,384

Note 7 – Revenue Bonds Payable

At June 30, 2016 and 2015, the Agency was obligated on various series of revenue bonds issued for purposes of constructing capital assets. Revenue bonds outstanding at June 30, 2016 and 2015 are as follows:

	2016	2015
$69,695,000 Series 2005B refunding revenue bonds dated March 15, 2005, with interest at 2.6 to 5.1% 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 2.6 to 5.1% are payable through March 2021.	$ 41,180,000	$ 47,430,000
$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 3.8% payable semi-annually through March 2024.	16,780,000	18,550,000
$63,630,000 Series 2010A refunding revenue bonds dated July 9, 2010, with interest at 3.0 to 5.0% 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 3.0 to 5.0% are payable through January 2021.	25,555,000	42,030,000

(Continued)

Note 7 – Revenue Bonds Payable, continued

	2016	2015
$26,800,000 Series 2010B revenue bonds dated December 7, 2010, with interest at 2.0 to 5.8% 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 2.0 to 5.8% are payable through January 2025.	12,910,000	15,695,000
$71,395,000 Series 2012 refunding revenue bonds dated March 20, 2012, with interest at 2.0 to 5.0% payable semi-annually beginning July 1, 2012. Beginning January 1, 2014, annual principal payments ranging from $270,000 to $17,325,000 plus semi-annual payments of interest at 2.0 to 5.0% are payable through January 2025.	70,035,000	70,850,000
$13,465,000 Series 2015A refunding revenue bonds dated October 7, 2015, with annual principal payments ranging from $181,000 to $1,649,000 plus interest at 2.0% payable semi-annually through January 2025.	13,284,000	-
Total revenue bonds payable	179,744,000	194,555,000
Premium on Series 2005B refunding bonds	2,202,498	2,674,461
Premium on Series 2010A refunding bonds	1,125,247	2,255,881
Premium on Series 2012 refunding bonds	7,882,008	8,837,892
Less: current maturities	19,345,781	18,538,667
Long-term portion	$ 171,607,972	$ 189,784,567

Amortization of bond premiums totaled $1,905,537 and $2,056,602 for the years ended June 30, 2016 and 2015, respectively.

Future amounts required to pay principal and interest on revenue bonds outstanding at June 30, 2016 are as follows:

June 30,	Principal	Interest	Total
2017	$ 17,533,000	$ 7,796,653	$ 25,329,653
2018	18,328,000	7,069,081	25,397,081
2019	19,068,000	6,243,193	25,311,193
2020	19,698,000	5,369,331	25,067,331
2021	20,498,000	4,432,626	24,930,626
2022 - 2025	84,619,000	9,332,057	93,951,057
Total	$ 179,744,000	$ 40,242,941	$ 219,986,941

Provisions of the revenue bond agreements require the Agency to maintain user rates sufficient to generate net earnings as defined by the bond agreement of at least 110% of the combined annual principal and interest payments, make timely payment of principal and interest on all outstanding debt, maintain required funds for debt service reserves, operations and maintenance expenses, capital asset replacement and contingencies and meet various other general requirements specified in the bond agreements. Management believes the Agency was in compliance with these covenants at June 30, 2016 and 2015.

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

(Continued)

Note 7 – Revenue Bonds Payable, continued

The Series 2010A, Series 2010B, Series 2012 and Series 2015A 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 2005B and Series 2009 pledge.

Interest expense on the revenue bonds totaled $7,996,996 and $9,065,668 for the years ended June 30, 2016 and 2015, respectively.

Note 8 – State Revolving Loans Payable

At June 30, 2016 and 2015, the Agency was obligated on various state revolving loans issued for purposes of constructing capital assets. State revolving loan amounts outstanding at June 30, 2016 and 2015 are as follows:

	2016	2015
$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 2.3%, through March 2027.	$ 11,915,089	$ 12,884,255
$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 2.3%, through March 2029.	19,374,629	20,672,587
$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 1.8%, through November 2030.	2,153,455	2,284,250
$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 2.2%, through January 2031.	1,945,723	2,057,474
Total state revolving loans payable	35,388,896	37,898,566
Less: current maturities	2,565,217	2,509,670
Long-term portion	$ 32,823,679	$ 35,388,896

Interest expense on the state revolving loans totaled $812,351 and $866,734 for the years ended June 30, 2016 and 2015, respectively.

(Continued)

Note 8 – State Revolving Loans Payable, continued

Future amounts required to pay outstanding principal and interest on state revolving loans outstanding at June 30, 2016 are as follows:

June 30,	Principal	Interest	Total
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	2,739,862	587,019	3,326,881
2021	2,800,854	526,027	3,326,881
2022 - 2026	14,970,926	1,663,481	16,634,407
2027 - 2031	7,009,679	242,745	7,252,424
Total	$ 35,388,896	$ 5,132,340	$ 40,521,236

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 31st, maintain user rates sufficient to make timely payment of principal and interest on all outstanding debt, maintain required funds for current principal and interest payments, operations and maintenance expenses, capital asset replacement and contingencies, review the adequacy of its user rates at least annually, and meet various other general requirements specified in the loan agreements. Management believes the Agency was in compliance with these covenants at June 30, 2016 and 2015.

During fiscal year 2016, the South Carolina Water Quality Revolving Fund Authority agreed to amend the state revolving loan agreements so that they are now on parity with the bonds issued under the 2010 Bond Resolution which is subordinate to the Series 2005B and Series 2009 pledge. 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.

During fiscal year 2016, the Agency entered into two loan agreements with South Carolina Water Quality Revolving Fund Authority totaling $19,309,594. As of June 30, 2016, no draws have taken place on either loan.

Note 9 – Changes in Long-Term Liabilities

Changes in long-term debt, compensated absences, OPEB and net pension liability at June 30, 2015 to 2016 are as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within one year
Revenue bonds	$ 194,555,000	$ 13,465,000	$ 28,276,000	$ 179,744,000	$ 17,533,000
State revolving loans	37,898,566	-	2,509,670	35,388,896	2,565,217
Compensated absences	745,913	427,681	429,627	743,967	433,924
OPEB	4,089,432	1,159,046	392,173	4,856,305	-
Net pension liability	21,781,344	3,578,130	1,935,776	23,423,698	-
Subtotal	259,070,255	18,629,857	33,543,246	244,156,866	20,532,141
Premiums on bond issuance	13,768,234	-	2,558,481	11,209,753	1,812,781
Total	$ 272,838,489	$ 18,629,857	$ 36,101,727	$ 255,366,619	$ 22,344,922

Changes in long-term debt, compensated absences, OPEB and net pension liability at June 30, 2014 to 2015 are as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
Revenue bonds	$ 210,570,000	$ -	$ 16,015,000	$ 194,555,000	$ 16,560,000
State revolving loans	40,353,971	-	2,455,405	37,898,566	2,509,670
Compensated absences	737,337	696,518	687,942	745,913	694,821
OPEB	3,293,091	1,155,843	359,502	4,089,432	-
Net pension liability	-	24,835,735	3,054,391	21,781,344	-
Subtotal	254,954,399	26,688,096	22,572,240	259,070,255	19,764,491
Premiums on bond issuance	15,824,836	-	2,056,602	13,768,234	1,978,667
Total	$ 270,779,235	$ 26,688,096	$ 24,628,842	$ 272,838,489	$ 21,743,158

Note 10 – Construction Contracts in Progress

At June 30, 2016, 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, buildings, trunk lines and WRRF equipment.

The following summarizes construction contracts in progress at June 30, 2016 on which significant additional work is to be performed:

Project name	Contract amount	Total contract incurred	Balance to be performed
Administration Building Water Feature	$ 614,577	$ 335,932	$ 278,645
Arc Flash Studies	463,330	255,258	208,072
Burger King PS Elimination	206,920	35,050	171,870
Downtown Conveyance Study	3,612,022	555,568	3,056,454
Dunwoody Oaks PS Elimination	160,090	49,439	110,651
Enoree Circle PS Improvements	811,501	95,339	716,162
Farrow Road PS Improvements	182,141	10,535	171,606
Force Main Assessment	909,521	497,970	411,551
FY14 Gravity Sewer and MH Rehabilitation	4,820,447	2,550,170	2,270,277
FY15/FY16 Gravity Sewer and MH Rehabilitation	5,014,603	1,669,700	3,344,903
FY16 Point Repairs	1,265,568	101,244	1,164,324
Gilder Creek Lime Silo Replacement	1,477,650	388,468	1,089,182
Grove Creek WRRF and Piedmont WRRF Closures	2,647,565	2,460,029	187,536
Laboratory Improvements	1,513,914	715,272	798,642
Lakeside PS Magnesium Hydroxide System	650,925	283,768	367,157
Lower Reedy Digester Improvements	147,720	19,963	127,757
Lower Reedy Lime Silo	1,352,599	1,215,344	137,255
Lower Reedy Liquid Polymer System	703,964	350,301	353,663
Lower Reedy Solids Mixing Evaluation	173,040	70,390	102,650
Lower Reedy Standby Power Project	3,315,032	173,780	3,141,252
Marietta New IPS and Bar Screen	3,094,473	2,032,735	1,061,738
Mauldin Road FOG Handling Enhancements	582,074	445,889	136,185
Mauldin Road IPS Harmonic Analysis	660,283	98,411	561,872
Pelham Polymer Feed Equipment Replacement	294,800	47,738	247,062
Piedmont Basin Planning and Model Development	152,430	46,271	106,159
Ravenwood PS Upgrade	273,690	7,185	266,505
Richland Creek Sewer Improvements	13,316,659	833,058	12,483,601
Simpsonville B PS Elimination	168,010	57,884	110,126
Taylors FM	2,062,900	1,788,874	274,026
Transfer Switch Installation	206,777	62,613	144,164
Travelers Rest North Regional PS	283,000	63,625	219,375
Total	$ 51,138,225	$ 17,317,803	$ 33,820,422

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 31st of each year is forfeited. Annual leave earned up to 24 days is paid to employees upon separation from employment. Accrued vacation benefits totaled $743,967 and $745,913 at June 30, 2016 and 2015, respectively.

Note 12 – Employee Benefits

Pension plan

Plan description

Substantially all of the Agency's employees are members of the South Carolina Retirement System (the "SCRS"), a cost-sharing multiple-employer defined benefit pension plan administered by the South Carolina Public Employee Benefit Authority ("PEBA"). 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 allowances and other benefits for employees of the state, its public school districts and political subdivisions. Generally, all employees are required to participate in and contribute to the system. Employees with an effective membership date prior to July 1, 2012, are considered a Class Two member, whereas, employees with an effective membership date on or after July 1, 2012, are considered a Class Three member. PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required information for the South Carolina Retirement Systems' Pension Trust Funds. The report is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, Post Office Box 11960, Columbia, South Carolina 29211-1960.

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. 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.

(Continued)

Note 12 – Employee Benefits, continued

Benefits, continued

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1.0% or $500 every July 1st. Only those annuitants in receipt of a benefit on July 1st 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 1st after reaching age 60 or the second July 1st after the date they would have had 28 years of service credit had they not retired.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase employer and employee contribution rates based on the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9% of earnable compensation. An increase in the contribution rates adopted by the PEBA Board may not provide for an increase of more than 0.5% in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the PEBA Board are insufficient to maintain a 30-year amortization schedule of the unfunded liabilities of the plans, the PEBA Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the 30-year amortization period; and, this increase is not limited to 0.5% per year.

Plan members are required to contribute 8.16% and 8.00% of their annual covered salary for the years ended June 30, 2016 and 2015, respectively, and the Agency is required to contribute at an actuarially determined rate. The Agency's rate is 10.91% and 10.75% of annual covered payroll for the years ended June 30, 2016 and 2015, respectively, and an additional 0.15% of payroll is contributed to a group life insurance benefit for the participants for each of the years ended June 30, 2016 and 2015.

All required contributions were made and are summarized as follows:

June 30	Employer SCRS	Employee SCRS
2016	$ 1,339,320	$ 987,421
2015	1,262,243	926,418
2014	1,215,138	859,768

(Continued)

Note 12 – Employee Benefits, continued

Net pension liability

At June 30, 2016 and 2015, the Agency reported a liability of $23,423,698 and $21,781,344, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, based on the July 1, 2014 and 2013 actuarial valuation, respectively, "as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014 and 2013, respectively. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ended June 30, 2015, 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, 2015 and 2014 measurement date, the Agency's proportionate share was 0.123507% and 0.126513%, respectively.

For the years ended June 30, 2016 and 2015, the Agency recognized pension expense of $1,570,111 and $1,526,624, respectively, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ 416,159	$ 41,889	$ 617,192	$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	156,786	-	-	1,836,326
Changes in proportion and differences between Agency's contributions and proportionate share of contributions	-	415,703	-	-
Agency contributions subsequent to the measurement date	1,339,320	-	1,262,243	-
Total	$ 1,912,265	$ 457,592	$ 1,879,435	$ 1,836,326

At June 30, 2015, the Agency reported $1,262,243 as deferred outflows of resources related to pensions resulting from the Agency's contributions subsequent to the measurement dates and was recognized as a reduction of the net pension liability during the year ended June 30, 2016. At June 30, 2016, the Agency reported $1,339,320 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 ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Pension expense
2017	$ 31,104
2018	31,104
2019	174,048
2020	(351,609)
Total	$ (115,353)

(Continued)

Note 12 – Employee Benefits, 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, 2010, and the next experience study through June 30, 2015 is currently underway. The following provides a brief description of the significant actuarial assumptions applied to all periods included in the measurements.

Cost method	Entry age
Investment rate of return	7.5%
Salary increases	3.5% to 12.5% (varies by service)
Inflation	2.75%
Benefit adjustments	lesser of 1.0% or $500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30-year capital market outlook at the end of the fourth quarter 2013. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission ("RSIC") using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets, as well as Consensus Economic forecasts. The actuarial long-term assumptions for the other asset classes are based on historical results, current market characteristics and professional judgement.

(Continued)

Note 12 – Employee Benefits, continued

Actuarial assumptions, continued

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the 7.5% 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 2.75% inflation component.

Asset class	Target allocation	Expected arithmetic real rate of return	Long-term expected portfolio real rate of return
Short term - cash	2.00%	1.90%	0.04%
Short term - short duration	3.00	2.00	0.06
Domestic fixed income - core fixed income	7.00	2.70	0.19
Domestic fixed income - mixed credit	6.00	3.80	0.23
Global fixed income - global fixed income	3.00	2.80	0.08
Global fixed income - emerging markets debt	6.00	5.10	0.31
Global public equity	31.00	7.10	2.20
Global tactical asset allocation	10.00	4.90	0.49
Alternatives - hedge funds (low beta)	8.00	4.30	0.34
Alternatives - private debt	7.00	9.90	0.69
Alternatives - private equity	9.00	9.90	0.89
Alternatives - real estate (broad market)	5.00	6.00	0.30
Alternatives - commodities	3.00	5.90	0.18
Total	100.00%		6.00%
Inflation			2.75
Expected arithmetic nominal return			8.75%

Discount rate

The discount rate used to measure the total pension liability was 7.5% in both actuarial periods. 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 System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

Note 12 – Employee Benefits, continued

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

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.5%, 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 (6.5%) or one percentage point higher (8.5%) than the current rate:

	1.0% Decrease 6.5%	Current discount rate 7.5%	1.0% Increase 8.5%
Agency's proportionate share of the net pension liability	$ 29,530,590	$ 23,423,698	$ 18,305,346

Pension plan fiduciary net position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, Post Office Box 11960, Columbia, South Carolina 29211-1960.

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. Great-West Retirement Services is the program administrator of the plans based on the 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 South Carolina State Health Plan. The Agency contributes up to 79.3% of the monthly premium for retirees and covered dependents based on the selected healthcare plan. The amount contributed by the Agency is determined by the 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.

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 2015 to December 2015	January 2016 to June 2016
Retiree only	$ 345	$ 412
Retiree/spouse	683	817
Retiree/child(ren)	529	633
Family	855	1,023

For the year ended June 30, 2016, Plan members receiving benefits paid $180,440 which was used to offset the Agency's cash outlays to insurance carriers equaling $574,095 for the current year premiums due. The net outlay from the Agency, which totaled $393,655, 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 contribution ("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 30 years.

(Continued)

Note 13 – Postemployment Healthcare Plan, continued

The following table shows the components of the Agency's annual OPEB cost for the years ended 2016 and 2015, the amount actually contributed to the Plan and changes in the Agency's net OPEB obligation to the Plan:

	2016	2015
Annual required contribution	$ 1,145,519	$ 1,144,950
Interest on net OPEB obligation	184,024	148,189
Adjustment to annual required contribution	(170,497)	(137,296)
Annual OPEB cost (expense)	1,159,046	1,155,843
Contributions made*	(392,173)	(359,502)
Increase in net OPEB obligation	766,873	796,341
Net OPEB obligation, beginning of year	4,089,432	3,293,091
Net OPEB obligation, end of year	$ 4,856,305	$ 4,089,432

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for fiscal year ended June 30, 2016 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, 2016	$ 1,145,519	$ 1,159,046	$ 392,173	33.8%	$ 4,856,305
June 30, 2015	1,144,950	1,155,843	359,502	31.1	4,089,432
June 30, 2014	1,111,602	1,119,979	359,154	32.1	3,293,091

*includes adjustment for implicit rate subsidy.

As of June 30, 2014, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was $12,325,758, resulting in an unfunded actuarial accrued liability ("UAAL") of $12,325,758. The covered payroll, which is the annual payroll of active employees covered by the Plan, was $12,109,581, and the ratio of the UAAL to the covered payroll was 101.8%.

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 healthcare 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.

(Continued)

Note 13 – Postemployment Healthcare Plan, continued

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	4.5% of annum, 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	3.0% per annum
Inflation	3.0% per annum
Medical trend	Initial rate of 6.0% declining to an ultimate rate of 4.5% after 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 healthcare plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Note 14 – Commitments

The Agency has contracted with eight 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 June 30, 2016 was $2.1 million, which is included in administrative finance expenses on the accompanying Statements of Revenues, Expenses and Changes in Net Position. For the year ending June 30, 2017, billing charges to the Agency are estimated to cost approximately $2.4 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 ended June 30, 2016 and 2015. The Agency believes the amount of actual or potential claims as of June 30, 2016 will not materially affect the financial condition of the Agency.

Note 17 – Subsequent Events

During July and August 2016, the Agency executed two contracts approximating $0.2 million for equipment purchases.

Effective July 1, 2016, the Agency has changed its fiscal year end from June 30th to December 31st. The Agency will prepare financial statements and provide an audit of the six-month period July 1, 2016 to December 31, 2016.

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)
2016	June 30, 2014	$ -	$ 12,325,758	$ 12,325,758	0.0%	$ 12,109,581	101.8%
2015	June 30, 2014	-	12,325,758	12,325,758	0.0	11,580,233	106.4
2014	June 30, 2012	-	11,756,531	11,756,531	0.0	11,463,560	102.6

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**
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.

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

Fiscal year	Actuarial required contribution	Actual contributions	Contribution deficiency (excess)	Agency's total payroll	Contributions as a percentage of total payroll
2016	$ 1,339,320	$ 1,339,320	$ -	$ 12,580,973	10.6%
2015	1,262,243	1,262,243	-	11,960,378	10.6
2014	1,215,138	1,215,138	-	11,961,237	10.2
2013	1,129,479	1,129,479	-	11,261,359	10.0
2012	972,459	972,459	-	10,666,643	9.1
2011	949,406	949,406	-	10,305,949	9.2
2010	915,126	915,126	-	9,981,382	9.2
2009	925,730	925,730	-	10,155,599	9.1
2008	837,421	837,421	-	9,466,863	8.8
2007	737,214	737,214	-	8,984,634	8.2

Cherry Bekaert LLP
CPAs & Advisors

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
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"), which comprise the statements of net position, and the related statements of revenues, expenses and changes in net position and cash flows as of and for the year ended June 30, 2016, and the related notes to financial statements and have issued our report thereon dated September 2, 2016.

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 opinion 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.

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

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

Cherry Bekaert LLP

Greenville, South Carolina
September 2, 2016