# Renewable Water Resources

# Financial Statements
# and Supplemental Information

# As of and for the Year Ended
# December 31, 2018

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
Renewable Water Resources
Greenville, South Carolina

We have audited the accompanying statement of net position of Renewable Water Resources (the "Agency") as of December 31, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of December 31, 2018, and the results of its operations and its cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Notes 1 and 17 to the basic financial statements, the Agency implemented provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other than Pensions*, effective January 1, 2018. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 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 on March 25, 2019 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Greenville, South Carolina
March 25, 2019

# Management's Discussion and Analysis

# Renewable Water Resources
# Management's Discussion and Analysis

As management of Renewable Water Resources ("ReWa" or the "Agency"), we present this narrative overview and analysis of financial performance for the year ended December 31, 2018. Please consider this information in conjunction with the financial statements and related notes, which follow this section.

## Financial Highlights

- In fiscal year 2018, the Agency implemented Governmental Accounting Standards Board ("GASB") **Statement No. 75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* effective for periods beginning after June 15, 2017, which 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 recognize the net Other Postemployment Benefits ("OPEB") liability and OPEB expense in their financial statements, along with the related deferred outflows and inflows of resources.

- The Agency's financial position continues to be strong with an overall net increase of $13.2 million in net position despite a reduction of $12.2 million, at January 1, 2018, due to the implementation of the aforementioned GASB Statement No. 75.

- Total revenues for the year ended December 31, 2018 were $98.2 million.

- Operating expenses before depreciation totaled $38.7 million for the year ended December 31, 2018.

- In September 2018, S&P Global Ratings upgraded ReWa's outstanding rated Senior Lien Debt one level to AAA from AA+ and upgraded the Agency's outstanding rated Junior Lien Debt two levels to AAA from AA.

## Overview of the Financial Statements

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

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## Overview of the Financial Statements, continued

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

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

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

## Net Position

The Agency's overall financial position improved during the year ended December 31, 2018, as net position increased $13.2 million or 3.9%. The $13.2 million increase in net position is due to $25.4 million of current year operations, reduced by $12.2 million on January 1, 2018, as a result of the GASB Statement No. 75 implementation. Net position for the year ended December 31, 2018 totaled $351.0 million. The largest portion of the Agency's net position, approximately 87.7%, 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 $37.6 million or 10.8% of the Agency's net position is restricted (restrictions established by debt covenants, enabling legislation or other legal requirements). In the year ended December 31, 2018, restricted net position increased $0.4 million or 1.1%, due to scheduled debt service.

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**Net Position, continued**

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

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

| | FY 2018 | FY 2017 |
|---|---|---|
| Current and noncurrent assets | $ 56.3 | $ 61.9 |
| Restricted assets | 38.8 | 37.2 |
| Capital assets | 508.0 | 485.4 |
| Total assets | 603.1 | 584.5 |
| Deferred outflows from defeasance loss, net | 4.5 | 7.4 |
| Deferred outflows from pension | 2.6 | 3.4 |
| Deferred outflows from other postemployment benefits | 0.3 | - |
| Total deferred outflows of resources | 7.4 | 10.8 |
| Current liabilities | 37.5 | 38.8 |
| Noncurrent liabilities | 221.3 | 218.1 |
| Total liabilities | 258.8 | 256.9 |
| Deferred inflows from pension | 0.5 | 0.6 |
| Deferred inflows from other postemployment benefits | 0.2 | - |
| Total deferred inflows of resources | 0.7 | 0.6 |
| Net investment in capital assets | 307.6 | 275.6 |
| Restricted | 37.6 | 37.2 |
| Unrestricted | 5.8 | 25.0 |
| Total net position | $ 351.0 | $ 337.8 |

**Revenues**

Table A-2 shows that the Agency's total revenues increased $6.1 million or 6.6% to $98.2 million in the year ended December 31, 2018. The Agency's regulations provide for a sewer use charge that funds the operation of the system, provides a source of funds to repay liabilities and provides for future maintenance of the Agency's assets. The current user fee regulation in effect for the year ended December 31, 2018 was adopted April 24, 2017, and became effective January 1, 2018.

In the year ended December 31, 2018, domestic and commercial revenue increased $3.6 million or 4.8% to $78.5 million. This increase is predominantly a result of the 9.1% base rate increase and approximate 4.5% volume rate increase, as well as modest customer growth increase of 2.1% which was offset by a decline in consumption.

Industrial revenue increased $0.4 million or 5.4% to $7.9 million in the year ended December 31, 2018. The increase in fiscal year 2018 is primarily attributable to the 9.1% base rate increase and approximate 4.5% volume rate increase which took effect on January 1, 2018.

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**Revenues, continued**

New account fees, based on water meter size, increased 50.0% or $3.3 million to $9.9 million in the year ended December 31, 2018 and totaled $6.6 million in 2017. This is the Agency's highest new account fee revenue year in history.

Interest and other nonoperating revenues decreased $1.2 million or 46.2% to $1.4 million in the year ended December 31, 2018. This is largely due to the sales tax refund of $1.8 million, which was received during fiscal year 2017.

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

| | FY 2018 | FY 2017 |
|---|---|---|
| Operating revenues | | |
| Domestic and commercial customers | $ 78.5 | $ 74.9 |
| Industrial customers | 7.9 | 7.5 |
| New account fees | 9.9 | 6.6 |
| Septic haulers and other | 0.5 | 0.5 |
| Interest and other nonoperating revenues | 1.4 | 2.6 |
| Total revenues | 98.2 | 92.1 |
| Operating expenses | | |
| Technical operations | 24.6 | 22.9 |
| Administration | 14.1 | 11.9 |
| Total operating expenses before depreciation | 38.7 | 34.8 |
| Depreciation | 27.8 | 26.8 |
| Total operating expenses | 66.5 | 61.6 |
| Interest, amortization and other nonoperating expenses | 8.3 | 7.7 |
| Total expenses | 74.8 | 69.3 |
| Capital project cost reimbursements | 2.0 | 0.6 |
| Increase in net position | 25.4 | 23.4 |
| Total net position, beginning of year | 337.8 | 314.4 |
| Effect of GASB 75 implementation | (12.2) | - |
| Total net position, beginning of year, as restated | 325.6 | 314.4 |
| Total net position, end of year | $ 351.0 | $ 337.8 |

**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 the year ended December 31, 2018, capital contributions totaled $2.0 million.

## Expenses

Total expenses in the year ended December 31, 2018 totaled $74.8 million. Operating expenses before depreciation increased $3.9 million or 11.2% from $34.8 million. The increase in operating expenses in fiscal year 2018 is largely attributable to increases in electricity, solids disposal, customer billing expenses and software support contracts.

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 the year ended December 31, 2018, capital assets being depreciated, net decreased $8.9 million or 2.0% to $432.1 million, which is attributable to various line rehabilitations, pump station improvements and facility enhancements, which were offset by annual depreciation. For the year ended December 31, 2018, the Agency invested $508.0 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.

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

| | FY 2018 | FY 2017 |
|---|---|---|
| Capital assets not being depreciated: | | |
| Construction in progress | $ 69.3 | $ 38.3 |
| Land | 5.3 | 5.3 |
| Rights-of-way | 1.3 | 0.8 |
| Total capital assets not being depreciated | 75.9 | 44.4 |
| Capital assets being depreciated: | | |
| Buildings and land improvements | 368.4 | 365.4 |
| Collection and trunk lines | 348.2 | 347.9 |
| Machinery and equipment | 104.4 | 90.1 |
| Office furniture and equipment | 1.3 | 0.4 |
| Vehicles and heavy equipment | 0.8 | 0.9 |
| Total capital assets being depreciated | 823.1 | 804.7 |
| Less: accumulated depreciation | 391.0 | 363.7 |
| Total capital assets being depreciated, net | 432.1 | 441.0 |
| Net capital assets | $ 508.0 | $ 485.4 |

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**Capital Assets, continued**

**Capital improvement program**

The Agency's Commission assembled a community-wide volunteer collaboration to develop an environmentally sound, long-term strategy for the Agency. The collaboration was named the Upstate Roundtable and was tasked with aligning the regional wastewater system capacity and infrastructure with projected growth, while promoting environmental sustainability. Initially convened in 1994 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 that have been incorporated into the Agency's capital improvement program ("CIP").

The Agency maintains a fluid five-year CIP that merges the Agency's strategic plan with the ongoing objective of maintaining compliance with South Carolina Department of Health & Environmental Control regulations and National Pollutant Discharge Elimination System permit limitations. The current CIP calls for approximately $300.0 million over the next five years. The CIP calls for upgrades at many of the Agency's treatment facilities as well as multiple replacement and improvement projects of the Agency's conveyance system including a gravity sewer tunnel located approximately 100 feet below ground, which will address some of Greenville County's 100-year sewage needs.

**Capital improvement projects**

In 2018, capital projects focused on various conveyance system improvements and facility upgrade projects. During 2018, $25.7 million was injected to improve the Agency's conveyance system; these projects encompassed collection lines, as well as pump stations. Additionally, $13.2 million was invested in multiple facility improvement projects spanning all three river basins. Furthermore, another $8.8 million was incurred to complete construction of the Agency's new laboratory building.

Table A-4 illustrates the Agency's 2019 Capital Budget of $61.3 million for potential spending on facility upgrades, 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.

(Continued)

## Capital Assets, continued

### Capital improvement projects, continued

**Table A-4**
**2019 Capital Budget (in millions)**

| | | |
|---|---|---|
| **FUNDING SOURCES** | | |
| South Carolina revolving loan fund | $ | 23.6 |
| Reserves and bonds | | 37.7 |
| Total funding sources | $ | 61.3 |
| **USES** | | |
| Water resource recovery facilities | $ | 15.8 |
| Conveyance system | | 29.5 |
| Sustainability and reuse | | 1.6 |
| Other projects | | 14.4 |
| Total uses | $ | 61.3 |

## Long-Term Liabilities

At December 31, 2018, the total liability for compensated absences was $0.7 million.

The total obligation for other postemployment benefits totaled $19.4 million at December 31, 2018.

The Agency's net pension liability totaled $27.4 million at December 31, 2018.

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

### Revenue bonds

As of December 31, 2018, revenue bond debt, including premiums, totaled $150.6 million, the long-term portion of which was $129.7 million. As of December 31, 2018, the Agency's revenue bond debt consisted of eight series of revenue and refunding revenue bonds: Series 2005B, Series 2009, Series 2010A, Series 2010B, Series 2012, Series 2015A, Series 2017A and Series 2018A.

The Agency received bond premiums of $7.6 million, $6.1 million, $11.4 million and $3.6 million on the Series 2005B, Series 2010A, Series 2012 and Series 2018A 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, Series 2015A, Series 2017A and Series 2018A bonds were issued under the 2010 Bond Resolution and are on parity with all of the Agency's state revolving loans. These obligations are collectively referred to as the Junior Lien Debt and are subordinate in all aspects to the Senior Lien Debt.

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## Long-Term Liabilities, continued

### Revenue bonds, continued

The Series 2005B revenue bonds carry 'Aa1' and 'AAA' 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, Series 2012, Series 2015A, Series 2017A and Series 2018A bonds were issued based on the Agency's underlying rating. During calendar year 2017, Moody's Investors Service upgraded the Agency's Senior Lien Debt to 'Aa1' from 'Aa2' and upgraded the Agency's Junior Lien Debt to 'Aa1' from 'Aa3' rating. In September 2018, Standard & Poor's raised the Agency's Senior and Junior Lien Debt rating to 'AAA'.

### State revolving loans

Since December 1989, the Agency has entered into numerous loan agreements with the South Carolina Water Quality Revolving Fund Authority for new construction and/or upgrades. Interest rates on these loans range from 1.8% to 2.3%. State revolving loans outstanding as of December 31, 2018 totaled $48.0 million.

Listed below are the Agency's state revolving loans outstanding at December 31, 2018:

- June 2005 — Lower Reedy WRRF Expansion Phase II
- November 2006 — Durbin Creek WRRF Upgrade and Expansion
- December 2009 — Gravity Sewer and Manhole Rehabilitation Phase I
- December 2009 — Gravity Sewer and Manhole Rehabilitation Phase II
- March 2016 — FY15/16 Gravity Sewer and Manhole Rehabilitation
- March 2016 — Richland Creek Trunk Sewer Improvements
- December 2017 — FY17 Gravity Sewer and Manhole Rehabilitation

As of December 31, 2018, the remaining amount available to draw on the Richland Creek is $0.3 million. Construction has been completed and all funds received for the other projects listed above.

### Total outstanding long-term debt

At December 31, 2018, the Agency owed $191.0 million (excluding premiums) in total long-term debt, a decrease of $7.9 million or 4.0% from $198.9 million at December 31, 2017.

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

(Continued)

## Long-Term Liabilities, continued

### Total outstanding long-term debt, continued

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

| | FY 2018 | FY 2017 |
|---|---|---|
| Operating revenue | $ 96.8 | $ 89.5 |
| Investment revenue, unrestricted | 1.0 | 0.8 |
| Gross revenues | 97.8 | 90.3 |
| Less: operating expenses before depreciation | 38.7 | 34.8 |
| Net revenues available for debt service | $ 59.1 | $ 55.5 |
| Debt service | $ 29.1 | $ 28.5 |
| Debt coverage | 203% | 195% |

During the year ended December 31, 2018, debt service payments increased $0.6 million or 2.1% to $29.1 million. Debt structure on revenue bonds varies year to year causing principal payments to increase and decrease over the life of the bonds.

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

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

| | Balance (without premiums) (in millions) | Average Coupon/ Interest Rate |
|---|---|---|
| Series 2005B refunding bonds | $ 26.4 | 4.1% |
| Series 2009 revenue bonds | 2.0 | 3.8 |
| Series 2010A refunding bonds | 15.6 | 3.4 |
| Series 2010B revenue bonds | 7.0 | 2.7 |
| Series 2012 refunding bonds | 42.5 | 2.9 |
| Series 2015A refunding bonds | 12.8 | 2.0 |
| Series 2017A refunding bonds | 11.6 | 2.1 |
| Series 2018A refunding bonds | 25.1 | 5.0 |
| State revolving loans | 48.0 | 2.1 |

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 of 2.1% during the year ended December 31, 2018.

The Agency's customer base is diversified. No single customer represents more than 1.6% of ReWa's operating revenue.

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

**Contacting the Agency's Financial Department**

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

# Basic Financial Statements

# Renewable Water Resources
# Statement of Net Position
# December 31, 2018

| | |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | $ 6,466,980 |
| Restricted cash and cash equivalents | 31,001,857 |
| Receivables, net | 12,940,513 |
| Investments | 18,035,837 |
| Restricted investments | 95,807 |
| Total current assets | 68,540,994 |
| **Noncurrent assets** | |
| Receivables, net | 1,585,788 |
| Investments | 16,697,149 |
| Restricted investments | 7,748,021 |
| Capital assets, net | 508,042,260 |
| Prepaid insurance | 522,891 |
| Total noncurrent assets | 534,596,109 |
| Total assets | $ 603,137,103 |
| **Deferred outflows of resources** | |
| Deferred loss on refunding, net | $ 4,453,424 |
| Deferred outflows from pension | 2,653,316 |
| Deferred outflows from other postemployment benefits | 280,999 |
| Total deferred outflows of resources | $ 7,387,739 |
| **Current liabilities** | |
| Revenue bonds payable | $ 20,908,430 |
| State revolving loans payable | 3,258,947 |
| Accounts payable - operations | 1,779,951 |
| Accounts payable - construction projects | 7,481,229 |
| Accrued interest payable | 2,497,995 |
| Accrued expenses and other liabilities | 927,966 |
| Compensated absences | 630,839 |
| Total current liabilities | 37,485,357 |
| **Long-term liabilities** | |
| Revenue bonds payable | 129,721,356 |
| State revolving loans payable | 44,781,468 |
| Compensated absences | 63,850 |
| Other postemployment benefits | 19,394,154 |
| Net pension liability | 27,424,970 |
| Total long-term liabilities | 221,385,798 |
| Total liabilities | $ 258,871,155 |
| **Deferred inflows of resources** | |
| Deferred inflows from pension | $ 491,975 |
| Deferred inflows from other postemployment benefits | 193,057 |
| Total deferred inflows of resources | $ 685,032 |
| **Net position** | |
| Net investment in capital assets | $ 307,561,430 |
| Net position - restricted | |
| Debt service | 28,338,439 |
| Capital asset replacement | 5,080,422 |
| Other | 4,209,648 |
| Net position - unrestricted | 5,778,716 |
| Total net position | $ 350,968,655 |

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

# Renewable Water Resources
## Statement of Revenues, Expenses and Changes in Net Position
## For the year ended December 31, 2018

| | |
|---|---|
| **Operating revenues** | |
| Domestic and commercial customers | $ 78,519,523 |
| Industrial customers | 7,889,536 |
| New account fees | 9,860,000 |
| Septic haulers and other | 481,012 |
| Total operating revenues | 96,750,071 |
| **Operating expenses** | |
| Technical operations | 24,647,604 |
| Administration | 14,082,540 |
| Total operating expenses before depreciation | 38,730,144 |
| Depreciation | 27,795,178 |
| Total operating expenses | 66,525,322 |
| Operating income | 30,224,749 |
| **Nonoperating revenues (expenses)** | |
| Investment revenue | 1,090,705 |
| Interest expense | (6,304,478) |
| Amortization | (27,131) |
| Debt issuance costs | (1,286,301) |
| Non-project expenses | (646,783) |
| Other revenue | 314,172 |
| Net nonoperating expenses | (6,859,816) |
| **Capital project cost reimbursements** | 2,011,797 |
| Increase in net position | 25,376,730 |
| Total net position, beginning of year | 337,764,142 |
| Effect of GASB 75 implementation | (12,172,217) |
| Total net position, beginning of year, as restated | 325,591,925 |
| Total net position, end of year | $ 350,968,655 |

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

# Renewable Water Resources
## Statement of Cash Flows
## For the year ended December 31, 2018

| | |
|---|---|
| **Cash flows from operating activities** | |
| Received from customers | $ 98,007,376 |
| Paid to suppliers for goods and services | (25,128,927) |
| Paid to employees for services | (13,314,563) |
| Received from nonoperating revenues | 314,172 |
| Net cash provided by operating activities | 59,878,058 |
| **Cash flows from capital and related financing activities** | |
| Cash received on notes receivable for capital | 273,459 |
| Acquisition of capital assets and project expenses | (50,599,694) |
| Proceeds from debt issuance | (48,161,982) |
| Principal payments on debt | 40,350,906 |
| Interest payments on debt | (7,588,348) |
| Debt issuance costs | (1,286,301) |
| Other | 3,743,934 |
| Net cash used for capital and related financing activities | (63,268,026) |
| **Cash flows from investing activities** | |
| Interest received on investments | 1,035,354 |
| Purchases of investment securities | (35,809,675) |
| Proceeds from sales of investment securities | 51,850,178 |
| Net cash provided by investing activities | 17,075,857 |
| Net increase in cash and cash equivalents | 13,685,889 |
| **Cash and cash equivalents, beginning of year** | 23,782,948 |
| **Cash and cash equivalents, end of year** | $ 37,468,837 |

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

## Renewable Water Resources
## Statement of Cash Flows, continued
## For the year ended December 31, 2018

| | | |
|---|---|---|
| **Reconciliation of operating income to net cash flows from operating activities** | | |
| Operating income | $ | 30,224,749 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | | 27,795,178 |
| Other nonoperating revenue | | 314,172 |
| Pension expense recognized in excess of contributions | | 687,802 |
| Changes in asset and liability amounts | | |
| Receivables, net | | 1,257,305 |
| Prepaid insurance | | 206,956 |
| Accounts payable - operations | | 660,625 |
| Accounts payable - construction projects | | (2,336,640) |
| Accrued expenses and other liabilities | | 50,245 |
| Compensated absences | | (65,564) |
| Other postemployment benefits | | 1,083,230 |
| Net cash provided by operating activities | $ | 59,878,058 |
| **Noncash activities** | | |
| Increase in fair value of investments | $ | 87,526 |
| Amortization of prepaid bond insurance | $ | 27,131 |
| **Reconciliation of cash and cash equivalents to statement of net position** | | |
| Cash and cash equivalents | $ | 6,466,980 |
| Restricted cash and cash equivalents | | 31,001,857 |
| Total cash and cash equivalents | $ | 37,468,837 |

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

# 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 11 members who are appointed by the Governor upon recommendation by the legislative delegations of Greenville, Anderson, Laurens and Spartanburg Counties. The Agency provides wastewater treatment services for residents and industries covering substantially all of Greenville County and portions of Anderson, Laurens, Pickens and Spartanburg Counties. In fulfilling its functions, the Agency receives wastewater from the area's collection systems, and owns and operates water resource recovery facilities (“WRRF”), pump stations and trunk lines; which are collectively referred to as the “System”. It is the Agency's policy to maintain customer user rates sufficient to meet operational and maintenance expenses, as well as to pay debt service on bonds and notes issued to finance upgrading and maintaining the System.

### Reporting entity

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

### Fund accounting

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

### Basis of accounting

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

### Budgetary practices

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

(Continued)

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

### Cash and cash equivalents

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

### Investments

Investments in money market funds and certificates of deposit are reported at amortized cost, which approximates fair value. All investments in U.S. agencies notes and bonds and the South Carolina Investment Pool are reported at fair value and are 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 December 31, 2018, all of the Agency's investments in U.S. agencies notes and bonds and the South Carolina Investment Pool 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 acquisition value at the date of donation. Depreciation of capital assets is calculated on or using the straight-line method over the estimated useful lives of the respective assets as follows:

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

(Continued)

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

**Capital assets, continued**

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. The Agency implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective January 1, 2018. Accordingly, interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

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

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

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

**Net position**

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

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

- **Restricted** - This component of net position consists of constraints placed on an asset's use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted** - This component consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

(Continued)

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

**Long-term obligations**

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

**Deferred outflows/inflows of resources**

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

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

**Compensated absences**

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

**Revenues and receivables**

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

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

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

(Continued)

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

**Operating revenues and expenses**

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

**Estimates**

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

**New pronouncements**

The Agency has implemented the following GASB pronouncements:

**GASB Statement No. 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. The effect of this implementation is discussed in Note 17.

**GASB Statement No. 85**, *Omnibus 2017,* effective for periods beginning after June 15, 2017, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement enhances consistency in the application of accounting and financial reporting requirements to improve the usefulness of information for users of state and local government financial statements. This Statement does not have a material impact on the Agency's financial statements.

**GASB Statement No. 86**, *Certain Debt Extinguishment Issues,* effective for periods beginning after June 15, 2017, was issued to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. 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. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period,* effective for periods beginning after December 15, 2018, while early adoption is permitted, was issued to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period by requiring interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred. The Agency chose to early adopt GASB Statement No. 89, which did not have a material impact on the financial statements and, accordingly, no interest incurred before the end of a construction period was capitalized during the year ended December 31, 2018.

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

**GASB Statement No. 87**, *Leases,* effective for periods beginning after December 15, 2020, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**GASB Statement No. 88**, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* effective for periods beginning after June 15, 2018, was issued to improve the information disclosed in the notes to financial statements related to debt, including direct borrowings and direct placements. Statement No. 88 further clarifies which liabilities should be included when disclosing information related to debt.

## Note 2 – Cash and Cash Equivalents and Investments

As of December 31, 2018, the Agency had the following cash and cash equivalents and investments:

| | |
|---|---|
| Cash and cash equivalents | |
| Checking and other cash | $ 8,061,342 |
| Money markets - government obligations | 29,407,495 |
| Total cash and cash equivalents | $ 37,468,837 |
| Investments | |
| Government sponsored enterprises | $ 25,627,039 |
| Certificates of deposit | 9,982,623 |
| US Treasury notes | 1,094,869 |
| SC investment pool | 5,872,283 |
| Total investments | $ 42,576,814 |

Investment maturities are as follows as of December 31, 2018:

| | | Investment maturities (in years) | | |
|---|---|---|---|---|
| Investment type | Fair value | Less than 1 year | 1 – 5 years | More than 5 years |
| Certificates of deposit | $ 9,982,623 | $ 6,794,643 | $ 3,187,980 | $ - |
| SC investment pool | 5,872,283 | 5,872,283 | - | - |
| US agencies notes and bonds | | | | |
| Federal Home Loan Bank | 5,447,955 | - | 5,447,955 | - |
| Federal National Mortgage Association | 1,481,769 | 985,766 | 496,003 | - |
| Federal Home Loan Mortgage | 13,751,967 | 3,384,083 | 10,367,884 | - |
| Federal Farm Credit Bank | 4,945,348 | - | 4,945,348 | - |
| US Treasury notes | 1,094,869 | 1,094,869 | - | - |
| Total | $ 42,576,814 | $ 18,131,644 | $ 24,445,170 | $ - |

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

The Agency's investments at December 31, 2018 consist of SC Investment Pool shares, certificates of deposit, US Treasury notes and US agencies notes and bonds. The US Treasury notes and US agencies notes and bonds were rated AA+ by Standard & Poor's and/or Aaa by Moody's Investors Service as of December 31, 2018.

The Agency's cash and cash equivalents at December 31, 2018 consist of cash and money market accounts. Approximately $21.7 million of the money market funds are in First American Treasury Obligations Fund Class Y which is assigned the highest credit rating by Standard & Poor's, Moody's and Fitch. The remaining $7.7 million are held in business money market accounts which are not currently rated but are collateralized.

**Concentration of credit risk**

In accordance with the Agency's investment policy, all investments must be allowable under the current State law. As a result, more than 5.0% of the Agency's investments are in Government sponsored enterprises due to the limited type of investment instruments available under current State law. These investments are approximately 60.2% of the Agency's total investments at December 31, 2018.

(Continued)

**Note 2 – Cash and Cash Equivalents and Investments, continued**

**Custodial credit risk deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of December 31, 2018, all of the Agency's deposits were insured or collateralized using one of two methods. Under the dedicated method, all uninsured deposits are collateralized with securities held by the Agency's agents in the Agency's name. Under the pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agents in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Agency, these deposits are considered to be held by the Agency's agents in the Agency's name.

**Note 3 – Receivables**

Customer and other accounts receivables as of December 31, 2018 were as follows:

| | |
|---|---|
| Fees and services | |
| Domestic and commercial customers | $ 11,469,022 |
| Industrial customers | 1,328,343 |
| Total receivables from fees | 12,797,365 |
| Less: allowance for uncollectible accounts | 400,000 |
| Net receivables from fees | 12,397,365 |
| Accrued interest on cash equivalents and other receivables | 258,800 |
| Reimbursements due from other governmental units | 1,870,136 |
| Total receivables | 14,526,301 |
| Less: current receivables, net | 12,940,513 |
| Noncurrent receivables, net | $ 1,585,788 |

### 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 December 31, 2018 are restricted for the following uses:

| | |
|---|---|
| Capital projects | $ 1,217,176 |
| Current principal and interest payments | 20,490,775 |
| Debt service reserves | 7,847,664 |
| Operations and maintenance | 3,209,648 |
| Capital asset replacement | 5,080,422 |
| Contingencies | 1,000,000 |
| Total restricted assets | $ 38,845,685 |

Restricted assets consisted of the following at December 31, 2018:

| | |
|---|---|
| Cash | $ 31,001,857 |
| Investments | 7,843,828 |
| Total restricted assets | $ 38,845,685 |

## Note 5 – Capital Assets

A summary of changes in capital assets from December 31, 2017 to December 31, 2018 follows below:

| | December 31, 2017 | Additions | Disposals | December 31, 2018 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Construction in progress | $ 38,315,032 | $ 49,180,553 | $ 18,229,614 | $ 69,265,971 |
| Land | 5,331,079 | - | - | 5,331,079 |
| Rights-of-way | 748,729 | 594,406 | - | 1,343,135 |
| Total capital assets not being depreciated | 44,394,840 | 49,774,959 | 18,229,614 | 75,940,185 |
| Capital assets being depreciated | | | | |
| Buildings and land improvements | 365,362,902 | 3,060,644 | - | 368,423,546 |
| Collection and trunk lines | 347,898,850 | 270,694 | - | 348,169,544 |
| Machinery and equipment | 90,112,946 | 14,639,387 | 295,238 | 104,457,095 |
| Office furniture and equipment | 423,044 | 949,801 | 100,486 | 1,272,359 |
| Vehicles and heavy equipment | 864,543 | 133,823 | 192,482 | 805,884 |
| Total capital assets being depreciated | 804,662,285 | 19,054,349 | 588,206 | 823,128,428 |
| Less: accumulated depreciation | | | | |
| Buildings and land improvements | 170,575,513 | 12,203,424 | - | 182,778,937 |
| Collection and trunk lines | 134,291,833 | 8,698,035 | - | 142,989,868 |
| Machinery and equipment | 57,982,743 | 6,568,366 | 192,200 | 64,358,909 |
| Office furniture and equipment | 247,902 | 122,980 | 95,551 | 275,331 |
| Vehicles and heavy equipment | 613,416 | 202,373 | 192,481 | 623,308 |
| Total accumulated depreciation | 363,711,407 | 27,795,178 | 480,232 | 391,026,353 |
| Total capital assets being depreciated, net | 440,950,878 | (8,740,829) | 107,974 | 432,102,075 |
| Capital assets, net | $ 485,345,718 | $ 41,034,130 | $ 18,337,588 | $ 508,042,260 |

Interest cost in 2018 totaled $6,903,249.

## Note 6 – Defeasance of Debt

The Agency previously 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 $49,050,000 at December 31, 2018.

(Continued)

**Note 6 – Defeasance of Debt, continued**

**Defeasance of debt with cash and existing resources**

On September 12, 2018, the Agency defeased a portion of the Series 2012 bonds by depositing funds in the amount of $28,619,615 with U.S. Bank National Association, the Escrow Agent. The $28,619,615 which, as set forth in the verification report, is the amount necessary to pay the debt service requirements of the defeased Series 2012 bonds through the redemption date of January 1, 2022. The Escrow Agent used the $28,619,615 to purchase the subscribed direct noncallable US Treasury Securities – State and Local Government Series (collectively, "SLGS") plus $0.66 held in cash. The transaction provided the Agency with an economic gain of $1,635,321 and a cash flow savings of $5,976,759. The description of the Escrow Fund Securities is shown below:

| Maturity | Type | Coupon | Amount |
|---|---|---|---|
| January 1, 2019 | SLGS-CI | 2.12% | $ 430,727 |
| July 1, 2019 | SLGS-CI | 2.41% | 278,279 |
| January 1, 2020 | SLGS-NT | 2.53% | 283,644 |
| July 1, 2020 | SLGS-NT | 2.62% | 287,231 |
| January 1, 2021 | SLGS-NT | 2.67% | 290,995 |
| July 1, 2021 | SLGS-NT | 2.70% | 294,879 |
| January 1, 2022 | SLGS-NT | 2.71% | 26,753,860 |
| Total investments purchased | | | 28,619,615 |
| Total cash deposit | | | 0.66 |
| Total deposit to Series 2012 Escrow Fund | | | $ 28,619,616 |

**Deferred outflow of resources from defeasance loss**

When a difference exists between the reacquisition price and the net carrying amount of the old debt, a deferred loss or gain is recorded and classified in the respective deferred outflow or inflow of resources on the Statement of Net Position. This amount is amortized as a component of interest expense over the remaining life of the old debt or new debt, whichever is shorter. As of December 31, 2018, the Agency's defeasance loss, net was $4,453,424.

Amortization of the defeasance loss for the period ended December 31, 2018 totaled $1,293,629.

Estimated future amortization expense is as follows:

| Year ending December 31, | Amortization expense |
|---|---|
| 2019 | $ 880,417 |
| 2020 | 779,713 |
| 2021 | 718,247 |
| 2022 | 716,121 |
| 2023 | 709,497 |
| Thereafter | 649,429 |
| Total | $ 4,453,424 |

### Note 7 – Revenue Bonds Payable

At December 31, 2018, the Agency was obligated on various series of revenue bonds issued for purposes of constructing capital assets. Revenue bonds outstanding at December 31, 2018 are as follows:

| | |
|---|---|
| \$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. | $ 26,475,000 |
| \$30,000,000 Series 2009 revenue bonds dated April 29, 2009, with annual principal payments ranging from \$1,520,000 to \$1,975,000 plus interest at 3.8% payable semi-annually through March 2019. | 1,975,000 |
| \$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. | 15,620,000 |
| \$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. | 6,990,000 |
| \$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 \$15,065,000 plus semi-annual payments of interest at 2.0% to 5.0% are payable through January 2024. | 42,515,000 |
| \$13,465,000 Series 2015A refunding revenue bonds dated October 7, 2015, with annual principal payments ranging from \$181,000 to \$1,649,000 plus interest at 2.0% payable semi-annually through January 2025. | 12,793,000 |
| \$11,736,000 Series 2017A refunding revenue bonds dated March 14, 2017, with annual principal payments ranging from \$141,000 to \$2,387,000 plus interest at 2.1% payable semi-annually through March 2024. | 11,589,000 |
| \$25,055,000 Series 2018A refunding revenue bonds dated October 11, 2018, with annual principal payments ranging from \$8,445,000 to \$16,610,000 plus interest at 5.0% payable semi-annually through January 2025. | 25,055,000 |
| Total revenue bonds payable | 143,012,000 |
| Premium on refunding bonds | 7,617,786 |
| Less: current maturities | 20,908,430 |
| Long-term portion | $ 129,721,356 |

(Continued)

**Note 7 – Revenue Bonds Payable, continued**

Amortization of bond premiums totaled $1,749,255 for the year ended December 31, 2018.

Future amounts required to pay principal and interest on revenue bonds outstanding at December 31, 2018 are as follows:

| Year ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 19,209,000 | $ 5,211,288 | $ 24,420,288 |
| 2020 | 19,842,000 | 4,668,317 | 24,510,317 |
| 2021 | 20,611,000 | 3,748,110 | 24,359,110 |
| 2022 | 19,964,000 | 3,010,435 | 22,974,435 |
| 2023 | 20,974,000 | 2,303,097 | 23,277,097 |
| 2024 - 2025 | 42,412,000 | 1,900,053 | 44,312,053 |
| Total | $ 143,012,000 | $ 20,841,300 | $ 163,853,300 |

Provisions of the revenue bond agreements require the Agency to maintain user rates sufficient to generate net earnings as defined by the bond agreement of at least 110% of the combined annual principal and interest payments, make timely payment of principal and interest on all outstanding debt, maintain required funds for debt service reserves, operations and maintenance expenses, capital asset replacement and contingencies and meet various other general requirements specified in the bond agreements. Management believes the Agency was in compliance with these covenants at December 31, 2018.

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

The Series 2010A, Series 2010B, Series 2012, Series 2015A, Series 2017A and Series 2018A 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 $5,796,583 for the year ended December 31, 2018.

Interest paid on the debt issued by the Agency is exempt from federal income tax. The Agency sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. At December 31, 2018, the Agency had no arbitrage rebate liability.

**Note 8 – State Revolving Loans Payable**

At December 31, 2018, the Agency was obligated on various state revolving loans issued for purposes of constructing capital assets. State revolving loan amounts outstanding at December 31, 2018, are as follows:

| | |
|---|---|
| $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. | $ 9,394,868 |
| $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. | 15,999,417 |
| $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. | 1,817,832 |
| $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. | 1,656,705 |
| $5,252,207 FY15/16 Gravity Sewer and Manhole Rehabilitation loan dated March 25, 2016. Payable in quarterly installments of $56,740 including interest at 1.8%, through November 2046. | 4,338,486 |
| $14,057,387 Richland Creek Trunk Sewer Improvements loan dated March 25, 2016. Payable in quarterly installments of $151,864 including interest at 1.8%, through July 2047. As of December 31, 2018, $291,357 of funds remain available to be drawn in 2019. | 13,318,996 |
| $1,529,876 FY17 Gravity Sewer and Manhole Rehabilitation loan dated December 4, 2017. Payable in quarterly installments of $23,031 including interest at 1.9%, through July 2038. | 1,514,111 |
| Total state revolving loans payable | 48,040,415 |
| Less: current maturities | 3,258,947 |
| Long-term portion | $ 44,781,468 |

Interest expense on the state revolving loans totaled $963,520 for the year ended December 31, 2018.

(Continued)

**Note 8 – State Revolving Loans Payable, continued**

Future amounts required to pay outstanding principal and interest on state revolving loans outstanding at December 31, 2018 are as follows:

| Year ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 3,258,947 | $ 965,115 | $ 4,224,062 |
| 2020 | 3,329,244 | 894,818 | 4,224,062 |
| 2021 | 3,401,150 | 822,912 | 4,224,062 |
| 2022 | 3,474,704 | 749,358 | 4,224,062 |
| 2023 | 3,549,944 | 674,118 | 4,224,062 |
| 2024 - 2028 | 16,713,773 | 2,217,421 | 18,931,194 |
| 2029 - 2033 | 4,516,202 | 1,094,037 | 5,610,239 |
| 2034 - 2038 | 3,711,017 | 751,855 | 4,462,872 |
| 2039 - 2043 | 3,602,973 | 422,304 | 4,025,277 |
| 2044 - 2047 | 2,482,461 | 96,938 | 2,579,399 |
| Total | $ 48,040,415 | $ 8,688,876 | $ 56,729,291 |

Provisions of the state revolving loan agreements require the Agency to use loan proceeds solely for the purpose of paying eligible project costs, submit the annual audit of its financial statements by June 30, maintain user rates sufficient to make timely payment of principal and interest on all outstanding debt, maintain required funds for current principal and interest payments, operations and maintenance expenses, capital asset replacement and contingencies, review the adequacy of its user rates at least annually, and meet various other general requirements specified in the loan agreements. Management believes the Agency was in compliance with these covenants at December 31, 2018.

The state revolving loans are 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.

**Note 9 – Changes in Long-Term Liabilities**

Changes in long-term debt, compensated absences, OPEB and net pension liability at December 31, 2017 to December 31, 2018 are as follows:

| | December 31, 2017 | Additions | Reductions | December 31, 2018 | Due within One Year |
|---|---|---|---|---|---|
| Revenue bonds | $ 162,887,000 | $ 25,055,000 | $ 44,930,000 | $ 143,012,000 | $ 19,209,000 |
| State revolving loans | 35,976,491 | 15,295,906 | 3,231,982 | 48,040,415 | 3,258,947 |
| Compensated absences | 760,253 | 559,029 | 624,593 | 694,689 | 630,839 |
| OPEB, as restated (Note 17) | 18,556,497 | 6,976,364 | 6,138,707 | 19,394,154 | - |
| Net pension liability | 27,457,859 | 2,592,458 | 2,625,347 | 27,424,970 | - |
| Subtotal | 245,638,100 | 50,478,757 | 57,550,629 | 238,566,228 | 23,098,786 |
| Premiums on bond issuance | 8,511,557 | 3,616,534 | 4,510,304 | 7,617,787 | 1,699,430 |
| Total | $ 254,149,657 | $ 54,095,291 | $ 62,060,933 | $ 246,184,015 | $ 24,798,216 |

**Note 10 – Construction Contracts in Progress**

At December 31, 2018, the Agency had commitments for various projects for the construction and acquisition of property and equipment. Construction in progress is included in capital assets along with land and land improvements, buildings, collection and trunk lines, machinery and equipment, office furniture, vehicles and heavy equipment.

The following summarizes construction contracts in progress at December 31, 2018 on which significant additional work is to be performed:

| Project name | Contract amount | Total contract incurred | Balance to be performed |
|---|---|---|---|
| 5R Watershed Planning | $ 959,665 | $ 570,960 | $ 388,705 |
| Cityworks PLL | 513,623 | 272,032 | 241,591 |
| Conestee Improvements | 562,610 | 462,278 | 100,332 |
| Flow Meters | 335,275 | 68,140 | 267,135 |
| Gilder Creek Phase III - Package 5 | 4,194,125 | 563,877 | 3,630,248 |
| 2018 Gravity Sewer & Manhole Rehabilitation | 1,502,564 | 134,406 | 1,368,158 |
| Grove Creek & Piedmont WRRF Closures | 2,651,367 | 2,531,208 | 120,159 |
| Laboratory Improvements | 14,466,082 | 14,084,308 | 381,774 |
| Lower Reedy IPS VFD Improvements | 705,335 | 199,152 | 506,183 |
| Lower Reedy Process Improvements | 139,840 | 3,310 | 136,530 |
| Lower Reedy WRRF Digester Improvements | 2,581,224 | 1,053,318 | 1,527,906 |
| Mauldin Road Equipment Replacement | 273,128 | 134,928 | 138,200 |
| Mauldin Road & Lower Reedy PCS | 5,609,143 | 2,039,879 | 3,569,264 |
| Mauldin Road Process Improvements | 180,000 | 76,501 | 103,499 |
| Mauldin Road Shop Building Addition | 229,187 | 103,765 | 125,422 |
| Mauldin Road Wet Weather PS Improvements | 331,970 | 221,344 | 110,626 |
| NGU Interceptor Phase I | 431,000 | 193,929 | 237,071 |
| Pelham Falls #1 Force Main Relocation | 1,347,508 | 1,240,767 | 106,741 |
| Pelham Process Improvements Phase I | 146,600 | - | 146,600 |
| Peppertree PS 1 & 2 Elimiation | 323,643 | 152,608 | 171,035 |
| Perry Correctional FM Corrosion Control | 124,000 | 2,345 | 121,655 |
| Peters Creek Gravity Sewer | 2,562,814 | 2,156,571 | 406,243 |
| Piedmont #5 PS Odor Control | 134,600 | 14,759 | 119,841 |
| Ravenwood PS & FM Upgrade | 2,590,675 | 2,434,057 | 156,618 |
| Reedy River Basin Sewer Tunnel | 42,564,384 | 11,747,869 | 30,816,515 |
| Rock Creek Interceptor Upgrade | 1,042,729 | 566,033 | 476,696 |
| Saluda #2 PS Improvements | 1,841,443 | 1,010,457 | 830,986 |
| Saluda #3 PS Improvements | 1,747,086 | 1,078,400 | 668,686 |
| System Wide Biosolids Masterplan | 345,210 | - | 345,210 |
| Travelers Rest North Regional PS | 685,401 | 477,785 | 207,616 |
| Wet Weather Program | 1,515,407 | 1,077,112 | 438,295 |
| Total | $ 92,637,638 | $ 44,672,098 | $ 47,965,540 |

## Note 11 – Compensated Absences

Full-time employees of the Agency accumulate vacation benefits at 1 to 2 days per month, based on length of service, up to 24 days per year. Annual leave in excess of 24 days at December 31 of each year is forfeited. Annual leave earned up to 24 days is paid to employees upon separation from employment. Accrued vacation benefits totaled $694,689 at December 31, 2018.

## Note 12 – Employee Benefits

### Pension plan

#### Plan description

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

The SCRS was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. The SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election. Generally, all employees of covered employers, are required to participate in and contribute to the system as a condition of employment. Employees with an effective membership date prior to July 1, 2012, are considered a Class Two member, 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 supplementary information for the SCRS' Pension Trust Funds. 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, 202 Arbor Lake Drive, Columbia, South Carolina 29223.

#### Benefits

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

(Continued)

**Note 12 – Employee Benefits, continued**

**Pension plan, continued**

**Benefits, continued**

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

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

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

**Contributions**

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. If the scheduled employee and employer contributions provided in statute, or the rates last adopted by the Board of Directors, are insufficient to maintain the amortization period set in statute, the Board of Directors shall increase employer contribution rates as necessary. After June 30, 2017, if the most recent actuarial valuation of the SCRS for funding purposes shows a ratio of the actuarial value of the SCRS assets to the actuarial accrued liability of the SCRS (the funded ratio) that is equal to or greater than 85.0%, then the Board of Directors, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85.0%. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the SCRS shows a funded ratio of less than 85.0%, then effective on the following July first, and annually thereafter as necessary, the Board of Directors shall increase the then current contribution rates until a subsequent annual actuarial valuation of the SCRS shows a funded ratio that is equal or greater than 85.0%.

The Retirement Funding and Administration Act establishes a ceiling on employee contribution rates at 9.0%. The employer contribution rates will continue to increase annually by 1.0% through July 1, 2022.The legislation's ultimate scheduled employer rate is 18.56%. The amortization period is scheduled to be reduced one year for each of the next 10 years to a 20-year amortization period.

(Continued)

**Note 12 – Employee Benefits, continued**

**Pension plan, continued**

**Contributions, continued**

Plan members were required to contribute 9.0% of their annual covered salary for the period of January 1, 2018 to December 31, 2018, and the Agency was required to contribute 13.41% of covered payroll for the period of January 1, 2018 to June 30, 2018 and 14.41% for the period July 1, 2018 to December 31, 2018. An additional 0.15% of payroll is contributed to a group life insurance benefit for the participants for the period ended December 31, 2018.

All required contributions for the year ended December 31, 2018 were made and are summarized as follows:

| Year ended December 31, | Employer SCRS | Employee SCRS |
|---|---|---|
| 2018 | $ 1,793,576 | $ 1,147,772 |

**Net pension liability**

At December 31, 2018, the Agency reported a liability of $27,424,970, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, based on the July 1, 2017 actuarial valuation. The total pension liability was rolled forward from the valuation date to the plan's year ended June 30, 2018, 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, 2018 measurement date, the Agency's proportionate share was 0.122396%.

For the year ended December 31, 2018, the Agency recognized pension expense of $2,481,378 and a revenue credit of $123,563, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred outflows of resources | Deferred inflows of resources |
|---|---|---|
| Difference between expected and actual experience | $ 49,505 | $ 161,388 |
| Changes of assumptions | 1,088,069 | - |
| Net difference between projected and actual earnings on pension plan investments | 435,646 | - |
| Changes in proportion and differences between Agency's contributions and proportionate share of contributions | 144,354 | 330,587 |
| Agency contributions subsequent to the measurement date | 935,742 | - |
| Total | $ 2,653,316 | $ 491,975 |

(Continued)

**Note 12 – Employee Benefits, continued**

**Pension plan, continued**

**Net pension liability, continued**

At December 31, 2018, the Agency reported $935,742 as deferred outflows of resources related to pensions resulting from the Agency's contributions subsequent to the measurement dates and will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. 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 December 31, | Pension expense |
|---|---|
| 2019 | $ (994,026) |
| 2020 | (570,840) |
| 2021 | 295,549 |
| 2022 | 43,718 |
| Total | $ (1,225,599) |

The revenue credit of $123,563 is a nonemployer contribution appropriated in the State of South Carolina's budget. In an effort to help offset a portion of the burden of the increased contribution requirement for employers, the General Assembly funded 1.0% of the SCRS contribution increases for the SCRS year ended June 30, 2018. The State of South Carolina's budget appropriated these funds directly to PEBA for the SCRS trust fund.

**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, 2015. The following provides a brief description of the significant actuarial assumptions applied to all periods included in the measurements.

| | |
|---|---|
| Cost method | Entry age normal |
| Investment rate of return | 7.25% |
| Salary increases | 3.0% plus step-rate increases for members with less than 21 years of service |
| Inflation | 2.25% |
| Benefit adjustments | Lesser of 1.0% or $500 annually |

(Continued)

**Note 12 – Employee Benefits, continued**

**Pension plan, continued**

**Actuarial assumptions, continued**

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

The long-term expected rate of return on pension plan investments is based upon 30-year capital market assumptions. The long-term expected rates of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected investment returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of PEBA's 2018 fiscal year. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00% real rate of return and a 2.25% inflation component.

| Asset class | Target allocation | Expected arithmetic real rate of return | Long-term expected portfolio real rate of return |
|---|---|---|---|
| Global equity - global public equity | 33.00% | 6.99% | 2.31% |
| Global equity - private equity | 9.00% | 8.73% | 0.79% |
| Global equity - options strategies | 5.00% | 5.52% | 0.28% |
| Real assets - private | 6.00% | 3.54% | 0.21% |
| Real assets - REITs | 2.00% | 5.46% | 0.11% |
| Real assets - infrastructure | 2.00% | 5.09% | 0.10% |
| Opportunistic - GTAA/Risk Parity | 8.00% | 3.75% | 0.30% |
| Opportunistic - HF (non-PA) | 2.00% | 3.45% | 0.07% |
| Opportunistic - other strategies | 3.00% | 3.75% | 0.11% |
| Diversified credit - mixed credit | 6.00% | 3.05% | 0.18% |
| Diversified credit - emerging markets | 5.00% | 3.94% | 0.20% |
| Diversified credit - private debt | 7.00% | 3.89% | 0.27% |
| Conservative fixed income - core | 10.00% | 0.94% | 0.09% |
| Conservative fixed income - cash | 2.00% | 0.34% | 0.01% |
| Total | 100.00% | | 5.03% |
| | | | |
| Inflation | | | 2.25% |
| Expected arithmetic nominal return | | | 7.28% |

(Continued)

**Note 12 – Employee Benefits, continued**

**Pension plan, continued**

**Discount rate**

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, the SCRS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.25%, 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 (6.25%) or one percentage point higher (8.25%) than the current rate:

| 1.0% Decrease 6.25% | Current discount rate 7.25% | 1.0% Increase 8.25% |
|---|---|---|
| $ 35,044,019 | $ 27,424,970 | $ 21,978,080 |

**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, 202 Arbor Lake Drive, Columbia, South Carolina 29223.

**Deferred compensation plan**

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

**Note 13 – Postemployment Healthcare Plan**

**Plan description**

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

**Benefits**

The Agency contributes up to 79.8% of the monthly premium for retirees and covered dependents based on the selected healthcare Plan. The amount contributed by the Agency is determined by PEBA. This amount is based on the level of coverage selected by the retiree, not the Plan selected. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Because the Plan consists solely of the Agency's commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

**Summary of membership information**

The following table provides a summary of the number of participants in the Plan as of the June 30, 2018 measurement date:

| | |
|---|---|
| Inactive Plan members or beneficiaries currently receiving benefits | 83 |
| Inactive Plan members entitled to, but not yet receiving benefits | - |
| Active Plan members | 182 |
| Total Plan members | 265 |

**Contributions**

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

| | Employee | Employer |
|---|---|---|
| Retiree only | $ 109 | $ 430 |
| Retiree/spouse | 289 | 839 |
| Retiree/child(ren) | 174 | 653 |
| Family | 362 | 1,047 |

(Continued)

**Note 13 – Postemployment Healthcare Plan, continued**

**Changes in the OPEB obligation**

| | |
|---|---|
| Service cost | $ 804,621 |
| Interest on OPEB obligation | 667,597 |
| Difference between expected and actual experience | (53,461) |
| Changes in assumptions | (168,926) |
| Benefit payments | (412,174) |
| Net change in OPEB obligation | 837,657 |
| OPEB obligation, beginning of year, as restated (Note 17) | 18,556,497 |
| OPEB obligation, end of year | $ 19,394,154 |

**Discount rate**

For Plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rates is 3.62% (based on the daily rate closest to, but not later than, the measurement date of the Fidelity "20-year Municipal GO AA Index"). The discount rate was 3.56% as of the prior measurement date.

**Total OPEB liability**

The Agency's total OPEB liability of $19,394,154 was measured as of June 30, 2018 and was determined by an actuarial valuation as of January 1, 2017.

**Rollforward disclosure**

The actuarial valuation was performed as of January 1, 2017. Update procedures were used to roll forward the total OPEB liability to June 30, 2018.

**Plan assets**

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

(Continued)

**Note 13 – Postemployment Healthcare Plan, continued**

**Actuarial methods and assumptions**

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

| | |
|---|---|
| Actuarial cost method | Individual Entry Age |
| Discount rate | 3.62% |
| Payroll growth | 3.0% to 7.0%, including inflation |
| Inflation | 2.25% per annum |
| Experience studies | Based on the experience study covering the five-year period ending June 30, 2015 as conducted for the SCRS |
| Mortality | For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Females is used with fully generational mortality projections based on Scale AA from the year 2016. The following multipliers are applied to the base tables: 100% for male SCRS members, 111% for female SCRS members. |
| Medical care trend rates | Initial rate of 6.75% declining to an ultimate rate of 4.15% after 14 years; ultimate trend rate includes a 0.15% adjustment for excise tax |
| Participation rates | It was assumed that 85% of eligible retirees would choose to receive retiree healthcare benefits through the employer. |

**Sensitivity of total OPEB liability to the discount rate assumption**

The Sensitivity of Total OPEB Liability to Change in Discount Rate and Healthcare Trend Rate – OPEB Plan's liability was prepared using a discount rate of 3.62%, which was a change from 3.56% applied in the prior year. If the discount rate were 1.0% higher than what was used in this valuation, the OPEB Plan liability would decrease to $16,866,144 or by 13.1%. If the discount rate were 1.0% lower than what was used in this valuation, the OPEB Plan liability would increase to $22,505,960 or by 16.1%.

| | Discount rate | | |
|---|---|---|---|
| | 1.00% Decrease | Baseline 3.62% | 1.00% Increase |
| OPEB Plan | $ 22,505,960 | $ 19,394,154 | $ 16,866,144 |

(Continued)

**Note 13 – Postemployment Healthcare Plan, continued**

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

The June 30, 2018 OPEB Plan liability was prepared using an initial trend rate of 6.75%. If the trend rate were 1.0% higher than what was used in this valuation, the OPEB Plan liability would increase to $23,416,935 or by 20.8%. If the trend rate were 1.0% lower than what was used in this valuation, the OPEB Plan liability would decrease to $16,271,094 or by 16.1%.

| | Healthcare cost trend rate | | |
|---|---|---|---|
| | **1.00% Decrease** | **Baseline 6.75%** | **1.00% Increase** |
| OPEB Plan | $ 16,271,094 | $ 19,394,154 | $ 23,416,935 |

For the year ended December 31, 2018, the Agency recognized an increase in OPEB Plan liability of $1,442,888 and reported deferred outflows and inflows of resources related to the OPEB Plan from the following sources:

| | **Deferred outflows of resources** | **Deferred inflows of resources** |
|---|---|---|
| Difference in expected and actual experience | $ - | $ 46,410 |
| Changes in assumptions | - | 146,647 |
| Contributions subsequent to the measurement date | 280,999 | - |
| | $ 280,999 | $ 193,057 |

The $280,999 reported as deferred outflows of resources related to OPEB resulting from the Agency's contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the OPEB liability in the year ending December 31, 2019.

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

| | |
|---|---|
| 2019 | $ (29,330) |
| 2020 | (29,330) |
| 2021 | (29,330) |
| 2022 | (29,330) |
| 2023 | (29,330) |
| Thereafter | (46,407) |
| | $ (193,057) |

**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 December 31, 2018 was \$2.5 million, which is included in administration operating expenses on the accompanying Statement of Revenues, Expenses and Changes in Net Position. For the year ending December 31, 2019, billing charges to the Agency are estimated to cost approximately \$2.6 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 manages risk through various employee education and prevention programs. No significant reductions in insurance coverage have occurred from the prior year to the current year. The amount of settlements has not exceeded insurance coverage for the year ended December 31, 2018. The Agency believes the amount of actual or potential claims as of December 31, 2018 will not materially affect the financial condition of the Agency.

**Note 17 – Restatement for implementation of an accounting pronouncement**

As described in Notes 1 and 13, the Agency implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. Statement No. 75 represents a significant change to the reporting requirements for OPEB plans, establishing a net OPEB liability based upon actuarially calculated amounts representing OPEB benefits accrued by current employees and retirees of the Agency. As of January 1, 2018, the balance of the OPEB liability was restated from \$6,138,707 to \$18,556,497, while deferred outflows from subsequent contributions to the OPEB was restated from \$0 to \$245,573. As a result, the unrestricted net position for the Agency as of January 1, 2018 decreased by \$12,172,217, from \$337,764,142 to \$325,591,925. The beginning balance of deferred inflows of resources and deferred outflows of resources, other than subsequent contributions, were not reflected in the restated January 1, 2018 net position, since it was not practical to determine such balances.

**Note 18 – Subsequent Events**

During January, February, and March 2019, the Agency executed nine contracts approximating \$19.7 million for capital projects and equipment purchases.

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

| Fiscal year [1] | 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) |
|---|---|---|---|---|---|---|---|
| 2018 | January 01, 2017 | $ - | $ 19,394,154 | $ 19,394,154 | 0.0% | $ 13,170,405 | 147.3% |
| 2017 | January 01, 2017 | - | 18,556,497 | 18,556,497 | 0.0 | 12,503,399 | 140.4 |
| 2016 | June 30, 2014 | - | 12,325,758 | 12,325,758 | 0.0 | 12,203,162 | 101.1 |
| 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 |
| 2013 | June 30, 2010 | - | 8,780,194 | 8,780,194 | 0.0 | 10,660,375 | 82.3 |
| 2012 | June 30, 2010 | - | 8,780,194 | 8,780,194 | 0.0 | 10,198,831 | 86.1 |
| 2011 | June 30, 2008 | - | 8,417,369 | 8,417,369 | 0.0 | 10,318,963 | 81.6 |
| 2010 | June 30, 2008 | - | 8,417,369 | 8,417,369 | 0.0 | 9,518,573 | 88.4 |
| 2009 | June 30, 2006 | - | 5,643,466 | 5,643,466 | 0.0 | 9,431,889 | 59.8 |

1 - Prior to July 1, 2016, the Agency's fiscal year ended June 30. As of July 1, 2016, the Agency adopted a December 31 fiscal year end. Due to this change, the covered payroll of $12,203,162, for the first listed 2016 period, represents the trailing twelve month period ended December 31, 2016.

# 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 |
|---|---|---|---|---|---|
| 2018 | 0.122396% | $ 27,424,970 | $ 12,677,569 | 216.3% | 54.1% |
| 2017 | 0.121972 | 27,457,859 | 12,276,416 | 223.7 | 53.3 |
| 2016 | 0.125092 | 26,719,467 | 12,109,581 | 220.6 | 52.9 |
| 2015 | 0.123507 | 23,423,698 | 11,960,378 | 195.8 | 57.0 |
| 2014 | 0.126513 | 21,781,344 | 11,961,237 | 182.1 | 59.9 |
| 2013 | 0.126513 | 22,691,919 | 11,261,359 | 201.5 | 56.4 |

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

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

| Fiscal year [1] | Actuarial required contribution | Actual contributions | Contribution deficiency (excess) | Agency's total payroll | Contributions as a percentage of total payroll |
|---|---|---|---|---|---|
| 2018 | $ 1,793,576 | $ 1,793,576 | $ - | $ 13,314,563 | 13.5% |
| 2017 | 1,448,857 | 1,448,857 | - | 12,926,984 | 11.2 |
| 2016 | 709,222 | 709,222 | - | 6,124,376 | 11.6 |
| 2016 | 1,339,320 | 1,339,320 | - | 12,109,581 | 11.1 |
| 2015 | 1,262,243 | 1,262,243 | - | 11,960,378 | 10.6 |
| 2014 | 1,215,138 | 1,215,138 | - | 11,961,237 | 10.2 |
| 2013 | 1,129,479 | 1,129,479 | - | 11,261,359 | 10.0 |
| 2012 | 972,459 | 972,459 | - | 10,666,643 | 9.1 |
| 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 |

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

Cherry Bekaert 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
Renewable Water Resources
Greenville, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Renewable Water Resources (the "Agency"), which comprise of the statement of net position as of December 31, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2019.

## Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

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

## Compliance and Other Matters

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

**Purpose of this Report**

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

Cherry Bekaert LLP

Greenville, South Carolina
March 25, 2019